



JACKSON COUNTY

Oregon

Internal Audit Report

Audit of Expenditures & Capital Outlay 2009-10

December 9, 2010

Presented To The
Jackson County Board of Commissioners
By The
Internal Audit Program

Audit Team

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**JACKSON
COUNTY**
Oregon

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To: Board of Commissioners
From: Debbie Taylor, County Auditor *Debbie Taylor*
Subject: Audit of Expenditures & Capital Outlay 2009-10
Date: December 9, 2010

The attached audit report provides information regarding an audit of expenditures and capital outlay. The audit was included in the fiscal year 2010-11 Internal Audit Plan as part of the work performed annually in support of the county's external audit and ongoing internal control and risk assessment work.

Audit results have been discussed with Finance Director Shannon Bell, and Exposition Park Director Dave Keelormoir, and their responses are included at the end of this report. The results were also shared with the County's Audit Committee.

The Internal Audit Program appreciates the cooperation and assistance it received from county staff throughout the audit process.

Internal Audit Committee

Jack Walker, Commissioner
Danny Jordan, County Administrator
Shannon Bell, Finance Director
John Vial, Roads & Parks Director
Malisa Dodd, Health & Human Services Deputy Director
Eric Guyer, Community Justice Transition Center Manager

External Auditors

Kenneth Kuhns & Co.

Jackson County
Audit of Expenditures & Capital Outlay
2009-10

Audit Authority

We conducted the audit in accordance with Codified Ordinance 218 pertaining to the County Auditor. The audit was included in the 2010-11 Internal Audit Plan as part of the work we perform annually in support of **the county's external audit and ongoing internal control and risk assessment work.**

Audit Background

Jackson County had expenditures exceeding \$122,351,000 in fiscal year 2009-10¹ (not including personal services). The table below shows the expenditure breakdown by category.

2009-10 Non Personal Services Expenditures by Category

Materials & Services	\$79,748,590
Capital Outlay	\$20,947,640
Other	\$21,655,049
Total Non Personal Services Expenditures	\$122,351,279

Some of the risks associated with expenditures and capital outlay include:

- Purchase of unauthorized items;
 - Overpayment or duplicate payment;
 - Improper expense coding;
 - Non compliance with LCRB rules;
 - Fraudulent payments to the transaction originator; and
 - Failure to properly capitalize appropriate items.
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Audit Objectives

The objectives of our audit were to:

- Determine if internal controls are reasonably adequate to ensure compliance with the following criteria:
 - Proper authorization;
 - Payment amount agrees with cover sheet documentation;
 - Paid from original invoice;
 - Charged to proper business unit and account;
 - Payee agrees with documentation;
 - Adherence to Local Contract Review Board Rules.

¹ The county's fiscal year is from July 1 to June 30. Fiscal year July 1, 2009 to June 30, 2010 is referred to as 2009-10 in this report.

- Determine if items tested were properly capitalized if appropriate; and
- Determine if there are other deficiencies relating to the expenditure process that need to be addressed.

Audit Scope & Methodology

We judgmentally selected:

- 10 Airport Improvement Grant payments totaling \$948,818;
- 39 Exposition Park Interim Event payments totaling \$175,290; and
- 40 payments from areas other than the Airport and Expo totaling \$5,498,554.

Tested items represented 5% of non personal service expenditures for 2009-10.

Expenditures in Contracted Services and Capital Outlay accounts were reviewed for appropriate capitalization.

Our audit procedures included verifying:

- Required approvals were obtained prior to purchase;
- Dollar amount on the cover sheet agreed with check payment amount;
- Payment made from original invoice;
- Expenditure coded to appropriate business unit and account number;
- Payee agreed with documentation;
- Compliance with Local Contract Review Board Rules; and
- Properly capitalized if appropriate.

Audit Criteria

Criteria represent the laws, regulations, contracts, grant agreements, standards, measures, expected performance, defined business practices and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. Criteria for our audit consisted of County Purchasing Policy 4-03, County Fixed Asset Property Policy 7-03, Local Contract Review Board Rules, and standard, commonly recognized expenditure and capital outlay tests **developed by the County's external** auditors.

