Internal Audit Report

Cuyahoga County, Ohio
Department of Internal Auditing

Benford's Law Audit – 2016
Cuyahoga County Fiscal Office Accounts Payable
January 1, 2016 – December 31, 2016

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Release Date: 2/9/2018

Audit Report Highlights

Fiscal Office Accounts Payable – Benford's Law **December 2017**

Total Potential Recoveries[1] = None **Total Cost Savings[2] = $60,000**

Issued Checks in 2016 = $735 Million **County Annual Budget[3] = $1.4 billion**

Why DIA Did This Audit

This report provides results and recommendations from the Department of Internal Audit (DIA) related to financial activity, internal controls and operational procedures in the County's Accounts Payable Department (AP) in the Fiscal Office. The purpose of this audit was to:

1) **Review internal controls on AP's check issuance process for weaknesses such as data errors, process inconsistencies, segregation of duty issues, and unauthorized transactions.**
2) **Determine if operational procedures utilized by AP comply with governing laws, and policies are carried out accurately and consistently.**
3) **Use Benford's Law[4] to identify and analyze a sample of potential duplicate payments or other payments warranting further review.**

What DIA Found

Resources in AP appeared to be well managed, considering AP staff processed over 131,000 checks in 2016. Of 98 checks tested during the audit period of January 1 through December 31, 2016, five duplicate checks totaling $11,999 were caught and corrected by AP before the audit began. This proves AP had detective controls in place to timely identify and correct duplicate payments. DIA did not identify any recoveries from our review, but did identify a need for improvement in the check issuance process. Noteworthy issues are listed below:

- **AP's policy on issuing checks requires each County department to send a list of authorized approvers (employees authorized to approve invoices and vouchers) to AP. Although all 98 checks tested were properly supported, DIA noted nine checks were paid without an authorized approver's signature on the voucher and/or invoice.**
- **AP did not maintain W-9 forms (Tax form requested by the County to collect identifying information on vendors, e.g. vendor address) for all 24 vendors reviewed that received payment from the County in 2016.**
- **Although access to the Fiscal Office is not open to the public, checks and payment support was accessible to County personnel with access to the Fiscal Office. Checks held for pickup and checks returned as undeliverable were unsecured in the AP area during business hours, but securely locked away during non-business hours.**
- **The current financial system does not contain a designated invoice field. AP's use of asterisks before and after the invoice number in the description box was not consistent. The use of asterisks is a system control to prevent duplicate payments.**

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[1] *Total overpayments identified by DIA the County could potentially recover.*

[2] *The amount the County could save by implementing recommendations. This is a result of policy changes that could reduce expenses or increase revenue.*

[3] *Taken from the updated 2018 budget approved by Council in December 2017. The County Annual Budget includes operating appropriations from all County funds. The County's Annual Payroll Budget includes all personnel service expenditures (salaries and employers portion of contributions).*

[4] *Benford's Law is a mathematical theory of numerical data that identifies transactions outside the expected patterns for a set of data using Benford's Law. These transactions warrant further review and may be potential duplicate payments. DIA utilized IDEA data analytics software to apply Benford's Law.*

Audit Report Highlights

Fiscal Office Accounts Payable – Benford's Law December 2017

What DIA Recommended

We provided County management with best practices and sound internal controls to mitigate potential risks related to various AP functions. We made recommendations focused on resolving the procedural issues noted above and to help move AP toward a more efficient and productive operation, prior to the implementation of the County's new Enterprise Resource Planning (ERP) system.

We communicated these recommendations to AP during the audit. Based on their responses, we believe corrective action has been or will be taken to mitigate the risks identified. The AP Manager and Fiscal Office Controller were cooperative and professional during the audit. Management responses follow each recommendation in the report. We made the following recommendations to improve AP operations:

- AP should enforce the department's procedures on authorized approvers. Before entering a payment in the financial system, AP should confirm authorized approvers signed the voucher and invoice by reviewing the authorized approver lists received from each County department.
- W-9s should be retained while the County is still doing business with the vendor, and AP should update its record retention policy to maintain copies of the W-9s if the vendor is actively receiving payments from the County.
- All checks and voucher support should be secured with access restricted to a designated AP staff member. Only the designated staff member should pull, file, and track vouchers and checks in locked cabinets.
- DIA understands a listing of checks held for pickup may not be possible with the current financial system in place. However, AP should ensure the new ERP can generate a listing of all checks held for pickup after the check run. This listing should serve as a log to monitor checks being held for pickup and reviewed periodically to ensure checks go out timely.
- AP should consider applying recommendations from this report into the new ERP system. However, AP and County departments should put safeguards in place prior to implementation of the new ERP to ensure a smooth and accurate transition. Specifically,
    - Invoice numbers should be required in the system before issuing a payment.
    - The ERP should retain scanned supporting documentation and W-9s.
    - All invoices and vouchers should be well documented through the process as part of the workflow, with approvals having built-in controls.
    - Authorized approvers for each department should be coded into the ERP, eliminating AP's manual tracking and reviewing of these approvers.
- County Departments should periodically be reminded of AP's formal procedures.

