

PINAL COUNTY  
PERFORMANCE AUDIT OF THE ACCOUNTS  
PAYABLE DIVISION  
FISCAL YEAR 2012-13



HEINFELD, MEECH & CO., P.C.  
CPAs and Business Consultants

May 12, 2014

Kate Witek, Interim Internal Audit Officer  
Pinal County  
31 North Pinal Street  
Florence, AZ 85132

Dear Ms. Witek:

At the request of management, we have completed our performance audit of the Pinal County Finance Department's Accounts Payable (AP) Division for fiscal year 2012-13 and have summarized the results in this report for your consideration. The accompanying report includes discussions of the procedures performed and the noted weaknesses and/or recommendations for the Accounts Payable Division.

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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

If you have any questions or need any further assistance, please contact Diane Goke at (602) 277-9449, ext. 304.

Sincerely,

Heinfeld, Meech & Co., P.C.  
CPAs and Business Consultants

# Table of Contents

	<u>Page</u>
<b>Background.....</b>	<b>1</b>
<b>Objectives, Scope and Methodology.....</b>	<b>2</b>
<b>Benchmarking.....</b>	<b>2</b>
<b>Internal Controls.....</b>	<b>2</b>
<b>Analysis of Disbursements.....</b>	<b>3</b>
<b>Observations and Recommendations .....</b>	<b>4</b>
<b>Appendices .....</b>	<b>8</b>
<b>Appendix A – Summary of Process Flow .....</b>	<b>9</b>
<b>Appendix B – Position Matrix .....</b>	<b>10</b>
<b>Appendix C – Summary of Recommendations .....</b>	<b>11</b>

## Background

Pinal County, formed in February 1875, comprises 5,376 square miles. Nestled between Maricopa County (Phoenix) and Pima County (Tucson), Pinal County is home to over 350,000 residents. The County has two distinct regions: the eastern mountainous area (copper mining and tourism) and the western lower valley desert area (manufacturing, distribution and agriculture). The County includes 18 cities and communities within its borders.

The Finance Department is responsible for the administration of the County's finances and ensuring compliance with State laws and ordinances established by Pinal County. The Department's mission is to ensure quality financial services, and information is provided to management, other County departments, the financial community and other interested parties for the benefit of the County and its residents.

The Accounts Payable (AP) processing and payment division is under the responsibility of the Finance Department. The division is made up of seven individuals who are responsible for processing invoices, running reports, matching invoices with checks, sending the checks to the vendors, and managing document retention.

Portions of the AP function are decentralized and are the responsibility of each department. The departments are linked to E1, the County's financial system, via the County intranet and are responsible for inputting requisitions into E1. Each department is responsible for obtaining proper approval prior to submission of requisitions to the County Finance Department.

The County is required to maintain copies of invoices and any other supporting documentation necessary to support the disbursement of funds. To help alleviate the need for physical storage space to maintain such documents, the County uses OnBase, an imaging software database, which allows documents to be scanned and stored in a database for record retention.

Pinal County contracted with Heinfeld, Meech & Co., P.C. to conduct a performance audit to provide an objective analysis of the AP function.

## Objectives, Scope and Methodology

The purpose of the performance audit was to provide an objective analysis of the AP division of the County to assist management in improving the program operations, reducing costs and initiating any corrective action identified. The methodology for this audit was comprised of interviews with staff, reviews of policies and departmental regulations, observation of procedure implementation, and reviews of file documentation to determine compliance.

The following requirements were identified by the County to be included in the audit:

- Benchmarking the AP process with comparable institutions to determine if AP processes reflect best practices.
- Determining whether AP processes reflect sound internal controls.
- Analyzing disbursements to determine if they are timely, accurate and in compliance with County policies and procedures.

### Benchmarking

Each entity should strive to define the best practice that is particular for their entity. While the County may differ in terms of resources including personnel and technology than another entity, the best practices for an entity are generally what controls work best for their circumstances while processing invoices with a minimum of staff and keeping costs low.

The majority of the AP information was obtained from the experience the audit firm has with similar entities. A focus was made on the overall structure of the AP staffing and the procedures for processing AP, whether manual or computerized. We observed the overall AP process and discussed with staff their procedures for processing AP. We have made some recommendations in this report to strengthen internal controls and provide for efficiencies.

### Internal Controls

The AP division's operations were reviewed through interviews with staff, reviews of documentation and the flow of the entire AP process. The audit objectives included the following:

- Evaluate whether the AP division's policies and procedures appropriately document the following:
  - The invoice approval process.
  - The invoice processing and payment criteria.
  - The approval and issuance of warrants process.
  - Controls over access to the AP software module.

- Evaluate whether the AP division's policies and procedures are being appropriately implemented.
  - Determine if the documented job descriptions and daily responsibilities represent the appropriate segregation of duties.
  - Review the Department's policies, procedures and employee communication to determine if employees are provided consistent information on management policies.

## Analysis of Disbursements

An analysis of disbursements was performed by reviewing 130 disbursements throughout the fiscal year 2012-13. We reviewed items in the sample for verification that expenditures were supported by an invoice, appropriate approvals were obtained, the description and quantity agreed to supporting documentation and that purchase orders (POs) were properly prepared. This was done by:

- Determining a sample size based on audit best practices to include:
  - Sample selection for each month during the audit period.
  - Ensuring sample selection included all types of AP transactions.
- Evaluating that the disbursements are timely, accurate and in accordance with County policies and procedures.

## Observations and Recommendations

### Were AP Guidelines appropriately implemented?

#### Procedures Performed

- We obtained and reviewed the related Department policies that define the established procedures.
- We interviewed employees involved in the AP process as well as departmental managers.

#### Summary of Observations

The County did not have formal policies or procedures related to the AP process. General procedures were compiled for training; however, the training materials are not official policy. Employees were trained on their positions by existing employees who had been in the similar position in the past and by personnel involved in the implementation of the new accounting system. An organizational chart was prepared and included employee names and position titles.

#### Recommendation #1

We recommend that detailed policies and procedures be formalized by the County to provide a basis for the AP department operations. Formal policies and procedures can help employees to become more familiar with the requirements of their positions and allow for employees to be held accountable for performing their duties.

### Were appropriate AP processes followed?

#### Procedures Performed

- We interviewed employees involved in the AP process as well as departmental managers.
- We observed the performance of AP procedures and processes with AP personnel.

#### Summary of Observations

During our review we noted that procedures were performed in accordance with standard policies for AP including separation of duties, electronic system controls, and procedures in place for employee responsibility backup. Personnel were aware of the hierarchy of responsibilities. Personnel did have concerns over the implementation of the new system and wanted to make sure that the County is taking advantage of the system's capabilities with regards to the separate document storage system (OnBase).

We observed duplication of duties. Invoices that are flagged by the Administrative Clerks are reviewed again by the AP Clerk.

Personnel addressed concerns over the Housing Department payments that are processed through the AP department. The Housing Department runs separate transactions through the Lindsey financial system, which is not integrated with the County's general ledger. Employees had concerns on processing payments without proper documentation being provided. The employee processing the Housing payments receives documentation from the Housing Department noting bank accounts and amounts to be processed. Supporting invoices or other support is not provided.

### **Recommendations #2-6**

#2 - Information is currently submitted in a paper format; electronic submission could improve processing, fully integrating with OnBase.

#3 - Capital asset supporting documentation is manually separated by the Capital Assets Accountant from the entire pile of processed checks.

- Alternatively, capital asset information could be electronically flagged or distinguished by coding.
- Alternatively, they could be manually separated at the time the checks are confirmed by the Administrative Clerks based on coding.

#4 - The County should review job duties for the Administrative Clerks and the AP clerk to ensure that duties are not duplicated.

#5 - The County should review procedures for processing Housing payments and determine if proper controls are in place. Formal policies and procedures should be established for this process.

#6 - We also recommend the County explore electronic processing. Electronic processing of AP has many advantages and comes in different forms. Automated Clearing House (ACH) is an electronic form of payment where the payment is transmitted from bank to bank without the need for a traditional paper check and is easy to set up. Many banks offer programs where they will do the work of contacting the vendors and getting the information needed to set up ACH. Another form of electronic payment is the procurement card, which is a credit card issued to employees within the County that allows the purchaser to pay for goods and services with that card. The County currently uses procurement cards. The other form of electronic payment is a ghost card, which is simply a credit card number issued to purchasers to use instead of a physical credit card.

