



**John L. Greene, CIA, CIG,
CGAP, CGFM
Chief Audit Executive**

June 2021

**DeKalb County Government
Department of Finance**

**AUDIT OF THE INTERNAL
CONTROLS RELATED TO THE
INVOICE PAYMENT AND CASH
DISBURSEMENT PROCESSES**

FINAL REPORT

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Chief Audit Executive

DEPARTMENT OF FINANCE
AUDIT OF INTERNAL CONTROLS RELATED TO
THE INVOICE PAYMENT AND CASH
DISBURSEMENT PROCESSES
AUDIT REPORT NO. 2019-011-FIN
FINAL REPORT

HIGHLIGHT SUMMARY

<p>Why We Performed the Audit</p> <p>In accordance with the Office of Independent Internal Audit (OIIA) Annual Audit Plan, we conducted a performance audit of the County's invoice and cash disbursement processes. The objective of this audit was to determine whether internal controls over the cash disbursement process were adequately designed and operating as intended.</p> <p>How We Performed the Audit</p> <p>The scope of our audit focused on the functions and related systems for the audit period from January 1, 2019, through May 2020 and current transactions, where appropriate.</p> <p>Our methodology included but was not limited to the following:</p> <ul style="list-style-type: none"> Review of relevant policies, procedures, and standards. Examination of supporting documentation to assess the effectiveness of controls in place. Interview of appropriate County personnel and external parties. Performance of sample tests of transactions. <p>Background</p> <p>The County's cash disbursement process involves the receipt and processing of invoices for payment by check, wire transfer, and ACH. The process involves all County departments. The primary objective of the cash disbursement process is to ensure the timely and accurate payment of the County's vendor obligations. During the calendar year 2019, DeKalb County's Accounts Payable function processed approximately 101,123 invoices valued at \$915,840,275¹. The cash disbursement process has a critical role in ensuring the accuracy and completeness of the financial data. An omission of a vendor invoice will cause two accounts to report incorrect amounts.</p> <p>The Finance Department had plans to solicit external resources to provide assistance in identifying and addressing internal control deficiencies, but the Office of Independent Internal Audit agreed to provide the initial assessment to be used to begin the process of improving the environment.</p>	<p>What We Found</p> <table border="1"> <thead> <tr> <th>Accounts Payable Process</th> <th>Financial Impact (Y/N)</th> <th>Description</th> <th>Rating</th> </tr> </thead> <tbody> <tr> <td>1. Data and Reporting</td> <td>Y</td> <td>Unable to validate data and information in reports.</td> <td style="background-color: red;"></td> </tr> <tr> <td>2. Monitoring Controls</td> <td>Y</td> <td>Missing controls.</td> <td style="background-color: red;"></td> </tr> <tr> <td>3. 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Data and Reporting	Y	Unable to validate data and information in reports.		2. Monitoring Controls	Y	Missing controls.		3. Supplier Master File (SMF)	Y	SMF management needs improvement.		4. Conflict of Interest (COI)	N	Noncompliance with Ordinance.		5. Centralize Invoice Processing	Y	Processes not centralized in AP.		6. Invoices on Hold (IOH) Report	Y	IOH not resolved timely.		7. Invoice Processing	N	Invoices submitted before the purchase order processed.		8. User Department	Y	Noncompliance with policies and procedures.		9. Application Security	Y	Access controls need improvement		No exceptions or internal control deficiencies were noted.				Internal control enhancements noted.				Exceptions or internal control deficiencies were noted			
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¹ Data provided the County Finance Department management.



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BACKGROUND AND INTRODUCTION

The County's cash disbursement process involves the receipt and processing of invoices for payment by check, wire transfer, and Automated Clearing House (ACH) network. The process involves all County departments. The primary objective of the cash disbursement process is to ensure the timely and accurate payment of the County's vendor obligations.

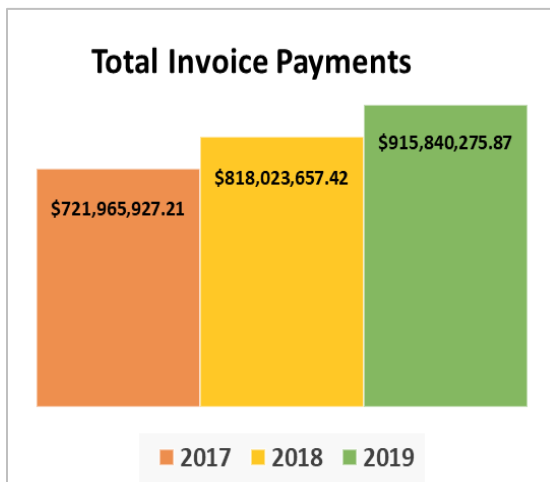
The County's cash disbursement activities have trended upwards over three years. Figures 1-4 displays activity from 2017 to 2019.

Figure 1

	2017	2018	% Change	2019	% Change
Accounts Payable (AP) financial statement balance as of December 31 (in thousands of dollars)	\$101,959	\$109,881	8% ↑	\$139,558	27% ↑

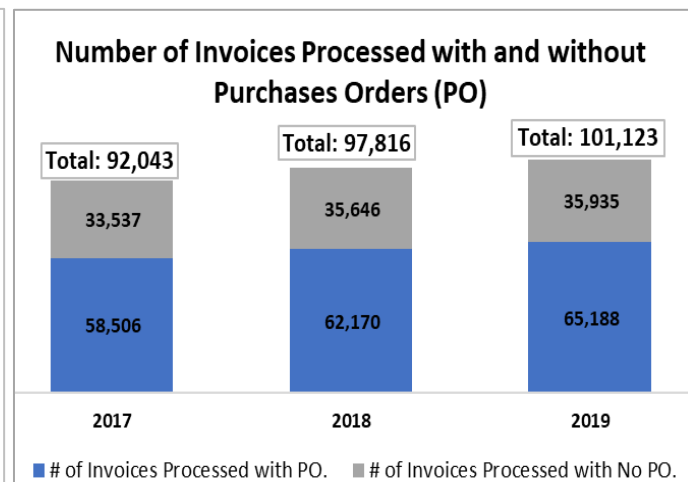
Source: DeKalb County, Georgia's, 2019, 2018, 2017 Comprehensive Annual Financial Reports (CAFR)

Figure 2



Source: Finance Department

Figure 3



Source: Finance Department

Figure 4

Payment Methods

Method of Payment	2017	%	2018	%	2019	%
ACH	26,909	52	28,852	52	28,669	50
Wire transfer	880	2	945	2	947	2
Check	23,496	46	25,239	46	27,261	48

Source: Finance Department

Note: Most payments include multiple invoices.



