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CLARK COUNTY
WASHINGTON

AUDITOR
GREG KIMSEY

MEMORANDUM

Date: December 15, 2004

To: Board of County Commissioners, Audit Oversight Committee,
County Department Managers, and Elected Officials

From: Linda Bade, Operations Review Manager, Auditor's Office

Subject: Internal Control Receipting Reviews, 2004

Audit Services, a department of the Auditor's Office, provides county managers with a review of internal controls surrounding receipting and the handling of cash in selected areas throughout the county. These reviews include unannounced cash counts, examination of internal controls and other safeguards over processing and receipting of cash, and loss investigations, as specifically requested.

In 2004, Audit Services reviewed 35 funds – or 43 percent – of the petty cash funds, change funds, checking accounts, and receipting functions that are in use in the county. The attached report provides a summary of the findings and recommendations stemming from our internal control reviews. While stated as generally as possible, these findings highlight key issues that have been found in the county's receipting and cash handling areas. They can serve as guidance for management's review of their own receipting functions.

This report also reviews all loss investigations that have occurred during 2004. Again, these are presented as guidance to management in reviewing their operations.

Finally, the report provides highlights from the 2004 fall fraud/internal control training that Audit Services provided to managerial and supervisory staff.

We have appreciated the assistance and cooperation that we receive from county staff in performing these internal control reviews. Should you have any questions or comments, please contact me at extension 4790.

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Report on

Internal Control Receipting Reviews

Clark County Auditor's Office
Audit Services

Report # 04-5

December 15, 2004



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INTERNAL CONTROL RECEIPTING REVIEWS

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Results in Brief

We completed internal control reviews of 35 – 43 percent -- of the total 82 cash funds or cash receipting responsibilities in the county. Department or office management reviewed five of these funds. We made recommendations that were designed to strengthen controls over cash handling for 16 of the funds reviewed. These recommendations included providing proper security over cash, making deposits in line with legal requirements, and reconciling or replenishing funds on a routine basis. We also made recommendations to improve cash-related *management controls*. For example, we recommended closure of accounts with no activity and escheatment procedures¹ for accounts with large numbers of outstanding checks.

During the year the county experienced losses of cash and property, estimated at \$2,815.00, which were reported to the Washington State Auditor's Office (SAO) in accordance with RCW 43.09.185. In the three cash loss situations, adequate internal controls were missing. Once identified, controls were put into place to help prevent further loss of cash and property.

Our annual fraud and internal control training, entitled "White Collar Crime and Identity Theft", provided management level staff with "real life" examples of what can go wrong and discussed resources available in the county to handle these types of events. This training opportunity provided four hours of continuing professional education to certify staff in attendance.

This report can be found on the Auditor's Office web page, under Financial Services, Audit Reports, at <http://www.clark.wa.gov>.

¹ Escheatment is the process of sending unclaimed funds to the Washington State Treasurer's Office for possible claim by rightful owners.

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Introduction

Audit Services has audit responsibilities for programs and internal control reviews within the county. Specific to internal controls, Audit Services performs reviews of cash handling and receipting functions on selected funds, annually. To further assist management in implementing appropriate controls, Audit Services provides training to county managers and supervisors related to internal controls over cash-handling operations, and their role in the prevention and detection of fraud or theft. In addition to these responsibilities, Audit Services acts as the liaison between county departments and the Washington State Auditor's Office in cases of suspected or known loss or theft of public assets – to include cash funds or items of property². This report summarizes the results of work related to these responsibilities.

Internal Control Reviews of Cash Receipting and Handling

Our work with petty cash funds, change funds, checking accounts, and receipting functions includes reviewing internal controls surrounding the function, balancing cash to supporting records, and performing a limited review of those controls associated with the processing and depositing of payments received. Our review work focuses on determining that

- all funds are at their authorized amounts,
- procedures and practices are in place to ensure funds are properly safeguarded and accounted for, and
- transactions are routinely approved and records are maintained which adequately support the administration and activity of the fund.

Staffs in several county departments that routinely review their own cash handling functions provide us with documentation of their results. These results are included in our analysis. In addition, the SAO may perform and share similar reviews during the course of their financial audit. Late in 2004, SAO performed five reviews, all but one of which were on funds that we had previously reviewed. Their results are also incorporated into our analysis.

A summary of our work and recommendations, by account with recommendations categorized, is provided in the attached exhibit.

² The Revised Code of Washington (RCW), 43.09.185, requires that any suspected or known loss be reported to the Washington State Auditor's Office immediately. The Auditor's Office acts as the liaison between county departments and the SAO in making any necessary reports.

Reviews Completed

In 2004, Clark County, and its closely affiliated agencies, had a total of 17 petty cash funds, 34 change funds, 17 checking accounts, 3 gift certificate operations, and 11 other areas responsible for receipting payments. Employees located in various facilities throughout the county manage these eighty-two areas. During 2004, 36 of the funds/receipting responsibilities were reviewed resulting in 36 recommendations for 36 of the funds.³ During this year, we focused on reviewing funds to ensure that each fund or receipting responsibility is fully authorized, well managed, with adequate controls in place. This is especially important for any new funds or receipting responsibilities that are undertaken by county departments.

The table below provides a summary of the types of funds within the county and their authorized amounts. In some instances the full authorized amount is not held by the fund.

Table 1: Funds by Type

Type of Fund	Number in County	Authorized Amount
Checking account	17	\$112,500
Cash Receipting	11	N/A
Change Funds	34	\$20,285
Gift Certificates	3	N/A
Petty Cash	17	\$22,450
Total	82	\$155,235

Reviews are based on Risk Analysis

In accordance with our audit work plan, approved by the Audit Oversight Committee⁴, Audit Services plans for and conducts internal control reviews of selected funds and cash receipting responsibilities. In selecting funds for review, we consider

- the date and nature of the last review;
- findings from the last review;
- financial exposure (amount);
- type of fund or account;

³ Audit Services reviewed 30 of the total funds, of which departments also reviewed 5, for a total of 35 funds reviewed in-house in 2004.

⁴ Audit Services' work plan is prepared for and approved by the Audit Oversight Committee approximately every 18 months. There are three members on the committee: one County Commissioner, the Auditor, and one county citizen. In addition, the current committee has one honorary member from the community. The County Administrator and the County Finance Director serve the committee, as does the Operations Review Manager, who is in charge of audit and review work for Audit Services.

- management oversight of the fund; and the
- fund status (e.g. new, closed, high dollar).

These factors plus any other information related to department operations and/or concerns expressed by management or external auditors, allow us to determine where to concentrate our efforts. In some instances, department managers are proactively reviewing their own cash receipting functions and sharing their results with Audit Services. **We commend** these actions on the part of the financial management in Public Works, Community Development, Community Services and Corrections, and the Sheriff's Office.

Our work consists of an **unannounced on-site visit to the department**, review of department procedures (if available), observation of the cashiering function and transactions, completion of an internal control checklist, and reconciliation of the cash to the records at the point in time of our review. We provide a summary of our results in a memorandum to the department manager. In some cases, we judgmentally sample transactions for review to determine if procedures are being followed.

More extensive reviews are performed in cases of loss or suspected loss.

Our Recommendations

We categorized our recommendations, first by requirements from the Budgeting, Accounting and Reporting System (BARS), and then in a general observation/recommendation category. Based on our reviews, we had the following recommendations and observations.

SECURITY OVER FUNDS AND RECORDS

In **five reviews**, we found weaknesses related to the security over cash, checks, and records. Maintaining adequate security over county resources is a front-line defense against fraud and theft. Records also need to be adequately safeguarded.

In **two** of these reviews, receipt books were not secured when not in use. These receipt books should be locked in a secured location so there is no unauthorized use of receipts.

In **one review**, cash had been placed in a desk drawer rather than the safe. The staff person was unable to access the safe after hours and no advance arrangements had been made to appropriately secure the funds.

To maintain appropriate security over funds and records, **we recommend** that

- Keys to locked containers should not be kept in readily available drawers or in open areas. Keys should be kept secured, and only authorized staff should be aware of their location.
- Management should maintain a list that includes the location of all keys, as well as staff having access to, or responsibility for, those keys.
- Checks and cash should always be placed in a secured location, especially if staff is not present.

Related Observation: In two reviews, **we recommended** that management maintain a list of individuals with safe combinations or keys to the room housing safe.

RECONCILIATION and REPLENISHMENT of FUNDS

In **two reviews**, we found one cash fund not routinely and periodically reconciled, and another which had not been replenished in six months. The BARS manual spells out requirements related to the reconciliation and replenishment of cash funds.⁵ Specifically, BARS requires that cash is periodically counted and reconciled by someone other than the custodian. Funds should be replenished monthly by warrant or check, and should be subject to the same review and approval as processed invoices.⁶

We recommend all fund custodians follow BARS requirements for reconciliation and replenishment of funds. Routine reconciliation and replenishment procedures provide management with an opportunity to review fund activities and check for compliance with all fund requirements (for use, as well as for accounting procedures). Additionally, cash funds should always be replenished at the end of the fiscal year so that expenses will be reflected in the proper accounting period.

⁵ BARS, vol. 1, part 1, chapter 3, page 8.

⁶ Some petty cash funds, with few expenditures can be replenished quarterly, but no less than annually.

Related Observation: In **two reviews**, we found reconciliations were not being performed routinely. **We recommended** the reconciliation and related records be kept up to date.