CUYAHOGA COUNTY
DEPARTMENT OF INTERNAL AUDITING

INTERNAL AUDIT REPORT
Cuyahoga County Fiscal Office Accounts Payable
Cover Letter

December 26, 2017

To: Fiscal Officer Dennis Kennedy, CPA, and the current management of the Cuyahoga County Fiscal Office Accounts Payable Department:

The Department of Internal Auditing (DIA) has conducted an audit of the financial operations and general accounting of the Cuyahoga County Accounts Payable Department (referred to within this report as "AP") within the Fiscal Office, for the period of January 1, 2016 through December 31, 2016. The audit objectives focused on identifying duplicate transactions and inadequate internal controls. Specifically, we conducted audit work related to the internal controls over the AP function of the Fiscal Office to determine if procedures currently being utilized are operating as intended by management; are consistent with Fiscal Office policies and procedures and all governing laws and regulations; and transactions are properly supported, approved and recorded.

To accomplish our objectives, we focused on AP's operational controls, the expenditure cycle, as well as specific compliance mandates. Interviews with management and staff, along with a general walk-through of the expenditure cycle were conducted to document the controls in place. In addition, analytical procedures were used for substantive testing. We utilized a data analytics system to apply Benford's Law[1] and identify potential duplicate payments and other transactions that warranted further review. A sample of these payments were selected for testing.

Our audit procedures did not identify any recoveries. Based on the sample tested, duplicate payments identified were detected by AP and corrected immediately before the audit began. Nonetheless, we identified need for improvement within AP's check issuance process. This report provides the details of our findings. DIA will continue utilizing Benford's Law analysis in

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[1] *Benford's Law is a mathematical theory of numerical data that identifies transactions outside the expected patterns for a set of data using Benford's Law. These transactions warrant further review and may be potential duplicate payments. DIA utilized IDEA software to apply Benford's Law.*

subsequent year audits, and test more transactions, as this was the first Benford's Law analysis conducted on the County.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions.

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projection of any current evaluation of the internal control structure to future periods is subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may weaken.

DIA would like to express our appreciation to the AP staff and interrelated departments that assisted throughout the process for their courtesy and cooperation during this audit. A draft report was provided to the Fiscal Office and AP management for comment. Management responses are included within the audit report.

Respectfully,

Cory A. Swaisgood

Cory A. Swaisgood, CPA
Director of Internal Auditing

Cc: Audit Committee
Cuyahoga County Council
Sharon S. Jordan, Chief of Staff
Robert Triozzi, Law Director

Contents

Glossary

Benford's Law	-	The mathematical theory used to measure the actual occurrence of leading digits in disbursements compared to the digits' expected probability. A mathematical observation where the leading digits occur in a specific, non-uniform way. This theory is applied to identify duplicate transactions. DIA utilized data analytics software to apply Benford's Law to County financial transactions.
ERP	-	Enterprise Resource Planning – Business management software integrating core business processes. The County was in the planning stages of implementing a new ERP system during the audit.
FAMIS	-	Cuyahoga County's accounting information system.
Invoice	-	An itemized bill from a vendor for goods sold or services provided, containing individual prices, the total charge and the terms. Invoices should be included with vouchers submitted to AP for payment authorization.
ORC	-	Ohio Revised Code.
Voucher	-	A form authorizing a payment of cash or a credit against a purchase or expense to be made in the future. County departments complete various vouchers (e.g. encumbrance vouchers, office vouchers, employee reimbursement vouchers) and attach supporting documentation to authorize payment. Vouchers include signatures, posting units, vendor information, transaction amounts, and description of transaction.

Report Details

Purpose

The purpose of this audit was to conduct a limited scope audit of Cuyahoga County's Fiscal Office Accounts Payable (AP) function related to the expenditure cycle. AP was scored as a high risk to the County during the 2015 and 2016 risk assessment process. We incorporated Benford's Law into the audit of AP by utilizing data analytics software to identify duplicate payments and other transactions that warranted further review. Benford's Law is a mathematical theory of numerical data that identifies transactions outside an expected pattern for a set of data. DIA utilized IDEA data analytics software to apply Benford's Law to County financial transactions in 2016.

