Northumberland County

Forensic Audit

June 13, 2024

UHY Advisors
Tax & Business Consultants

Agenda

1. Scope of Review

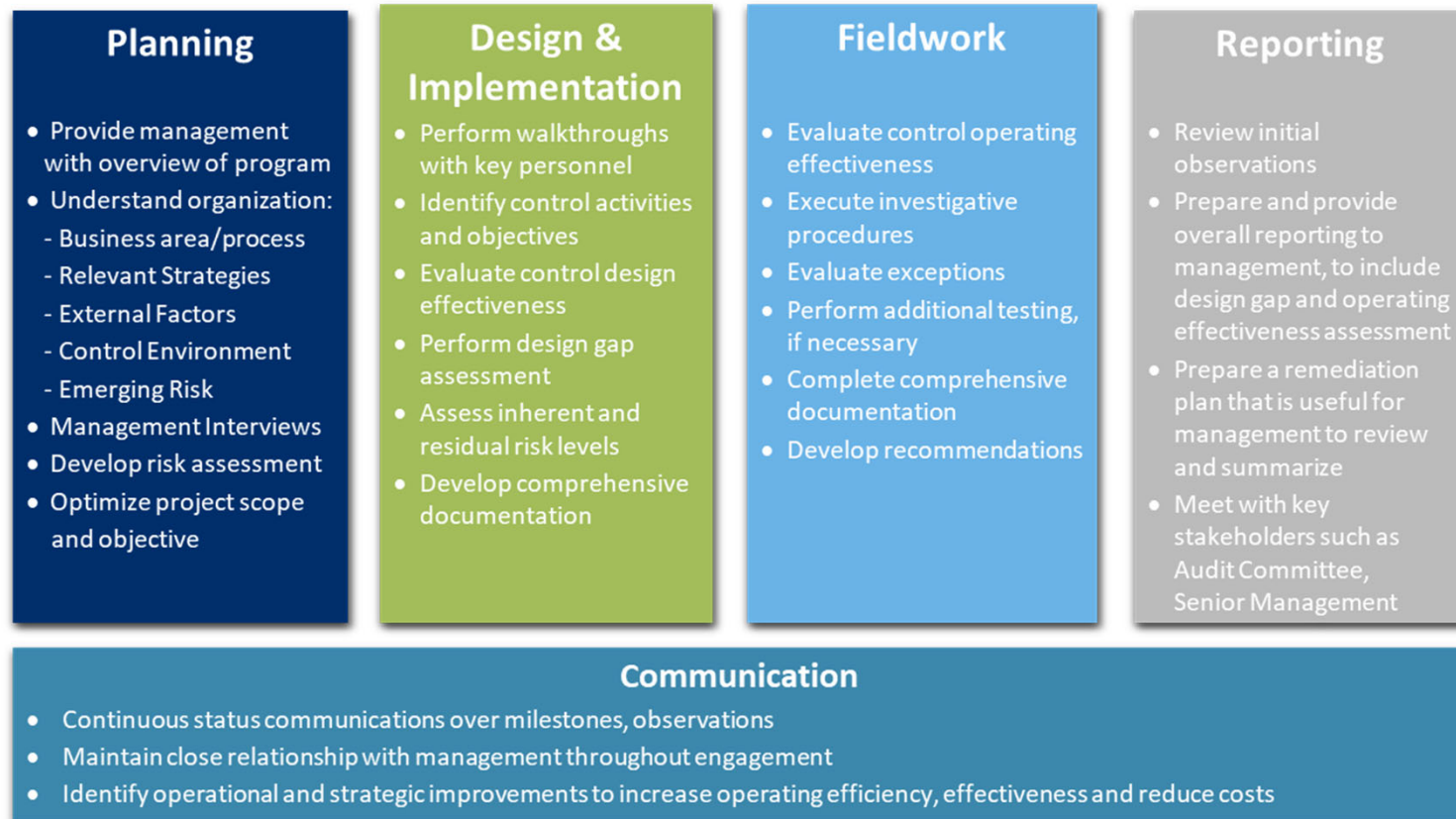2. Progress to Date

3. Draft Identified Observations

Scope of Review

Scope – Areas of Review

- **2019-2023**

  - Time and Payroll

  - Procurement

  - Accounts Payable

  - Purchase Card Usage

  - Revenue Management

  - Treasury Management

Approach

Planning

- Provide management with overview of program
- Understand organization:
  - Business area/process
  - Relevant Strategies
  - External Factors
  - Control Environment
  - Emerging Risk
- Management Interviews
- Develop risk assessment
- Optimize project scope and objective

Design & Implementation

- Perform walkthroughs with key personnel
- Identify control activities and objectives
- Evaluate control design effectiveness
- Perform design gap assessment
- Assess inherent and residual risk levels
- Develop comprehensive documentation

