



JOURNAL ENTRY AUDIT

INTERNAL AUDIT REPORT

December 3rd, 2019

MCHENRY COUNTY AUDITOR'S OFFICE

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process.

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BACKGROUND AND SCOPE

With the implementation of the County's new ERP system (D365), the Auditor's Office has decided to perform a routine review of the journal entries entered into the system to ensure independent oversight of these entries. We selected a random sampling of 25 Advanced Ledger Entries to analyze.

The purpose and procedures of this internal audit was to ascertain if the journal entries

1. Included the proper support documentation,
2. Were justifiable,
3. Were initiated by an authorized person and reviewed/approved by an appropriate individual, and
4. Were performed timely and reviewed for unusual system date/time of entries.

FINDING #1: SUPPORT DOCUMENTATION

Of the 25 randomly sampled journal entries, 8 of them did not have any support documentation attached. When looking through the list of all Advanced Ledger Entries, it was discovered that none of the journal entries pertaining to Blue Cross Blue Shield (BCBS) or payroll included any support documentation in D365. Furthermore, we observed that most of the journal entries created by the former Administrator of Finance did not include any support documentation regardless of their purpose or type.

The Auditor's Office met with the Senior Financial Analyst to discuss how she calculated the amount(s) to be transferred for the BCBS and payroll journal entries. All the supporting information/reports used to determine the amount(s) are too cumbersome to be uploaded for every journal entry relating to BCBS or payroll and some contain sensitive employee information. The Auditor's Office was shown where the amounts were derived from and what they were in regards to.

It was agreed upon that all BCBS journal entries would be posted to D365 with the bank transfer cover sheet and the report listing the total/subtotal by OCA. Also, the journal entries related to payroll would include the gross payroll lead sheet and the labor distribution company totals summary page. These main support documents would provide support in D365 for entry and additional support would be continued to be maintained within payroll and can be requested as needed.

One journal entry tested was entered to correct a payment's financial dimensions relating to the division. It was also missing support documentation, but was not able to be provided during the course of the internal audit.

RISK RATING: HIGH

RECOMMENDATION

All FY19 journal entries must include support documentation detailing the entry and the reason in D365. It is recommended, only going forward, should summary documents be uploaded for payroll entries in D365, due to the number or prior entries. Auditor's Office recommends support documentation be uploaded into D365 to ensure every entry is clear in its purpose, authority and documentation. Support for all entries performed by the prior Administrator of Finance should be uploaded into D365 for FY2019 entries to ensure information is accessible during the external audit and referenced for future use. It is recommended for this to be completed timely (next two months) to ensure all support is recovered and available for year-end accounting.

MANAGEMENT RESPONSE

All of the ALEs have documentation, but it has not been consistently attached in D365. Going forward, the documentation will be attached. Entries moving division only should not require documentation, as division is not a dimension controlled by the Board.

Estimated Completion Date: 12-1-19

FINDING #2: OFFICIAL WORKFLOW PROCESS

In reviewing the workflow for all the sampled journal entries, we discovered that there was no official workflow to the process or noted approval of the entries tested. Whoever entered the journal entry would submit it for approval and also approve it in the system.

Segregation of duties is missing in the current process in that the person inputting the entry into the system is also the one approving/posting the entry. For proper internal control, the employee who inputs the journal entry cannot approve/post it. D365 is capable of handling a workflow for this process. This situation could be at a high risk for unauthorized entries to the general ledger.

Shortly before the internal audit commenced, the interim Finance Director directed all Finance staff performing journal entries to receive his approval on the documentation of the entry prior to its submission into the D365 system.

RISK RATING: HIGH

RECOMMENDATION

It is recommended that IT set up a specific workflow in D365 for journal entries wherein the person who has entered the journal entry submits it to the Finance Director to review and post. Consideration should also be given to assigning a "backup" employee to the Finance Director if they are not available for timely approval. Automating this process would ensure accuracy, approval and timeliness for every single journal entry at the County.

