



Cobb County...Expect the Best!

INTERNAL AUDIT DEPARTMENT

Report Number 2019-005

***FINAL REPORT– Review of the Effectiveness of
the Year-End Encumbrances Process***

July 12, 2019

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COBB COUNTY INTERNAL AUDIT

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Director

July 12, 2019

MEMORANDUM

TO: Rob Hosack, County Manager

FROM: Latona Thomas, CPA, Director

SUBJECT: **FINAL Report** – Review of the Effectiveness of the Year-End Encumbrances Process

Attached for your review and comments is the subject final report. The overall objective of this review was to evaluate the effectiveness of the Cobb County (the County) year-end encumbrances process.

Impact on the Governance of Cobb County

The recommendations in this report, when implemented, will strengthen the control activities over the year-end encumbrances process. County leadership, citizens, and stakeholders can be assured that future year-end encumbrances processes are effective; balances and reports are complete and accurate; and the process is facilitated in an efficient manner.

Executive Summary

The preliminary survey phase of our audit project resulted in our inability to obtain a sufficient level of assurance on the system data and reports to conduct our audit. As such, we were unable to determine the effectiveness of neither the Fiscal Year (FY)2017 or FY2018 year-end encumbrances processes. We were also unable to obtain the assurance needed regarding the completeness and accuracy of year-end encumbrances balances. Specifically, we found control weaknesses that negatively impact data reliability; several processes and procedures within the year-end encumbrances process needed to be implemented or strengthened; additional guidance and training is needed at the user agency, department, and elected official level; and inconsistencies in how some encumbrances are initiated. The accompanying pages include several recommendations to strengthen the internal control environment over the year-end encumbrances process, to include data reliability.

Recommendations

We made ten (10) recommendations to address the weaknesses in the control activities surrounding the County's year-end encumbrances process. Recommendations will address the need for record retention compliance; segregation of duties controls; data reliability; updated/revised procedures; countywide guidance; tracking and reporting; user training; oversight/monitoring responsibilities; and current and periodic validations. See the 'Results of Review' section, beginning on Page 3, for further discussion.

Responses

The Finance Director provided a response to our draft report and concurred with each of the ten recommendations. While the Solutions Analyst position is referenced in the auditee responses, the Finance Department should continue to initiate, oversee, and manage the year-end encumbrances process. The complete responses to the draft report are included in Appendix VI. We will perform a follow-up on corrective actions during the FY2019 year-end encumbrances process and six months thereafter, as needed. A copy of this report will be distributed to those affected by the report recommendations. Please contact me at (770)528-2559, or David Murry, Internal Auditor II, at 770-528-2557, if you have questions.

Background

Overview of the Year-End Encumbrances Process

Cobb County (the County) uses encumbrance accounting as a budgetary tool to avoid overspending budgeted amounts. Encumbrances are funds that are reserved to account for County commitments to pay for goods and/or services that have not been received. When an encumbrance is recorded, the encumbered amount is deducted from the user agency, department, or elected official's available budget balance to ensure funds are available when the request for payment is received from the vendor. Encumbered amounts are removed when payments are made on the specified commitment and the actual expenditure is recorded.

Initiation process

Encumbrances are initiated by user agencies, departments, or elected official offices through the County's procurement and contracting processes. Some purchases¹ are automatically encumbered through the CGI Advantage Financial System (the financial system) when a purchase of goods and/or services is approved and inputted. This automated process also involves a system three-way² match process to encumber those funds. Purchases via contracts³ are encumbered by either the user agency, department, elected official office or the Finance Department. Contract purchases are generally paid using the County's two-way match⁴ process, but some purchases may follow the three-way match process. Encumbrances are classified into two major categories: single-year or multi-year encumbrances. Single-year encumbrances are usually current County commitments that were incurred within a budget cycle, or one-year contracts where the balance may roll forward to the next fiscal year, if unused. Multi-year encumbrances are usually established for multi-year contracts, and automatically roll forward each fiscal year until they are closed by a Board of Commissioners' (BOC) approval of an agenda or by final payment submission by the user agency, department, or elected official office.

Monitoring responsibilities

County user agencies, departments, and elected official offices are primarily responsible for initiating, tracking, monitoring, and closing their respective encumbrances. The Purchasing Department assists with the procurement process, and the Finance Department assists with setting up budgets, processing payments, and ensuring proper reporting.

¹ Purchases automatically encumbered are Department Purchase Order (PD), Delivery Order (DO), and Purchase Order (PO).

² A three-way match occurs when a purchasing document, a vendor invoice, and a receiver are all finalized and referenced to each other in the financial system.