DIA evaluated processes for compliance with existing policies, laws, and professional standards. We performed substantive tests on financial transactions. The audit included review and evaluation of procedures, practices and controls as deemed necessary. We will consider Benford's Law analysis during the annual risk assessment process for subsequent audit plans.

The County is implementing a new ERP system that will help ensure data posted in the new financial system is accurate and complete. Expected implementation date is June 2018. DIA was conscious of the new ERP system during the audit and issued recommendations in expectation the new ERP system would correct issues found.

Audit Objectives

Based on the risk assessment conducted by DIA, the objectives of this audit are to determine whether:

- Procedures currently being utilized are operating as intended by management.
- Accounts Payable is operating in a control conscious environment with adequate controls in place to effectively and efficiently achieve the organization's goals.
- The County safeguards assets from errors and loss, and ensures disbursements are accurate, properly authorized, and recorded.
- All procedures, transactions and reports are in accordance with all governing laws, regulations and policies.
- Potential duplicate payments are identified and reviewed using Benford's Law.

Control conscious environment

Adequate level of internal control awareness; proper separation of duties; existence of a proper monitoring system; appropriate authorization/approval of expenditures; and adequate safeguarding of financial, physical, and information assets.

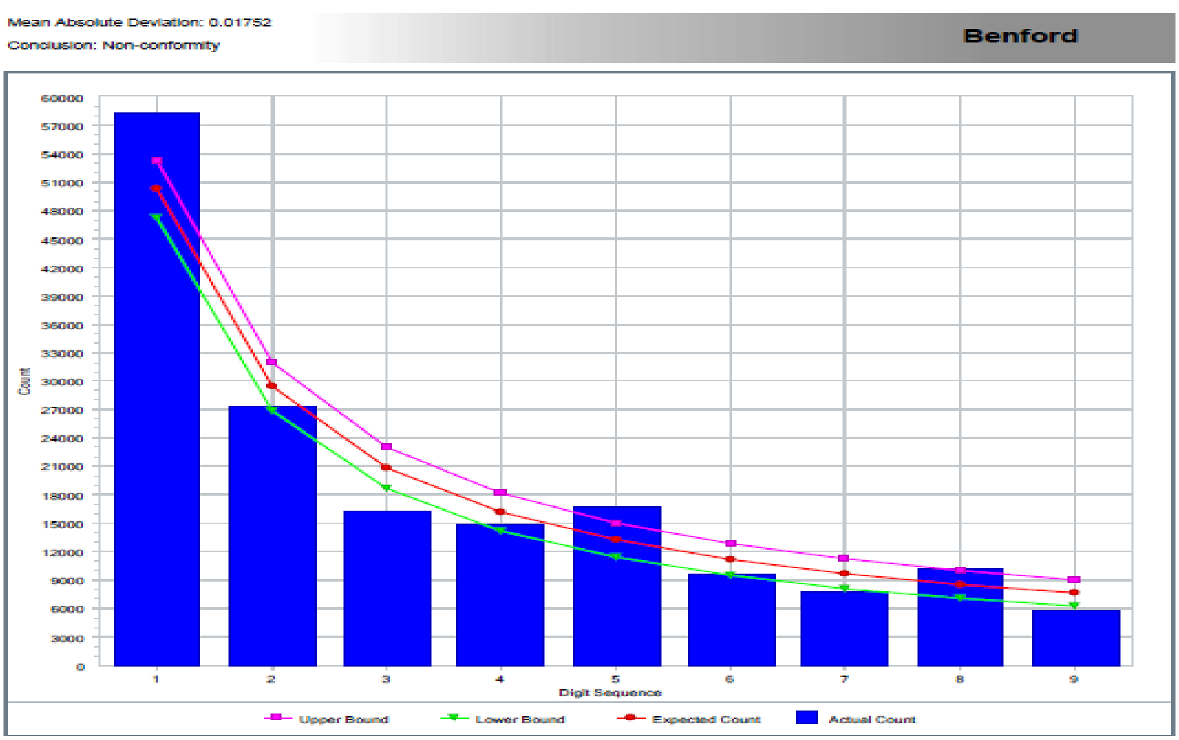
Scope

To accomplish our objectives, we focused on the operational controls of AP and the expenditure cycle, as well as specific compliance mandates during the period of January 1, 2016 through December 31, 2016. Interviews with management and staff along with a general walk-through of the expenditure cycle were conducted to gain an understanding of the process, to document the controls in place, and to determine whether they are operating effectively.

