OBM | Office of Internal Audit

Department of Developmental Disabilities

Developmental Center - Columbus Audit

Audit Period: July 2014 through June 2015

Results Summary:

Objective	Conclusion
PNA Account	Improvement Needed
I&E and Petty Cash Accounts	Improvement Needed
Payment Card Administration	Improvement Needed

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* Please refer to Appendix A for classification of audit objective conclusions.

Executive Summary

Background

Developmental Centers are licensed and certified as intermediate care facilities for the Department of Developmental Disabilities (DODD). Developmental Centers manage personal funds on behalf of the persons living at the centers. Therefore, center management holds a fiduciary responsibility to protect the personal funds and assets from misuse or theft.

The State of Ohio's Payment Card Program is designed for agencies to make purchases for goods and services below a specified amount without undue delay. Use of the card is meant to simplify and streamline the acquisition process and lower overall transaction costs. In addition to the payment card, the program has an electronic invoicing and payment process, which lowers the amount of time spent processing invoices for payment. During the period July 2014 through June 2015, the Columbus Developmental Center had 1,892 payment card transactions totaling approximately $610,000.

During the audit, OIA identified opportunities for DODD to strengthen internal controls and improve business operations. OIA conforms to the *International Standards for the Professional Practice of Internal Auditing.* OIA would like to thank DODD and Columbus Developmental Center staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

Scope and Objectives

OIA staff was engaged to perform an assurance audit related to the controls over key fiscal processes at the Columbus Developmental Center, including the Personal Needs Allowance (PNA) account, Industrial & Entertainment (I&E) and petty cash account, and payment card administration for the audit period July 2014 through June 2015. This work was completed August through December 2015.

The following summarizes the objectives of the review:

- Evaluate the design and effectiveness of controls over the PNA account.
- Evaluate the design and effectiveness of controls over the I&E and petty cash accounts.
- Evaluate the design and effectiveness of controls over payment card administration.

Detailed Observations and Recommendations

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report. However, the low risk observations were considered as part of the audit objective conclusions.

Observation 1 - No segregation between deposit and withdrawals functions within the same account

Adequate internal controls establish a segregation of duties to prevent asset misappropriation or financial misstatement. Incompatible duties may include: custody of assets; authorization or approval of transactions affecting those assets; and recording or reporting related to those transactions. Procedures should be designed to prevent one employee from being assigned incompatible duties. For I&E and PNA accounts, the responsibility and maintenance of records is divided between two financial associates. Each financial associate is primarily assigned to one account and is responsible for physically receiving checks and cash (custody of assets); preparing and making deposits; and maintaining accounting records (authorization and recording). Adequate mitigating or compensating controls were not identified. Absence of segregation of duties increases the risk of asset misappropriation.
Recommendation
Evaluate procedures to ensure incompatible duties are delegated such that no individual has responsibility for at least two of the following: custody of assets; authorize transactions or processes; or perform recording or reporting of transactions. If limited resources prevent the ideal segregation of duties, consider incorporating a separate person to take on the deposit role. A separate person assuming this role, along with a regular reconciliation between the deposit receipts, bank statements, and QuickBooks, can serve as compensating controls to reduce the risk of errors or asset misappropriation.
Management Response
CDC has hired an additional account clerk 2 in the business office; therefore this will allow the DC to separate duties appropriately. The DC has also submitted an updated fiscal segregation of duties matrix to be reviewed and approved by Central Office Fiscal Administration incorporating the new account 2 position.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	CDC Business Administrator	January 2016

Observation 2 – Payment Card Administration

The State of Ohio Payment Card Policies and Procedures Manual contains requirements for use of state payment cards. Requirements include: transactions must be processed and approved for payment within five business days from the date the transaction is available in OAKS; cardholders must return to merchants for correction if at least $10 is charged in sales tax; and payment cardholders cannot enroll in rewards programs, frequent flier programs, or any other program that provides a personal gain. OAKS payment card security roles include the approver that is responsible for approving and adding coding to payment card transactions. The optional reconciler sets payment card transactions to verified in OAKS. Additionally, the Receiving Officers at the Columbus Developmental Center (CDC) document receipt of payment card purchases on receiving reports.

CDC does not consistently comply with State Payment Card Policies. For example, during the period July 2014 through June 2015, CDC did not pay 457 (24%) payment card transactions within five days from the date the transaction was available in OAKS. Approximately 5%, or 93 payment card transactions, were not paid within 10 days. Additionally, OIA noted two instances during testing in which invoice payments made with the payment card exceeded 30 days (36 and 42 days).

Furthermore, OIA tested a sample of 25 payment card transactions during the period July 2014 through June 2015 and noted the following:

- For seven (28%) transactions, the receiving report was not signed by a Receiving Officer;
- For four (16%) transactions, CDC paid sales tax. Sales tax for the four transactions totaled $38, with one transaction containing $16.50 in sales tax applied;
- For one (4%) transaction, there was no OAKS approval documented on the payment card log used by CDC.
- Seventeen (68%) instances were noted when the optional reconciler evidenced his/her reconciliation of the card transaction receipts to the payment card log after the OAKS approver had signed the log; and
- For one (4%) transaction, the receipt indicated the cardholder is enrolled in a rewards program.
- Additionally, for 15 (60%) transactions, the purchases were for items that appeared to be more appropriate for residents' personal needs allowance (PNA) accounts or the Industrial & Entertainment (I&E) account. These purchases included decorations, party supplies, and $250 quarterly clothing allowances for each resident.

The State receives a rebate for transactions processed timely. Untimely processing of payment card transactions reduces the rebate percentage received by the State and allocated to the

agency, and could ultimately result in deactivation of the payment cards by the State Payment Card Administrator. Paying sales tax is an avoidable waste of state resources. Failure to consistently record purchases on receiving reports by an individual other than the payment cardholder and to consistently document approval of payment card logs increases the likelihood of unauthorized payment card purchases. Furthermore, use of payment cards for purchases that may be more appropriate for residents' PNA accounts or the I&E account is an inappropriate use of state resources.
Recommendation
Develop and implement procedures to ensure compliance with State Payment Card Policies and Procedures, including prompt payment and sales tax avoidance. Implement use of the updated payment card log which does not include documentation of the approver's and optional reconciler's signatures since approval is captured in OAKS. Include reviews of receiving reports for accuracy and completeness as part of payment card approval processes, and to ensure individuals other than payment cardholders complete receiving reports. Additionally, include reviews of receipts to ensure cardholders are not enrolled in rewards programs or paying state sales tax as part of the payment card approval process and document completion of such reviews. Work with DODD Central Office to develop and implement clear guidelines to outline the types of purchases most appropriate for payment cards versus residents' PNA accounts or the I&E account.
Management Response
DODD overall will be updating policies and procedures associated with the following funds: Resident Funds, Petty Cash Fund, and Industrial & Entertainment Funds. Furthermore, CDC has distributed the most up to date payment card log to cardholders with the understanding that by December 1, 2015, all cardholders will be using the new payment card log. CDC has also assigned another payment card processor to help reduce the number of days it takes to review p-card logs and process the transactions in OAKS. All of CDC's payment cardholders and supervisors will undergo training on the p-card program's procedures. DODD's Central Office Fiscal Administration will be monitoring p-card payment processing time throughout the agency.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	CDC Business Administrator	January 2016

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

* Refer to Appendix A for classification of audit observations.

Appendix A – Classification of Conclusions and Observations

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
Well-Controlled with Improvement Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Improvement Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Major Improvement Needed	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

Classification of Audit Observations

Rating	Description of Factors	Reporting Level
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
Moderate	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Agency Management and State Audit Committee
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee