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CLARK COUNTY
WASHINGTON

AUDITOR
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Review of Selected Internal Controls

Setting the Tone at the Top

Clark County Auditor's Office
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. This year we do not have repeat findings/recommendations based on this work; prior year's recommendations were addressed. A selection of professional service contracts was also reviewed to determine compliance with county procedures and contracting regulations.

Over a three year period, Audit Services will review all of 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, 31 reviews of the 79 funds and/or functions, about 40 percent, were completed. In 13 of these reviews, we found well controlled and managed funds, and there were no findings or recommendations made.

We made 27 recommendations to strengthen controls in the remaining reviews for 12 departments and offices, seven of which had two or more recommendations. These recommendations address the following areas:

- Preventive controls such as
 - Funds reviewed by Management;
 - Bank accounts closed properly;
 - Receipts cancelled to prevent reuse;
- Preventive and Detective controls such as
 - Funds Reconciled and replenished according to *Budgeting, Accounting, and Reporting System (BARS)*;
 - Deposits made timely; and
- Process Improvements such as
 - Over/short account used for out of balance;
 - Sequential receipts to customers; and
 - Custodial record with Treasurer's Office;

The attached Exhibit A summarizes all internal control work over cash receipting performed by Audit Services

and internal departments for this calendar year.

Please note there are several departments where reviews were performed more than once.

We reviewed seven Professional Service Contracts and found five of the seven contract files organized in a manner allowing retrieval of the documents and in compliance with specified in the Purchasing procedures. One contract file had not been completed and the contract was missing; the other recommendations were to keep electronic files on CD and provide documentation to Purchasing.

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.

Review of Selected Internal Controls

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INTERNAL CONTROL REVIEWS

During the course of our internal control reviews we examine the control environment for cash funds and/or receipting functions to provide management with assurance that funds are being handled appropriately. Some departments perform reviews of their own funds or receipting functions; if provided, we review this work and consider it in our risk analysis.

We look for preventive and detective controls, many of which are prescribed by the 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 2011 we share the following observations and recommendations. A summary of the funds can be found in the attached Exhibit A.

INTERNAL MANAGEMENT REVIEWS

Setting Tone at the Top

Two departments performed reviews of their cash funds independently from work performed by Audit Services. Documentation from these reviews is shared with and reviewed by Audit Services and added to the fund records. These same funds may also be reviewed by Audit Services during the year.

The Sheriff's Office reviewed their Petty Cash, Drug Buy, and Car Buy funds. The Sheriff's cash funds represent 68 percent of the total amount of petty cash funds in the County.

General Services reviewed their Court House and Public Service Center Change Machines. General Service's change funds represent one percent of the total amount of change funds held by County departments. These reviews contribute to the effectiveness of management's internal control environment. **We commend** both the Sheriff's Office and General Services for their diligence.

**PREVENTIVE
CONTROLS**

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

**Appropriate Review by
Management**

Active management involvement helps ensure staff compliance with policies and procedures. We made three recommendations for management to take a more pro-active involvement in the review and management of funds and responsibilities. Our recommendations concerned documenting the responsibility of reviewing the monthly reconciliation, obtaining a new authorization signature card from the bank, and implementing policies and procedures. Documentation required by these processes will help management know who is responsible for performing these functions.

**Secure Funds and
Related Records**

In three instances there were issues around securing funds and related records. In two reviews we found receipt books were not secured when not in use. In one review there were checks from a closed checking accounting sitting in the office that had not been destroyed. **We recommend** management make sure receipt books are secured when not in use to prevent misuse. **We recommend** that check stock be transferred to the confidential recycling box or taken directly to Records for secured destruction. These findings were addressed by the department's management.

Account not used

In one instance we noted a checking account that should have been closed was still open. **We recommended** that the Bank of America be contacted to have the account closed. The account was subsequently closed.

Cancel receipts to prevent reuse

In two instances there were receipt documents for petty cash that were not canceled or destroyed to prevent reuse after reimbursement to the employees. These "receipts" should be cancelled and attached to any reimbursement request. In another instance, although the checks from a closed checking account were secured, they had not been destroyed under the witness of two employees. **We recommend** that all receipts and checks be cancelled or destroyed to prevent reuse or misuse. These procedures were addressed and corrected by management.

Endorse checks when received

In one instance checks were not immediately endorsed upon receipt. **We recommend** all checks be restrictively endorsed when received. This is a BARS requirement.

***PREVENTIVE 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.

Deposits¹

Making deposits in a timely manner is a preventive and detective control as well as a BARS requirement. In two instances we found the department was not making deposits in accordance with BARS² or established procedures. In one instance the department was making a deposit only once per week.

¹ Deposits are to be made in a timely manner, in accordance with BARS.

² BARS, vol. 1, part 3, chapter 2, page 4; and RCW 43.09.240.

