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**CLARK COUNTY**  
WASHINGTON

**AUDITOR**  
**GREG KIMSEY**

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# **Review of Select Internal Controls**

## **January – December 2017**

**Clark County Auditor's Office**  
**Report #17-03**

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**Audit Services**

1300 Franklin Street, Suite 575, P.O. Box 5000, Vancouver, WA 98666-5000  
(360) 397-2310, Fax (360) 397-6007, [www.clark.wa.gov/auditor](http://www.clark.wa.gov/auditor)

## I. Summary

Periodic reviews of internal controls specifically provide four assurances:

- That funds are being handled appropriately,
- That cash equivalent items are properly safeguarded, and
- That control documentation is being maintained according to County policy.
- State Auditor reporting standards are being met consistent with RCW 36.22.020(4)

Internal Control Reviews (ICRs) are a non-audit tool used by Clark County Audit Services to provide assurance to our elected leaders, managers and citizens that funds are being handled appropriately by our organizations. An ICR generally includes four main steps:

- 1) An unannounced visit, usually by two auditors to your workplace
- 2) A joint counting of cash on hand in the targeted account with a representative of management
- 3) Observation of receipting and cash handling practices
- 4) Verification of internal controls being used to protect the cash and cash equivalents.

“Cash equivalents” includes a variety of assets such as general use Visa “cash cards”; general credit or cash value vouchers; specific store or use cards; and incentive items acquired for official use with employees or clients. Cash equivalents are becoming an increasingly high percentage of ICR work.

The Audit Services team tests internal controls based on an annual risk analysis to help safeguard County assets, to help detect errors, and to prevent misuse of assets. The work plan is designed to ensure at risk funds are reviewed at least once every three to four years, with high risk funds being checked as often as once per year.

An internal control review normally lasts one to three hours. Observations and recommendations are assembled in a written report which is provided to the organization within three to five working days. With a three person auditor staff, we historically conduct between 15 and 25 internal control reviews annually in addition to our audits and other consulting work; in 2017 we reviewed 22 of the nearly one hundred eligible accounts currently in use.

Of the twenty-two reviews conducted in 2017, four funds passed with no recommended actions. The other eighteen reviews generated a total of 48 recommendations. This was an increase from last year’s 33 recommendations based on twenty reviews.

We noted a steep increase in the number of areas generating recommendations, especially as they relate to written policies and practices. For the third year in a row, we found the most consistent shortcoming was insufficient or inaccurate documentation of policies and procedures. The most numerous areas of concern we found by risk area include:

- High risk: Five instances of records or valuables that were not properly secured
- Medium risk: Nine instances of written procedures that were inadequate;
- Low risk: Six instances of custodial records that were not current

The attached Exhibit A summarizes all internal control work over cash receipting performed by Audit Services and internal departments for calendar year 2017.

This report can be found on the Auditor’s Office external web page, under Internal Audit Services/Audit Reports, at [www.clark.wa.gov/auditor/audit/aud\\_otherreports.html](http://www.clark.wa.gov/auditor/audit/aud_otherreports.html).

## II. Table of Contents

I. Summary.....	2
II. Table of Contents .....	3
III. Introduction.....	4
IV. Internal Control Reviews.....	4
What to Expect .....	4
V. Annual Report of Reviews .....	5
Effect of Reviews .....	5
Setting Tone at the Top .....	5
Top Performers.....	5
Losses.....	5
Security Containers.....	5
VI. Findings by Risk Categories .....	6
a. <i>Low Risk: 13 findings</i> .....	6
b. <i>Medium Risk: 18 findings</i> .....	6
c. <i>High Risk: 5 findings</i> .....	6
VII. Conclusions .....	7
VIII. Exhibit B: Objectives, Scope, and Methodology .....	8
VIX. Exhibit A: Summary Report .....	9

### III. Introduction

The design, implementation, and monitoring of internal controls are the responsibility of management within each department of the County; however, [Clark County Ordinance 2.14.010](#) tasks internal audit to assist management in the discharge of their duties, including financial controls. To fulfill their duties, the internal auditors “perform analytical reviews of internal controls and accounting records”. Internal audit helps fulfill these objectives by working with management to provide 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).

### IV. Internal Control Reviews

We conduct internal control reviews based on an annual risk analysis that considers the assets under control, experience of the staff, and ICR performance history of the organization. High risk organizations can expect to be visited as often as annually; low risk funds may be inspected once every three or four years.

Periodic reviews provide management with these assurances:

- That funds are being handled appropriately,
- That cash equivalent items are properly safeguarded,
- That control documentation is being maintained according to County policy,
- And that state determined audit standards are met.

As a practical benefit for managers, our experience has been if an organization completes a rigorous review with us in the same areas the State Auditors plan a review, they will often forego planned work in that area to be efficient.

#### *What to Expect*

Reviews are usually conducted by a two person team on site. They are unannounced, and take one to three hours to complete depending on complexity of the fund and environment. During the course of these reviews we examine the control environment for cash funds, cash equivalents 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 work completed in 2016 and 2017, we have summarized the reviews and observations in [Exhibit A](#).

## V. Annual Report of Reviews

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

Summary reports and individual internal control reports going back four years are available from the Audit Services Office upon request, or they can be viewed on the County Auditor's intranet site. Management responses, follow-up inspections and other data related to the reviews are appended to the basic report stored on the Audit Services intranet site.

### *Effect of Reviews*

As a group, we recommended reducing certain individual cash handling accounts by a total of \$1,850 to align their balance with best practices; petty cash accounts generally should not hold more cash than is required for one or two months; we usually recommend two months.