APPROPRIATE REVIEW by MANAGEMENT

In **two reviews**, we dealt with repeat findings leading to our additional recommendation concerning appropriate review by management. One concerned ensuring deposits are timely, and the other, ensuring cancellation of reimbursed petty cash receipts.

We recommend that an appropriate level of management be involved in the process and review of the receipting and cash handling function, *particularly when control weaknesses have been identified and recommendations have been made*. Management involvement acts as an important control to guard against fraud and theft. In both cases, management was responsive and adequately addressed our recommended change.

DEPOSITS⁷

In **two of our reviews**, we found that departments were not making deposits in accordance with BARS.⁸ Specifically,

- BARS requires that monies collected should be deposited once every twenty-four hours, unless the treasurer grants an exception. Generally, deposits are to be made within one business day. The State Auditor's Office staff have allowed that monies collected on a Friday can be deposited on the following Monday, without need for specific exception.
- Additionally, deposits are to be made "intact" so that the composition of check and cash received matches the mode of payment listed on the deposit slip and related receipt forms.

We recommend that deposits be made within one business day, and that the composition of the deposit be verified to the records at the time of the deposit (through the balancing process). These are examples of good internal controls related to deposits that help to prevent and detect fraud and theft.

⁷ Deposits are to be made in a timely manner, in accordance with BARS.

⁸ BARS, Vol. 1, part 3, chapter 2, page 4.

Related Observation: In **two reviews**, we found deposit slips were not being initialed by the preparer. **We recommend** that all deposit slips be initialed by the preparer.

Related Observation: In **two reviews**, we found that staff did not verify their deposit back to the original receipt log and did not balance the cash drawer daily. **We recommend** that deposits be verified to all records, including a receipt log, during the balancing process, and that any cash funds be balanced on a daily basis (unless not used).

CANCELLATION of PETTY CASH RECEIPTS

In **two reviews**, we found that petty cash receipts were not being marked as cancelled. Cancellation of reimbursed receipts is a significant control over petty cash expenditures. This prevents re-use, accidental or otherwise, and prevents confusion for the custodian of the petty cash fund.

We recommend that all petty cash receipts be marked as cancelled, to include the date of payment, person receiving payment, and initials of person making the payment (custodian of the fund). Doing so leaves an audit trail for each transaction, helpful in correcting or identifying errors in the reconciliation process.

SEQUENCE of NUMBERED RECEIPTS ISSUED

In **two reviews**, we found receipts not issued in sequence. Receipt forms should be pre-numbered and imprinted with Clark County's name. In addition, all receipts, manual or automated, should be issued in sequence.⁹

We recommend that all receipts follow the BARS requirements, to be pre-numbered, to be issued in sequence, and imprinted with the County name (at a minimum). Pre-numbered receipt books can be obtained from the Auditor's Office, upon request.

Related Observation: In **one review**, we found receipts did not to indicate the mode of payment (Cash/Check). **We recommend** that all receipts indicate the mode of payment.

⁹ BARS, vol 1, part 3, chapter 2, page 4.

Related Observation: In **two reviews**, we suggested management place signs at front counter cashier areas indicating (1) clients should expect a receipt, (2) no personal checks are cashed, and (3) no change is returned on payment by check. **We recommend** these actions to improve controls over the cash handling process.

Related Observation: **We recommended that one department update their policy to prohibit cashing of personal checks.**

Related Observation: **We recommend** reprinted receipts be marked as duplicate on the face of the receipt.

ENDORSEMENT of CHECKS

In **one review**, we found checks were not restrictively endorsed immediately upon receipt. In this instance, checks were endorsed later in the day when the deposit was made up. Restrictively endorsing checks immediately upon receipt acts to reduce the possibility of loss or theft.

We recommend that checks be restrictively endorsed immediately upon receipt. This provides a restriction on the check, designed to help ensure that funds are appropriately accounted for.

ACCOUNT OVER/SHORT

In **two reviews**, we found change funds over their authorized dollar amounts. These overages had not been properly deposited into the county's miscellaneous revenue over/short account.

We recommend that all fund overages, or shortages, be deposited into miscellaneous revenue in an over and short account as they are determined in the (daily) balancing process.

UPDATE CUSTODIAL RECORD with TREASURER'S OFFICE

In **one review**, we found the fund custodian currently handling the cash account is not the custodian of record.

We recommended that management send a memo to the Treasurer's Office specifying the authorized custodian of record. A copy of this should be forwarded to Audit Services. This control places authority and responsibility for the monies in the cash fund. Management should maintain adequate records for each fund, to include the memorialization of the authorization.

OTHER OBSERVATIONS and RECOMMENDATIONS

There were several other observations and recommendations that we did not place in the categories discussed above. We make the following additional observations and recommendations.

