



# JACKSON COUNTY

*Oregon*

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## Internal Audit Report

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**Audit of Expenditures: Duplicate Payments, Potential Conflicts of Interest, Payments by State, and Compliance with Best Practices  
2011-12**

**September 2012**

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

**Audit Team**

**Debbie Taylor, County Auditor  
Tanya Baize, Senior Auditor**



**JACKSON  
COUNTY**  
*Oregon*

**MEMO**  
I N T E R - O F F I C E

**Internal Audit**

**Debbie Taylor, County Auditor**  
*CIA, CGAP, CGEM, CFE*

10 S. Oakdale, Room 214  
Medford, OR 97501  
Phone: 541 774 6021  
Fax: 541 774 8705  
TaylorDK@jacksoncounty.org

**To:** Board of Commissioners  
**From:** Debbie Taylor, County Auditor  
**Subject:** 2011-12 Expenditure Testing  
**Date:** September 18, 2012

The attached audit report provides information regarding an audit of County expenditures. The audit was included in the fiscal year 2012-13 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 her response is included at the end of the report. The results were also shared with the County's Audit Committee.

The Internal Audit Office appreciates the assistance it received from County staff throughout the audit process, and from the County's Geographic Information Systems Office in creating the Expenditures by State map.

**Cc:** Audit Committee  
Moss Adams, LLP  
Shannon Bell, Finance Director

**Jackson County  
Audit of Expenditures  
2011-12**

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**Audit Authority**

We conducted the audit in accordance with Codified Ordinance 218 pertaining to the County Auditor. The audit was included in the 2012-13 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 non-payroll/benefit expenditures of \$79,338,041 in fiscal year 2010-11 and \$75,481,071 in fiscal year 2011-12 through May 22, 2012.

Some of the risks associated with expenditures include:

- The County may pay an invoice twice;
- A County employee may receive a non payroll related payment from the County that could be considered a potential conflict of interest; and
- Expenditures may not be properly authorized, may not comply with Local Contract Review Board Rules, may not be properly capitalized, or may be coded to the wrong account or the wrong fiscal year.

**Audit Objectives**

The objectives of our audit were to determine:

- If there were any duplicate payments in the Accounts Payable Ledger for fiscal year 2011-12; and if any identified duplicate payments were due to oversight or fraudulent activity;
- If there were any Jackson County payments, other than payroll, issued to an employee address; and if any payments identified resulted in a potential conflict of interest;
- The degree to which Jackson County has conducted business with local vendors; and
- If internal controls over cash disbursements were reasonably adequate to ensure compliance with the following criteria:
  - Proper authorization;
  - Payment amount agreed with cover sheet documentation;
  - Paid from original invoice;
  - Charged to correct fiscal year;
  - Charged to proper business unit and account;
  - Payee on check agreed with documentation;
  - Adherence to Local Contract Review Board Rules and the County's Purchasing Policy; and
  - Properly capitalized if appropriate.

## **Audit Scope & Methodology**

Payments over \$100 issued between July 1, 2011 and May 22, 2012 were reviewed for potential duplicates. In addition vendor addresses for these payments were compared to current employee addresses to determine if there were any potential conflict of interest issues.

All non-payroll/benefit payments via check, purchasing card, electronic funds transfer, or e-payable<sup>1</sup> for the period of July 1, 2010 – June 30, 2011 were summarized by vendor city and state to determine the degree to which the County has conducted business with local vendors.

The County Auditor selected 28 payments totaling \$1,925,880 from the weekly Payment Registers during the period of July 2011 through April 2012 for standard expenditure testing.

Our audit procedures included:

1. Reviewing the County's Purchasing Policy, Conflict of Interest Policy, Fixed Asset Property Policy, and the Accounts Payable Process Manual;
2. Reviewing the County's Local Contract Review Board Rules (LCRB);
3. Reviewing competitive bid documentation;
4. Reviewing images of cancelled checks;
5. Reviewing expenditures for duplicate payments;
6. Comparing vendor addresses to current employee addresses;
7. Mapping non-payroll/benefit County expenditures by city and state; and
8. Completing standard expenditure testing procedures for the sample.

## **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 the County's Purchasing, Conflict of Interest, and Fixed Asset Property Policies, Local Contract Review Board Rules, accounts payable best practices, and standard, commonly recognized expenditure tests.

## **Internal Controls**

We gained an understanding of the internal control system by reviewing the County's Purchasing Policy, Conflict of Interest Policy, Fixed Asset Property Policy, Accounts Payable Process Manual, and by discussing 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 our evidence provides a reasonable basis for our findings and conclusions based on our audit objectives.

