



A Report
to the
Board of
Supervisors

*Maricopa County
Internal Audit
Department*

Ross L. Tate
County Auditor

Non-Departmental

*Expenditure Controls Appear
Sufficient; Journal Voucher
Oversight Could be Strengthened*

July ■ 2011

Executive Summary	1
Introduction	2
Journal Vouchers	5
Payment Vouchers	7
Department Response	8

The mission of Maricopa County is to provide regional leadership and fiscally responsible, necessary public services so that residents can enjoy living in a healthy and safe community.

The mission of the Internal Audit Department is to provide objective information on the County's system of internal controls to the Board of Supervisors so they can make informed decisions and protect the interests of County citizens.

The County Auditor reports directly to the Maricopa County Board of Supervisors, with an advisory reporting relationship to the Citizen's Audit Advisory Committee.

Audit Team Members

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"Do the Right Things Right!"



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July 20, 2011

Andrew Kunasek, Chairman, Board of Supervisors
Fulton Brock, Supervisor, District I
Don Stapley, Supervisor, District II
Max W. Wilson, Supervisor, District IV
Mary Rose Wilcox, Supervisor, District V

We have completed our fiscal year (FY) 2011 review of selected areas within the Non-Departmental agency budgeting function. This audit focused on Non-Departmental expenditures and was performed in accordance with the annual audit plan approved by the Board of Supervisors. The specific areas reviewed were selected through a formal risk-assessment process.

Highlights of this report include the following:

- Controls over Journal Vouchers could be strengthened
- Expenditures tested were appropriately controlled

This report includes an executive summary, specific information on the areas reviewed, and the Office of Management and Budget's response to our recommendations. We reviewed this information with Sandi Wilson, Deputy County Manager, and appreciate the excellent cooperation we received. If you have any questions, or wish to discuss the information presented in this report, please contact Eve Murillo at 506-7245.

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate".

Ross L. Tate
County Auditor

Executive Summary

Journal Vouchers - Transfer Authorizations (Page 5)

Although the Office of Management and Budget reviews Non-Departmental Journal Vouchers after they are recorded in the accounting system, most are not pre-approved as required by the County Non-Departmental Policy. As a result, errors may not be corrected timely which may impact monthly financial reports. This also increases the risk of errors going undetected. The Office of Management and Budget should develop policies and procedures to enable pre-approval.

Payment Vouchers - Payment Authorizations (Page 7)

We reviewed a sample of Office of Management and Budget controlled Non-Departmental expenditures for compliance with the County Non-Departmental Policy. Overall, we found each transaction to be appropriately budgeted, approved, and recorded. We did not find any instances of non-compliance in our limited sample. Accurate tracking, approval, and recording of transactions ensures Non-Departmental expenditures agree with the Non-Departmental budget and are used for their intended purposes.

Introduction

Background

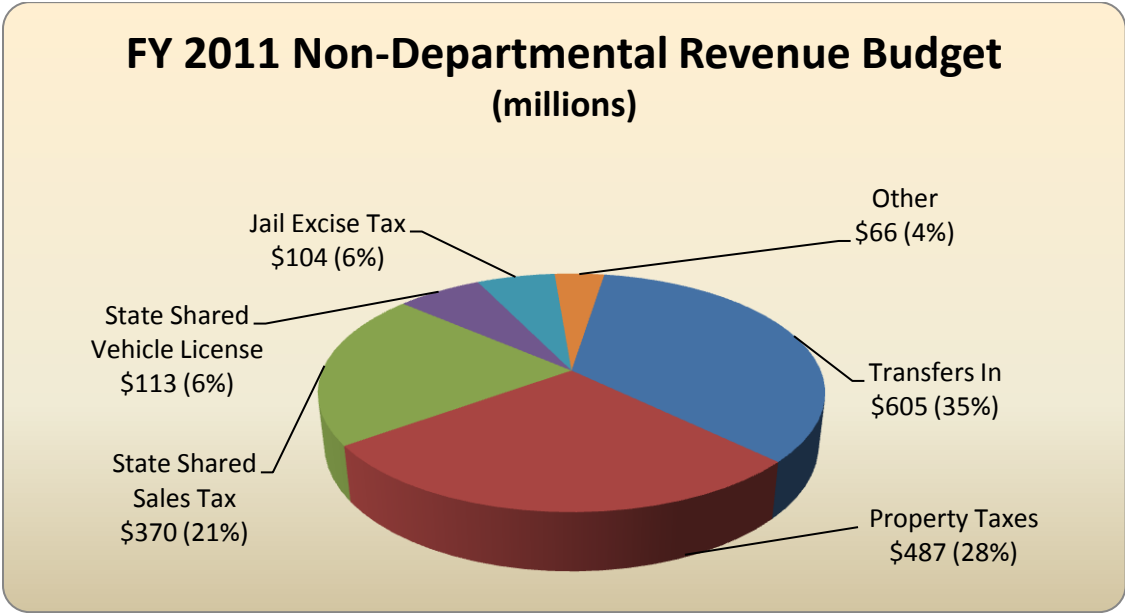
The Non-Departmental (ND) agency acts as a financial reporting and budgeting tool. This agency was established to manage expenditures that benefit the County as a whole, or that apply to multiple County agencies. ND provides distribution and control functions for the County; its use is guided by County policy. In fiscal year (FY) 2011, the ND expenditures budget was \$1.2 billion, or 53% of the County’s total budgeted expenditures.