³ Examples of contract purchases include, but are not limited to Requests for Proposals/Qualifications (RFP/Q), annual maintenance, non-profit grant agreements, Special Purpose Local Option Sales Tax (SPLOST), other grants, etc.

⁴ A two-way match is created when an authorizing document (such as GAX1, petty cash form, travel authorization form) and an invoice or receipt are finalized and referenced to each other in the financial system.

Year-end closing process

The County's year-end encumbrances process is facilitated by the Finance Department. The year-end encumbrance process is initiated near the end of the fiscal year and includes a coordinated effort with user agencies, departments, and elected official offices. At the end of each fiscal year, open⁵ encumbrances generated by approved POs, DOs, and General Accounting Encumbrances (GAE) are automatically rolled forward to the next fiscal year. These encumbrances are originally funded in the user agency, department, or elected official's prior year budget. The financial system simultaneously and automatically increases the new fiscal year's expenditure budget by the amount of the pending encumbrance transaction, to allow the encumbrance to post in the new fiscal year. However, the financial system does not automatically create the off-setting revenue budget transaction to keep the new fiscal year budget in balance. As such, Board of Commissioners (BOC) approval is requested each year to authorize the Finance Department to use prior year revenues to pay for prior year obligations. These revenue budget transactions are done manually by the Finance Department after verifying the accuracy of the increased expenditures budget to the carry forward amount of the encumbrances.

Five-Year Encumbrances Balances

Below is a five-year table of encumbrances balances as of the respective year-ends presented. This table is presented for contextually information only.

Five-Year Encumbrances Balances

	FY2018	FY2017	FY2016	FY2015	FY2014	Five-Year Average
General Fund	\$6,132,031.00	\$4,878,764.00	\$7,873,457.00	\$5,093,607.00	\$3,556,777.00	\$5,506,927.20
Fire District Fund	\$8,261,214.00	\$5,666,339.00	\$3,589,656.00	\$3,286,123.00	\$319,942.00	\$4,224,654.80
SPLOST Fund	\$75,085,552.00	\$96,553,324.00	\$101,725,308.00	\$37,426,566.00	\$102,849,501.00	\$82,728,050.20
Nonmajor Governmental Funds	\$4,350,234.00	\$12,840,396.00	\$16,258,092.00	\$3,428,562.00	\$17,886,402.00	\$10,952,737.20
TOTALS	\$93,829,031.00	\$119,938,823.00	\$129,446,513.00	\$49,234,858.00	\$124,612,622.00	\$103,412,369.40
Other Commitments*						
Water and Sewerage System Improvements	\$31,886,582.00	\$21,603,452.00	\$34,942,560.00	\$14,562,291.00	\$41,300,862.00	\$28,859,149.40
Transit	\$32,168,102.00	\$0.00	\$0.00	\$0.00	\$0.00	\$6,433,620.40
TOTALS	\$64,054,684.00	\$21,603,452.00	\$34,942,560.00	\$14,562,291.00	\$41,300,862.00	\$35,292,769.80

* Approximate balances

Table 1 – Source: The County's Comprehensive Annual Financial Report for the respective fiscal years presented ['Notes to Financial Statements', Note 23. Other Commitments].

The scope of our review covered year-end encumbrances transactions and reports for FY2017 and FY2018. Detailed information on our audit objectives, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix III.

⁵ An open encumbrance represents a valid obligation (as of the County's fiscal year-end) for future payments to County vendors, for goods and services that are under contract or on order.

Results of Review

Our overall objective was to evaluate the effectiveness of the year-end encumbrances process. We conducted interviews with key personnel involved in the year-end encumbrances process; reviewed and analyzed various reports used in the FY2017 year-end encumbrances process; and attempted to independently perform reconciliations between reports. Due to insufficient data retention practices, financial system timing issues, information not available in an auditable format, and our inability to recreate reports, we were unable to validate the effectiveness of the FY2017 year-end encumbrances process. As such, we judgmentally elected to observe the FY2018 year-end encumbrances process. We performed various procedures and attempted to substantiate and validate the FY2018 year-end encumbrances process. Due to similar issues encountered with the FY2017 year-end encumbrances process, we were unable to validate the effectiveness of the FY2018 year-end encumbrances process.

As such, the preliminary survey phase of our audit project procedures resulted in our inability to obtain a sufficient level of assurance on the system data and reports to conduct our audit. We were also unable to obtain the assurance needed regarding the completeness and accuracy of the FY2017 and FY2018 year-end encumbrances balances. In addition, we found several processes and procedures within the year-end encumbrances process that need to be implemented or strengthened. We found control weaknesses that negatively impact data reliability; additional guidance and training is needed at the user agency, department, and elected official level; and inconsistencies in how some encumbrances are initiated. The accompanying pages include several recommendations to address the weaknesses in the internal control environment over the year-end encumbrances process, to include data reliability.

Control Activities in the Year-end Encumbrances Process Need to be Implemented or Strengthened

We noted control weaknesses in the year-end encumbrances process that impacted our ability to rely on the data provided. Specifically, the Finance Department uses year-end encumbrances reports that require significant manipulation without adequate compensating review controls. We requested the original year-end encumbrances reports for both FY2017 and FY2018, along with any supporting documents or report manipulation procedures. We received numerous year-end reports and attempted to validate the completeness and accuracy of each. After numerous attempts and interviews with various Finance and Information Services (IS) Departments staff, we determined that the year-end encumbrances process was unreliable and inefficient. Several control weaknesses contributed to our inability to rely on the year-end encumbrances reports, to include inadequate record retention. Other weaknesses include the lack of segregation of duties, no evidence of validation and reconciliation, and inadequate written procedures.

Inadequate Record Retention

We found that documents are not consistently retained to support the year-end encumbrances process and in accordance with the County's record retention policy. We also noted that the original, unedited year-end encumbrances reports and supporting manipulated documents were not maintained or readily available upon request. As such, we were unable to validate or substantiate the encumbrances reports for neither the FY2017 or FY2018 year-ends. Below is a brief description of record retention issues in the respective year-end encumbrances processes.

FY2017 Year-end Record Retention Issues

We requested the original FY2017 year-end encumbrances reports, as well as other supporting documents to substantiate the year-end encumbrances process. We received multiple documents but were unable to validate the year-end process. The system-generated year-end encumbrances reports were not maintained in their original formats and could not be re-created due to system timing issues. In addition, the manipulation procedures were not adequately documented and maintained. The description or explanation of manipulation steps provided by the Finance Department were not clear and did not provide adequate steps to independently re-perform and validate the process. Good record-keeping practices should include maintaining a copy of these documents in their original format, along with any data manipulation, to arrive at a final product. Whenever adequate record retention practices are not followed, there is no audit trail available to document the process used, ensure that the year-end encumbrances are complete and accurate, and ensure that identified errors are resolved and approved. Automated reporting processes should be implemented to ensure that year-end encumbrances are complete, accurate, validated, and properly reported.

FY2018 Year-end Record Retention Issues

Due to the unavailability of reports and the impact of system timing issues, resulting in our inability to independently re-perform the FY2017 year-end encumbrances process, we judgmentally elected to observe the FY2018 year-end encumbrances process while it was being performed. We requested that copies of all FY2018 reports generated, and subsequent manipulation procedures be documented, maintained, and provided for our review. Similar to the FY2017 year-end encumbrances process, we received numerous reports and documents from the Finance Department, but we were unable to independently validate the reports. As stated previously, we received the original system-generated reports, but the manipulation procedures were not documented. We also noted that the system-generated reports were generated and manipulated by a single person with no evidence of review, validation, or reconciliation by a separate individual. See 'Lack of Segregation of Duties' section on Page 5 for further discussion.

We also received various reports from the IS Department, and the Accounts Payable (AP) and Budget Divisions (Budget) of the Finance Department but not enough supporting documentation was available to validate either report. During our observation and discussions of the FY2018 year-end encumbrances process, the Finance Department staff identified a difference of approximately \$1.9 million between the year-end encumbrances reports generated and manipulated by the AP and Budget Divisions. The Finance Department initiated a reconciliation to investigate the difference, with the assistance of the IS Solutions Analyst; however, the reconciliation was terminated without an adequate resolution of the identified difference. See sections 'No evidence of validation and reconciliation' on Page 5 for further discussion on the \$1.9 million difference. In addition and upon further discussion, the Finance Department staff confirmed that the reports generated by the AP Division for FY2018 year-end encumbrances were deemed unreliable and should not be used. As such, we concluded that we were unable to rely on the year-end encumbrances data reports for FY2017 and FY2018. We discussed our conclusion with both Finance and IS Department staff and they collectively agreed to implement revised control activities during the FY2019 and future year-end encumbrances processes, to specifically include year-end encumbrances reports being generated by IS staff and validated by Finance staff prior to use and distribution.

In addition, the County is required to follow the record retention schedules⁶ as provided by the Georgia Archives. While the retention schedules provide no guidelines as to where these documents should be maintained, we believe the Finance Department should maintain working copies of supporting year-end reports, to include all documents associated with the preparation, manipulation, and financial reporting. There are also no written procedures that include the expectations and control activities to ensure that complete and accurate financial information used in data analysis, monitoring, and financial reporting within the year-end encumbrances process are maintained.