A few of the advantages of electronic payments are the elimination of storage and handling of paper checks, reduction of the time spent on reconciliations and elimination of lost or stolen checks. Many banks offer incentives, such as cash rebates, for organizations that take advantage of electronic payments. With proper internal controls in place, electronic payments could provide efficiencies in the AP division.

## Did the sample of payments selected reflect proper implementation of the AP processes?

### **Procedures Performed**

We reviewed a sample of disbursements from fiscal year 2012-13 to determine if they were timely, accurate and in compliance with County policies and procedures. We selected 130 disbursements covering a variety of dollar amounts, types of transactions, and vendors. Approximately five percent of the total dollar amount spent for non-payroll disbursements were sampled and reviewed. The following were reviewed for each sample:

- Expenditure was properly supported by a vendor's invoice.
- The PO was reviewed and approved prior to issuance and receipt of goods or services, and the expenditure did not exceed the authorized PO amount.
- Documents were appropriately authorized/verified (i.e., received and PO stamped) at each individual processing point.
- Description and quantity were agreed to supporting documentation.
- Evidence was noted of clerical check and timely cancellation of supporting documentation.

### **Summary of Observations**

For two of 130 disbursements reviewed, the purchase order was created after the invoice was received. Both items were related to the Sheriff's department. Per discussion with the Account Clerk II and Senior Procurement Officer, when purchases are made prior to requisitions and approval of purchase orders, the "buyer" in the procurement office will contact the responsible department for explanation.

For two of the 130 disbursements reviewed, the expenditures occurred in fiscal year 2011-12. After review and discussion with staff, items purchased within the sixty days following year end are reviewed for inclusion into the proper fiscal year. All purchases are recorded in AP in the year in which they are paid. After review, a journal entry is made to correct items that were recorded in the incorrect fiscal year. We determined that a journal entry was recorded to accrue the two items noted in the correct fiscal year.

Of the 130 disbursements selected, 128 had no exceptions to the tests we applied. It was noted that there was excessive turnover in the Finance department in the previous year in which the disbursements occurred and a majority of the employees who processed the disbursements were no longer at the County. Also, it was noted that the County's new accounting system was implemented as of the beginning of fiscal year 2013-14 and was not applicable to the year in which disbursements were reviewed.