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<sup>1</sup>E-payables provide enrolled vendors with a credit card number that vendors enter into their credit card machines to receive their payment.

**Confidential or Sensitive Information**

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

**Audit Results**

**Duplicate Payments**

*Four duplicate payments totaling \$7,244.34 were identified in fiscal year 2011-12 expenditures. The duplicate payments appear to have been issued due to two staff members processing the same invoice, confusion over which department is responsible for the bill, or oversight.*

**The County’s E-1 Financial System will not allow multiple payments to a vendor on the same invoice number**

To prevent duplicate payments, the County’s E-1 financial system will not allow multiple payments to a vendor on the same invoice number. However, in order for the system to reject a duplicate payment, the invoice numbers must be entered identically. The table below shows the invoice numbers entered into E-1 for the duplicate payments identified.

**Fiscal Year 2011-12 Duplicate Payments Identified**

Vendor	Payment Amount	1 <sup>st</sup> Invoice Number	2 <sup>nd</sup> Invoice Number	Notes
1	\$6,318.02	12-6350	12-6350 Bear Crk TMDL	Vendor has reimbursed duplicate payment
2	\$278.00	456140	(space)456140	Vendor has reimbursed duplicate payment
3	\$325.00	CASE 12 166 MC	12 166 MC 3/8/12	Overpayment will be withheld from next payment
4	\$323.32	2173861	(space)2173861	Reimbursement requested
Total	\$7,244.34			

**Invoice numbers were altered for the duplicate payments identified**

It appears that for the 2nd invoices either an extra space or additional information was added to the invoice number, and therefore E-1 did not reject the payment as a duplicate.

The Development Services Fiscal Administrative Manager commented that there has been some confusion over which department should pay the invoice to vendor number one. This year it was inadvertently paid by both the Development Services Department and the Economic and Special Development Program. The vendor has already reimbursed the overpayment to the Economic and Special Development Program.

Vendor number 3 sent two separate invoices, which normally would have been caught by the department staff member handling payables, but in this case a second staff member was providing assistance, and they both processed the invoice. The overpayment will be withheld from a subsequent payment to the vendor.

The duplicate invoices from vendor number two and four were processed by a department staff member who no longer works for the County. It is not known why the invoices were processed twice, but it appears to have been an oversight. Vendor number two has already reimbursed the overpayment, and a reimbursement has been requested from vendor number four.

**Vendor and Employee Addresses**

*Forty-five non-payroll payments were issued to vendor addresses that matched the address of a current County employee in fiscal year 2011-12. None of the payments appear to be a conflict of interest.*

**Some types of payments to County employees could result in a potential conflict of interest**

The County’s Conflict of Interest Policy 5-47b states that it is the policy of Jackson County to prohibit its employees from engaging in any activity, practice, or act which actually conflicts with, may potentially conflict with, or gives the appearance of conflicting with the interests of Jackson County, its customers, or its suppliers. Some types of payment could result in a potential conflict of interest if they were received by a County employee, or by a private business owned by an employee. One example could be a payment for contract services that are part of the employee’s County duties.

**None of the non-payroll payments issued to County employee addresses appear to result in a conflict of interest**

Forty-five non-payroll payments were issued by the County to addresses that matched current employee addresses. Many of these payments were for property tax refunds which are initiated by Assessment, or were issued to payees who appear to live with a current County employee. None of the payments reviewed were determined to be a conflict of interest.

**County Business with Local Vendors**

*During fiscal year 2010-11, Jackson County had non-payroll/benefit expenditures of \$79,338,041 with 79% of the expenditures paid to vendors with addresses in Oregon, and 50% of the expenditures paid to vendors with addresses in Jackson County.*