The cash disbursement process has a critical role in ensuring the accuracy and completeness of the financial data. An omission of a vendor invoice will cause two accounts to report incorrect amounts. For example, previous external audits of the County's financial statement have noted overstatements and understatements of liabilities because of control deficiencies in the department's accrual procedures.

The Finance Department had plans to solicit external resources to aid in identifying and addressing internal control deficiencies. The Office of Independent Internal Audit (OIIA) contacted the department to discuss how OIIA could assist and reduce the need for external resources. Although audit standards prevent OIIA from assisting in any activities considered management's responsibilities, it was agreed that an internal audit aimed at assessing and evaluating current internal controls within the function would be beneficial and potentially help reduce the cost of external resources.

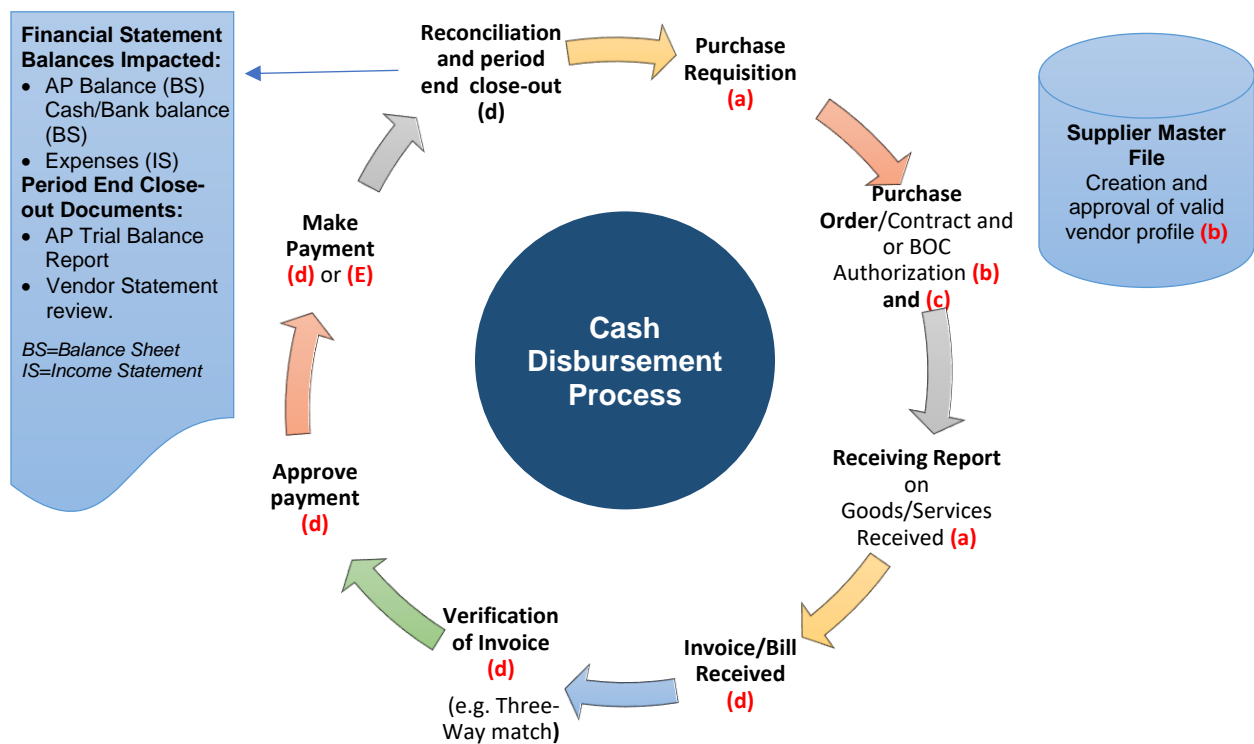
The following policies and procedures outline the requirements for the cash disbursement process:

- County Ordinance, Organizational Act, Section 9, and Section 18.
- County Purchasing Policy.
- County Travel and Expense Reimbursement Policy.

In addition, the AP and Treasury divisions have standard operating procedures for processing supplier invoices, payments (wire transfer, check, and ACH), expense reimbursements, and period-end closing procedures.

Figure 5

Overview of the County's Cash Disbursement Process





Reference	Department and Divisions
(a)	User Departments (all County departments and divisions).
(b)	Purchasing and Contracting Department.
(c)	County Board of Commissioners.
(d)	AP Division.
(e)	Treasury Division.

Source: OIIA, process walkthroughs

AUDIT RESULTS

The audit procedures included interviews with management and staff to gain an understanding of the processes and internal controls and other guidance used in processing transactions, reviewing supporting documentation, where available, for processed transactions, and testing recently processed invoices and direct payments.

The assessment noted several areas where internal controls can be improved by:

- Redesigning current controls to enhance effectiveness.
- Implementing new procedures to address control gaps.
- Implementing monitoring controls to assess the operating effectiveness of control activities.

Based on our analysis of reports and data provided during the audit **we recommend** that management, first, perform a data cleansing to address inaccurate and invalid information in the AP transaction history. Several of the findings noted in this report were determined based on limited audit procedures. We were not always able to assess the root cause, impact, and significance of the condition because management did not have available resources to assist in researching transaction activity. We want to again note that without addressing the historical data, any changes to procedures and controls would most likely not be effective.

Achievement of accurate and timely payments to vendors is the primary goal of the AP function. However, to achieve this goal, they must collaborate with the other departments involved in the process. This makes educating User Department (UD) staff and implementing procedures to help increase compliance with policies and procedures another key factor to improving the operating effectiveness of the processes. This report details the findings and corresponding recommendations, identified in this assessment, that may help Finance, Purchasing & Contracting (P&C), and the Department of Innovation and Technology (DoIT) management in its efforts to address the internal control deficiencies noted in this report.

FINDING 1: Data And Information In Reports Provided Could Not Be Validated.

During our audit, we reviewed reports and data received and determined that a significant amount of historical activity may be inaccurate. Specifically, we noted the following:

- 268 County vendors with recent activity were not included on the supplier master file (SMF) report provided.



- The SMF file report noted vendors with missing profile information such as tax identification numbers, physical and email addresses, and key contacts. This information is key to assuring compliance with federal tax filing requirements.
- The invoice on hold report noted invoices outstanding for more than ten years although management stated that many of these invoices had been paid.
- The report of outstanding travel advances listed records that were over seven years old although management stated that these items had been resolved.
- 23 of the 59 (39%) invoices selected in the invoice process testing had an invoice date in Oracle that was different from the date on the invoice.
- Invoice numbers are routinely altered to facilitate processing invoices that may have already been input. Altering the invoice number makes the duplicate vendor application control that has been set up ineffective.