The lack of an established system-generated report process that completely and accurately captures all year-end encumbrances amounts increases the risk of errors without detection, inaccurate budgetary and financial reporting, results in significant man hours spent on manipulating the data, and reduces the effectiveness of user departments who rely on this information for managing their encumbrances. Without valid, accurate, and reliable reports, the Finance Department management is unable to make critical business decisions or provide accurate data to County leadership and various stakeholders. As verbally agreed, the Finance Department should coordinate with IS to develop a system-generated report that can be used in the year-end encumbrances process and that eliminates or mitigates the risks stated.

Lack of Segregation of Duties

We noted that reports are generated and manipulated by the same individual with no subsequent review or validation controls. A Finance Division Manager generates a year-end encumbrances report, manipulates the data without maintaining supporting documentation and justification, and there is no independent verification prior to the use of the year-end encumbrances reports by other divisions. Segregation of duties involves separating activities among different persons to enhance accountability and reduce the risk of errors or inappropriate activity. The current process should be expanded to include a level of validation from someone independent of the process. Specifically, no one person should be able to download, manipulate, and distribute reports without subsequent review or validation. In addition, the information should be adequately maintained for future review and validation. In some instances, it may not be feasible to segregate all activity related tasks; therefore, compensating controls (i.e. detailed supervisory review) may be used to mitigate the risk but only if necessary. Proper segregation of duties, as well as other control activities, are needed to eliminate or reduce risk to an acceptable level.

No Evidence of Validation and Reconciliation

We noted no evidence of internal validation or reconciliation of the year-end encumbrances reports and amounts. Several year-end encumbrances reports are generated by the different divisions of the Finance Department, but the reports are not validated for completeness and/or accuracy with differences identified and resolved. The Finance Director or designee reviews the reports for reasonableness, but no evidence of this review was maintained, nor the outcome of any issues identified. We found that in the FY2017 year-end encumbrances process, the Finance Department staff utilized a manipulated report to adjust for accruals prior to submission to the external auditors, but these reports contained no evidence of validation for completeness and/or accuracy.

⁶ Local Government Record Retention Schedules [https://www.georgiaarchives.org/records/local_government/]

We also found that the Finance Department staff performed a reconciliation of FY2017 single year-end encumbrances roll forward and identified differences that involved multi-year contracts, but there was no evidence that the differences had been researched and resolved.

During FY2018, the year-end encumbrances process included reconciliation activities due to a \$1.9 million difference noted between the encumbrances download generated by AP and the encumbrances carryforward report generated by Budget. The reports were pulled by AP⁷ and Budget⁸ from the County's financial system; however, the totals were different. A reconciliation was initiated, but no evidence that the reconciliation had been completed, inclusive of the outcome, had been maintained. The Finance Department staff asserted that some of the differences were attributed to system timing issues, but we were unable to validate the assertion because the reconciliation process was terminated. We were also unable to independently validate the FY2017 and FY2018 year-end encumbrances amounts because the original reports and subsequent manipulation were not maintained. See sections 'Inadequate Record Retention' on Pages 3 through 5 for further discussion.

As referenced above, we noted that IS staff, at Finance's request, initiated a manually intensive reconciliation process to identify and research the sources of the \$1.9 million-dollar difference. The partially-completed reconciliation process identified encumbrances amounts that were carried forward but should have been closed prior to year-end and other amounts that should have been carryforward but were not included in the year-end encumbrances balances. The reconciliation was transferred to AP for completion; however, we noted no evidence that the reconciliation process had been completed. As such, we were unable to validate or provide any assurance that the sources of the \$1.9 million-dollar difference had been researched, resolved, and the proper corrections made to the financial system and/or reports, as deemed necessary. We were also unable to determine the impact of these differences on the County's budget balances, internal financial transactions, and external financial reporting. In addition, we were unable to determine if the appropriate budget balances exist or are set aside to meet approved or agreed upon financial obligations. We discontinued our observation due to the lack of information available and our inability to rely on the data provided.

Reconciliation and validation activities are essential to ensure an effective internal control environment is maintained. Without valid, accurate, and reliable reports, the Finance Department is unable to rely on its reconciliation/validation process to substantiate the completeness and accuracy of year-end encumbrances amounts, make critical business decisions, or provide accurate data to County leadership and various stakeholders. In addition, automating this process will save time and ensure the accuracy of reporting functions. The use of financial reports without validation, reconciliation, and/or other compensating controls increases the risks of errors without detection and inaccurate budgetary and financial reporting. As state previously, based on discussions with Finance Department management, the year-end encumbrances process will be revised to include additional corrective actions and include reports generated by IS with subsequent validation and reconciliation by the Finance Department staff prior to use and distribution.

