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CLARK COUNTY
WASHINGTON

AUDITOR
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Review of Selected Internal Controls January – September 2014

**Clark County Auditor's Office
Report #14-03**

December 8, 2014

Audit Services

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Results In Brief

Audit Services reviews the County's cash funds and/or receipting functions to provide management with assurance that funds are being handled appropriately and that documentation is being maintained according to County policy. Overall prior year's recommendations were addressed; however, we noted several repeat findings, some which remained unaddressed that are discussed in the Repeat Finding section of this report.

Over a three year period, Audit Services plans reviews all the cash and receipting funds within the County. We look at internal controls to help safe guard County assets, to help detect errors, and to prevent misuse of assets. During the current year, 24 of the 69 funds and/or functions, about 35 percent, were reviewed. In seven of these reviews, we found well controlled and managed funds, and there were no findings or recommendations made. One fund was closed by the department.

We made 45 recommendations to strengthen controls in the remaining reviews for 17 departments and offices, twelve of which had two or more recommendations. These recommendations address the following areas:

- Preventive controls such as
 - Funds reviewed by management;
 - Written procedures developed
- Preventive and Detective controls such as
 - Funds Reconciled and replenished according to *Budgeting, Accounting, and Reporting System (BARS)*;
- Process Improvements such as
 - Over/short account used for out of balance; and
 - Custodial record updated with Treasurer's Office;

The attached Exhibit A summarizes all internal control work over cash receipting performed by Audit Services and internal departments for calendar year 2014.

This report can be found on the Auditor's Office web page, under Internal Audit Services/Audit Reports, at www.clark.wa.gov/auditor/audit/aud_otherreports.html.

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Introduction

The design, implementation, and ongoing monitoring of internal controls are the responsibility of management within each department in the county. However, county ordinance 2.14.010 tasks internal audit with assisting management in the effective discharge of their duties. Internal control reviews performed by internal audit help fulfill this objective by providing management with assurance that their controls are appropriate and functioning correctly. These limited evaluations of internal controls are a service that does not constitute an audit under the Generally Accepted Government Auditing Standards (GAGAS).

Internal Control Reviews

During the course of these reviews we examine the control environment for cash funds and/or receipting functions. We look for preventive and detective controls, many of which are prescribed by the Budgeting, Accounting and Reporting system (BARS) manual, issued by the Washington State Auditor's Office (SAO). BARS also contain some key procedural, or process requirements in addition to the controls.

Some departments perform reviews of their own funds or receipting functions; if provided, we review this work and consider it in our risk analysis.

Based on those reviews completed in 2014 we share the following observations and recommendations. A summary of the funds can be found in the attached Exhibit A.

Internal Management Reviews

When departments perform reviews of their own cash funds independently from work performed by Audit Services and then share results, the risk related to fund use is greatly reduced.

Setting Tone at the Top

In 2014, The Prosecuting Attorney's Office reviewed their reconciliation of deposits and check logs. Additionally, General Services performed reconciliations on their change machines. These reviews contributed to the effectiveness of management's internal control environment. **We commend** both the Prosecuting Attorney's Office and General Services for their diligence.

Results of Internal Control Reviews

Preventative Controls

The following control activities are considered preventive because they help management prevent fraud and theft from occurring. We made several recommendations to multiple organizations in these categories.

Appropriate Review by Management

Management needs to have more active oversight to help ensure staff compliance with policies and procedures. We made six recommendations for management to take a more active role in the review and management of funds and responsibilities.

Secure Funds and Related Records

In two instances there were issues around securing funds and related records and assets. In one review we found management taking cash home after visiting the bank before bringing the money back to the office. In another review we found gift certificates and gift cards were not controlled by using a log, and as a result management did not know how many certificates were originally purchased and who received certificates through their program.

We recommended deposits and change funds be not taken home before being taken back to the office. **We recommended** gift certificates and gift cards be controlled by using a log to document how many certificates were originally received and to whom the certificates were given.

Preventative and Detective Controls

Some controls are both preventive and detective in nature. These controls help management prevent or mitigate errors as well as prevent and detect attempts at theft or fraud.

Reconciling and Replenishing Funds According to BARS

In two instances departments did not replenish their petty cash funds in a timely manner according to BARS. In one instance there was no reconciliation of ATM records with bank information causing erratic filling of the ATMs. In the other instance the procedures for reconciling account balances needed to be updated. **We recommended** the staff reconcile ATM reports with bank reports before the ATMs are refilled so the proper monies will be in the ATMs for various functions. **We also recommended** the department update procedures to reconcile the account balance to the authorized balance and monitor the account for checks that have become stale dated.

