



***Performance Audit***

***Cooperative Extension Service: Expenditure Controls and Financial Reporting***

***Durham County Internal Audit Department***

***July 14, 2014***



Richard Edwards  
Internal Audit Director  
[rcedwards@dconc.gov](mailto:rcedwards@dconc.gov)

Internal Audit Department  
200 E. Main Street, 4<sup>th</sup> Floor  
Durham, NC 27701  
(919) 560-0042  
FAX: (919)560-0057

Audit Committee:  
Harrison Shannon  
Brenda Howerton  
Michael Page  
Germaine Brewington  
Manuel L. Rojas

July 14, 2014

Wendell Davis  
County Manager,

Dear Mr. Davis,

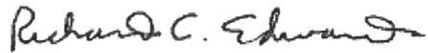
The Internal Audit Department has completed its audit of the Cooperative Extension Service's expenditure controls and financial reporting. The audit focused on determining if sufficient internal controls exist to ensure that expenditures related to grant awards are appropriate relative to the terms of grant award agreements and if the expenditures are correctly reported.

Audit results demonstrated that controls are in place to ensure that the Cooperative Extension Service is complying with the terms and conditions of grant agreements. Additionally, the Department is following County policies for the approval and payment of expenditures. Although audit results were positive for the above mentioned items, results also showed that improved oversight is needed in the area of recording procurement card expenditures. Of the 85 expenditure transactions that were selected for testing, audit results showed that nine transactions were not recorded to the proper general ledger accounts. These exceptions did not have a negative effect over overall grant reporting; they were confined to accounting within grant expenditures.

We are making two recommendations to provide enhanced controls over this control weakness. They are (1) reviewing the proper use of general ledger accounts with staff and reiterating the importance of booking grant expenditures to the correct line item and (2) developing a listing of commonly used general ledger accounts by the Department to be reviewed with and distributed among department employees for quick reference.

Melanie Burke, Senior Internal Auditor, was the Auditor-In-Charge of this assignment. Special thanks to Delphine Sellars, Cooperative Extension Service Director, for her help with this assignment.

Sincerely,

A handwritten signature in cursive script that reads "Richard C. Edwards".

Richard Edwards,  
Internal Audit Director

CC: Delphine Sellars, Director of the Cooperative Extension Service  
Audit Oversight Committee  
Marqueta Welton, Deputy County Manager

## **Introduction**

The Audit Oversight Committee approved this audit in the fiscal year 2014 Annual Audit Plan. The audit reviews grant management controls of the Cooperative Extension Service. Although grants are audited annually by the financial auditor under the single audit concept, this department had never been selected for testing due to low materiality or significance to the whole.

We conducted this audit in accordance with generally accepted government auditing standards. The standards require that I plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. I believe the evidence obtained provides a reasonable basis for the findings and conclusions based upon the audit objectives.

Performance audits are defined as audits that provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.<sup>1</sup>

## **Audit Objectives, Scope**

Fieldwork for the audit engagement was conducted between March 24, 2014, and May 23, 2014. The objectives of our audit were to answer the following questions:

1. Are control systems in place to reasonably assure that program expenditures are appropriate?
2. Are control systems in place to reasonably assure that program expenditures are accurately accounted for and correctly reported in accordance with spending criteria established by the granting entities and/or County policies?

## **Methodology**

To answer our objectives, we reviewed grant expenditure processes for grants received by the Cooperative Extension Service for FY 2012 and FY 2013. Specific audit steps included:

1. Obtaining a listing of grant programs and determining what expenditures are allowed.
2. Running an SAP query for each grant to identify operating expenditures.
3. Selecting and reviewing a statistically relevant sample of expenditures for testing.<sup>2</sup>
4. Obtaining and reviewing grant proposals and award letters for items selected for testing.
5. Reviewing departmental policies and processes over grant expenditures.
6. Comparing expenditure details to relevant grant documentation.
7. Reviewing expenditure documentation for appropriate approval.

---

<sup>1</sup> Comptroller General of the United States, *Government Auditing Standards*, Washington D.C: U.S. Governmental Accountability Office, 2011, p.17.

<sup>2</sup> A 95% confidence level and 10% confidence interval were used to determine the appropriate sample size. We do not intend to project results to the total population.

8. Reviewing expenditure documentation for proper reporting for the specific grants.
9. Interviewing the Cooperative Extension Service Director.

## **Background**

In Durham County, the mission of the Cooperative Extension Service is to connect residents with essential resources and education to improve their quality of life. North Carolina Cooperative Extension Service is an educational partnership between county government, North Carolina State University, North Carolina Agricultural and Technical State University and the federal government. The Durham County Cooperative Extension Service is an arm of the State program and is responsible for managing programs that benefit Durham County residents.

Cooperative Extension Service programs are funded by both Durham County, state and federal grants, and private institutions. Programs are offered in the following areas:

1. Early Childhood Development
2. Youth Development
3. Consumer and Family Education
4. Food and Nutrition
5. Agriculture and Horticulture
6. Community Capacity Building
7. Community Transportation

During FY 2012 and FY 2013 the Durham Cooperative Extension Service operated approximately 19 programs, in the categories listed above, which received funding from local, state and federal sources. Over the two year period these programs received approximately \$1.44 million in grant revenues. These revenues include approximately \$928,000 in state funding, \$459,000 in federal funding, and \$57,000 from other sources such as the Duke University Doing Good in the Neighborhood Community Care Fund. Copies of current grant terms and agreements are kept at the Cooperative Extension Service office.