Four funds were closed because their purpose no longer existed or was better met with a P-card. Two more funds are pending closure over the next two or three months for the same reasons. Two new funds opened during 2017 and they will be monitored for risk factors.

### *Setting Tone at the Top*

Some departments perform reviews of their own funds, cash equivalent management or receipting function. If provided by custodians or management, we review this work and consider it in our risk analysis. We found the **Prosecuting Attorney's Office** was particularly diligent with their management oversight, setting an effective tone at the top. Their management team regularly reconciled deposits, verified check logs and provided our office a copy of their documentation. These reviews contributed to the effectiveness of management's internal control environment. 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; we encourage managers to follow this practice.

### *Top Performers*

This year **Public Works** managed two of the four funds that completed reviews with top marks. Both their *Roads Admin Petty Cash Fund* and *Parks Division Change Fund* reviews had no recommended corrective actions. The other two funds that had no issues noted in their ICR were the **Sheriff's Office Inmate Trust Fund** and the **Clerk's Office Collections Unit Change Fund**.

### *Losses*

Variances of under \$1 happened in a few funds, and one had an actual loss; Management identified a \$48 shortage in the **Community Development Permit Center Change Fund** after a change of managers when the new manager conducted an initial inventory of the fund.

### *Security Containers*

When in doubt, it is recommended staff err on the side of security. While we normally recommend cash be kept separate from other valuables, it may occasionally be necessary to temporarily store high risk items in with cash. If done, it should be a well-documented, short-term measure. In the most unusual example of the year, one organization did box,

label and temporarily store an item with their cash; unfortunately the box was non-descript, the label was incomplete, few staff knew it was stored overnight in the safe and there was no log of the safe's contents being reviewed by management.

A severe failure of internal controls was identified when Audit Services examined the safe contents. They found a plain cardboard box labelled "do not open" in the back of a safe intended for cash storage. When the box was opened they discovered it contained a semi-automatic handgun and ammunition, later identified as evidence from a past crime. The pistol and ammunition had been temporarily placed in the safe for overnight emergency storage, and forgotten for five years. The external jurisdiction that had lost control of the weapon was contacted. They reestablished control over the evidence, removing it from the premises.

Finding inappropriate items in safes and security storage containers is not new; this year we also found items ranging from driver licenses, passports, cell phones, iPads, keys to unknown devices, cash from non-governmental funds, vouchers from closed programs and other inappropriate items. Auditors will usually include an inspection of the contents of any security container used for valuables storage and its log as part of an ICR visit.

We recommend the contents of safes, cash storage containers and drawers meant to store cash should be documented in a running log that includes who put the item in and when; what it is; and who removed it and when. Managers should review the contents of these containers visually at least once per year.

## VI. Findings by Risk Categories

The following control activities help management prevent fraud and theft from occurring. They are listed in the order of frequency, with the most frequent issue listed first.

### ***a. Low Risk: 13 findings***

Most common low risk issue: There were six instances of "custodial records were not current" where the Treasurer's Office did not have an accurate record of the primary and alternate custodian for the fund. The primary negative effect of outdated records in the Treasurer's Office is that it makes it difficult to identify a responsible party (custodian) for the fund as issues arise.

### ***b. Medium Risk: 18 findings***

Most common medium risk issue: We found nine instances of "written policies and procedures are not adequate". This is the third year in a row that a lack of accurate written policies was the most prevalent of all problems. Issues varied from out of date procedures to non-existent documentation. The primary negative effect of inadequate written policies is that internal controls are not identified for all employees to follow. Flaws appear in procedures and controls fail.

### ***c. High Risk: 5 findings***

Most common high risk issue: Five instances of "funds, records or valuables are not secure". Funds, cash cards or other highly at risk pilferable items should be stored under appropriate security procedures. This may vary from a locked desk drawer to a

security container or safe depending on the size, value and accessibility by other personnel. Keys should be controlled and safes should have their combinations changed when employees change responsibilities or access. The primary negative effect of not securing items is that accountability over them is lost. We also had a significant number of store vouchers sit unused for many years, long enough that some lost value or became unusable.

## VII. Conclusions

Management has become less active with internal control oversight responsibilities in recent years. At the same time a significant number of employees have moved from their long-time jobs. These changes increase the need for well-crafted, detailed procedures manuals for the new managers and employees to follow.

we have also noticed an increase in the number of inappropriate items stored with petty cash in the same drawers, containers or safes..

Overall, organizations are making improving their handling of funds and cash equivalent resources. There are fewer instances of cash drawers not balancing or vouchers missing than last year, and in the instances that are occurring, variances are small. Accountability is generally improving everywhere.

## VIII. Exhibit B: Objectives, Scope, and Methodology

**Objective:** Our work with petty cash funds, change funds, checking accounts, receipting functions and cash equivalents (“assets”) 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.

**Scope:** 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 and assets are properly safeguarded and accounted for, and
- Transactions are approved and records are maintained which adequately support the administration and activity of the fund.

### **Methodology:**

#### **Reviews Based on Risk Analysis**

We conduct an annual risk analysis of these and the remaining cash funds, about 100 total. 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;
- Fund status (e.g. new, established, or inactive).

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 2017, Clark County and its affiliated agencies had a total of nearly 100 cash or asset management funds. While the number of cash (checking, receipting and change) funds has decreased overall, the non-cash assets (cash cards and vouchers) have increased. Currently, there are approximately 64 cash accounts and 36 asset accounts in use.

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.