The Office of Management and Budget (OMB) oversees and maintains the ND budget and reviews and authorizes ND expenditures to ensure that they are budgeted and appropriate.

Non-Departmental Revenues and Expenditures

Revenues

ND revenues consist primarily of taxes (Property, Sales, Vehicle License, and Jail Excise) and inter-fund transfers as illustrated below.

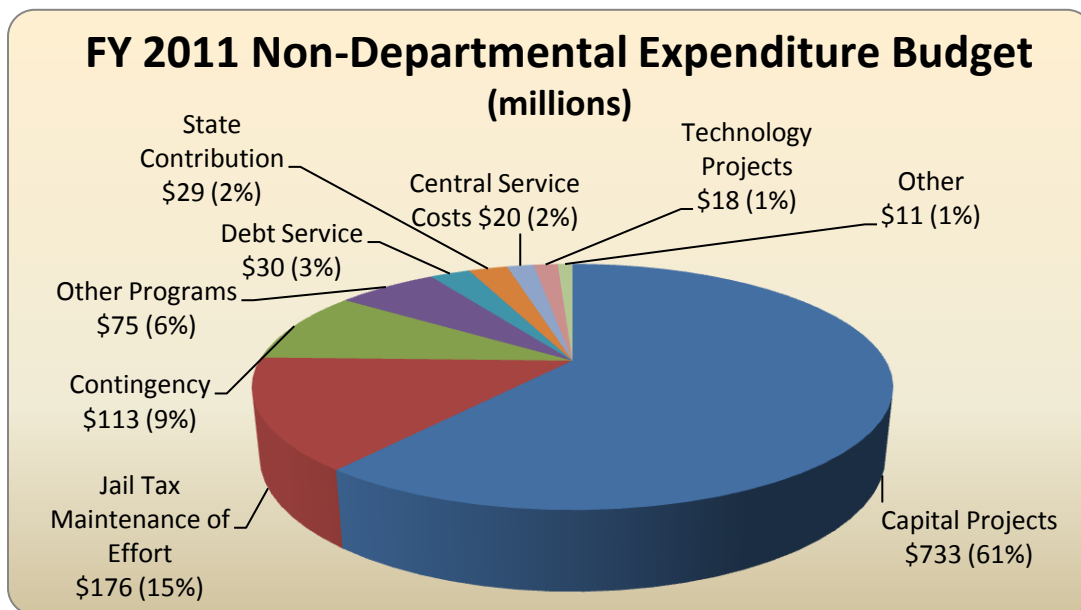


Over half of Non-Departmental revenues come from various taxes

Source: IA Analysis of County Financial System Data

Expenditures

ND expenditures include budgeted capital projects, contingencies, general debt service, and various Board of Supervisors-approved (Board) special projects or initiatives. Although ND expenditures are very diverse, the following chart shows the general budgeted expenditure categories.



Over 60% of Non-Departmental expenditures are for capital and technology projects

Source: IA Analysis of County Budget Data

While OMB oversees and maintains the ND budget, over 99% of ND expenditure transactions are managed by an operating agency, not OMB. Primary operating controls occur within the agency responsible for the activity. OMB provides a secondary control by authorizing expenditures that pass through ND. OMB manages only 0.1% of the total ND budget. ND managed activities are listed below.