Process Improvements

In addition to specific internal or management controls, there are processes that can be strengthened to improve the control environment. The following processes were found to have weaknesses that could be improved.

Account Over / Short

When a fund is over or short its authorized amount, that difference should be charged to an over/short account. This would bring the fund to its authorized level. During the current year, there were two change funds both were short. In one instance the department could not account for the shortage of bus passes or tickets. In the other instance the cash register was short. **We recommended** in the first instance since an over/short account can't be charged for the missing bus passes or tickets, management oversight of the program with periodic inventories and spot reviews of the logs should be performed for completeness. In the second instance **we recommended** food and beverage tips be used to make up the shortage and tips not be taken until the cash register is balanced at shift end.

Updating Custodial Records

In one instance we found the custodian records were not complete listing an alternate custodian. **We recommended** the department assign an alternate custodian and the alternate custodian needs to be communicated to the Treasurer's Office.

Other Recommendations

Based on work conducted, there were other recommendations provided to managers.

High Risk

In three departments we found six high risk instances. In one department there were three instances, in another department there were two instances and the remaining department there was one instance. The high risk instances were as follows:

- Taking cash deposit from one revenue source and using it for another department. In addition there is no documentation identifying where the cash came from or who gave permission to divert the cash.
- The safe, in which department receipts are held before deposit, contained various types of articles from driver's licenses and identification cards, credit cards to foreign currency. Essentially the safe was being used as a lost and found and some of the items were years old.
- The department was renting cars from a dealership without a contract and the relationship with the dealership was not obtained through a competitive bid process.
- The department did not complete monthly reconciliations to account for prepaid vouchers and therefore did not know if all monies were used.
- The department did not have a current log of property received and released to citizens.
- The department holds citizen's money in their safe for an indefinite length of time.

We recommended:

- Revenue received be deposited in-tact and not used for change for another operation. This allows for an accurate accounting of

the revenues received and RCW requires all monies received be deposited in-tact and with 24 hours of receipt unless an exemption has been obtained from the Treasurer's Office.

- All extraneous items in the safe be properly disposed and the safe not be used as a lost and found. This will also limit access to the safe for authorized personal only.
- The department develops policies and procedures establishing a competitive bidding process to obtain a dealership for renting cars. The process should be delineated and authorized under a written contract.
- Management ensures all purchases of gift cards or vouchers are accounted for by placing the number of each card or voucher on a log in numeric sequence. On a random basis the log should be reconciled between the cards used and the cards on hand.
- Management randomly reviews the card log to ensure that the cards issued have signatures of the recipients. This will help ensure cards are issued properly.
- Management makes some arrangements to better secure large sums of money held for a long period of time. We suggested depositing any money over \$5 in a trust account and then providing a check to the citizen.

Medium Risk

Overall we found five departments had a total of five medium risk issues. The issues are as follows:

- No procedures for accepting cash donations.
- Key used to access cash machine not adequately secured.
- Value of seized assets not adequately determined.
- All property taken not listed on personal property sheet.
- Cashiers use multiple cash drawers for receipting.

We recommended:

- Management develops written procedures for receipting cash donations.
- Management secure the key to access the cash machine so only authorized personnel has access.
- Management use a source to more adequately value seized assets.
- Management informs staff to list on a personal property sheet all property taken.

- Management continues to explore a solution to prevent staff receipting in more than one cash drawer at a time. This has been a repeat for many years.

Low Risk

Overall we found eight departments had a total of eleven low risk issues. One department has three issues, another department has two issues and the remaining six departments have one issue each. The issues are as follows:

- The incorrect department name is on specific funds, major reports, and files.
- ATM machines are not secured to help prevent theft.
- The third party vendor portion of the deposits has not been reconciled since 2013.
- Gift cards are not entered into inventory as soon as they are received.
- There are gift cards that have not been used for long periods of time.
- Policy and procedures need to be updated for discontinued programs.
- Entries in the safe log do not indicate who changed or corrected the entry.
- Manual receipts do not have all information required.
- Money for transactions are not used or returned in a reasonable time period.
- Safe combinations have not been changed when authorized staff changes.
- In some cases no receipts are obtained for purchases made on behalf of citizens.

We recommended:

- Department management identify the specific funds, major reports, and file names where the old name is in use and contact the Finance Department to have the changes made.
- The ATM machines be chained or cabled to a fixed point to discourage theft.
- The department contact Financial Services to help reconcile the third party vendor entries on the bank statement and also when completed, update their reconciliation procedures as needed.
- That gift cards be added to the inventory as soon after purchase as possible and management be notified when this is done to reduce the risk of loss.
- Management considers streamlining the program by periodically reviewing card issuance to identify and phase out low-use card types or denominations and focus on those in high demand.