Fieldwork

- Evaluate control operating effectiveness
- Execute investigative procedures
- Evaluate exceptions
- Perform additional testing, if necessary
- Complete comprehensive documentation
- Develop recommendations

Reporting

- Review initial observations
- Prepare and provide overall reporting to management, to include design gap and operating effectiveness assessment
- Prepare a remediation plan that is useful for management to review and summarize
- Meet with key stakeholders such as Audit Committee, Senior Management

Communication

- Continuous status communications over milestones, observations
- Maintain close relationship with management throughout engagement
- Identify operational and strategic improvements to increase operating efficiency, effectiveness and reduce costs

Progress to Date

Progress

- **Narratives and walkthroughs complete**

- **Risk and Control Matrices complete**

- **Initial documentation requests and extensive interviews complete**

- **Tests of operating effectiveness in progress**

- **Target date for initial testing completion – June 21**

- **Beginning compilation of draft report**

- **Target review of draft report with County Administrator, the week of July 14th.**

Draft Identified Observations

Risk Themes

- **Consistent throughout County, Treasurer, and Schools – there is a lack of duplicative responsibilities or backup in key financial and operational roles.**

- **The current more regimented control structure for Schools was not in place prior to Fiscal Year 2023, and thus there were opportunities for uncontrolled and unidentified activities.**

- **System controls are warnings, not actual controls.**

Observations – County and Treasurer

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Audit or Efficiency	Condition	Recommendation	Management Response
Efficiency	Journal entries should be prepared with specific descriptions so that the transactions can be readily identified.	Work with technology vendor to allow additional text controls and validations	The change has been made with the technology vendor to expand the field to 60 characters to allow for additional details.
Efficiency	There is no formalized succession planning process in place for critical roles and no documentation regarding knowledge transfer.	Develop a formal succession planning policy outlining roles, responsibilities, and timelines for succession planning. Additionally, implement knowledge transfer and job shadowing.	The County has previously evaluated this situation and agrees that such key roles need to have succession planning in place. While planning has occurred for some positions, there are still some key positions that need to be addressed. The FY25 Proposed Budget includes additional positions to continue to address this situation. The County will also begin the process of outlining such key roles, responsibilities, training, & timelines. If the positions are approved by the Board of Supervisors in the FY25 Budget, we plan to have an individual in place by December 2024.
Efficiency	There are no formal onboarding and ongoing training facilitations, including systematic. Transfer of knowledge is primarily dependent on in house ad hoc and undocumented training.	Implement onboarding and ongoing training, including RDA, to improve efficiency, accuracy and improve the quality of data processed through the system.	The County previously implemented a policy that all training/certifications are to be kept updated and submitted annually to the County Administrator's Office to ensure those that are required to be certified are up to date and all training/certifications are current. The County will also identify training needs for other positions and will implement such training as part of the onboarding and reoccurring training process.
Efficiency	Invoice recording and processing is handled by one employee for all departments within the County.	Implement automated invoice processing solutions to streamline workflows, reduce errors, and automate approval routing.	We have an additional position in the FY25 Budget to assist the one employee handling invoice recording and processing. If the position is approved in the FY25 Budget, one of the duties for the individual filling the new position would be to process invoices with approval by the current individual. If the position is approved, this will be implemented by December 2024.

Observations – County and Treasurer

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Audit or Efficiency	Condition	Recommendation	Management Response
Audit	The County does have desktop processing procedures for payroll; however, a comprehensive payroll policy is not in place to outline the payroll process, approval, and responsibilities for new hire and terminated employees. As a result, while the County terminates employees upon resignation, there is no annual review by departments that would identify part time or contracted resources no longer required. Upon testing, 2 of 5 terminated employees in FY23, the employee/contractor was terminated 2 to 3 years after the last paid date.	Document policies that clearly outline the payroll and benefits process to include annual review and updates.	While there are processes in place, and to ensure succession planning, policy and procedures will be examined for the payroll process, approval, and responsibilities for any new hire and terminated employee. Any current checklists being utilized will be included in this policy. This policy will also include procedures for Department Heads to do an annual review of their part time or as needed employees and provide such listing to Human Resources.
Efficiency	Inconsistencies exist between County departments requiring Board approval for asset disposal.	Implement and document a consistent asset disposal process throughout the County departments that outlines asset disposal approval, documentation requirements, and exception process.	While County departments obtain Board approval for the disposal of assets, a policy and procedure will be implemented to include Constitutional Offices to follow the same process.
Efficiency	The County has a budget adjustment policy but there is no policy or procedure that clearly outlines the budgeting process.	Document and implement a Budgeting Policy or procedure that outlines deadlines, reviews & approvals, and publishing of budget documents.	The County follows State budget processes. However, the County has certain deadlines required of departments and outside agencies to provide their budget to the County for consideration. A Budgeting Policy/Procedure will be examined further which will assist in outlining timeframes for scheduling budget work sessions and public hearings to ensure a timely budget adoption.