⁷ The AP Division encumbrance report is based on outstanding purchasing documents and obligations.

⁸ The Budget Division encumbrance report is based on open budget lines for outstanding purchases and obligations.

Inadequate Written Procedures

We noted that the current operating procedures manual is incomplete and/or does not reflect the current operating practices within the year-end encumbrances process. The available written procedures within the Finance Department does not reflect the expectations, procedures, and responsibilities associated with the year-end encumbrances process, to include ensuring the completeness of encumbrances initiated, periodic monitoring, and year-end validations, reconciliations, and approval. Written documentation organizes procedures and helps ensure consistency between years. It provides a means for training staff and prevents the creation of unapproved procedures. In addition, it acts as a guide during monitoring, validation, and reconciliations, helping to pinpoint any actions taken against established expectations.

Inadequate written procedures could result in process errors, unapproved procedures, inconsistent actions, may not facilitate an employee's optimum performance, and may not support training efforts. Records retention guidelines, procedural changes, revisions to the internal control structure, and corrective actions resulting from this report should also be reflected in the written operational procedures.

Recommendations

The Finance Director should:

Recommendation 1: Implement the verbally agreed upon corrective action to coordinate with Information Services staff and implement revised, automated control activities over the year-end encumbrances process. The revised control activities should include, but not be limited to Information Services generating the needed year-end encumbrances reports and Finance Department staff performing validation and reconciliation activities prior to using and distributing said reports. This revised automated process should be implemented in the FY2019 year-end encumbrances process and periodically re-evaluated for continued practicality and increased efficiencies.

Auditee Response: **Concur.** I concur with the above recommendation, and Finance has begun working with the Solutions Analyst from Information Services to implement controls to validate and reconcile the year-end encumbrance reports. Information Services and the Finance Department have agreed to leave the financial system down until the reports have been validated and reconciled. Expected completion date would be October 4, 2019.

Recommendation 2: Establish written record retention procedures that is consistent and in compliance with the County's record retention policy, to include all supporting documents in accordance with the year-end encumbrances process.

Auditee Response: **Concur.** I concur with the above recommendation, and the Budget Division Manager and the Solutions Analyst will establish written record retention in compliance with the County's record retention policy, to include all supporting documents in accordance with the year-end encumbrance process. Expected completion date would be October 4, 2019.

Recommendation 3: Develop and implement adequate segregation of duties controls throughout the year-end encumbrances process. If segregation of duties is not possible among current staff, additional compensating controls should be implemented.

Auditee Response: **Concur.** I concur with the above recommendation, and the new process for validation and reconciliation of the encumbrances will provide proper segregation of duties. The Solutions Analyst will generate the report and confirm it matches the system prior to bringing the system back online. Expected completion date would be October 4, 2019.

Recommendation 4: Develop written procedures, to include control activities to ensure that year-end encumbrances amounts (i.e. single-year, multi-year, accruals, etc.) are complete and accurate, properly reconciled and validated, and all supporting documents maintained in accordance with record retention guidelines.

Auditee Response: **Concur.** I concur with the above recommendation, and the Budget Division Manager and the Solutions Analyst will prepare written procedures for the reconciliation and validation of all funds' encumbrances. Expected completion date would by October 4, 2019.

Recommendation 5: Update year-end encumbrances procedures and incorporate them into its existing written policies and procedures document. Record retention guidelines, procedural changes, clear delineation of roles and responsibilities, revisions to the internal control structure, and corrective actions from this report should also be reflected in the written operational procedures. Futures changes in the year-end encumbrances process should be incorporated as well.

Auditee Response: **Concur.** I concur with the above recommendation, and the Budget Division Manager and the Solutions Analyst will prepare written procedures for the reconciliation and validation of all funds' encumbrances. Expected completion date would by October 4, 2019. These policies and procedures will be reviewed on an annual basis by the Finance and Information Services Departments.

Additional Guidance and Training on Encumbrances is Needed

We noted that additional guidance and training is needed at the user agency, department, or elected official level that could improve the year-end encumbrances process. The needed improvement includes written countywide guidance and formal countywide training session.

Written Countywide Guidance

We noted that additional countywide guidance is needed to strengthen the overall encumbrances process at the user agency, department, or elected official level. We also noted no formal, written guidance that clearly defined the roles and responsibilities between user agencies, departments, elected officials, and the Finance Department. We obtained various email correspondence regarding the County's encumbrances process, but we noted that there is not a comprehensive guidance and training document that is readily accessible to user agencies, departments, or elected officials.