Accurate information and data are very important in implementing the necessary controls and monitoring procedures to help reduce the risks of errors and irregularities such as 1) payment of unauthorized transactions, 2) payment of duplicate transactions, 3) payment of fraudulent transactions, and 4) overstatement or understatement of AP liabilities.

Recommendation:

To help ensure that the monitoring and detective controls implemented using these reports and data are effective, **we recommend** that Finance and DoIT management take immediate action to correct and purge historical data of incorrect and invalid information. When the data issues have been resolved, **we recommend** that Finance management work together with DoIT to assess reporting needs and any changes that need to be made to current reports.

Management Response (Finance Department):

Management Agreement	Description of Management's Action Plan to Address Finding	Estimated Timeline to implement Action Plan
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	The AP Division (DOF) will proceed with signing up for the IRS TIN Verification program. The IRS offers free FEI number verification on their website. AP will incorporate and communicate the changes in the revised policy and procedures to ensure that Suppliers information is updated timely with accurate and appropriate documentation is maintained.	June 30, 2022
<p><i>Reason For Disagreement:</i></p>		



Management Response (DoIT):

Management Agreement	Description of Management's Action Plan to Address Finding	Estimated Timeline to implement Action Plan
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	DoIT will work with Finance to correct and/or purge incorrect and invalid information. We will work collaboratively to address any reporting enhancements.	June 30, 2022
Reason For Disagreement:		

FINDING 2: Missing Monitoring Controls.

During the audit, we conducted meetings with AP management to determine what procedures were in place to monitor AP activity. From these discussions, we discovered that the monitoring procedures listed below were not in place.

- A review of vendor statements received to reconcile with vendor activity.
- A regular review of the invoices on hold report to address invoices that have not been processed. As noted in the finding above, inaccurate historical data has created challenges with this report.
- A review of payments made greater than the purchase order amount and in the absence of a purchase order.
- Regular audits of transactions to identify and recover overpayments, pricing errors, contract noncompliance, and sales tax errors by staff that do not process invoices.
- A review of vendor accounts with debit balances outstanding for long periods of time.

We also determined from the discussions that Finance management was currently working with DoIT to develop an aging report. However, challenges with the data have hindered the progress.

Consistent visibility into the AP operations and data using effective monitoring controls helps ensure that transactions and activity are processing in compliance with policies and procedures and internal control are operating effectively. Specifically, monitoring controls help the following areas:

- Improving cash flow analysis and planning.
- Reducing fraud with consistent monitoring of data.
- Identifying bottlenecks or trends in AP processes.
- Reducing compliance risk by verifying the audit trail of all activities.
- Managing the volume and value of invoices and payments.

Recommendation:

To help ensure that invoices are being processed in compliance with policies and procedures and internal controls are operating as intended, **we recommend** that Finance management implement procedures to routinely monitor AP activity. Such procedures should include, but not be limited to, the following:



- Review of vendor statements monthly.
- Consistent and regular review of invoices on hold.
- Review of AP aging report.
- Perform internal assessment of key processes to identify and recover overpayments, pricing errors, contract noncompliance, and sales tax errors.
- Review of AP balances with debit balances.
- Review of AP transactions to ensure controls are operating as expected.

Management Response (Finance Department):

Management Agreement	Description of Management's Action Plan to Address Finding	Estimated Timeline to implement Action Plan
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	AP will develop standard operating procedures to routinely monitor AP activity. This will include consistent review of AP statements and reports. AP will request the creation and hiring of two AP Analyst positions. These positions will be responsible for updating the policies and procedures, ensuring compliance, monitoring, and internal assessments.	June 30, 2022
<p>Reason For Disagreement:</p>		

SUPPLIER MASTER FILE:

The Supplier Master File (SMF) is a fundamental element of the AP process and contains important information about the vendors that conducts business with the County. It is an important part of the internal controls to ensure that the purchasing and payments of goods and services are appropriate and that only legitimate County vendors are paid. Effective management of the SMF helps avoid unauthorized activity, prevent duplicate payments, and reduce inaccurate and incomplete vendor records that could increase fraud opportunities.

FINDING 3: SMF Management and Maintenance Needs Improvements.

During our audit, we identified the following SMF management areas that need improvement:

- The P&C and Finance departments stated that the management and maintenance of the SMF were not the responsibility of either department.
- The Purchasing Policy and procedures that have been developed did not provide much information on managing and maintaining the SMF. For example, we noted that:
 - The Purchasing Advisory Committee is not active.
 - Although the policy requires an **ineligible source list**, one has not been developed.



- Procedures have not been developed to validate the **tax identification number** (TIN) of all vendors.
- There is no review of the SMF for errors, such as duplicate vendors, missing or invalid tax identification numbers, missing addresses, phone numbers, and contact information.
- There is no regular review of the SMF to verify the need for vendors to remain active.
- Staff in both P&C and AP have access that allows them to establish new vendors and make changes to existing vendors. During the invoice processing testing, we noted that two of the 25 (8%) invoice payments sampled were paid to vendors who were not on the approved vendors' list provided, although they were found in Oracle as active vendors.

As the SMF is a critical aspect of procurement and invoice payment processes, we would expect to find procedures in place that provide guidance on all aspects of maintaining and protecting the SMF. Best practices suggest management establish ownership and accountability, and regularly review and analyze SMF reports on information and activity. P&C and Finance rely on the TINs supplied by the vendor and does not verify its legitimacy on the IRS TIN Matching Program. AP utilizes the TINs recorded in Oracle to issue 1099-MISC forms to vendors to comply with the Internal Revenue Service. If management fails to obtain the correct taxpayer identification number from the vendor, the County may be subject to backup withholding requirements per the "B" Backup Withholding Program, Treasury Regulation § 31.3406(d)-5 and Title 26-IRC § 3406(a)(1)(b).²

According to the Purchasing Policy P&C provided, a Purchasing Advisory Committee should have been established to review and place persons on an ineligible source list.³ Since the list was never established, the likelihood of the County doing business with vendors who submit a bid or proposal in bad faith willfully or repeatedly breaches a contract or establishes a pattern of unethical or immoral business practices increases⁴.

Recommendation:

To help decrease the risks of non-compliance with federal vendor management regulations, legal liabilities, fraudulent activity, and other irregularities, **we recommend** that County management establish ownership and accountability for the SMF. Also, **we recommend** that management update standard operating procedures to include, but not be limited to, the following components related to maintaining and protecting the SMF:

- Ensuring the Purchasing Advisory Committee is established.
- Developing and maintaining an Ineligible Source List.
- Signing up for the IRS TIN Matching Program and performing a TIN matching review on a regular basis.