Methodology

To analyze over 131,000 paid checks totaling over $735 million for 2016, we used the mathematical theory of numerical data called Benford's Law, utilizing our data analytics software. Benford's Law is an observation of digits in data sets where the leading digits occur in a specific, non-uniform way. We considered transaction amounts, invoice and check numbers for our testing. Testing methods included analytical procedures and sampling methods.

To accomplish one of our audit objectives – detecting duplicate payments in the expenditure cycle – Benford's Law was used to measure the actual occurrence of leading digits in disbursements compared to the digits' expected probability. In the chart below, the bars are the actual occurrences (number of County vendor transactions in 2016) and the lines are Benfod's Law probabilities. Note that 1 and 5 are abnormally higher in occurrence than expected. This could indicate a potential



manipulation of the natural occurrence of check amounts beginning with 1 or 5. The non-conformity could be due to a natural occurrence, such as recurring payments in uniform amounts, or it could indicate duplicate payments or manipulation of checks.

Background

The AP staff of eight, under the Fiscal Office Controller, works in a financial support function and carries out a multitude of duties in FAMIS (the County's current financial system). For example, they:

- Issue checks for all County agencies, including office vouchers, employee reimbursements, and contract payments;
- Process Automatic Clearing House (ACH) payments;
- Mail and hold checks for pick-up after issuance;
- Receive checks returned as undeliverable;
- Perform data entry for all expenditures and revenue in FAMIS;
- Perform data entry for contract encumbrance certification and decertification;
- Enter new vendors and revise vendor information in FAMIS; and
- Issue 1099s.

Commendable Practices

AP personnel processed over 131,000 checks during the audit period, totaling nearly $735 million. AP manages to annually issue this many checks with a staff of eight employees. For the number of transactions processed and the variety of tasks they perform, resources appear to be well managed. In addition, five duplicate checks during the audit period were found and corrected by AP before the audit began, totaling $11,999, proving AP had detective controls in place to timely identify and correct duplicate payments.

Findings and Recommendations

Operational Efficiency and Adequate Controls

FINDING Not All Vouchers Were Properly Approved

In response to prior results from the Ohio Auditor of State's (AOS) annual financial audit, Cuyahoga County's Fiscal Officer reinforced AP's procedures (procedures) for paying vouchers. These procedures were submitted to all County agencies on September 17, 2015. Departments put controls in place by submitting a list of employees authorized to approve invoices and those authorized to approve vouchers, as well as those authorized to pick up departmental checks. Employees on the "Employees Authorized to Approve Payments" (Authorized Approver) lists can authorize and approve invoices and vouchers, but not both.

The procedures state, in part, that vouchers:

- ✓ Must be signed by an employee on the County's Authorized Approver list.
- ✓ Cannot be approved by the preparer. (On the current voucher document, there is no designated place for the preparer to sign or note their name.)
- ✓ Must include an invoice signed by an employee on the Authorized Approver list, indicating the invoice has been approved for payment.

Signed vouchers indicate the department has checked for accuracy and approved the invoice before submitting for payment. AP verifies that authorized employees sign both the invoices and vouchers, to eliminate vouchers being paid without confirmation that the merchandise was received, or services performed.

DIA confirmed that all 98 checks were supported and properly paid.

Of the 98 checks tested, totaling $395,236, we noted some invoices and vouchers were paid without an Authorized Approver's signature and none of the vouchers tested specified the employee who created the voucher. Since there is no place for the preparer's name on the voucher, neither AP nor DIA could not determine if the voucher was prepared and approved by the same employee. There should be a clear segregation of duties; both to comply with written procedures, and to prevent the misuse of check approval. See the test results in the table on the following page for more details.

We noted five departments did not submit an Authorized Approver list to AP: Children and Family Services, Common Pleas Court, Public Defender and Public Works. Also, DIA was unable to confirm that 18 issued checks ($134,547) were properly approved by an authorized employee out of the 98 checks tested.