**Jackson County conducted the majority of its business with vendors in Oregon**

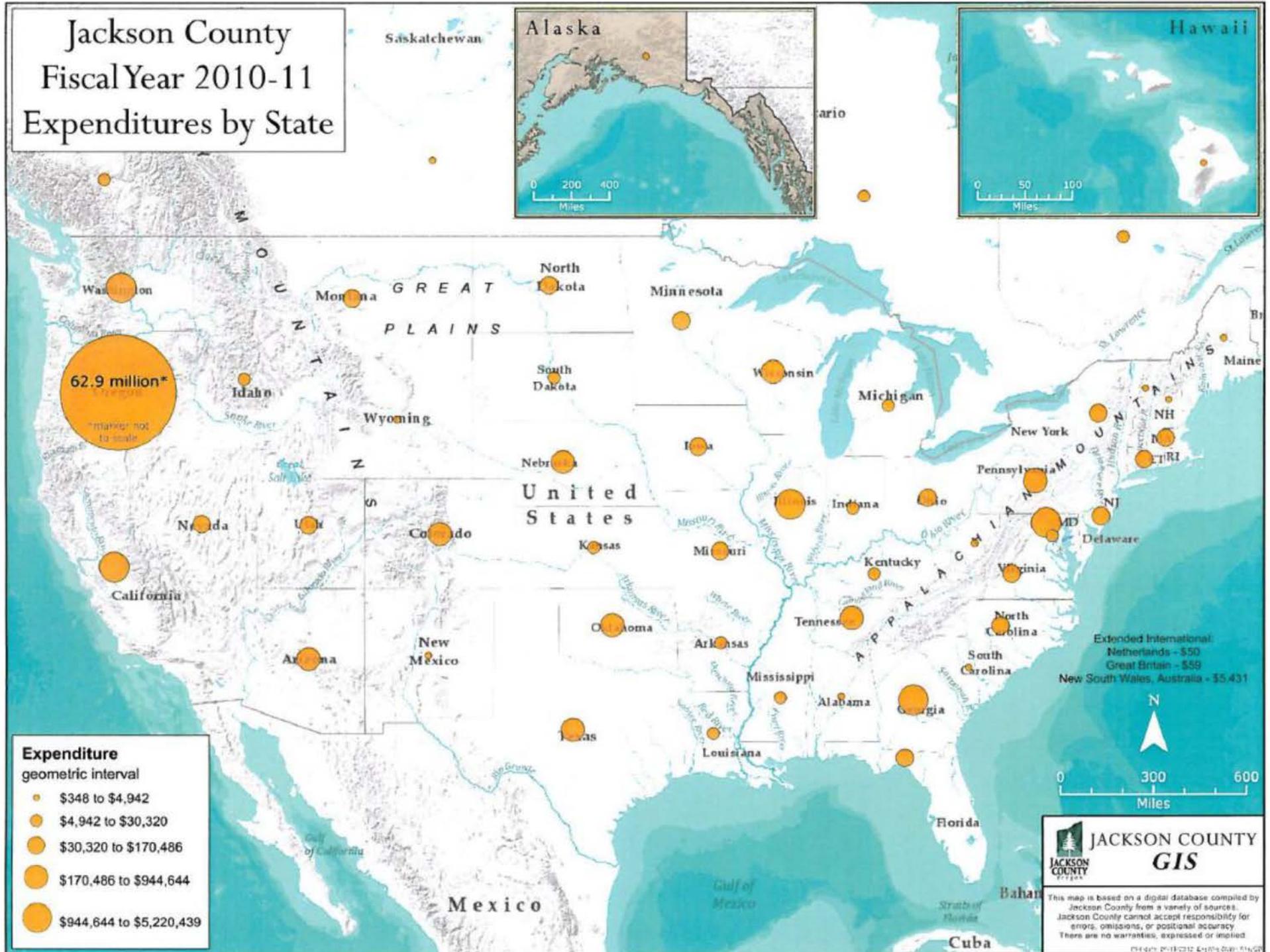
All qualifying vendors, local and otherwise, compete on an equal basis for County business. However, one of the County’s goals is to provide opportunities for all citizens to prosper by promoting the economic development of the area, and the Jackson County Commissioners frequently comment on the number of local vendors applying for contracts with the County. The table below shows all non-payroll/benefit disbursements via check, electronic funds transfer, e-payable, or purchasing card for fiscal year 2010-11. It also shows the percentage of these payments made to vendors with addresses in Oregon and addresses in Jackson County.

**Fiscal Year 2010-11 Non-Payroll/Benefit Expenditures**

<b>Total Non-Payroll/Benefit Expenditures</b>	<b>Expenditures Paid to Vendors with Addresses outside Oregon</b>	<b>Expenditures Paid to Vendors with Addresses in Oregon, but outside Jackson County</b>	<b>Expenditures Paid to Vendors with Addresses in Jackson County</b>
\$79,338,041	\$16,429,130 (21%)	\$23,590,800 (30%)	\$39,318,111 (49%)
		 <b>\$62,908,911 (79%) Total Oregon Payments</b>	

The map that follows shows the distribution of these payments by state.