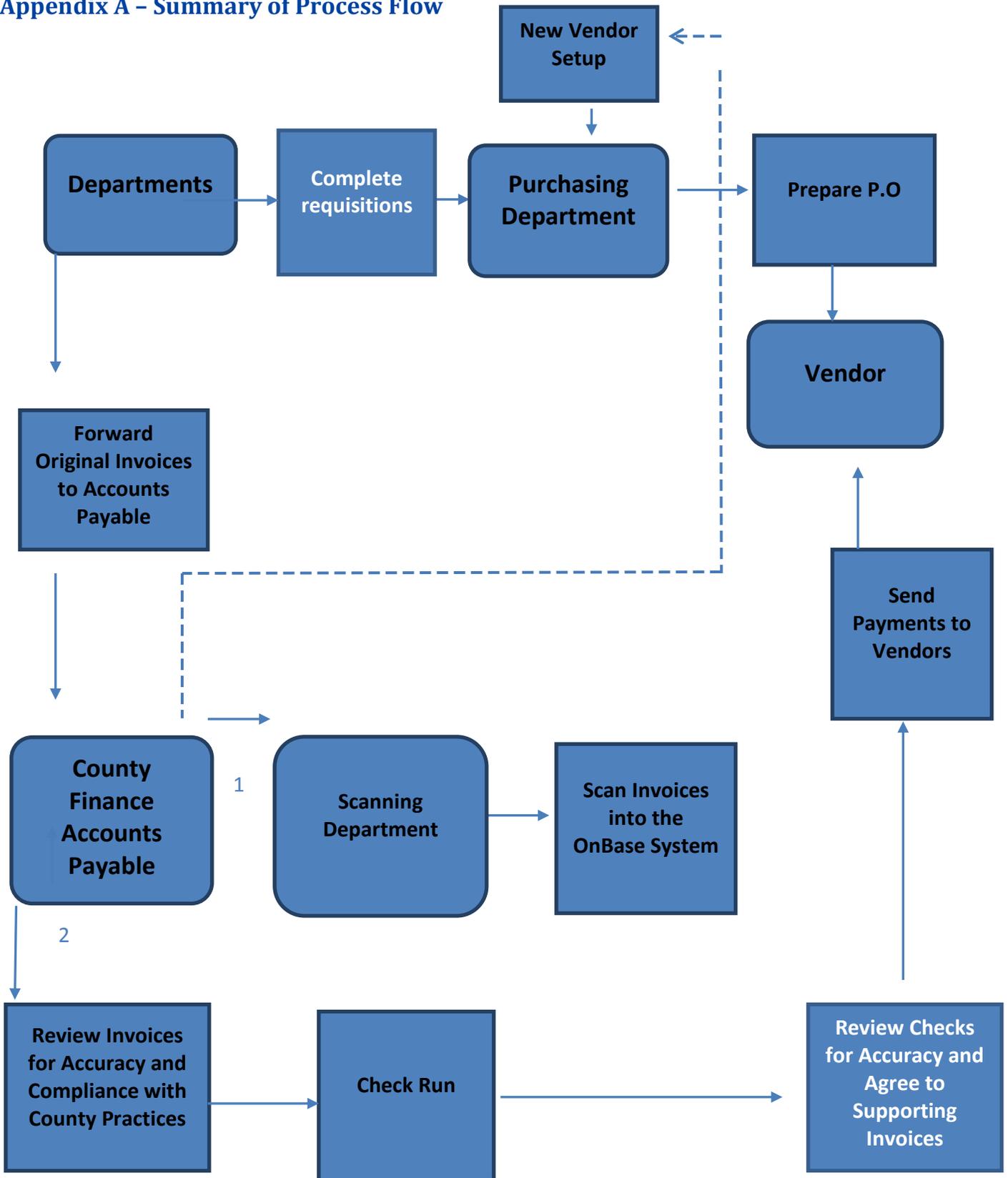
### **Recommendations #7-8**

#7 - The County's AP processes are sufficient to assure that the AP process is functioning properly for the County. The County should continue to internally review processes through discussions with personnel and utilize the technology available to provide the most efficient means of processing transactions.

#8 - The County should consider recording accounts payable in the system in the year in which the expenditure was made instead of using an additional step to record accounts payable through the journal entry process.

## Appendices

### Appendix A – Summary of Process Flow



## Appendix B – Position Matrix

Employee	Position	Authorization/Position Duty	Backup	Activities
Suzanne Garcia	Sr. Financial Systems Manager	E1 authorizations limited to system changes/management support and review and authorization of transactions.	Levi Gibson, Finance Director	Management review
Terry Powell	Accounting Manager	E1 authorizations limited to review and approval of input and payment and posting to the G/L.	Suzanne Garcia, Sr. Financial Systems Manager	Overall review and final approval
Deni Byrd	Accountant I	Check run only. Has E1 authorization for vendor input.	Terry Powell, Accounting Manager	Cut checks and book adjusting journal entries
Daniel Fisk	Account Clerk II	E1 authorization for vendor input and accounts payable entry (non PO transactions).	Clarice Williams, Account Clerk II	Extract and input information from invoices to process payment
Traci Gemmell	Account Clerk Senior	Review of input from department's requisitions for payment for travel and P-cards. Authorize payments in Terry's absence.	Terry Powell, Accounting Manager	Prepare requisitions for travel, p-card, utility expenditures; process housing expenditures
Clarice Williams	Account Clerk II	Accounts payable entry (PO transactions).	Daniel Fisk, Account Clerk II	Extract and input information from invoices to process payment
Eileen Hall	Administrative Clerk Senior	E1 authorization for vendor input.	Jessica D'Amico, Administrative Clerk Lead	Setup new vendors, tag incoming invoices, verify invoice scans, confirm check information, file supporting documentation
Jessica D'Amico	Administrative Clerk Lead	E1 authorization for vendor input.	Eileen Hall, Administrative Clerk Senior	Tag incoming invoices, verify invoice scans, confirm check information