We noted that additional guidance is needed to determine which encumbrances should be recorded, tracked, and monitored in the County's financial system, as opposed to externally acceptable methods. Specifically, we noted inconsistencies in the uploading of general accounting encumbrances (GAEs⁹). Some GAEs are uploaded and recorded in the financial system by Budget when the Board of Commissioners (BOC) approves the respective agenda items; some are recorded by the user agency, department, or elected official; and other GAEs are not. We found one instance where an individual multi-year contract had not been recorded in the County's financial system. For encumbrance accounting to be effective, all liabilities must be encumbered. Lack of established procedures and inconsistencies throughout this process increases the risk of an overspending.

An effective control environment should include formal, written countywide encumbrances policies and procedures, that is current and easily accessible to all user agencies, departments, and elected officials and other County staff. Written guidance will also ensure that the County has adequate internal controls to effectively and efficiently manage and monitor the encumbrances process and that encumbrances practices are consistent with the County's objectives and expectations. Failing to develop and maintain documented policies and procedures increases the County's vulnerability and risk of errors and inaccurate reporting.

Countywide Training

We noted no scheduled, periodic training for employees tasked with monitoring encumbrances at the user agency, department, or elected official level. To keep pace with rapidly changing business environments, it is imperative that staff are equipped with the knowledge and tools to achieve optimum performance for the County. The nonexistence of a countywide, formalized training process involving encumbrances can lead to deficiencies in the documentation, reporting and the untimely close-out of encumbrances balances. Countywide encumbrances training will provide assurance to the County that those tasked with encumbrances monitoring, possess the required skills and competencies needed. Lack of training, can result in the absence of accountability on issues or activities that are of critical importance to the user agency, department, elected official, and County, which can result in inaccurate reporting of financial transactions.

Initial and periodic countywide training should also be implemented to ensure that control activities are operating in accordance with County expectations and year-end encumbrances process.

⁹ General accounting encumbrances (GAEs) is used by the County to restrict funds when a purchasing transaction has been finalized for goods and services.

Recommendations

The Finance Director should:

Recommendation 6: Compile various encumbrances correspondence into a written countywide procedures and guidance on the encumbrances process, distribute the document countywide, and make it easily accessible, as needed. This guidance policy should address the following topics and related documentation, but not be limited to:

- Definition of encumbrances;
- Description of how encumbrances are generated (i.e. system-generated or manually entered);
- Clear delineation of the roles and responsibilities of user agencies, departments, or elected officials, the Finance Department, or any other centralized function;
- Guidance on closing encumbrances at the user agency, department, and elected official level;
- Guidance on monitoring open encumbrances at the user agency, department, elected official level;
- Outstanding encumbrances aging report;
- Use of available, standardized financial report;
- Record retention requirements;
- Periodic notification expectations;
- Segregation of duties controls within the year-end encumbrances process;
- Validation and reconciliation requirements; and
- Expectations of the year-end encumbrances process.

Auditee Response: **Concur.** I concur with the above recommendation, and the Budget Division Manager and the Solutions Analyst will prepare written procedures for the reconciliation and validation of all funds' encumbrances. The policy will include the recommended items as listed above. Expected completion date would by October 4, 2019.

Recommendation 7: Coordinate with Information Services to develop a standard, countywide structured report for tracking, monitoring, and reporting of user agency, department, and elected official encumbrances during the year.

Auditee Response: **Concur.** I concur with the above recommendation, and the Accounts Payable Division Manager and the Solutions Analyst will develop a standard, countywide structure report for tracking, and reporting of encumbrances. Expected completion date would by October 4, 2019.

Recommendation 8: Implement periodic, mandatory countywide training courses for all staff involved in the encumbrances process. The training topics should initially include changes and corrective actions from this report and subsequently be expanded as needed.

Auditee Response: **Concur.** I concur with the above recommendation, and Accounts Payable Division Manager, will work with the Purchasing Department to include encumbrance training in all future Purchasing classes. Expected completion date would by October 4, 2019.

Recommendation 9: Coordinate with the County Manager to require user agencies and departments to designate a staff member with the responsibility of monitoring encumbrances balances, to include periodic updates to the Department Head and to the Finance Department. Elected official should be encouraged to follow an equivalent process.

Auditee Response: **Concur.** I concur with the above recommendation, and the Finance Director will address this with the County Manager in his next status meeting on July 23, 2019.