² Internal Revenue Service, Backup Withholding "B" Program. <https://www.irs.gov/businesses/small-businesses-self-employed/backup-withholding-b-program>

³ DeKalb County Purchasing Policy 2014, Part 2: Section IV – Purchasing Advisory Committee, page 8-9.

⁴ DeKalb County Purchasing Policy 2014, Part 6: Section II D – Ineligible Source List, page 28.



- Performing periodic reviews to ensure the accuracy and integrity of vendor information.
- Developing rules governing additions and deletions to the SMF.
- Establishing access controls for the SMF to ensure that only appropriate County employees have access, that permissions are limited to only those required for users to perform their specific job responsibilities, that access granted does not create segregation of duties issues with users job responsibilities, and where segregation of duties is not possible, compensating controls are implemented to reduce related risks.

Management Response (Finance Department):

Management Agreement	Description of Management's Action Plan to Address Finding	Estimated Timeline to implement Action Plan
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	With regard to the IRS TIN Verification program, AP (DOF) will proceed with signing up for the program. The IRS offers FEI number verification on their website. AP will collaborate with P&C to incorporate and communicate the changes in the revised policy and procedures to ensure that Suppliers' information is updated timely with accurate and appropriate documentation is maintained.	June 30, 2022
Reason For Disagreement:		

Management Response (Purchasing & Contracting):

Management Agreement	Description of Management's Action Plan to Address Finding	Estimated Timeline to implement Action Plan
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	P&C, in collaboration with the County Administration, will reactivate both the Purchasing Advisory Committee and the Ineligible Source List as described in the August 6, 2014 Purchasing Policy.	June 30, 2022
Reason For Disagreement:		

FINDING 4: Non-compliance With County's Conflict Of Interest Ordinance.

During the audit, we reviewed the process for registering vendors and noted the County had developed a Potential Conflict Disclosure (COI) form and to confirm compliance with



the County's ordinance on Personnel-Conflicts of Interest § 20.20⁵. A review of a sample of vendor records noted the following:

- Five out of 25 (20%) vendors sampled either did not complete the COI form, did not provide the notarized COI statement, in the absence of the form, as required, or did not provide accurate information on declared COI. Further testing noted that all five of these vendors were active suppliers.
- Three out of 50 (6%) vendor records sampled matched active employee records, although policies and procedures state that employees are not allowed to be suppliers or to be officers of the supplier entities.

Recommendation:

To reduce the risks of appearing to favor parties related to an employee, potentially preventing fair competition, and creating an adverse financial impact to the County, **we recommend** that P&C management implement additional procedures to ensure:

- UD heads and their staff charged with selecting vendors are trained regarding COI ordinance and policies and procedures.
- The prospective suppliers complete the Potential Conflict Disclosure form with the required information and P&C management review and document the results.
- Ongoing evaluation of vendor's potential COI as changes occur.

Management Response (Purchasing & Contracting):

<i>Management Agreement</i>	<i>Description of Management's Action Plan to Address Finding</i>	<i>Estimated Timeline to implement Action Plan</i>
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	The response to this Finding is already in process. P&C is currently working with Law to prepare Conflict of Interest language to include in all solicitation templates. Additionally, P&C is working to address the training and ongoing evaluation issues. Possible solutions have been identified and will be vetted for inclusion in the procedures.	June 30, 2022
<p><i>Reason For Disagreement:</i></p>		

INVOICE PROCESSING:

Duties within the department include verifying payments are properly approved and authorized, ensuring payments are properly recorded, and monitoring for duplicate or erroneous payments to vendors. Clear guidance regarding procedures to process incoming invoices is key. Once an invoice is received, management uses the three-way (the PO, the invoice, and the verification of receipt of goods and services) match to process the invoice. It is common to have one approach for PO-based invoices, and another for non-PO invoices.

⁵ Personnel – Conflicts of Interest, DeKalb County, Georgia – Code of Ordinances, § 20.20 (2001)



FINDING 5: Some Invoice Payment Processing Procedures Not Centrally Located.

During the planning phase of this audit, we discovered that check payments are occasionally returned to the UD instead of being mailed directly from the AP Division. We also noted that vendors sometimes address or send invoices to the UD instead of directly to the AP Division.

When these procedures are not centralized within AP, the risk increases that invoice payments maybe diverted to unauthorized sources and that errors in recording and reporting liabilities could occur.

Recommendation:

To reduce these risks, **we recommend** that AP management implement procedures to eliminate returning check payments to the UD. In addition, **we recommend** that AP management implement a policy requiring all invoices to be submitted to AP directly. Further, **we recommend** that AP notify all vendors and UD regarding the implementation of this policy.

Management Response (Finance Department):

<i>Management Agreement</i>	<i>Description of Management's Action Plan to Address Finding</i>	<i>Estimated Timeline to implement Action Plan</i>
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	The AP Division (DOF) will implement procedures eliminating all UD requests for picking up Supplier checks. All exceptions and special requests will require approval from the Chief Finance Officer. A revised AP policy will be drafted requiring all suppliers to submit all invoices directly to the AP Division address; further, UDs will be responsible for receiving on all supplies and services in Oracle using a receiving document, i.e., packing slips, bill of lading, and confirmation of services rendered. A formal memo and a mailed insert will be sent advising all UDs and Suppliers of the policy revisions.	June 30, 2022
<p><i>Reason For Disagreement:</i></p>		

FINDING 6: Invoices On Hold (IOH) Are Not Resolved Timely.

During the audit, we obtained a report of invoices on hold and noted the following:

- 62 of 1,882 (3%) of the IOH had zero balances.
- 100 of 1,882 (5%) of the IOH had credit balances totaling \$42,648.77.
- 1267 of 1,882 (67%) were past their due date.



- 185 of 1,882 (9%) of the IOH were 31 - 60 days past due dates.
- 148 of 1,882 (8%) of the IOH were 61 - 90 days past due dates.
- 934 of 1,882 (50%) of the IOH were more than 90 past due dates. Some of these invoices were over a year old.

The IOH report is a monitoring tool used to identify invoices that do not comply with processing guidelines and need correction before processing. When the issues are resolved and payments are made, the invoices should drop off from the report. AP management stated that recently they had been made aware of the volume and age of the items noted above. UD management stated in the audit survey that they were often not aware of these issues until the vendor had contacted the office because of delayed payment. In further discussion, AP management noted that vendors complain until issues are addressed. However, since the report was generated from outstanding AP files, management's assertion that the County's obligation has been met could mean that liabilities are overstated.