# Jackson County Fiscal Year 2010-11 Expenditures by State



## Internal Controls

**Generally internal controls over disbursements appear adequate, and exceptions noted are not considered a material weakness or a significant control deficiency**

*Internal controls over cash disbursements are generally adequate to ensure compliance with the following criteria:*

1. Payment is properly authorized;
2. Payment amount agrees with amount authorized;
3. Payment is made from an original invoice;
4. Payment is coded to the correct fiscal year;
5. Expenditure is coded to the proper business unit and account;
6. Check payee agrees with documentation;
7. Payment complies with the County's Purchasing Policy, Conflict of Interest Policy, Fixed Asset Property Policy, and the Accounts Payable Process Manual; and
8. Payment is properly capitalized if appropriate.

Exceptions are noted below, none of which are considered a material weakness or a significant control deficiency.

### **Proper Authorization**

*All items tested had appropriate approvals; however, one payment request cover sheet could not be located, and the cover sheets for three other test items did not reflect that the proper authorization had been obtained.*

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.

**An approved purchase order, board order, or signed contract can be used to authorize payment**

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 the County's Finance Department. 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 name and 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.

One cover sheet for the purchase of \$35,983 in information technology equipment for Human Resources could not be located, although there is an approved purchase order for the transaction. This is the first time a cover sheet has not been able to be located for audit purposes, and it is probable that it was misfiled.

**A signed Payroll Authorization form authorizing wages, benefits and taxes for each pay period is on file in the Payroll Supervisors Office**

In addition, the cover sheets for payments of \$34,553 in employee deferred compensation, and \$676,486 in retirement payments did not reflect approval at the appropriate level. However, there is a Payroll Authorization form on file in the Payroll Supervisor's office for each pay period with appropriate authorization for these payments. Expenditure testing from 2011 recommended that the Payroll Authorization Form be attached to these cover sheets to show approval, but this recommendation was not implemented at the time of the 2011-12 fiscal year review.

The cover sheet for a third payment in the amount of \$228,107 for the County's purchasing card also did not reflect authorization at the level indicated by the Purchasing Policy. The cover sheet was signed by the Chief Deputy Treasurer, who is authorized to sign for expenditures up to \$20,000, and the purchasing card statement was signed by the Senior Deputy County Administrator who is authorized to sign expenditures up to \$100,000. The signed statement was not attached to the cover sheet. The Senior Deputy County Administrator stated the County has always justified one signature for the total bill rather than signing each individual bill, and that if there were an individual bill for over \$100,000 authorization from the Board of Commissioners would be required. The Finance Director commented that each individual bill is also reviewed and properly authorized at the department level. In addition, the purchasing card contract specifies that the payment will be auto debited from the County's bank account. The Chief Deputy Treasurer could make a transfer for each approved statement individually, but it is more efficient to make one transfer for the entire bill.

It was also noted that a terminated employee was still listed as an authorized signer on the Accounts Payable list of Expenditure Authorizations. The department has since notified Accounts Payable to remove the name. No payment authorizations were noted for this ex-employee after the date of termination.

**Payment Amount Agrees with Cover Sheet**

*The dollar amount on the cover sheet agreed to the payment amount for all items tested (excepting the cover sheet that could not be located).*

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. The dollar amount for the

payment with the cover sheet that could not be located agreed with the amount on the purchase order.

### **Payment Coded to the Correct Fiscal Year**

*All items tested were coded to the correct fiscal year.*

The County's Year-End Closing Procedures memo explains that goods or services received prior to July 1 need to be charged to fiscal year 2010-11, and goods or services received after June 30, need to be charged to fiscal year 2011-12. All items tested were charged to the correct fiscal year.

### **Payment Made from Original Invoice**

*One request for payment did not have appropriate documentation attached, and four others were paid from faxed or emailed invoices, which were not marked "Pay from this Invoice."*

**Documentation attached to a request to replenish the Witness Fee cash did not sufficiently support the amount paid**

Purchasing Policy 4-03 states that payment requests should be supported by original invoices. A payment to replenish the Witness Fee Payment cash fund had a copy of the Accounting Process for Witness Fee Payment memo attached as documentation rather than an accounting of the fees disbursed and cash needed to replenish the fund. The memo does not indicate the amount of the replenishment. The reconciliation has not been attached because the Chief Deputy Treasurer replenishes the account with a round amount (i.e. \$500 or \$1000) rather than requesting reimbursement for a particular set of vouchers that were redeemed, and therefore the replenishment would not tie to a number on the Witness Fee Log. The reconciliation covering the replenishment request in question was reviewed, and appears to be reasonable.

The Purchasing Policy also states that when it is not clear that an invoice is an original, such as when an invoice is sent as an attachment or fax, the invoice submitted should have "Pay from this Invoice" written on the front followed by the payment request originator's signature. This is to help prevent the invoice from being paid twice.