Type of Error – of 98 Tested	*# Errors*	*$ Impact*
VOUCHERS		
No invoice or support	3	$ 668
Paid voucher not signed	3	$ 312
Signature on voucher not on Authorized Approver list	9	$ 743
Preparer's name not on voucher	98	$ 395,236
INVOICES		
Invoice not signed or initialed	1	$ 5,448
Signature on invoice not on Authorized Approver list	8	$ 8,826

Risk to the County if Findings Not Corrected

All payments tested were supported and properly made. Nonetheless, the County is at a higher risk of unauthorized purchases or misappropriation of assets and the potential for undetected misrepresentation when procedures are not followed. In addition, a conflict of interest could result from a lack of a segregation of duties. The effect of these weaknesses is a lack of accountability over the voucher process.

Recommendations

1. Stricter enforcement is needed to ensure that each department provides AP with their Authorized Approver list. Annually, AP should send a communication to County departments stressing the need to review and update their Authorized Approver lists.

Management's Response:

Going forward AP will send out communication to all agencies at the beginning of each year requiring agencies to send an Authorized Approver list. AP will also reiterate that any changes need to be communicated to AP throughout the year. The communication will inform Departments that failure to comply with this policy will result in rejection of vouchers.

2. Ensure invoices and vouchers are signed by an authorized employee on the appropriate Authorized Approver list. If not properly signed, the voucher should be returned for an authorized signature.

Management's Response:

AP staff will be reminded to verify that invoices and vouchers are signed and dated by authorized employees on the Authorized Approver lists. Any voucher or invoice containing a signature that is not on the Authorized Approver List will be returned to the Department for correction prior to processing. The AP Manager will also begin performing voucher audits to ensure staff is following all processing procedures.

3. Vouchers should be revised to include an area for the preparer's signature. Until new vouchers are printed, AP should instruct the department preparers to add their name – for example, *Prepared by Jane Doe* – somewhere on the form. This will allow AP to verify the same person did not prepare and authorize the voucher, to comply with County policy.

Management's Response:

AP will notify Departments that the same person preparing the voucher cannot approve the invoice. AP will return voucher packets back to the Department that does not comply with this procedure. The AP Manager, or his designee, will contact the Department regarding any vouchers that are rejected and will work with the Department to correct the deficiencies.

4. The new ERP should address these risks by ensuring the invoices and vouchers are approved electronically in the system by designated personnel before they can move to the next step in the process. However, AP should put safeguards in place until implementation of the new ERP.

Management's Response:

The new ERP AP module is being designed to include proper electronic approvals before it is processed for payment. In the interim, the AP Manager will remind staff to verify the proper approvals are present on the voucher and invoice. The AP Manager will also begin performing voucher audits to ensure staff is following these procedures.

FINDING Inaccurate Vouchers and W-9s Add Risk to the County

Revised procedures submitted by the Fiscal Officer to all County agencies on September 17, 2015, in part, state that vouchers:

- ✓ Must be matched to information on the source documents; and
- ✓ Include a W-9 if the vendor is new or has a change of information.

W-9
Internal Revenue Service form requested by the County to collect identifying information (i.e. taxpayer identification number) when contracting with a company prior to processing payment.

AP procedures require that voucher information match the source documents including vendor information. The Fiscal Office requires a W-9 from vendors before payment can be made, and a new W-9 is required when the vendor experiences an address change. Vendors are set up in FAMIS based on information from the W-9. Vendor numbers are assigned to each vendor for tracking in FAMIS. If a voucher comes through without a vendor number in the system, AP holds on to the voucher but notifies the originating department that a W-9 is needed from the vendor to process the voucher.

AP files the W-9 forms by the month and year the vendor began doing business with the County, and AP keeps the forms for three years. AP's record retention schedule states W-9s only need to be kept for one year, although vendors may still be actively doing business with the County. AP was unable to provide DIA with copies of W-9 forms for all 24 vendors tested and paid a total of $395,236 in 2016.

When AP receives the W-9 there is no review or approval after vendor information is entered in FAMIS, and it does not check vendors against the State or County excluded/debarred lists. AP assumes departments, and/or the Office of Procurement and Diversity perform this process prior to submitting the vouchers to AP for payment.

Risk to the County if Findings Not Corrected

By not implementing monitoring controls, vendor information can be changed in the system without the vendor's knowledge or approval. Since AP does not maintain W-9s, the accuracy of vendor information cannot be confirmed in FAMIS and can potentially be manipulated. Incorrect vendor information can cause checks to be returned, or misdirected. The effect of this weakness is a lack of accountability over the payables process that could result in unauthorized purchases, misappropriation of assets, and misdirected checks.

Recommendations

1. AP should revise the record retention schedule to maintain W-9s while the company is doing business with the County, or for a predetermined number of years of inactivity with the vendor.