Non-Departmental OMB-Managed Activities	
Non-Departmental Item	Budget
Economic development agreement with International Genomics Consortium	\$1,000,000
Non-Departmental staff	90,281
Economic forecasting consultant: Elliot Pollack & Co. contract	85,000
Economic Development payroll	15,000
Total	\$1,190,281

Source: FY 2011 Annual Business Strategies Adopted Budget

Contingency

Contingency amounts are budgeted in ND to cover unanticipated items or unfunded projects. Contingency can be for general purposes or specific issues. The Board must approve all contingency expenditure transfers to agencies in accordance with state statutes.

Scope and Methodology

Audit Objectives and Methodology

Through interviews and financial analysis, we performed a risk assessment of the FY 2011 ND budget to identify potential risks and mitigating controls. ND is the repository for revenues, while OMB, assisted by outside experts, forecasts appropriate revenue levels for budgeting purposes. OMB reviews payments charged through ND; however, ND items are primarily controlled by other agencies. For example, capital projects are budgeted in ND, but construction is controlled by Public Works. Based on this initial review, the objectives of this audit were to determine if ND:

- Journal Vouchers, and associated Payment Vouchers, comply with policies and requirements, including budgeting, approval, and recording of expenditures into the financial system
- Expenditures (such as cost of consultants) comply with policies and requirements, including budgeting, approval, and recording into the financial system

A Journal Voucher (JV) document provides authorization for financial transactions such as transferring amounts between agencies or correcting data in the accounting system. A Payment Voucher (PV) document provides authorization for a payment. We reviewed 10 of 529 JVs transferring personnel costs. The tested JVs totaled \$237,000 of approximately \$3 million in personnel JV transactions. We focused on personnel related JV transactions because we determined that these transfers had the highest risk for potential lack of oversight. Our test of PVs included 20 of the 735 PV transactions from FY 2010 and FY 2011. This sample represents \$1.8 million in transactions out of \$13 million during our test period.

Audit Timeframe

Our audit covered ND expenditures for FY 2010 and FY 2011, and Maintenance of Effort JVs from FY 1999 through FY 2011.

Auditing Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. These standards require the following:

- An independent audit staff and audit organization
- An objective audit staff performing the work
- A competent staff, current with continuing education requirements
- A system of quality control procedures
- Sufficient and appropriate evidence based on audit objectives

Issue 1 Journal Vouchers - Transfer Authorizations

Summary

Although the Office of Management and Budget reviews Non-Departmental Journal Vouchers after they are recorded in the accounting system, most are not pre-approved as required by the County Non-Departmental Policy. As a result, errors may not be corrected timely which may impact monthly financial reports. This also increases the risk of errors going undetected. The Office of Management and Budget should develop policies and procedures to enable pre-approval.

Criteria

The County *Non-Departmental Policy (B1008)* states, “ND budgets will be administered by the Office of Management and Budget under the direction of the County Manager and the Deputy County Manager. The Deputy County Manager or designee must authorize all expenditures prior to incurring obligations or making payments.”

Arizona Revised Statute §42-6109 establishes a tax to support jail facilities and requires that the County maintain its support by paying an amount equal to that paid in the preceding fiscal year plus an inflation adjustment. The specific formula is defined in the statute.

Condition

We reviewed 10 JVs for personnel costs totaling \$237,000, to determine whether the transactions had supporting documentation, had evidence of agency and OMB approval, and were accurately recorded in the general ledger. We found:

- None of the 10 reviewed JVs originating from agencies outside of OMB had evidence of OMB pre-approval, as required in policy. OMB confirmed that they review proper accounting of the transactions after JVs are recorded in the financial system.
- All 10 JVs had three levels of approval in the County financial system. The initiating agency provided the first two levels of approval and the Department of Finance (DOF) provided the third.
- All JVs were recorded accurately according to supporting documents.

We noted that in six transactions the personnel cost allocation occurred in a subsequent accounting period from the payroll transaction.

Additionally, we reviewed the ND Jail Maintenance of Effort (MOE) budget and actual JV activity from the inception of the Jail Tax in FY 1999 to FY 2011 to determine procedures for calculating MOE, and to verify MOE was appropriately budgeted and recorded based on the calculation. We found that overall, the calculation complied with minimum state requirements; minor inconsistencies were discussed with OMB.

Effect

Although OMB reviews JVs after they are recorded to ND accounts, the detection of an error by OMB and correction by the initiating agency does not always occur in the same accounting period, which affects the monthly variance analysis. A review after the transaction is recorded could increase the risk of errors going undetected and affect efficiency.