Recommendation 10: Require all user agencies and departments to validate its current list of outstanding encumbrances; evaluate the resources needed to close outstanding encumbrances; and initiate the process to close outstanding encumbrances. Elected official should be encouraged to follow an equivalent process.

Auditee Response: **Concur.** I concur with the above recommendation, and the Accounts Payable Division currently send all department a list of outstanding encumbrances for their review, and works with them to close any outstanding encumbrances. These process takes place in the summer before year-end. The Finance Department will also be drafting a policy to close all encumbrances that have rolled fiscal years more than once. Expected completion date would by October 4, 2019.

Detailed Objectives, Scope, and Methodology

We conducted this review as part of our annual audit plan and in conformance with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. Our review period initially covered the County's year-end encumbrances process, financial transactions, and reports for FY2017. Our objective was to evaluate the effectiveness of the County's year-end encumbrances process.

In order to accomplish our objective, we performed the following steps:

- A. Conducted interviews with key personnel within various departments that are involved in the year-end encumbrances process;
- B. Reviewed and attempted to analyze various reports; and
- C. Attempted to independently perform reconciliations between reports.

Due to insufficient data retention practices, financial system timing issues, information not available in an auditable format, and our inability to recreate reports, we were unable to validate the effectiveness of the FY2017 year-end encumbrances process. As such, we judgmentally elected to observe the FY2018 year-end encumbrances process concurrently with our preliminary survey audit procedures. We performed the following various procedures in our attempt to substantiate and validate the FY2018 year-end encumbrances process:

- A. Conducted follow-up interviews with key personnel within various departments that are involved in the year-end encumbrances process;
- B. Reviewed and attempted to analyze various reports;
- C. Attempted to independently perform reconciliations between reports; and
- D. Attempted to validate the \$1.9 million-dollar difference noted between the Finance Division reports.

Abbreviations

BOC	Board of Commissioners
GAE	General Accounting Encumbrances
CGI Advantage Financial System	The financial system

Major Contributors to the Report

Latona Thomas, CPA, Internal Audit Director
David Murry, Internal Auditor II (Auditor-in-Charge)

FINAL Report Distribution List

Finance Department

Bill Volckmann, Finance Director/Comptroller

Information Services Department

Sharon Stanley, Information Services Director

Tara Crisp, Technology Services Manager

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on County governance. These benefits will be incorporated into our annual report to the Board of Commissioners, Audit Committee, and County Manager.

Type and Value of Outcome Measure:

- Reliability of Information – Actual; Recommendations, when implemented, will provide assurance on the overall data reliability, as well as the completeness and accuracy of the County's year-end encumbrances balances and reports. (See Pages 3 - 11)

Methodology Used to Measure the Reported Benefit:

We were unable to obtain assurance on the overall data reliability of the referenced encumbrances reports provided, and we were unable to validate the County's year-end encumbrances balances for FY2017 or FY2018. Recommendations, when implemented, will correct these weaknesses and increase the reliability of reporting.

Type and Value of Outcome Measure:

- Efficient Use of Resources – Actual; Recommendations, when implemented, will increase the efficiency of County's year-end encumbrances process. (See Pages 3 - 11).

Methodology Used to Measure the Reported Benefit:

We found instances where the elimination of manual processes within the reporting process, increased countywide guidance and training for all user agencies, departments, and elected official offices will reduce the number of staff hours required and result in indirect cost savings.

Appendix VI

Auditee's Response to the Draft Report

From the desk of:
WILLIAM VOLCKMANN
FINANCE DIRECTOR
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DATE: July 8, 2019
TO: Latona Thomas, CPA, Director, Internal Audit
FROM: William Volckmann, Director, Finance
SUBJECT: Draft Report - Review of the Effectiveness of the Year-End Encumbrances Process

Recommendations

The Finance Director should:

Recommendation 1: Implement the verbally agreed upon corrective action to coordinate with Information Services staff and implement revised, automated control activities over the year-end encumbrances process. The revised control activities should include, but not be limited to Information Services generating the needed year-end encumbrances reports and Finance Department staff performing validation and reconciliation activities prior to using and distributing said reports. This revised automated process should be implemented in the FY2019 year-end encumbrances process and periodically re-evaluated for continued practicality and increased efficiencies.

Response: I concur with the above recommendation, and Finance has begun working with the Solutions Analyst from Information Service implement controls to validate and reconcile the year-end encumbrance reports. Information Service and the Finance Department have agreed to leave the financial system down until the report have been validated and reconciled. Expected completion date would be October 4, 2019.

Recommendation 2: Establish written record retention procedures that is consistent and in compliance with the County's record retention policy, to include all supporting documents in accordance with the year-end encumbrances process.