## **Findings**

The Cooperative Extension Service's internal controls provide reasonable assurance that the department is complying with the terms and conditions of grant awards in regards to grant expenditures, and expenditures are being recorded to the appropriate grant. Additionally, the Department is following County policies regarding the approval and payment of grant related expenditures. All expenses were charged to the appropriate grant. However, the process of recording expenditures made with a procurement card are not always recorded to the appropriate General Ledger (GL) Account. We tested 85 transactions amounting to \$178,017 and identified nine accounting documents with errors amounting to \$1,389 that were not recorded to the appropriate GL account. At the time of the audit six employees had access to procurement cards and one employee, who is no longer with the agency, accounted for four of the errors. The errors, which involved infractions such as erroneously recording office supplies as miscellaneous contracted services, or recording food provisions as office supplies, can be easily corrected. Therefore, we recommend additional training and oversight to correct this control weakness.

## **Expenditure Reporting**

Grant expenditures are made using two processes in accordance with County Finance policy. Individual items of expenditure over \$1,000 are made using the Accounts Payable Invoice Process (AP process) which consists of completing a form or record of the purchase. That form, completed by the purchaser, initiates the process in which accounts payable group in the County's Finance Department issue a check to the vendor. That process was completed for 61 of the 85 transaction records and, although manually processed, did not result in any errors for the transactions we reviewed. An AP process transaction generally consists of one item to be accounted for. Expenditures of less than \$1,000 are made using County procurement cards. We reviewed 24 transaction documents in which procurement cards were used. The amount of those transactions was approximately \$7,417. We identified nine transaction forms that contained a recording error. The errors amounted to approximately \$1,389 or approximately 19 percent of the total amount of the procurement card transactions in our sample.

In processing procurement card expenditures, the purchaser completes a form similar to the previously mentioned AP process form. The purchaser generally includes several lower cost items batched together to make up a transaction for expenditure recording purposes. We noted that each completed form recorded five to six individual items purchased. For each individual item, the purchaser manually recorded the cost center, fund account, grant code, general ledger account, and amount. The errors we identified were errors in which the item purchased was recorded to the incorrect general ledger account.

### **Manual recording is risky**

The errors were caused by the high volume of small purchases and the manual nature of the recording process, according to the Cooperative Extension Service's Director. We agree these factors could have contributed to the errors. For the purpose of illustration, five lines of entry for each the nine completed forms in which we found errors would number 45 entries. Because manual entry is inherently high risk for errors, we recognize that some errors will be made. However, as we noted earlier, one employee was responsible for four of the forms that included an error. That employee may have been an outlier and his departure will probably bring the error rate down to a more reasonable level.

Although the system is manual, controls should reasonably assure that errors are quickly identified and corrected. The current procedures that includes review and approval by the Director did not extend to a level that such errors would be identified. However, the Director has endorsed additional controls that when implemented, we believe will provide reasonable assurance that errors, if made, will be quickly identified and corrected.

### **Audit Observation**

Internal Audit noted during the course of fieldwork that Cooperative Extension Services did not have copies of grant awards and agreements readily available in an electronic format, such as PDF. To help with departmental efficiency, the administration team should scan grant documentation into PDF format and then store those digital copies on a shared network drive for easy access and retrieval. We did not make a recommendation regarding this observation, in accordance with auditing standards but rather mention it to increase efficiency. The Director



agreed that efficiencies could be gained by enhancing it processes and addressed it in the official audit response.

### **Recommendation**

This report includes two recommendations to assure that grant expenditures are recorded to the correct general ledger line item. The specific recommendations are:

1. The Cooperative Extension Service Director should develop a program to review to proper use of GL accounts and reiterate the importance of booking grant expenditures to the correct line item.
2. Develop a list of GL accounts commonly used by the department for distribution among departmental employees for familiarization aimed at improved accuracy.



## Cooperative Extension

TO: Richard Edwards, Director of Internal Audit  
FORM: Delphine Sellars, County Extension Director *DS*  
SUBJECT: **Implementation of Audit Recommendations**  
DATE: July 9, 2014

### Audit Observation

Internal Audit noted during the course of fieldwork that Cooperative Extension Services did not have copies of grant awards and agreements readily available in an electronic format, such as PDF. To help with departmental efficiency, the administration team should scan grant documentation into PDF format and then store those digital copies on a shared network drive for easy access and retrieval.

### Recommendation

This report includes two recommendations to assure that grant expenditures are recorded to the correct general ledger line item. The specific recommendations are:

1. The Cooperative Extension Service should review the proper use of GL accounts with staff and reiterate the importance of booking grant expenditures to the correct line item.
2. Develop a listing of commonly used GL accounts by the department to be reviewed and distributed among department employees for improved accuracy and efficiency.

### Implementation of recommendations

"We concur." Management is in full agreement with the recommendations. The recommendations will be implemented immediately. Upon receipt of all codes from County Finance the list will be shared with staff; all will be given a copy. At the following staff conference the codes (GL accounts) will be reviewed and all questions answered. The importance of proper coding will be stressed.

The review process for procurement card will be tighten with 1) staff having access to a copy of the budget for line item expenditures as well as a copy of GL accounts/codes for proper entry, 2) supervisor will assume a responsibility for reviewing all documents prior to submission to administration for processing, and 3) Administrative Assistant to the Director will review documents, signing each, indicating a review for accuracy prior to submission to Director.

### Durham County Center

721 Foster Street \* Durham, North Carolina 27701-2110 \* 919-560-0525 \* Fax 919-560-0530 \*  
<http://durham.ces.ncsu.edu/>