Recommendation:

To prevent the risks of liabilities being overstated, penalties being incurred for past due invoices, and adverse vendor relationships, **we recommend** that Finance, P&C, and DoIT management work together to address the quality of the information in the report and to implement procedures to help ensure fewer invoices are placed on hold and more timely resolution of invoices that are placed on hold. In addition, **we recommend** that Finance management implement procedures to monitor the activity on the report to identify the root cause of excessive activity and to help ensure that the report does not become unmanageable.

Management Response (Finance Department):

Management Agreement	Description of Management's Action Plan to Address Finding	Estimated Timeline to implement Action Plan
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	AP will collaborate with DoIT and P&C to revise the report with timely and relevant information. This will ensure the integrity of the data in the report. As addressed in Finding #8, AP will develop workflow processes and implement monitoring procedures and internal assessments to ensure that the reports are maintained for accuracy.	June 30, 2022
<p><i>Reason For Disagreement:</i></p>		



Management Response (Purchasing & Contracting):

Management Agreement	Description of Management's Action Plan to Address Finding	Estimated Timeline to implement Action Plan
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	P&C will work with Finance and DoIT to implement a program to help ensure fewer invoices are placed on hold and more timely resolution of invoices that are placed on hold. Note that P&C's part of the invoice payment process is only to process POs used to pay invoices and facilitate a flow of information to the correct individuals for the receiving on POs as necessary.	June 30, 2022
Reason For Disagreement:		

Management Response (DoIT):

Management Agreement	Description of Management's Action Plan to Address Finding	Estimated Timeline to implement Action Plan
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	DoIT will work with Finance and P&C to development and implement any system changes that will facilitate cleanup of the invoices on hold report.	June 30, 2022
Reason For Disagreement:		

FINDING 7: Invoices Processed Prior To An Approved Purchase Order.

During the audit, we selected a sample of invoices processed to verify that transactions were processed according to policies and procedures and noted that 12 of the 25 (48%) sampled had a PO issued after the invoice date. In addition, we selected a sample of 59 invoices related to contracts and noted another 28 of 59 (47%) had POs dated after the invoice date. Further, we noted that 64% of these invoices were paid more than 30 days after the invoice date.

POs serve as authorization to procure goods and services. The AP policies and procedures require POs and uses the PO as authorization to process the invoice. The PO is a part of the three-way match that is a part of processing every invoice.

Recommendation:

When invoices are received prior to the PO being processed, the risk of unauthorized and fraudulent transactions increases. To prevent late payments and payment of unauthorized or fraudulent invoices, **we recommend** that Finance management implement procedures to require POs to be processed and approved prior to invoices



being accepted for processing. In addition, **we recommend** that Finance and P&C management work together to provide education to the UDs, implement monitoring procedures to help identify non-compliance, and develop solutions to address non-compliance regarding these requirements.

During the audit, Finance management mentioned enhancements to the invoice payment process that would require more vendors to submit invoices directly to AP using iSupplier and where the PO information is a required field. In the meantime, one method for management to consider would be to contact vendors and remind them of the requirement to have a PO prior to submitting the invoice and notify them of the risks associated with submitting invoices without the PO.

Management Response (Finance Department):

<i>Management Agreement</i>	<i>Description of Management's Action Plan to Address Finding</i>	<i>Estimated Timeline to implement Action Plan</i>
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	AP will collaborate with P & C & DoIT to develop methods of communication and training to address the noncompliance issues involving invoices being processed without POs. The team will collaborate on the development of a comprehensive rollout of iSupplier for eligible suppliers.	June 30, 2022
<p><i>Reason For Disagreement:</i></p>		

Management Response (Purchasing & Contracting):

<i>Management Agreement</i>	<i>Description of Management's Action Plan to Address Finding</i>	<i>Estimated Timeline to implement Action Plan</i>
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	P&C will work with Finance to develop methods of preventing "after the fact" POs in which invoices are paid after goods/services are received and repercussions for non-compliance. This is currently addressed in Oracle training provided to all requisitioners and will need to be continuously retrained/reminded. It is anticipated that once all suppliers are utilizing iSupplier, this will decrease. iSupplier requires that a PO be in Oracle in order for an invoice to be submitted.	June 30, 2022



Reason For Disagreement:

TRAINING UD STAFF:

The UD have a significant amount of authority in purchasing decisions and have a key role in ensuring that County resources are used as intended. This makes it very important that employees involved in the process have a good understanding of the County's policies and procedures regarding purchasing and payment processing. These purchases need to be made in the most efficient and effective manner. Following policies and procedures helps ensure that these transactions are processed without errors and irregularities.

FINDING 8: UDs Not Always Compliant With Standard Operating Procedures.

During the audit, AP management stated that one of its major concerns was the UD's non-compliance with invoice processing policies and procedures. We surveyed the UDs to get an understanding of their knowledge of policies and procedures and noted the following:

- Often the vendor was the only source of notification that there was a problem with processing their invoice.
- Some of the staff handling invoice processing procedures had not received training.
- Some respondents were not aware of invoice processing policies and procedures.
- Management in UDs request invoice payments be returned to their department for distribution to the vendors, instead of allowing AP to mail payments directly to the vendors because of delays experienced in invoice processing and complaints from vendors.

Also, the survey revealed that, in some departments, the same person who helps establish the vendor, processes the PO, verifies receipt of goods or services, and approves the invoice for payment creating a lack of segregation of duties where:

- Errors and irregularities could occur and go undetected in invoice processing.
- Delays in processing invoices could occur.

Recommendation:

We recommend AP management update its policies and procedures manual to include a section with specific guidance for the UDs. Also, **we recommend** that management provide this manual to the UD during the annual year-end training. In addition, **we recommend** that AP management implement procedures to contact UD management immediately when invoices are received that do not comply with policies and procedures. Finally, **we recommend** that AP management report the results of monitoring procedures and internal assessments to the UDs and develop ongoing training to address issues identified in monitoring and internal assessments.



Management Response (Finance Department):

Management Agreement	Description of Management's Action Plan to Address Finding	Estimated Timeline to implement Action Plan
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	A revised AP policy will be drafted with a section that includes specific guidance for the UD's. The annual year-end training presentation will be revised to include the updated AP policy. AP Division (DOF) will develop a checklist that will advise the Supplier or UD of any invoices that do not comply with the revised policies and procedures. AP will request the creation and hiring of two AP Analyst positions. These positions will be responsible for updating the policies and procedures, ensuring compliance, monitoring, and internal assessments.	June 30, 2022
<p><i>Reason For Disagreement:</i></p>		

AP MODULE ACCESS CONTROL:

A key aspect of adequate internal controls is the ability to regulate and audit access to important applications and systems. Access control procedures also help minimize the risk of erroneous and unauthorized transactions. These internal controls are fundamental to ensuring appropriate segregation of duties, transactions processed by only the appropriate persons, only authorized transactions are processed, and the protection of data.