Observations – Schools

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Audit or Efficiency	Condition	Recommendation	Management Response
Audit	The Finance and Account Procedures document and the Finance Practices document are dated.	There are multiple handwritten revisions in the Finance and Accounting Procedures document as well as the Finance Procedures document. Policies and procedures should be regularly maintained and updated when necessary.	We will complete a review of the Finance and Accounting Procedures document in FY25.
Efficiency	There is no formalized succession planning process in place for Schools' critical roles and no documentation regarding knowledge transfer.	Develop a formal succession planning policy outlining roles, responsibilities, and timelines for succession planning. Additionally, implement knowledge transfer and job shadowing.	Addressed in FY 2024 as follows…The NCPS Finance Team is comprised of 3 employees. We have been cross-training and shadowing to increase the knowledge base of the team members.
Efficiency	Within Schools, there are no formal onboarding and ongoing training facilitations, including systematic. Transfer of knowledge is primarily dependent on in house ad hoc and undocumented training.	Implement onboarding and ongoing training, including RDA, to improve efficiency, accuracy and improve the quality of data processed through the system.	As we review the Finance and Accounting Procedures document, we will begin a checklist of trainings and continue working on the documentation of step by step procedures.
Audit	Purchase order (PO) creators can override RDA budget overage errors within Schools. Budget category reclassification requests are not formalized or controlled.	Formal budget category reclassification requests should be processed and approved at minimum quarterly.	Changes in categorical budget reclassification can only happen with approval of the board of Supervisors and beginning in FY24, happens as necessary.

Observations – Schools

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Audit or Efficiency	Condition	Recommendation	Management Response
Efficiency	Blanket Purchase Orders are used to encumber Schools' estimated expenditures over the year, which requires true-ups that may not be in line with the budget.	Use a streamlined account process that encumbers transactions as invoices are processed, rather than creating a blanket PO to ensure accuracy at any point in time.	We will discuss this with our current county auditor.
Audit	Previous to FY23, credit cards were individually held by each Schools Director, which increases the risk of misuse.	Credit cards should be kept locked until checked out by a user. A log should be kept to track the user and what the card is used for when the card is used. The receipt should be compared to the logged use.	Addressed in FY 2023 as follows…Credit cards are kept locked until checked out by a user. We keep a log of the date, the user, the card number, the reason for use, the location of use, and an amount or the PO number. The date the card is returned is logged with the signature of the employee to who the card is returned. The logs are kept by card number and they are kept locked as well.
Audit	The Finance Director had sole authority to add or remove School credit cards.	It is recommended that a second individual is granted access to the online VISA account that acts as an approver of creating a new card.	We reached out to VISA and were told they only require one signature of a Business Officer to open a new card. They do have a paper form that must be signed. We asked if there was a way to require two signatures and they said no. We have 3 Business Officials listed on our account and NCPS can require two signatures on the form. We will bring this to the School Board at their June 10th, 2024, meeting.
Audit	Schools outsourced invoice processing during FY22-23, increasing the risk of delinquent payments and unrecorded voids.	Review transactions to ensure all voided transactions are recorded and late fees are recorded correctly and not reflected as a large variance in utility expenditures.	Addressed in FY 2024 as follows…All voided transactions are recorded monthly and we do not incur late fees.

Observations – Schools

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Audit or Efficiency	Condition	Recommendation	Management Response
Audit	Prior to FY23, Accounts Payable (AP) had the ability to create and pay vendors within Schools.	It is recommended that strict policies around segregation of duties are implemented and monitored.	Addressed in FY 2024 as follows…Accounts Payable no longer creates new vendors. This is now completed by the Director of Finance.
Audit	Within Schools, negative balances exist in the budget categories.	Perform a detailed review of budget variances.	Addressed in FY 2024 as follows…The Director of Finance has regular meetings with the other Directors to review where they are with their annual budgets.
Audit	The Schools line-by-line account budgets are uploaded to Boarddocs, and emailed and presented to the School Board, but not presented to the Board of Supervisors.	Present a high-level budget variance report that addresses major items for which categories are over budget year-over-year.	This can be addressed in FY25. The report is currently emailed to the Board of Supervisors but not shared in a presentation format.
Efficiency	There is a lack of understanding around market pricing for annually contracted work within Schools.	Perform timely market outreach and research, as well as communicate with contractors to negotiate prices and best and final offer. Potentially team with the County to get the best use of bulk pricing.	This is certainly a conversation we can have with the County Administrator.
Audit	Small purchase procurement thresholds are abnormally high within Schools.	Reduce small purchase procurement thresholds. Procurement guidelines should be consistent across Schools or approved by the School Board.	Currently any "large purchase" goes before the school board for approval. We have added this to our June 2024 School Board agenda to define the threshold.

Thank you