## Appendix C – Summary of Recommendations

Audit Recommendation	Concur (Yes or No)	Management’s Response and Action Plan	Target Date	Individual(s) Responsible
#1 - We recommend that detailed policies and procedures be formalized by the County to provide a basis for the AP department operations. Formal policies and procedures can help employees to become more familiar with the requirements of their positions and allow for employees to be held accountable for performing their duties.	Yes	Accounts Payable staff will create detailed desk manuals detailing policies and procedures that provide a basis for A/P Operations. Each position will build this desk manual using Traci Gemmell as the reviewer with ultimate approval by Levi Gibson.	11/01/2014	Levi Gibson Traci Gemmell
#2 - Information is currently submitted in a paper format; electronic submission could improve processing, fully integrating with OnBase.	Yes	It is the goal of the Finance Department to move towards electronic submission for A/P utilizing a workflow process in Onbase. This will require additional time and resources that are unavailable at this time due to the ongoing E1 ERP project.	Unknown	Levi Gibson
#3 - Capital asset supporting documentation is manually separated by the Capital Assets Accountant from the entire pile of processed checks. Alternatively, capital asset information could be electronically flagged or distinguished by coding. Alternatively, they could be manually separated at the time the checks are confirmed by the Administrative Clerks based on coding.	Yes	The first review of the invoices by the Admin Clerk should involve flagging capital asset expenditures. We will perform additional training to assist them in properly identifying these expenditures on the front end between receipt of the invoice and confirming checks to be mailed	9/01/2014	SuzAnne Garcia & Linda Sloan-Compton
#4 - The County should review job duties for the Administrative Clerks and the AP clerk to ensure that duties are not duplicated.	Yes	As part of recommendation #1 we will review the job duties of the Administrative Clerks and AP clerks to ensure that duties are not duplicated and that we maintain strong internal controls through segregation of duties within those positions.	11/01/2014	Levi Gibson

### Appendix C – Summary of Recommendations (Cont'd)

Audit Recommendation	Concur (Yes or No)	Management's Response and Action Plan	Target Date	Individual(s) Responsible
<p>#5 - The County should review procedures for processing Housing payments and determine if proper controls are in place. Formal policies and procedures should be established for this process.</p>	<p>Yes</p>	<p>The finance department will review the procedures for processing housing payments in order to determine if proper controls are in place. Once that review has taken place we will create and document formal policies and procedures to ensure payments are proper.</p>	<p>09/01/2014</p>	<p>Levi Gibson</p>
<p>#6 - We also recommend the County explore electronic processing. Electronic processing of AP has many advantages and comes in different forms. Automated Clearing House (ACH) is an electronic form of payment where the payment is transmitted from bank to bank without the need for a traditional paper check and is easy to set up. Many banks offer programs where they will do the work of contacting the vendors and getting the information needed to set up ACH. Another form of electronic payment is the procurement card, which is a credit card issued to employees within the County that allows the purchaser to pay for goods and services with that card. The County currently uses procurement cards. The other form of electronic payment is a ghost card, which is simply a credit card number issued to purchasers to use instead of a physical credit card.</p>	<p>Yes</p>	<p>The finance department has explored the recommended process of using formats other than a paper warrant, primarily ACH and ghost card arrangements with our servicing bank. This will require us to develop additional policies and procedures as well as make system changes for how payment information flows from E1 (county ERP) to the treasurers office. It is anticipated that we will begin this process by working with the County Housing Department as they have a separate G/L Package and make regular payments to the same individuals.</p>	<p>4/15/2015</p>	<p>Levi Gibson</p>

### Appendix C – Summary of Recommendations (Cont'd)

Audit Recommendation	Concur (Yes or No)	Management's Response and Action Plan	Target Date	Individual(s) Responsible
<p>#6 (Cont'd) - A few of the advantages of electronic payments are the elimination of storage and handling of paper checks, reduction of the time spent on reconciliations and elimination of lost or stolen checks. Many banks offer incentives, such as cash rebates, for organizations that take advantage of electronic payments. With proper internal controls in place, electronic payments could provide efficiencies in the AP division.</p>				
<p>#7 - The County's AP processes are sufficient to assure that the AP process is functioning properly for the County. The County should continue to internally review processes through discussions with personnel and utilize the technology available to provide the most efficient means of processing transactions.</p>	Yes	<p>The goal of the finance department is to realize efficiencies where possible. One of the areas we do this on a continuous basis is thru the use of technology and continued reviews.</p>	Continuous	Levi Gibson
<p>#8 - The County should consider recording accounts payable in the system in the year in which the expenditure was made instead of using an additional step to record accounts payable through the journal entry process.</p>	No	<p>The finance department works within reasonable means to ensure expenditures are recorded in the proper period. While some journal entries are required do to year end process, we strive to accurately reflect each year's expenditures.</p>	Continuous	Levi Gibson