MANAGEMENT RESPONSE

The control for entering ALEs is not in the workflow, it is in who has the permission to create one. There are a limited number of users that have access to create an ALE and only four users in Finance that approve and post. The majority of entries are created by Finance and usually need to be approved and posted as they are entered. A workflow that slows that process down would be too cumbersome. As mentioned in the internal control worksheet for the external auditors, journal entries over \$50,000 would be approved by the Finance Director and then attached. All ALEs can be viewed by the Finance Director or Internal Audit at any time.

Estimated Completion Date: N/A

FINDING #3: INCONSISTENT STATUSES

Two of the fields provided in the list of journal entries are “workflow status” and “document status.” When a journal entry is created, both fields are listed as “draft” before it is submitted. Once it is submitted, the workflow status shows “approved” and the document status shows “posted.”

It was noted that three entries showed the workflow status as “draft” but the document status as “posted” (see Appendix B). There doesn’t appear to be any errors with these journal entries and they have been executed in the system.

RISK RATING: LOW

RECOMMENDATION

While this doesn’t appear to have affected the posting of the journal entries in any way, IT should investigate why some of the workflow statuses continue to show that they are in draft even after the document has been posted to the system and also rectify any current entries if possible.

MANAGEMENT RESPONSE

Unknown why this happened, clearly a workflow status glitch. These are older entries that may have had workflow issues that are now resolved. The workflow status has nothing to do with the posting or recording of transactions.

Estimated Completion Date: N/A

We thank you and appreciate your assistance during the course of our review.

Respectfully submitted,

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Clare Howatt, Internal Audit Associate

McHenry County
Appendix – A - Audit Findings Risk Rating Definitions
October 4, 2018

Rating	Description
Critical	This item should be addressed with a sense of urgency. Processes and controls are either nonexistent or fail to effectively manage risks. For example, the current processes do not sufficiently prevent or detect asset misappropriation, noncompliance with regulations, transaction errors, etc. Finally, the underlying assets affected (finances, reputation, property, stakeholders, etc.) are considered significant (e.g., dollar amount, number of stakeholders impacted, potential fines, extend of media exposure etc.). Requires ongoing executive level oversight. The level of risk warrants that all possible mitigation measures be analyzed in order to bring about a reduction in exposure.
High	This item should be addressed with high priority. Formal processes and controls may exist, however, they fail to effectively manage risks. For example, the current processes do not sufficiently prevent or detect asset misappropriation, noncompliance with regulations, transaction errors, etc. Finally, the underlying assets affected (finances, reputation, property, stakeholders, etc.) are considered significant (e.g., dollar amount number of stakeholders impacted, potential fines, extent of media exposure etc.) but is not substantial enough to be considered critical. Action plans and resources required. The level of risk is likely to endanger capability and should be reduced through mitigation strategies where possible.
Moderate	Formal or informal processes and controls may exist, however, they are only partially effective at managing risks. For example prevention or detection of unwanted outcome may occur, but, the prevention does sufficiently cover the population at risk or the detection is not timely. Finally, the underlying assets affected (finances, reputation, property, stakeholders, etc.) are moderately significant (e.g., dollar amount, number of stakeholder impacted, potential fines, extend of media exposure etc.).
Low	Formal process and controls exist and are partially effective at managing risks. However, the underlying assets affected (finances, reputation, property, stakeholders, etc.) are minimal (e.g., dollar amount, number of stakeholders impacted, potential fines, extent of media exposure etc.).

Appendix – B – Journal Entry Statuses

✓ Transaction ... ↑	Transaction text	Accounting date	Reason code	Workflow status	Document status
AL00000414	MCWN reimb Facilities - June svcs	6/24/2019		Draft	Posted

✓ Transaction ... ↑	Transaction text	Accounting date	Reason code	Workflow status	Document status
AL00000336	ROW's 2012 - 2018 not funded properly	5/16/2019		Draft	Posted

✓ Transaction ... ↑	Transaction text	Accounting date	Reason code	Workflow status	Document status
AL00000008	Oct-Nov 2018 BCBS Special Fund	11/30/2018		Draft	Posted