Response: I concur with the above recommendation, and the Budget Division Manager and the Solutions Analyst will establish written recorded retention in compliance with the County's record retention policy, to include all supporting documents in accordance with the year-end encumbrance process. Expected completion date would be October 4, 2019.

Recommendation 3: Develop and implement adequate segregation of duties controls throughout the year-end encumbrances process. If segregation of duties is not possible among current staff, additional compensating controls should be implemented.

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Response: I concur with the above recommendation, and the new process for validation and reconciliation of the encumbrances will provide proper segregation of duties. The Solutions Analyst will generate the report and confirm it matches the system prior to bring the system back online. Expected completion date would be October 4, 2019.

Recommendation 4: Develop written procedures, to include control activities to ensure that year-end encumbrances amounts (i.e. single-year, multi-year, accruals, etc.) are complete and accurate, properly reconciled and validated, and all supporting documents maintained in accordance with record retention guidelines.

Response: I concur with the above recommendation, and the Budget Division Manager and the Solutions Analyst will prepare written procedures for the reconciliation and validation of all funds' encumbrances. Expected completion date would by October 4, 2019.

Recommendation 5: Update year-end encumbrances procedures and incorporate them into its existing written policies and procedures document. Record retention guidelines, procedural changes, clear delineation of roles and responsibilities, revisions to the internal control structure, and corrective actions from this report should also be reflected in the written operational procedures. Futures changes in the year-end encumbrances process should be incorporated as well.

Response: I concur with the above recommendation, and the Budget Division Manager and the Solutions Analyst will prepare written procedures for the reconciliation and validation of all funds' encumbrances. Expected completion date would by October 4, 2019. These policies and procedures will be reviewed on an annual basis by the Finance and Information Services Departments.

Recommendation 6: Compile various encumbrances correspondence into a written countywide procedures and guidance on the encumbrances process, distribute the document countywide, and make it easily accessible, as needed. This guidance policy should address the following topics and related documentation, but not be limited to:

- Definition of encumbrances;
- Description of how encumbrances are generated (i.e. system-generated or manually entered);
- Clear delineation of the roles and responsibilities of user agencies, departments, or elected officials, the Finance Department, or any other centralized function;
- Guidance on closing encumbrances at the user agency, department, and elected official level;
- Guidance on monitoring open encumbrances at the user agency, department, elected official level;
- Outstanding encumbrances aging report;
- Use of available, standardized financial report;
- Record retention requirements;
- Periodic notification expectations;
- Segregation of duties controls within the year-end encumbrances process;
- Validation and reconciliation requirements; and
- Expectations of the year-end encumbrances process.

Response: I concur with the above recommendation, and the Budget Division Manager and the Solutions Analyst will prepare written procedures for the reconciliation and validation of all funds' encumbrances. The policy will include the recommended items as listed above. Expected completion date would by October 4, 2019.

Recommendation 7: Coordinate with Information Services to develop a standard, countywide structured report for tracking, monitoring, and reporting of user agency, department, and elected official encumbrances during the year.

Response: I concur with the above recommendation, and the Accounts Payable Division Manager and the Solutions Analyst will develop a standard, countywide structure report for tracking, and reporting of encumbrances. Expected completion date would by October 4, 2019.

Recommendation 8: Implement periodic, mandatory countywide training courses for all staff involved in the encumbrances process. The training topics should initially include changes and corrective actions from this report and subsequently be expanded as needed.

Response: I concur with the above recommendation, and Accounts Payable Division Manager, will work with the Purchasing Department to include encumbrance training in all future Purchasing classes. Expected completion date would by October 4, 2019.

Recommendation 9: Coordinate with the County Manager to require user agencies and departments to designate a staff member with the responsibility of monitoring encumbrances balances, to include periodic updates to the Department Head and to the Finance Department. Elected official should be encouraged to follow an equivalent process.

Response: I concur with the above recommendation, and the Finance Director will address this with the County Manager in his next status meeting on July 23, 2019.

Recommendation 10: Require all user agencies and departments to validate its current list of outstanding encumbrances; evaluate the resources needed to close outstanding encumbrances; and initiate the process to close outstanding encumbrances. Elected official should be encouraged to follow an equivalent process.

Response: I concur with the above recommendation, and the Accounts Payable Division currently send all department a list of outstanding encumbrances for their review, and works with them to close any outstanding encumbrances. These process takes place in the summer before year-end. The Finance Department will also be drafting a policy to close all encumbrances that have rolled fiscal years more than once. Expected completion date would by October 4, 2019

Prepared by



William E Volckmann
Finance Director and Comptroller