Internal Controls

We gained an understanding of the internal control system by reviewing Local Contract Review Board Rules, **County's Purchasing Policy 4-03**, and County Fixed Asset Property Policy 7-03. We also discussed internal

controls with Accounts Payable staff. Internal controls relate to an **organization's system of controls that are designed to provide reasonable** assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations.

Compliance with Government Auditing Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. These 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Privileged and Confidential Information

No information was withheld from this report because it was considered privileged or confidential.

Audit Results

Proper Authorization

All items tested had appropriate approvals; however, we noted three items that did not clearly show the appropriate authorization documentation on the cover sheet.

The County's Purchasing Policy states that payments for goods up to and including \$20,000 can be approved by a Department Director or authorized designee. Payments for goods up to and including \$100,000 must be approved by a Department Director or designee, and the County Administrator or designee. Payments for goods over \$100,000 must be approved by the Department Director or designee, County Administrator or designee, and two County Commissioners.

If an item is purchased on a purchase order, appropriate approvals are obtained electronically before the order is placed, and the approved purchase order can be used as authorization for payment. If the Board of Commissioners has approved a purchase by board order, the signed board order can be used as authorization for payment. A contract signed by the County Administrator can also be used as authorization for payment.

Each department is responsible for entering vouchers, obtaining appropriate department approval, and submitting documentation to Finance. Finance does all posting in the accounts payable system, and is responsible for the processing of all payments.

Each department batches vouchers to be paid into groups, and prints out a cover sheet, which shows a supplier number, invoice number, gross amount, due date, etc. for each voucher. The E-1 financial system Purchasing & Accounts Payable Process manual states that the board order number, purchase order **number, or "per contract" is to be written next to** the voucher on the cover sheet so that Finance can readily see that the appropriate approvals have been obtained. Vouchers that have not been previously approved by purchase order, board order, or signed contract, must show appropriate approval signatures on the cover sheet. We identified three items that did not show the board order number, purchase order number, **or "per contract"** on the cover sheet, although all items had been appropriately approved:

- **The purchase of a jet boat by the Sheriff's Department did not** show the purchase order number on the cover sheet, although it was shown on the invoice.
- A wire payment for the purchase of land did not show the board order number on the first page of the voucher packet. (A cover sheet was not filled out for this voucher, as it was one of the first wire transfer payments. Cover sheets are now being filled out for all wire transfers). The board order was attached, although the page with the signatures was not included.
- A Facility Maintenance payment to a contractor for the courthouse remodel did not include the board order or purchase order number on the cover sheet. The board order number was shown on the invoice.

The Finance Department Accounts Payable Clerk explained that when she enters a voucher number that has a purchase order, the E-1 financial system automatically shows the purchase order information, so it is not an inconvenience if the number is not shown on the cover sheet.

Payment Amount Agrees with Cover Sheet

The dollar amount on the cover sheet agreed to the payment amount for all items tested.

The check payment amount should agree with the amount on the cover sheet. This is to ensure that the amount paid was correct. The check payment amount agreed to the cover sheet for all items tested.

Payment Made from Original Invoice

Three of the 89 items tested were paid from photo copied or faxed invoices rather than from an original invoice as required.

The E-1 Purchasing & Accounts Payable Process manual states that original invoices must be attached to the cover sheet for each voucher in the batch.

This is to prevent duplicate payments made from copies. The following items were paid from photo copied or faxed invoices:

- A Facility Maintenance payment for painting services at the Exposition Park was paid from a photo copy. The original invoice was received by Facility Maintenance, but was misplaced while in transit to Accounts Payable. A copy was forwarded to Accounts Payable with the note **"processed on copies, original lost in transit."**
- A Roads and Parks payment for bridge work was paid from a faxed invoice **with the word "original" highlighted. The signatures on the contract were originals.** The expenditure testing procedures developed by the external auditors state that contract progress billings for public improvement projects are considered adequate supporting documentation in place of invoices, therefore this is not considered an audit exception.
- An Exposition Park payment for tents for the 2009 Fair was paid from a photo **copy. The copy was marked "original" with a comment that an original invoice was not received.**

None of these payments were found to be duplicates. The Accounts Payable Clerk indicated that it is not very often that she pays from a copy, but when she does, she documents why the original invoice was not available.