- That reference to the old program be deleted from the department's policies and procedures.
- That all corrected entries in the safe log be noted by the initials and date of the staff person making the correction.
- Manual receipts be filled out completely indicating cash and check composition. Also all copies of a voided receipt remain intact in the receipt book.
- Receipts for cash issued are filled out completely and in a timely manner. Funds issued for more than a few days without completing a transaction can become problematic and may begin to appear as a potential personal loan.
- The combination to the safe is changed and the change be documented.
- Where practical, receipts are provided for purchases made in stores on behalf of citizens rather than being used for a direct cash transaction with the citizen.

Repeat Findings from Current and Prior Years

While the overwhelming majority of findings identified during internal control reviews were addressed on a timely basis, we did note several repeat findings. Currently, there are six repeat findings, three high risk, and three medium risk related to the Drug Task Force, Superior Court Juvenile Intake, and the Treasurer's Vault and Change Funds. These included internal control weaknesses in securing and accounting for cash, inadequate separation of duties, and inadequate documentation of procedures. Increased diligence will be required to ensure that these findings do not reoccur in future reviews.

We appreciate the assistance of County staff and management in the performance of our internal control review work and thank them for responding positively to recommendations for improvement.

Appendix A: Objectives, Scope, and Methodology

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

More specifically, our review work focuses on determining that:

- all funds are properly authorized and at their approved 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.

Reviews Based on Risk Analysis

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

- the date of the last review;
- findings from the last review;
- financial exposure (amount);
- type of fund or account;
- management oversight of the fund; and the
- fund status (e.g. new).

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.

Our work consists of an unannounced on-site visit to the department, review of written 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 may be performed in cases of loss or suspected loss.

County Funds

In 2014, Clark County and its closely affiliated agencies had a total of: 11 petty cash funds; 24 change funds; 13 checking accounts; eight pre-paid voucher or gift certificate operations; and 13 other areas responsible for receipting payments. Employees located in various facilities throughout the County manage these 69 areas.

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

| Funds in Clark County | | |
|----------------------------------|---------------|-----------------------------------|
| <i>Type</i> | <i>Number</i> | <i>Current Authorized Balance</i> |
| Checking Accounts | 13 | \$68,500 |
| Cash Receipting Functions | 13 | N/A |
| Change Funds | 24 | \$25,685 |
| Vouchers (pre-paid certificates) | 8 | N/A |
| Petty Cash Funds | 11 | \$21,650 |
| Total | 69 | \$115,835 |

Table 1: Funds by Type, 2013

The total number of county funds has decreased from 79 to 69 as of the writing of this report. The number of individual funds within some of the fund types has also decreased. The total dollar value of all accounts has decreased. The total for all funds as of December 2014 is \$115,835 a reduction of \$144,810.