**Faxed invoices are becoming more common and are difficult to establish as originals**

Four of the invoices reviewed were faxed invoices that were not marked "Pay from this Invoice." Department staff may not be aware of this requirement in the Purchasing Policy. Invoices received by fax or email are becoming more common, and it is difficult to determine if these documents are originals. None of the payments from faxed invoices appear to have been duplicate payments.

### **Expenditure Coded to Appropriate Business Unit and Account Number**

*One item tested could have been coded to a more appropriate account number.*

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. In addition, recording capital items in a capital outlay account helps ensure that appropriate items are capitalized. Due to a misunderstanding, a software purchase was recorded in a miscellaneous

software account rather than a capital outlay software account. This increases the risk that the software may not be properly capitalized. The Capital Asset Accountant was already aware of the issue and had initiated correction at the time of the expenditure testing.

#### **Payee on Check Agreed with Supporting 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 on the cancelled check image agreed with the documentation for all items tested.

#### **Compliance with Local Contract Review Board Rules**

*All items tested complied with Local Contract Review Board Rules.*

**All items tested were competitively bid if appropriate**

Local Contract Review Board Rules (LCRB Rules) 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. Bid documents for test items were reviewed when applicable. All items tested complied with LCRB Rules.

#### **Properly Capitalized**

*All items tested that meet the County's criteria for capitalization have either been capitalized, or have been recorded in an account that the County's Capital Asset Accountant reviews for items needing to be capitalized.*

**The Capital Asset Accountant routinely reviews all Capital Outlay and Minor Equipment accounts for items needing to be capitalized**

Under the County's Fixed Asset Property Policy 7-03, property that: 1) has an expected normal, useful life of three or more years, 2) is not consumed, duly altered, or considerably reduced in value in its use, and 3) has a value of \$5,000 or more is recorded as a capital asset. The policy also states that the Finance Department reviews all expenditures from capital outlay line items and updates the list of capital assets. The Capital Asset Accountant has indicated that she also reviews the minor equipment account for items that should be capitalized. One of the invoices reviewed was for the purchase of an IT Storage Area Network in the amount of \$61,184 that was recorded in the minor equipment account. The item had not yet been capitalized as of June 21, 2012, but the Capital Asset Accountant is aware of this item. Three other test items have not yet been capitalized, but are recorded in Capital Outlay accounts, and will be capitalized in the normal capitalization review process.

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## Recommendations

1. To reduce the likelihood of double payments, the Accounts Payable Clerk should remind Department staff to enter the invoice number exactly as shown on the invoice, and explain how the E-1 duplicate payment alert works.
2. To improve compliance with the Accounts Payable Process Manual, payroll and benefit payments with an authorization form on file in the Payroll Supervisor's office should be stamped with a statement indicating the location of the authorization. In addition, the Accounts Payable Process Manual should be updated to indicate this exception.
3. To enhance compliance with the Accounts Payable Process Manual, the purchasing card statement signed by the Senior Deputy County Administrator should be attached to the cover sheet.
4. To reduce the likelihood that a cover sheet could be authorized by a terminated employee, when payroll is notified that an employee with authority to authorize expenditures has terminated, they should notify accounts payable to remove the employee from the expenditure authorization list.
5. To enhance compliance with the County's Purchasing Policy, the Accounts Payable Clerk should remind Department staff to sign all faxed or emailed invoices and mark them with "Pay from this Invoice." In addition, the Finance Director should consider revising the Purchasing Policy to address the issue of identifying original faxed or emailed invoices.
6. To enhance the quality of documentation attached to the Witness Fee fund replenishment requests, the Finance Director should require the documentation to include a reconciliation of the account and reflect the amount redeemed.
7. To enhance the County's Fixed Asset Property Policy, the Finance Director should revise the policy to indicate all types of accounts that the Capital Asset Accountant reviews for items needing to be capitalized.

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## Management Response

The Finance Director agrees with all the recommendations except for #3:

To enhance compliance with the Accounts Payable Process Manual, the purchasing card statement signed by the Senior Deputy County Administrator should be attached to the cover sheet.

***Management Response:*** This payment is for expenditures that have already been authorized by appropriate personnel and the entry is a bank transfer to ensure that there are sufficient funds in the bank from which the Purchase Card payment is drawn monthly.

*This is no different than bank transfers that are done on a regular basis to ensure that there are adequate funds in the bank account for payroll or accounts payable checks. I would like to suggest that the signed purchase card statements, indicating the Senior Deputy County Administrator's review be kept with the Purchase Card files.*

**Audit Response:** This is acceptable provided the Accounts Payable Process manual is updated to reflect this exception.