Management's Response:

The Fiscal Office will research the optimal retention schedule for W-9s. With assistance from the IT department, the AP Manager can obtain a list of active and inactive vendors. The AP department will ensure all active vendors that will be converted into the new ERP system have a W-9 on file.

2. AP should work with IT to create an electronic vendor master file to include W-9 filings for each vendor. This file should be updated every few years.

Management's Response:

The AP Department will work with the IT department to begin scanning W-9s for active vendors. Once the new ERP system is operational, the AP department will use the document management solution to scan and store all AP documents, including W-9s.

3. W-9s should be scanned, retained and filed by vendor. Until electronic storage of the W-9 data is implemented, AP should revise their record retention policy to retain W-9s until they can be scanned and filed electronically by vendor, or until the vendor no longer does business with the County, thus maintaining an audit trail.

Management's Response:

The AP Department will scan the W-9 for all active vendors and file them by vendor. The Fiscal Office will research the optimal retention schedule for W-9s and follow that schedule. The new ERP system has the capability to keep an audit log of all the changes made to the system.

4. Require vendors to submit a new W-9 form following a period of inactivity with the County, or if the address on the invoice differs from the address on file.

Management's Response:

AP will require new W-9's if the address on file does not match the address on the invoice and the invoice address is not a "Remit To" address. The AP department will contact the vendor or the Department that uses a vendor that has a period of inactivity outside of the retention schedule to determine if an updated W-2 is necessary.

5. AP should create a policy to ensure the integrity of the W-9s and confirm the vendor is not on the County or State's excluded/debarred lists. This should be coordinated with the Office of Procurement and Diversity and departments.

Management's Response:

The Fiscal Office is working on developing a new County and State Excluded/Debarred List Form that will become part of the procurement process.

This form will become part of the required vendor documents prior to purchasing or contracting with a specific vendor. The AP department will ensure this form is completed for new vendors. The new ERP document management solution will make sharing and accessing this document among departments easier.

6. An AP supervisor's approval should be on the W-9 form before entering the new vendor information in FAMIS.

Management's Response:

The AP Manager will review and approve all W-9s before entering them into FAMIS. The new ERP has controls in place that require a supervisor's electronic approval of new vendors, which will encompass approval of the W-9. AP will have a supervisor's approval on the W-9 prior to the implementation of the ERP in 2018.

Physical Access to Assets

FINDING Insufficient Safeguards Contributed to Missing Records and Vulnerabilities

Assets are economic resources a business owns and can include financial records, checks, or other instruments the County uses to transact and record its business. Protective measures must be taken to ensure that assets are maintained in a properly controlled and secured environment. The most important protective measure for safeguarding assets is the use of physical safety measures such as locks and limited access. AP is responsible for processing and storing vouchers, checks, and related documents.

Paid vouchers and supporting documentation are kept in file cabinets and boxes in the general AP area. When paid vouchers are needed for review, a card is signed and dated by the person taking the file and inserted in place of the file. This is done on the honor system and subject to misuse. Once someone takes the file, no one else can access or review the file until it is returned. If a card is not put in place stating when and by whom the voucher packet was taken, there is no way of knowing where it is or who has possession of it. The originating departments do not consistently keep support either; sometimes forwarding the original documents to AP. Of the 98 checks tested during the audit period, we noted the following:

- Paid vouchers and supporting documentation could be accessed by County personnel with access to the Fiscal Office. The file cabinets containing the paid vouchers and support were not locked, even after business hours.

- DIA could not locate three of the vouchers requested from AP and the originating departments during the audit. They were all for assigned counsel legal and investigative fees totaling $668.
- Cuyahoga County checks being held for pick up are placed in a basket on a table between cubicles in the AP area, not securely locked away throughout the day. AP relies on signs above the basket informing employees not to pick up any checks without assistance from AP staff. These checks are kept in an area available to County personnel with access to the Fiscal Office. However, the checks were secured in a safe after business hours.
- No log is kept of checks being held for pick up. The person picking up the check only signs the voucher. If a check went missing it might not be noticed for some time. AP personnel do not always check the Authorized Approver list when releasing checks.
- DIA noted checks issued by Cuyahoga County and returned as undeliverable were unsecured on a desk in the AP area. The majority were reimbursement checks for employees; some were payments to vendors. Time constraints do not allow the employee to research the returned checks and they accumulate over time with no policy in place to determine their disposition.

Risk to the County if Findings Not Corrected

If physical precautions are not in place for both the vouchers and checks, theft could occur, or items may be lost or misplaced, affecting the audit trail. These vulnerabilities may result in money not being properly accounted for and can lead to the misuse of public monies. Checks could be taken and cashed without AP's knowledge.