Expenditure coded to appropriate business unit and account number

Eight of the 89 items tested could have been coded to a more appropriate account number, but only two of the items required correction.

All expenses should be coded to an appropriate business unit and account number. This helps management to control expenditures, and aids the department in the budgeting process. We identified the following items that could have been coded to a more appropriate account number:

- An advance to the Historical Society on the sale of a building was coded to the Taxes & Assessments account 536000. The Finance Department moved the expense to the Direct Funding 546000 account after notification by audit.
- A bond payment was coded entirely to Bond Principal Payments account 562000. Part of the payment should have been coded to Bond Interest Payments account 563000. The entry was a coding error, and was corrected after notification by audit.
- Two payments for keys at the Exposition Park were coded inconsistently. One payment was coded to 522103 Office

Supplies, and the other to 522103 Special Fees & Expense. It is not known why the two purchases are in separate accounts, but both accounts are under Materials & Services, so the account category is correct.

- Four payments for catering and hospitality services were coded to Special Fees & Expenses account 522700. The entertainment account 522710 may have been more appropriate, but both are under Materials & Services, so the account category is correct.

Payee agreed with documentation

The payee agreed to documentation for all items tested.

The payee on the check should agree to the payee on the payment documentation submitted to Finance. This is to ensure the correct entity is paid. The payee for all items tested agreed with the documentation.

Compliance with Local Contract Review Board Rules

One item purchased on a sole source exception from competitive bidding requirements was not properly approved by the Public Contracting Officer.

Local Contract Review Board Rules (LCRB) were promulgated to establish a procedure to assure that each contract to which the county is a party has met state and county competitive bidding and other purchasing requirements. The LCRB rules also include exceptions when competitive bidding is not required. One of the exceptions is when there is only one seller of a product of the quality required within a reasonable purchase area. In these sole source situations, the LCRB rules state that the Public Contracting Officer shall determine in writing that the goods or services are available from only one source. The LCRB rules also state that the Public Contracting Officer is the County Administrator and his or her designee.

One of the items tested was the purchase of a Search and Rescue dive boat. The Field Services Division Lieutenant wrote a memo explaining that the desired product was only available from one vendor, and forwarded the memo to County Counsel, but the memo was not approved by the County Administrator. Some of the departments may have been under the impression that sole source determinations could be made at the department level; however, this is not the case. In addition, the boat was purchased on a purchase order. Purchase orders are approved electronically, so the approver did not know about the sole source designation. There is potential for sole source exceptions from competitive bidding to be abused if not properly reviewed and approved.

Properly Capitalized if Appropriate

All items tested were properly capitalized if appropriate.

The County's Fixed Asset Policy states that capital property typically has a value of \$5,000 or more. The Finance Department reviews capital outlay line items and capitalizes property as appropriate. All capital items tested were found to be properly capitalized.

Other Deficiencies

Three Exposition Park payments for catering and hospitality services were noted that were paid on short term agreements. While the payments were properly approved, and paid from original documents, the agreements had very limited specifications on deliverables. No details were provided as to quantity or quality of food. The caterer could therefore skimp on quantity or quality in order to make higher profits.

Recommendations

Exposition Park Director

To help ensure that quality services are received for services contracted through short term agreements, the Exposition Park should specify adequate details regarding required deliverables in all future agreements.

Finance Director

To clarify procedures for purchasing an item exempt from competitive bidding under sole source, the Finance Director should:

- Remind departments that all sole source determinations are to be approved by the County Administrator or his designee; and
- If the item is purchased on a purchase order, require the document showing the County Administrator's approval of the sole source determination to be attached electronically to the purchase order.

Management Response

Finance Director, Shannon Bell and Exposition Park Director, Dave Koellermeier have responded by email that they agree with the audit recommendations.