Finding 9: Access Controls For AP Module Need Improvement.

During the audit, we interviewed management to determine procedures for obtaining access to the AP module. Also, we tested existing control procedures related to granting access for new users and removing access for users when it is no longer needed.

- The procedures in place for granting access did not require data owner (Finance management) approval. In addition, testing identified three recently hired employees, with access, for whom we were unable to identify an access form authorizing their access to the AP module.
- There were no procedures in place for the periodic review of user roles and the permissions associated with the roles. Discussions with management noted that there were limited persons within Finance with the required knowledge to conduct these reviews and that the DoIT staff did not have the knowledge to generate the reports needed to complete some of these reviews.
- 17 employees were identified who terminated their employment with the County and whose access was not removed for a period between 10 to 469 days. Many



of these user's access were removed after this audit began. Two of these terminated employees had AP Superuser access and one was an IT employee with AP Superuser access which remained active for over one year after their termination date.

Further discussions with Finance management about these conditions revealed that there were no compensating controls in place to reduce the risks associated with these control gaps.

Recommendation:

To reduce the risks of unauthorized and inaccurate cash disbursement transactions, **we recommend** that Finance management work with DoIT management to either implement policies or procedures to address these deficiencies or design compensating controls to reduce the risks. Specifically, **we recommend** Finance management implement the following access controls:

- Identify and train data owners that would be responsible for approving access to users of the AP module.
- Periodic review of active users to prevent unauthorized access and to ensure that access for terminated employees is deactivated.
- Periodic review of roles and associated permissions to ensure appropriate segregation of duties and that only required permissions are included.

Management Response (Finance Department):

Management Agreement	Description of Management's Action Plan to Address Finding	Estimated Timeline to implement Action Plan
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	AP will collaborate with DoIT to implement policies and procedures or compensating controls for access to the AP module. AP will develop a training program and a manual that will be provided upon completion to the data owner.	June 30, 2022
Reason For Disagreement:		

Management Response (DoIT):

Management Agreement	Description of Management's Action Plan to Address Finding	Estimated Timeline to implement Action Plan
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	DoIT will work with Finance to implement policies and procedures or compensating controls for access to the AP module.	January 1, 2022
Reason For Disagreement:		



APPENDICES

Appendix I – Purpose, Scope, and Methodology

Purpose

The objective of this audit was to determine whether internal controls over the cash disbursement process were adequately designed and operating as intended.

Scope and Methodology:

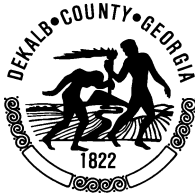
The scope of our audit focused on the functions and related systems for the audit period from January 1, 2019, through May 2020 and current transactions, where appropriate.

Our methodology included but was not limited to the following:

- Review of relevant policies and procedures, and standards.
- Examination of supporting documentation to assess the effectiveness of controls in place.
- Interview of appropriate County personnel and external parties.
- Performance of sample tests of transactions.



Appendix II – Management Response



Chief Financial Officer
Dianne McNabb

Michael J. Thurmond
Chief Executive Officer

March 23, 2021

John Greene
Chief Audit Executive
Office of Independent Internal Audit
1300 Commerce Drive, Suite 300
Decatur, Georgia 30030

**Board of
Commissioners**

District 1 Robert Patrick

District 2 Jeff Rader

District 3 Larry Johnson

District 4 Steve Bradshaw

District 5 Mereda Davis
Johnson

District 6 Ted Terry

District 7 Lorraine
Cochran-Johnson

RE: Management Response to “Audit of Internal Controls Related to Invoice Payment and Cash Disbursement Processes” Final Draft Report

Dear Mr. Greene:

In accordance with DeKalb County, Georgia – Code of Ordinances / Organizational Act Section 10A- Independent Internal Audit, this is our response to the audit named above provided in this document. As required by the ordinance, our response includes 1) statement regarding our agreement or disagreement along with reasons for any disagreement, 2) our plans for implementing solutions to issues identified, and 3) the timetable to complete such plans.

If you have any questions about this response, please contact Andria A. Williams, Controller or me.

Sincerely,



Dianne McNabb, Chief Financial Officer
Finance Department



Audit Finding 1 - Data And Information In Reports Provided Could Not Be Validated.

Recommendation:

To help ensure that the monitoring and detective controls implemented using these reports and data are effective, **we recommend** that Finance and DoIT management take immediate action to correct and purge historical data of incorrect and invalid information. When the data issues have been resolved, **we recommend** that Finance management work together with DoIT to assess reporting needs and any changes that need to be made to current reports.

Management Response (Finance Department- AP):

<i>Management Agreement</i>	<i>Description of Management's Action Plan to Address Finding</i>	<i>Estimated Timeline to implement Action Plan</i>
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	The AP Division (DOF) will proceed with signing up for the IRS TIN Verification program. The IRS offers free FEI number verification on their website. AP will Incorporate and communicate the Changes in the revised policy and Procedures to ensure that Suppliers Information is updated timely with accurate and appropriate documentation is maintained.	June 30, 2022
<i>Reason For Disagreement:</i>		

Management Response (DoIT):

<i>Management Agreement</i>	<i>Description of Management's Action Plan to Address Finding</i>	<i>Estimated Timeline to implement Action Plan</i>
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	DoIT will work with Finance to correct and/or purge incorrect and invalid information. We will work collaboratively to address any reporting enhancements.	June 30, 2022
<i>Reason For Disagreement:</i>		



Audit Finding 2 – Missing Monitoring Controls.

Recommendation:

To help ensure that invoices are being processed in compliance with policies and procedures and internal controls are operating as intended, **we recommend** that Finance management implement procedures to routinely monitor AP activity. Such procedures should include, but not be limited to, the following:

- Review of vendor statements monthly.
- Consistent and regular review of invoices on hold.
- Review of AP aging report.
- Perform internal assessment of key processes to identify and recover overpayments, pricing errors, contract noncompliance, and sales tax errors.
- Review of AP balances with debit balances.
- Review of AP transactions to ensure controls are operating as expected.