Recommendations

1. DIA recommends vouchers should always be secured and locked away with restricted access to a designated AP staff member. Only the designated staff member should pull, file, and track vouchers and checks in locked cabinets. Having a filing system and an employee that can track and account for all vouchers and checks is imperative to ensure accountability and completeness in the financial system.

Management's Response:

AP will ensure voucher and checks are locked up after a check has been issued. The AP Manager will select and train the members of his staff who should have access to the locked vouchers and checks. The AP department has already started to lock up vouchers and checks based on the DIA recommendation.

2. A record of all vouchers and files leaving the area should be documented, including the name and department of the employee checking it out, as well as the dates the files were checked out and returned. In case the filing card is misplaced or taken out without the return of the file, this ensures someone knows the whereabouts of all records.

Management's Response:

The AP Manager will create an electronic log of all vouchers and AP files leaving the AP department. The log will include the name and department of the employee checking it out, as well as the dates were checked out and return. The AP Manager will train specific staff on how to maintain the log in his absence.

3. Securing checks being held for pick up, rather than leaving them in an accessible location, provides greater accountability for County assets. A locked cabinet or desk drawer could be utilized for this purpose during the day, until they are secured in the safe at night.

Management's Response:

AP will move the checks to a different area and keep them locked at all times. Additionally, the Fiscal Office is currently revising its policy for holding and picking up checks. Departments requesting to pick up checks need to provide a documented reason signed by the department Director. All requests for check pickups need to be approved by the Fiscal Office, Assistant Fiscal Officer, or Controller.

4. AP should identify if there is a report available from FAMIS listing all checks held for pickup. DIA understands a listing of checks held for pickup may not be possible with FAMIS, however, AP should ensure the new ERP can generate a listing of all checks held for pickup after the check run. This listing should serve as a log to monitor checks being held for pickup. The log should consist of check information (e.g. issue date, department, amount, etc.) and reviewed periodically to ensure checks go out timely.

Management's Response:

FAMIS does not maintain if a check is to be held for pick up so a report would not be available. As mentioned in the response above, the Fiscal Office is currently revising its policy for holding and picking up checks. The Fiscal Office anticipates

fewer checks to be held for pick up and a log will be maintained of those checks approved to be picked up by authorized employees.

5. AP should establish a policy on returned checks. We recommend an Account Clerk inform the employee or vendor by phone or email that a check was returned and can be picked up in AP with proper identification. This will prevent the checks from sitting out on someone's desk, reduce the risk of the checks being misappropriated, and allow the County to update its system with current, corrected information.

Management's Response:

AP will create a formalized procedure for processing returned checks and incorporate Internal Audit's recommendations.

6. The upcoming ERP system should reduce the risk of missing files. The documents (vouchers and support) should be processed and stored electronically. However, AP and County departments should be cognizant of the current risks and implement safeguards until implementation of the new ERP.

Management's Response:

AP is cognizant of the current risks and will ensure staff is trained and procedures are created to mitigate the risks identified by Internal Audit.

ORC Compliance

FINDING Use of Signature Stamps

ORC § 9.10 & § 9.11 (Effective Date 10/1/1953) states that "any elected or appointed public official of this state or of any political subdivision or instrumentality thereof, or any member, agent, or employee of any board, commission, bureau, or other public body established by law, who is permitted or required in the performance of his duties to affix his signature on any check, draft, warrant, voucher, or other instrument for the payment of money, may adopt a facsimile thereof, in lieu of such manual signature, and affix such facsimile to any such instrument." Per the ORC: "facsimile signature includes, but is not limited to, the reproduction of any authorized signature by a copper plate or by a photographic, photostatic, or mechanical device, but does not authorize the use of a rubber stamp signature by the official or authorized employee." The ORC addresses the use of acceptable types of signature stamps and their need.

A common delay in any AP process results from the need of the AP Manager's approval signature. An approval signature from the AP Manager implies review of the payment for accuracy, proper public purpose, and compliance with policies and legal requirements. Sometimes, the sheer volume of the items needing a signature often dictates the use of a signature stamp to expedite the approval process. The use of a signature stamp can be helpful in these situations, under certain restrictions or conditions. The stamped signature, however, still signifies review and approval of the document (invoice, DO, voucher, etc.) by the person named on the stamp.