- In **two** of our reviews, we found voucher logs that contained columns for information that was not being captured. **We recommend** that logs only contain columns for information necessary to track and record activities.
- In **one** review, we found a department using an unauthorized financial institution (a credit union). **We recommended** that the department use an authorized banking institution.
- In **one** review, **we recommended** the fund custodian use the state's escheatment process for un-cashed checks that were over 6 months old.

Loss Investigations in 2004

The Revised Code of Washington, 43.09.185, states that state agencies and local governments shall immediately report to the state auditor's office known or suspected loss of public funds or assets or other illegal activity. In Clark County the Auditor's Office (Audit Services) acts as liaison between departments and the SAO in reporting and acting on instances of known or suspected theft, fraud or other illegal actions. Audit Services gathers pertinent information on the situation before contacting the state. Often intervention by Audit Services, with a resulting report to the state, may suffice. In some situations, the state may perform additional work to determine if sufficient controls have been put into place to deter further loss/fraud.

In 2004, Audit Services learned of and reported several losses to the State Auditor's Office. This year the losses included theft of cash and property, as well as one instance of time sheet falsification.

- Audit Services investigated a loss, estimated at \$24.30, resulting from a theft of cash not properly secured after use. After review by both department management and Audit Services, the department provided alternative procedures for staff to obtain access to the safe in order to properly secure funds. In addition, department management instructed staff not to allow unauthorized individuals access to staff areas. The investigation indicated that the loss was from theft, and funds were subsequently recovered.
- The county also experienced several property losses that were not recovered – these included one laptop computer, one digital camera, three cell phones, and, most recently, two halogen penlights (used in the dental hygiene program). We learned, for example, that the laptop computer had been stored in a locked room in a locked cabinet, but upon examination, the door lock was faulty and the cabinet lock had been left unlocked. Audit Services did not perform a detailed investigation for each of these instances, but as a result of our limited review, did advise department management of steps that could be taken to improve security over county assets. In many cases, solutions involved improving the physical controls over county property. The value of these assets is estimated to be \$2,648.00. The county also reported the loss of a desk telephone, which was subsequently recovered. It had been misplaced.
- Department management investigated a loss estimated at \$68.67 resulting from employee falsification of the time sheet. Audit Services recommended department management review procedures employed to ensure the accuracy of work reported as performed by staff working outside of a physical office location. Management reported that a log of time worked is maintained and periodically reviewed to help ensure accuracy of time charges.
- The remaining loss was investigated by the Clark County Sheriff's Office, and consisted of \$100 counterfeit bill being taken. Audit Services recommended, and management purchased black light devices that are able to detect counterfeit bills based on Treasury Department security features. These devices are now used in two receipting locations and have successfully identified two counterfeit bills – one \$20 and one \$10 – in a six-month period. In addition to this, Audit Services obtained a training video and CD on the security features of US currency for staff use, which has been well received.

In total, we estimated a loss to the county of \$2,815.00. In these, Audit Services did a limited review of related internal controls and department operations to determine appropriate suggestions and recommendations to help decrease further losses.

We are happy to report that a loss from a \$100.00 counterfeit bill, reported in the 2003, was recovered in January 2004.

Training Opportunities Provided

Audit Services annually provides one formal training opportunity to staff in the county, as well as one-to-one consultations upon request. The formal training is generally designed to provide management level staff with information concerning appropriate internal controls over receipting functions and the handling of cash.

In 2004, the training provided management with information on the security features of US currency, white-collar crime, and identity theft. In addition, a panel of county employees led a discussion on fraud and theft situations they have encountered and we explored the options for improved controls.

- A speaker from the Portland Branch of the U.S. Federal Reserve presented information on the security features of U.S. currency through a formal presentation that includes examination of counterfeit currency. Brochures and a training video and CD will be available from the Auditor's Office, for management to share with staff.
- The keynote speaker, provided by the Clark County Sheriff's Office, presented information on white-collar crime and identity theft. This information provided staff with insights into the types of problems involved in white-collar crime and identity theft as it applies to county departments, employees, and the public.
- The panel provided management staff with examples of what can go wrong from county staff that have had experience with loss and/or theft

This training was held in the Election's conference room on November 19, 2004. This training provided four hours of continuing professional education to staff needing to meet licensing and certification needs.

Conclusions

Audit Services' staff provides a variety of services to all county departments and offices related to the safeguarding of cash assets. Our review of cash funds and receipting functions throughout the county helps to ensure that the public's assets are secure, RCW, BARS and Board policies are being followed, and that appropriate internal controls are in place. Further, this work helps to identify training needs which can be handled within a department or provided by the Auditor's Office upon request.

We wish to thank all the staff with whom we worked during the course of the year – either on an investigation or in performing an internal control review. We appreciate the assistance from management and their actions to implement our recommendations.