Management Response (Finance Department):

Management Agreement	Description of Management's Action Plan to Address Finding	Estimated Timeline to implement Action Plan
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	AP will develop standard operating procedures to routinely monitor AP activity. This will include consistent review of AP statements and reports. AP will request the creation and hiring of two AP Analyst positions. These positions Will be responsible for updating the Policies and procedures, ensuring compliance, monitoring, and internal assessments.	June 30, 2022
<p>Reason For Disagreement:</p>		



Audit Finding 3 – SMF Management and Maintenance Needs Improvement.

Recommendation:

To help decrease the risks of non-compliance with federal vendor management regulations, legal liabilities, fraudulent activity, and other irregularities, **we recommend** that County management establish ownership and accountability for the SMF. Also, **we recommend** that management update standard operating procedures to include, but not be limited to, the following components related to maintaining and protecting the SMF:

- Ensuring the Purchasing Advisory Committee is established.
- Developing and maintaining an Ineligible Source List.
- Signing up for the IRS TIN Matching Program and performing a TIN matching review on a regular basis.
- Performing periodic reviews to ensure the accuracy and integrity of vendor information.
- Developing rules governing additions and deletions to the SMF.
- Establishing access controls for the SMF to ensure that only appropriate County employees have access, that permissions are limited to only those required for users to perform their specific job responsibilities, that access granted does not create segregation of duties issues with users job responsibilities, and where segregation of duties is not possible compensating controls are implemented to reduce related risks.

Management Response (Finance Department):

Management Agreement	Description of Management’s Action Plan to Address Finding	Estimated Timeline to implement Action Plan
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	With regard to the IRS TIN Verification program, AP (DOF) will proceed with signing up for the program. The IRS offers FEI number verification on their website. AP will collaborate with P&C to Incorporate and communicate the Changes in the revised policy and Procedures to ensure that Suppliers’ Information is updated timely with accurate and appropriate documentation is maintained.	June 30, 2022
Reason For Disagreement:		



Management Response (Purchasing & Contracting):

Management Agreement	Description of Management's Action Plan to Address Finding	Estimated Timeline to implement Action Plan
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	P&C, in collaboration with the County Administration, will reactivate both the Purchasing Advisory Committee and the Ineligible Source List as described in the August 6, 2014 Purchasing Policy.	June 30, 2022
Reason For Disagreement:		

Audit Finding 4 – Non-compliance With County’s Conflict of Interest Ordinance.

Recommendation:

To reduce the risks of appearing to favor parties related to an employee, potentially preventing fair competition, and creating an adverse financial impact to the County, **we recommend** that P&C management implement additional procedures to ensure:

- User Department (UD) heads and their staff charged with selecting vendors are trained regarding COI ordinance and policies and procedures.
- The prospective suppliers complete the Potential Conflict Disclosure form with the required information and P&C management review and document the results.
- Ongoing evaluation of vendor’s potential COI as changes occur.

Management Response (Purchasing & Contracting):

Management Agreement	Description of Management's Action Plan to Address Finding	Estimated Timeline to implement Action Plan
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	The response to this Finding is already in process. P&C is currently working with Law to prepare Conflict of Interest language to include in all solicitation templates. Additionally, P&C is working to address the training and ongoing evaluation of issues. Possible solutions have been identified and will be vetted for inclusion in the procedures.	June 30, 2022
Reason For Disagreement:		



FINDING 5: Some Invoice Payment Processing Procedures Not Centrally Located:

Recommendation:

To reduce these risks, **we recommend** that AP management implement procedures to eliminate returning check payments to the UD. In addition, **we recommend** that AP management implement a policy requiring all invoices to be submitted to AP directly. Further, **we recommend** that AP notify all vendors and UD regarding the implementation of this policy.

Management Response (Finance Department):

Management Agreement	Description of Management's Action Plan to Address Finding	Estimated Timeline to implement Action Plan
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	The AP Division (DOF) will implement procedures eliminating all UD requests for picking up Supplier checks. All exceptions and special requests will require approval from the Chief Finance Officer. A revised AP policy will be all invoices directly to the AP Division address; further, UDs will be responsible for receiving on all supplies and services in Oracle using a receiving document, i.e., packing slips, bill of lading, and confirmation of services rendered. A formal memo and a mailed insert will be sent advising all UDs and Suppliers of the policy revisions.	June 30, 2022
<p>Reason For Disagreement:</p>		

FINDING 6: Invoices On Hold (IOH) Are Not Resolved Timely:

Recommendation:

To prevent the risks of liabilities being overstated, penalties being incurred for past due invoices, and adverse vendor relationships, **we recommend** that Finance, P&C, and DoIT management work together to address the quality of the information in the report and to implement procedures to help ensure fewer invoices are placed on hold and more timely resolution of invoices that are placed on hold. In addition, **we recommend** that Finance management implement procedures to monitor the activity on the report to identify the root cause of excessive activity and to help ensure that the report does not become unmanageable.



Management Response (Finance Department -AP):

Management Agreement	Description of Management's Action Plan to Address Finding	Estimated Timeline to implement Action Plan
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	AP will collaborate with DoIT and P&C to revise the report with timely and relevant information. This will ensure the integrity of the data in the report. As addressed in Finding#8, AP will develop workflow processes and implement monitoring procedures and internal assessments to ensure that the reports are maintained for accuracy.	June 30, 2022
Reason For Disagreement:		

Management Response (Purchasing & Contracting):

Management Agreement	Description of Management's Action Plan to Address Finding	Estimated Timeline to implement Action Plan
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	P&C will work with Finance and DoIT to implement a program to help ensure fewer invoices are placed on hold and more timely resolution of invoices that are placed on hold. Note that P&C's part of the invoice payment process is only to process POs used to pay invoices and facilitate a flow of information to the correct individuals for the receiving on Pos as necessary.	June 30, 2022
Reason For Disagreement:		

Management Response (DoIT):

Management Agreement	Description of Management's Action Plan to Address Finding	Estimated Timeline to implement Action Plan
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	DoIT will work with Finance and P&C to development and implement any system changes that will facilitate cleanup of the invoices on hold report.	June 30, 2022
Reason For Disagreement:		



FINDING 7: Invoices Processed Prior To An Approved Purchase Order.

Recommendation:

When invoices are received prior to the PO being processed, the risk of unauthorized and fraudulent transactions increases. To prevent late payments and payment of unauthorized or fraudulent invoices, **we recommend** that Finance management implement procedures to require POs to be processed and approved prior to invoices being accepted for processing. In addition, **we recommend** that Finance and P&C management work together to provide education to the UDs, implement monitoring procedures to help identify non-compliance, and develop solutions to address non-compliance regarding these requirements.

During the audit, Finance management mentioned enhancements to the invoice payment process that would require more vendors to submit invoices directly to AP using iSupplier and where the PO information is a required field. In the meantime, one method for management to consider would be to contact vendors and remind them of the requirement to have a PO prior to submitting the invoice and notify them of the risks associated with submitting invoices without the PO.