- We noted the AP Manager's signature is stamped on all Department Orders (DO) certifying funds instead of the Fiscal Officer. DOs are direct, one-time purchases up to $1,000.
- The rubber stamp with the AP Manager's signature is stored on an AP Account Clerk's desk, not in the AP Manager's possession. This raises the possibility of it being available for use on other documents.
- The following departments/boards used a rubber stamp to authorize voucher approvals and/or invoices for payment: Public Defender, Board of Elections and ADAMHS Board.

Risk to the County if Findings Not Corrected

Although there can be valid reasons for the use of a signature stamp, the existence of an unsecured stamp offers unauthorized users the ability to sign documents and circumvent the segregation of duties control. Also, a stamped signature does not ensure the proper authority reviewed and approved the document.

Recommendations

1. DIA recommends AP and County departments comply with the ORC noted above and avoid using rubber stamps to authorize documents.

Management's Response:

The AP Manager's signature stamp has been removed, and he is no longer allowed to use the stamp nor instruct any of his staff to use the stamp for any type of approval. Additionally, the Fiscal Office is currently revising its policy on approving vouchers and invoices to disallow the use of rubber stamps for approvals by all Departments.

2. Implementation of the ERP should eliminate the use of signature stamps, as all signatures in the system will be done electronically. However, AP and County departments should put safeguards in place until implementation of the ERP.

Management's Response:

The new ERP AP module is being designed to allow for electronic approval, which will remove the need for physical signatures. As mentioned in the response above, the Fiscal Office is currently revising its policy on approving vouchers and invoices to disallow the use of rubber stamps for approvals by all Departments.

Recommendations for New ERP System

The County was in the process of planning and implementing a new ERP system during the audit. This system will integrate the Fiscal Office's accounting system with the systems utilized by AP. Throughout this audit, some control weaknesses found should be corrected with the new ERP system, but correcting these now ensures the process is consistent and data is reliable when migrating to the new ERP system. Specifically, we noted the following throughout the audit:

- Support documentation (vouchers and invoices) for County transactions were not securely locked in filing cabinets and were accessible to other County personnel.
- The current process on accessing paid vouchers and support for review purposes is not reliable, and prevents other parties from accessing the documents until returned to the AP file cabinets.
- Support documentation was missing authorized signature.
- Vendor address changes overwrite the previous address without a proper audit trail of who made the change and when the change was made.
- Signature stamps are being used for approvals.
- When entering the voucher in FAMIS, asterisks before and after the invoice number are used in the description area. There is no required, designated field in FAMIS for the invoice number. This process can lead to duplicate invoices being paid by circumventing this naming convention.

Recommendations

We recommend AP review this audit report and consider implementing the following recommendations focused on resolving weaknesses noted above. This will help move AP toward a more efficient and productive function prior to implementing the new system. We communicated these recommendations to AP during the audit.

1. All support documentation should be scanned into the workflow system, reducing the risk of missing records. Supporting documentation should be viewable to authorized approvers during the approval process.
2. All scanned documentation should be available for read-only review by multiple authorized personnel simultaneously, eliminating the check-out/check-in process to review paid vouchers.
3. AP management should ensure each department's authorized approvers are coded into the system to indicate the level of approval the person is authorized for by the department.
4. The system should track all vendor changes and have the capability of storing secondary addresses for a vendor, as well as a log of all changes made to vendor files.
5. Only one person should enter vendor information after an electronic approval from the AP Manager. All support should be scanned in to a vendor file. This will address the W-9 issues currently encountered.
6. All signatures should be digital in the new system, ensuring the signatures are both legible (traceable) and at the proper level. This eliminates the need for a signature stamp and gives a higher assurance that the person digitally signing the document is the actual named person.
7. An invoice number should be required within a specific field designated for invoice numbers only, before allowing further payment processing.

Management's Response:

Management has reviewed this audit report and has begun implementing DIA recommendations. Additionally, the new ERP system is being designed to ensure proper controls and best practices are incorporated in the AP module. Specifically, the new ERP system will do all of the following:

1. ***Use a workflow system that allows for electronic approvals of AP records and transactions.***
2. ***Use of a Document Management System to house all vendor records and transactions that can be viewed by authorized users.***
3. ***List of authorized approvers will be maintained in the system***

4. ***Audit trails of changes to vendor records will be maintained. More vendor information will be available to store in the new ERP system than what is currently allowed in FAMIS.***
5. ***Allow only authorized AP employee to enter vendor information after the AP Manager has given his approval.***
6. ***Allow for electronic approvals and eliminate the need for signature stamps***
7. ***Require invoice number field be populated prior to processing for payment.***