Cause

The County does not have JV policies and procedures. There are no procedures that identify when a JV is appropriate, the supporting documentation required, and how that documentation should be recorded, reviewed, and approved.

Currently most agencies do not process JVs through OnBase, the County's document imaging and workflow management system; this makes pre-approval more difficult for OMB. However, we did note that DOF uses OnBase to process JVs because it provides good internal controls through electronic workflow and authorization.

Recommendations

Office of Management & Budget should consider working with DOF to:

- A.** Initiate an effort to incorporate JV transactions into the County's document imaging system to enable pre-approval.
- B.** Develop a Countywide JV policy.

Issue 2 Payment Vouchers - Payment Authorizations

Summary

We reviewed a sample of Office of Management and Budget controlled Non-Departmental expenditures for compliance with the County Non-Departmental Policy. Overall, we found each transaction to be appropriately budgeted, approved, and recorded. We did not find any instances of non-compliance in our limited sample. Accurate tracking, approval, and recording of transactions ensures Non-Departmental expenditures agree with the Non-Departmental budget and are used for their intended purposes.

Criteria

The County *Non-Departmental Policy* (B1008) states, “Non-Departmental budgets will be administered by the Office of Management and Budget under the direction of the County Manager and the Deputy County Manager. The Deputy County Manager or designee must authorize all expenditures prior to incurring obligations or making payments.”

Condition

We reviewed ND agency PV transactions to determine whether:

- Transactions had appropriate supporting documentation
- Approvals by agencies and OMB were documented
- PVs were appropriately entered to ND accounts

Our test of 20 PV transactions represented \$1.8 million. In addition, we reviewed the tracking procedures followed by OMB staff to ensure ND expenditures did not exceed approved budgeted amounts for FY 2010.

We found that the 20 transactions tested had appropriate supporting documentation and approvals and each appeared to be properly accounted for. Furthermore, the tracking procedures reviewed appeared accurate and complete. We did not find any instances of non-compliance with the County ND Policy.

Recommendation

None, for information only.

Department Response

AUDIT RESPONSE
NON-DEPARTMENTAL JULY 7, 2011

Issue #1:

Although the Office of Management and Budget reviews Non-Departmental Journal Vouchers after they are recorded in the accounting system, most are not pre-approved as required by the County Non-Departmental Policy. As a result, errors may not be corrected timely which may impact monthly financial reports. This also increases risk of errors going undetected. The Office of Management and Budget should develop policies and procedures to enable pre-approval.

Recommendation A: The Office of Management & Budget should consider working with DOF to spearhead an effort to incorporate JV transactions into the County's document imaging system to enable pre-approval.

Response: Concur.

Currently, there is no automated means to secure prior approval of journal vouchers. The paper process is cumbersome, not allowing for an efficient transfer of documentation for review and approval in a timely manner. The Office of Management will work with the Department of Finance and the Office of Enterprise Technology to establish a workflow via OnBase to allow journal vouchers to be pre-approved. An automated workflow and approval process will provide the mechanism for accountability and control over charges to Non-Departmental. If successful, this process could be utilized County-wide, which will increase efficiency throughout the County. A County-wide roll out may require special consideration for recurring entries and other situations that may arise as a result of the broader scope. A Journal Voucher Policy could address how such situations would be handled.

Target Completion Date: 06/30/12

Benefits/Costs: Improved efficiency and policy compliance could be achieved. Cost associated with programming in OnBase to create the workflow will be incurred but are not known at this time.

Recommendation B: The Office of Management & Budget should consider working with DOF to develop a Countywide JV policy.


Response: Concur.

The Department of Finance is responsible for the recording and reporting of financial activity for the County. Journal vouchers are one of the methods to record financial activity and accordingly, policies regarding journal vouchers should be initiated by the Department of Finance. OMB and the Department of Finance meet on a weekly basis in an effort to coordinate financial and budgeting activity and improve processes. This forum will be used to address the development of a County-wide JV policy. OMB will work collaboratively with the Department of Finance in developing a policy regarding Journal Vouchers. This policy would be support the pre-approval initiative from Recommendation A.

Target Completion Date: 06/30/12

Benefits/Costs: Increased accountability and control of over charges would be achieved by the implementation of a JV policy. There would be no new costs to implement this recommendation.

Approved By :  7-7-11
Deputy County Manager Date

 7/7/11
County Manager Date