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CLARK COUNTY
WASHINGTON

AUDITOR
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Review of Select Internal Controls January – December 2015

**Clark County Auditor's Office
Report #15-03**

December 31, 2015

Audit Services

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Results In Brief

Audit Services provides unannounced reviews of the County's revolving cash funds, cash equivalents, and receipting functions to provide management with two assurances:

- Funds are being handled appropriately and
- Documentation is being maintained according to County policy.

We look at internal controls to help safeguard County assets, to help detect errors, and to prevent misuse of assets. Our work plan has been based on overall risk, designed to ensure all cash and receipting funds are reviewed at least once every three years. We also review a small number of alternative voucher or "cash equivalent" funds that include pre-loaded cash cards and gift cards.

With 3.25 full time equivalents (FTE) of authorized staff, we historically reviewed about 20 to 30 funds every year; in 2015 with 2.0 FTE we were able to review eleven of the sixty four funds in use. We expect the number of reviews conducted annually to stay at about the same level in 2016 unless staffing improves.

Of the eleven reviews we did conduct, four funds were well controlled and had no identified shortcomings or findings. The seven remaining reviews represented a total of nineteen findings; none had more than four findings, and a total of five funds were identified as closed by the departments this year.

In 2015, issues and recommendations focused on three main areas:

- Separation of key or incompatible duties;
- Written procedures were missing, incomplete, or inaccurate; and
- Management needs to conduct more periodic, regular reviews

The attached Exhibit A summarizes all internal control work over cash receipting performed by Audit Services and internal departments for calendar year 2015.

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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Contents

Results In Brief	iii
Introduction	7
Internal Control Reviews.....	7
Internal Management Reviews	7
Results of Internal Control Reviews	8
Preventative Controls	8
Process Improvements	8
Conclusions	9
Four of eleven, or 36% of the accounts reviewed had no errors within the areas evaluated. This represented the highest percent of “clean” reviews in three years, despite the wide variety of operations examined.	9
In 2015 we found greater consistency in organizations’ ability to conduct basic operations correctly – maintaining control of funds; documenting deposits and withdrawals; and replenishing the accounts were done well. When difficulties arose, they were generally the result of inconsistent procedures or new employees. Both of these factors would be improved with more complete written procedures, and would have been detected with more active management oversight.....	9
Appendix A: Objectives, Scope, and Methodology.....	10
Exhibit A: Internal Control Review Fund Summary.....	12

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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, Clark 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 preventative 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.

Based on those reviews completed in 2015, we have summarized the following reviews and observations. A summary list of funds can be found in the attached Exhibit A.

Annual Report of Results

Annually, Audit Services reports on the body of internal control reviews conducted during the current calendar year. The report indicates organizations that were reviewed as well as trends observed.

Individual internal control reports are available from the Audit Services Office, or they can be viewed on the County Auditor's intranet site. Management responses, follow-up inspections and other data are appended to the basic report when viewed from the intranet site.

Internal Management Reviews

Setting Tone at the Top

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

The Prosecuting Attorney's Office has continued to set an appropriate management tone by critically reviewing their reconciliation of deposits and check logs and providing us the results of their management oversight. These reviews contributed to the effectiveness of management's internal control environment. **We commend** the Prosecuting Attorney's Office for their diligence in this area.

Results of Internal Control Reviews

Preventative Controls

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

Appropriate, regular review by management

For the second year in a row, the need for improved management oversight has been one of the two most common areas of concern. Active management oversight helps ensure staff complies with policies and procedures. In 2015, we recommended management take a more active role in the review and management of funds and responsibilities five times; in each instance more regular management reviews would have improved accountability.

Written procedures are not adequate

Some controls are both preventative and detective in nature. These controls help management prevent or mitigate errors as well as prevent and detect attempts at theft or fraud. We found six instances in four organizations where incomplete or missing written procedures resulting in an elevated risk of loss.

Security of funds, vouchers or equipment

Two organizations were not consistently securing funds, property or key records in a manner consistent with their value or risk of loss.

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.

Separation of key or incompatible duties

We observed four instances within three organizations where key duties should have ideally been separated to provide better protection for both the employees and the funds they were handling. In two cases, insufficient numbers of employees required alternative controls to compensate for lack of separation.

Updating custodial records

Once per year during fourth quarter, the Treasurer's Office verifies fund custodians and administrative data. Not all organizations respond with updated information. In two instances the custodian records had not been updated during the last cycle, even though the custodians had changed.

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.