Exhibit A: Internal Control Review Fund Summary

| Internal Control Review Work Performed in 2014 | | | Low Risk Issues | | | | | | | Medium Risk Issues | | | | | | | High Risk Issues | | | | | | | | | |
|---|---------------------|-----------------------|----------------------------------|------------------------------|-----------------|------------------------------------|----------------------------|---|---------------------------------|--------------------|----------------------------|----------------------|-----------------------------|----------------------|--------------------------------|--------------------|------------------------------------|--|------------------------------|--|-------------------|------------------|------------------------------------|---------------------|---|---|
| Fund Name | Authorized Balance* | Total Recommendations | Cancel Receipts to Prevent Reuse | Excess Funds; reduce balance | Other: low risk | Review Sequence of Issued Receipts | Review Voided Transactions | Update custodial record with Treasurer's Office | Account not used; close account | Account over/short | Develop Written Procedures | Dual Opening of Mail | Log Checks Received in Mail | Make Deposits Timely | Need to escheat funds to State | Other: medium risk | Reconcile Cash & Check Composition | Reconcile & Replenish Fund in Accordance with BARS | Endorse Checks When Received | Issue sequential receipts to customers | Management Review | Other: high risk | Secure Fund and/or Related Records | Separate Key Duties | | |
| Follow Up Work of ICRs Conducted in 2013 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Clerk - Collections Unit Change Fund | \$ 500 | 3 | | | | | | | | | | | | | | 1 | | | 1 | | | | | | 1 | |
| Drug Task Force - Drug Buy Fund | \$ 15,000 | 14 | 1 | 1 | 2 | 2 | | | | | | | | | 1 | | 1 | | | | 1 | | 4 | 1 | | |
| General Services - I.S. Surplus Sales | \$ - | 12 | | 1 | 1 | | | 1 | | 1 | | | 1 | | | | 1 | | 1 | | | | 2 | | 1 | |
| Public Works - ER&R | \$ 100 | 2 | | 1 | | | | | | | | | | | | | 1 | | | | | | | | | |
| Sheriff - MCU Informant Fund | \$ 3,000 | 1 | | | | | | 1 | | | | | | | | | | | | | | | | | | |
| Superior Court Administration | \$ - | 2 | | | | | | | | 1 | | | | | | | | | | | | | | | 1 | |
| 2014 Reviews | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Auditor - Elections | \$ 20 | 1 | | | | | | | | | | | | | | | | | | | | | | | | 1 |
| Children's Justice - Petty Cash | \$ - | 4 | | | 1 | | 1 | | | 1 | | | | | | 1 | | | | | | | | | | |
| Clark County Fair | \$ - | 0 | | | | | | | | | | | | | | | | | | | | | | | | |
| Clark County Fair - Parking ** | \$ - | 3 | | | | | | | | | | | | | | | | | | | | | | | | 3 |
| Clark County Fair ATM machines | \$ - | 8 | | | 1 | | | | | 1 | | | | | | 1 | | 1 | | | | 1 | 2 | 1 | | |
| Clerk - Trust Fund Checking | \$ - | 2 | | | 1 | | | | | 1 | | | | | | | | | | | | | | | | |
| Community Services - Access To Recovery ** | \$ 25,000 | 1 | | | | | | | | | | | | | | | | 1 | | | | | | | | |
| Community Services - Receipts | \$ - | 0 | | | | | | | | | | | | | | | | | | | | | | | | |
| District Court Corrections Bus Pass/Tickets | \$ - | 4 | | | 2 | | | | | 1 | | | | | | | | | | | | 1 | | | | |
| Drug Task Force - Car Fund | \$ 14,000 | 3 | | | | | | | | 1 | | | | | | 1 | | | | | | | 1 | | | |
| General Services - Change Machine in PSC | \$ 250 | 2 | | | | | | | | 2 | | | | | | | | | | | | | | | | |
| General Services - GIS - Mapping | \$ 100 | 0 | | | | | | | | | | | | | | | | | | | | | | | | |
| General Services - Tri-Mountain Golf Course ** | \$ - | 3 | | | | | | | | 1 | | | | | | | | | | | | | | | 1 | 1 |
| Prosecuting Attorney - Child Support | \$ 1,000 | 0 | | | | | | | | | | | | | | | | | | | | | | | | |
| Prosecuting Attorney - Juvenile Intake | \$ - | 4 | | | 1 | | | | | | | | | | | 1 | | | | | | | 2 | | | |
| Prosecuting Attorney - Juvenile Movie Rental | \$ - | 2 | | | 1 | | | | | | | | | | | | | | | | | | 1 | | | |
| Prosecuting Attorney - Petty Cash / Checking | \$ 2,000 | 0 | | | | | | | | | | | | | | | | | | | | | | | | |
| Public Works - Survey | \$ 100 | 0 | | | | | | | | | | | | | | | | | | | | | | | | |
| Sheriff - Alarm Permits | \$ - | 1 | | | | | | | | 1 | | | | | | | | | | | | | | | | |
| Sheriff - Civil Imprest Checking | \$ 1,500 | 0 | | | | | | | | | | | | | | | | | | | | | | | | |
| Sheriff - Evidence | \$ - | 2 | | | | | | | | 1 | | | | | | | | | | | | 1 | | | | |
| Sheriff - Inmate Trust Fund | \$ - | 1 | | | 1 | | | | | | | | | | | | | | | | | | | | | |
| Sheriff - Tactical Detectives Unit | \$ 600 | 3 | | | 3 | | | | | | | | | | | | | | | | | | | | | |
| Treasurer - Vault and Change Funds | \$ 10,000 | 1 | | | | | | | | | | | | | | 1 | | | | | | | | | | |
| Sub-totals | | | 0 | 0 | 11 | 0 | 1 | 0 | 0 | 4 | 6 | 0 | 0 | 0 | 0 | 5 | 0 | 2 | 0 | 0 | 6 | 6 | 2 | 2 | | |
| Totals | 24 | \$ 54,570 | 45 | | | 12 | | | | 17 | | | | | | | | | | | 16 | | | | | |

Note: Highlighted issues have not been resolved. All other issues have been substantially addressed.

* Only petty cash, change funds, and certain checking accounts have authorized balances

** Follow up by Audit Services will be completed as part of the 2015 ICR work schedule