Management Response (Finance Department -AP)

Management Agreement	Description of Management's Action Plan to Address Finding	Estimated Timeline to implement Action Plan
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	AP will collaborate with P & C & DoIT to develop methods of communication and training to address the noncompliance issues involving invoices being processed without POs. The team will collaborate on the development of a comprehensive rollout of iSupplier for eligible suppliers.	June 30, 2022
<p>Reason For Disagreement:</p>		



Management Response (Purchasing & Contracting):

Management Agreement	Description of Management's Action Plan to Address Finding	Estimated Timeline to implement Action Plan
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	P&C will work with Finance to develop methods of preventing "after the fact" POs in which invoices are paid after goods/services are received and repercussions for non-compliance. This is currently addressed in Oracle training provided to all requisitioners and will need to be continuously retrained/reminded. It is anticipated that once all suppliers are utilizing iSupplier, this will decrease. iSupplier requires that a PO be in Oracle in order for an invoice to be submitted.	June 30, 2022
Reason For Disagreement:		

FINDING 8: UD's Not Always Compliant With Standard Operating Procedures.

Recommendation:

We recommend AP management update its policies and procedures manual to include a section with specific guidance for the UD's. Also, **we recommend** that management provide this manual to the UD during the annual year-end training. In addition, **we recommend** that AP management implement procedures to contact UD management immediately when invoices are received that do not comply with policies and procedures. Finally, **we recommend** that AP management report the results of monitoring procedures and internal assessments to the UD's and develop ongoing training to address issues identified in monitoring and internal assessments.



Management Response (Finance Department):

Management Agreement	Description of Management's Action Plan to Address Finding	Estimated Timeline to implement Action Plan
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	A revised AP policy will be drafted with a section that includes specific guidance for the UD's. The annual year-end training presentation will be revised to include the updated AP policy. AP Division (DOF) will develop a checklist that will advise the Supplier or UD of any invoices that do not comply with the revised policies and procedures. AP will request the creation and hiring of two AP analyst positions. These positions will be responsible for updating the policies and procedures, ensuring compliance, monitoring, and internal assessments.	June 30, 2022
<p>Reason For Disagreement:</p>		

Finding 9: Access Controls For AP Module Need Improvement.

Recommendation:

To reduce the risks of unauthorized and inaccurate cash disbursement transactions, **we recommend** that Finance management work with DoIT management to either implement policies or procedures to address these deficiencies or design compensating controls to reduce the risks. Specifically, **we recommend** Finance management implement the following access controls:

- Identify and train data owners that would be responsible for approving access touters of the AP module.
- Periodic review of active users to prevent unauthorized access and to ensure that access for terminated employees is deactivated.
- Periodic review of roles and associated permissions to ensure appropriate segregation of duties and that only required permissions are included.



Management Response (Finance Department):

Management Agreement	Description of Management's Action Plan to Address Finding	Estimated Timeline to implement Action Plan
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	AP will collaborate with DoIT to implement policies and procedures or compensating controls for access to the AP module. AP will develop a training program and a manual that will be provided upon completion to the data owner.	June 30, 2022
Reason For Disagreement:		

Management Response (DoIT):

Management Agreement	Description of Management's Action Plan to Address Finding	Estimated Timeline to implement Action Plan
<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree	DoIT will work with Finance to implement policies and procedures or compensating controls for access to the AP module.	January 1, 2022
Reason For Disagreement:		



Appendix III – Definitions and Abbreviations

Acronyms and Abbreviation

ACH: Automated Clearing House.

AP: Accounts Payable.

BOC: Board of Commissioners.

CAFR: Comprehensive Annual Financial Reports.

CEO: Chief Executive Officer.

Definitions

Ineligible Source List – An approved compilation of individuals, firms, and/or businesses that are not eligible to participate as a bidder/proposer, and that are not eligible to contract with DeKalb County for a period of time up to three years.

Tax Identification Number – An identification number used by the Internal Revenue Service (IRS) in the administration of tax laws. It is issued either by the Social Security Administration (SSA) or by the IRS.

Three-Way Matching: is an obligation to pay verification procedure that ensures the items ordered on a purchase order correspond to those received on a receiving document to those billed by the supplier on the invoice.

Wire Transfer: These electronic transactions typically involve the payment of employee benefits and are physically vouched by Treasury staff before being posted by AP.

Supplier Master File: This is the repository of information about a company's suppliers, which are used for the payment of supplier invoices and the issuance of purchase orders.



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Lisa Williams, Controller
Cathryn Horner, Chief Procurement Officer
John Matelski, Chief Information Officer

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Annie Green, Accounts Payable Manager



PROJECT TEAM

This report was submitted by:

Alicia Hall

Alicia Hall
Internal Auditor, Senior
Office of Independent Internal Audit

6/23/2021

Date

Kevin Tran - OIAA

Kevin Tran
Internal Auditor
Office of Independent Internal Audit

6/23/2021

Date

John Lipham

John Lipham
Internal Auditor, Senior
Office of Independent Internal Audit

6/23/2021

Date

This report was reviewed by:

Lavois Campbell

Lavois Campbell, CIA, CISA, CFE, CGA-CPA
Internal Audit Manager
Office of Independent Internal Audit

6/23/2021

Date

Yolanda Lockett

Yolanda Lockett, CIA, CISA
Deputy Chief Audit Executive
Office of Independent Internal Audit

6/23/2021

Date



The report was approved by:

John L. Greene

John Greene, CIA, CIG, CGAP, CGFM
Chief Audit Executive
Office of Independent Internal Audit

06/23/2021

Date



STATEMENT OF ACCORDANCE

Statement of Accordance

The mission of DeKalb County is to make the priorities of the citizens of DeKalb County; the priorities of County government - by achieving a safer DeKalb, building stronger neighborhoods, creating a fiscally accountable and more efficient county government and uniting the citizens of DeKalb County.

The mission of the Office of Independent Internal Audit is to provide independent, objective, insightful, nonpartisan assessment of the stewardship or performance of policies, programs and operations in promoting efficiency, effectiveness and integrity in DeKalb County.

This performance audit was prepared pursuant to DeKalb County, Georgia – Code Ordinances/Organizational Act Section 10A- Independent Internal Audit. 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.

This report is intended for the use of the agency to which it was disseminated and may contain information that is exempt from disclosure under applicable law. Do not release without prior coordination with the Office of Independent Internal Audit.

Please address inquiries regarding this report to the Office of Independent Internal Audit at 404-831-7946.