Conclusions

Four of eleven, or 36% of the accounts reviewed had no errors within the areas evaluated. This represented the highest percent of “clean” reviews in three years, despite the wide variety of operations examined.

In 2015 we found greater consistency in organizations’ ability to conduct basic operations correctly – maintaining control of funds; documenting deposits and withdrawals; and replenishing the accounts were done well. When difficulties arose, they were generally the result of inconsistent procedures or new employees. Both of these factors would be improved with more complete written procedures, and would have been detected with more active management oversight.

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

We conduct an annual risk analysis of these funds. Our plan is reviewed by the Audit Oversight Committee and approved by the County Auditor. In selecting funds for review, we consider:

- The date of the last review;
- Findings from the last review;
- Type of fund or account;
- Financial exposure (fund balance);
- Management oversight of the fund; and the
- Fund status (e.g. new, established).

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 memorandum form 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 2015, Clark County and its closely affiliated agencies had a total of 13 checking accounts, 13 cash receipting accounts, 22 change funds; seven pre-paid voucher funds, and 10 petty cash funds. Employees located in various facilities throughout the County manage these 65 areas, down from 69 areas a year ago.

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.

Revolving funds under review consideration for Clark County, 2015		
<i>Type</i>	<i>Number</i>	<i>Current Authorized Balance</i>
Checking Accounts	13	\$126,135
Cash Receipting Functions	13	N/A
Change Funds	22	\$152,000
Voucher Accounts (pre-paid certificates)	7	N/A
Petty Cash Funds	10	\$23,200
Total	65	\$301,135
Value of funds examined in 2015	11	\$116,575

Table 1: 2015 Funds by Type

The total number of county cash handling funds decreased from 79 to 69 in 2014 and decreased further to 65 in 2015. The total value of all accounts decreased by \$44,810 in 2014, and by an additional \$15,150 in 2015.

This reduction is a positive trend as we continue to reduce the number and value of cash receipting and petty cash funds. This reduction is made possible as the government acceptance of electronic fund transfers and credit card transactions became more widespread, and as the use of government purchasing cards expands more efficient purchasing practices.

See next page for Exhibit A

Internal Control Review Work Performed in 2015		Authorized Balance**	Low Risk Issues			Medium Risk Issues				High Risk Issues										
ICR #	Fund Name		Cancel Receipts to Prevent Reuse	Excess Funds; reduce balance	Review Sequence of Issued Receipts	Review Voided Transactions	Update custodial record with Treasurer's Office	Account not used; close account	Account over/short	Written Policies or Procedures	Dual Opening of Mail	Log Checks Received in Mail	Make Deposits Timely	Need to escheat funds to State	Reconcile Cash & Check Composition	Reconcile & Replenish Fund in Accordance with BAPS	Endorse Checks When Received	Issue sequential receipts to customers	Secure Fund and/or Related Records	Management Review

No Issues																					
544	Treasurer - Vault and Change Funds	\$ 10,000	0																		
549	PW - Parks Rental Change Fund	\$ 150	0																		
550	PA - Adult Diversion Checking	NA	0																		
552	DCD - Permit Center	\$ 1,400	0																		
Issues with Recommendations																					
545	Law Library - Change Fund	\$ 500	4							1								2	1		
546	Children's Justice - Petty Cash	\$ 200	3			1				1											
547	Auditor - Auto License Change Fund	\$ 2,175	2						1										1		
548	PW - Survey Change Fund	\$ 100	1																1		
551	Tri-Mountain Golf Course Change Fund	\$ 750	2						3										1	1	
553	Clark County Fair Cash Handling	\$ 100,000	3							1									1	1	
554	Sheriff's Reception Cash	\$ 1,300	4																		
Sub-totals, 2015																					
11 ICRs	2015 Issues by Category	\$ 116,575	19			2			6	1	0	0	0	0	0	1	0	0	2	5	2
Sub-totals, 2014																					
24 ICRs	2014 Comparative Issues by Category	\$ 54,700							(4)	(6)	(1)				(2)				(6)	B	C

* Only petty cash, change funds, and certain checking accounts have authorized balances
 ** Follow up by Audit Services will be completed as part of the annual work schedule

Notes on Comparison between 2014 and 2015

- A: Lack of or incomplete written procedures or policies continue to be a top issue
- B: Inconsistent management oversight is the #2 issue for both years, but is improving
- C: Separation of key duties is a minor, but recurring theme each year
- D: In 2014 a total of 22 of 45 issues were identified in generic "high, medium, or low" risk categories. In 2015 none are.