- BARS require that money 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.
- 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 money be deposited in a timely manner, funds deposited intact (as received) and deposit slips initialed or signed. Departments are required to obtain a waiver from the Treasurer's Office to make deposits on other than a daily basis.

We found one instance where there were explicit procedures concerning deposits being made at a certain dollar threshold; staff were not following the specific procedure and we observed deposits made past the specified threshold. **We recommend** following the established procedures and making deposits as required. This would help prevent large dollar losses if there is a robbery.

Reconciling and replenishing funds according to BARS

One form of documentation used to reconcile cash forms may be a log. Such a log, indicating cash taken and used or returned, should contain adequate data for reconciliation. In one instance a department using such a log did not complete their log entry indicating the amount, time and use of their funds. **We recommend** the staff complete the log each time a transaction is completed.

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, we found two change funds over the authorized balance, identified by the department management. There was one change fund which did not agree with the authorized balance. **We recommend** that the over/short account be charged every time a fund is out of balance and commend the department for using the accounts properly.

Updating Custodial Records

In one instance we found the custodian for the checking account had changed and the department did not have a new bank signature card. In two other instances the custodian of the fund had changed and the department had not informed the Treasurer's Office, which is the office of record for these cash funds. The custodian and alternate custodian are the persons responsible for maintaining the accounts. **We recommend** that departments officially inform the Treasurer of changes in persons responsible for the change fund. **We further recommend** departments obtain

and keep current signature cards with all authorized names.

Issue sequential receipts to customers

Many county departments now have some type of pre-paid vouchers, or gift cards, that are used for program participation incentives, usually under a grant. During our review of one department's pre-paid vouchers, we found vouchers issued out of numerical sequence and mixed with cards of a different numbering sequence on the log. As with any other pre-numbered receipts or vouchers, **we recommend** issuing cards in order and properly recording them on the log.

OTHER RECOMMENDATIONS

Based on work conducted, there were other medium and low risk recommendations provided to managers.

Medium risk:

- We found one department's trust fund bank account not reconciled to system records. **We recommend** the department continue working to reconcile the trust account to the system and bank records.
- In another department three receipts used to support expenditures of the petty cash fund were missing pertinent information. All such support should indicate vendor, date of purchase, purchased items, and amount paid. When received, these receipts should be marked paid, with the date and person receiving the funds, to indicate payment from petty cash. **We recommend** all expense receipts be completed in a timely manner so that they can be replenished in a timely manner. This finding was detected by Department management and **we commend** them for following procedures.

Low risk:

- In reviewing and balancing cash funds to

their authorized balances, Audit Services needs a balancing report from each cashier to indicate the amount of funds that should be present at the time of the review. In one department a cashier could not prepare such a balancing report when requested by the auditors and needed additional instruction from their supervisor. **We recommend** all authorized cashiers be trained to prepare interim and final balancing reports.

- In another department the petty cash account had not been replenished at year end. **We recommend** accounts be replenished at each year end. This ensures that transactions are charged to the correct accounting year.
- In another department the cash was short by \$1 and later found when a packet of one dollar bills was counted upon making change.
- In one department permits are received through the mail. We noted that one person opens the mail. **We recommend** two people open mail with a log to record any currency received as a better control over mailed receipts.

Contract File Reviews

In addition to cash related control reviews, Audit Services reviewed professional service contract files to ensure adequate and proper documentation is kept in support of these types of contracts, their deliverables, and county payments in accordance with purchasing policies and procedures. Seven contracts were selected from four county departments and offices and compared to the Purchasing Office procedures³. After file review, any recommendations were communicated directly to the department or entity management, in the same manner used for cash related reviews.

We made no recommendations for five of the contracts reviewed. Overall these contracts and contract files were in compliance with the Purchasing policy. We did find the following:

For one contract **we made recommendations** for (1) placing electronic files on disks at the conclusion of the contract and (2) sending appropriate RFP materials to Purchasing. In this instance, the recommendations were met.

For a second contract, the file was not complete and we found no contract for the contracted work. **We made three basic recommendations** (1) If the required work meets standards for a contract, there should be a contract; (2) emergency situations should be brought to the attention of the County Administrator and/or Board within required timeframes for waiver and ratification; and (3) Purchasing should provide guidance for county staff related to what they need to do to draft up proper professional service contracts, to include some type of training, checklists, or procedures.

³ (Procedure Number PR-100, "Contract File Management," issued 4/20/2009) Purchasing Office Contract File Management procedures issued

We appreciated 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, and receipting functions 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 audit work plan, approved by the Audit Oversight Committee⁴, 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.

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: the Auditor, one County Commissioner, and one county citizen. 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.

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 2011, Clark County and its closely affiliated agencies had a total of: 17 petty cash funds; 28 change funds; 13 checking accounts; 8 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 79 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.

Table 1: Funds by Type, 2011

| Type of Fund | Number in County | Current Balance |
|----------------------------------|-------------------------|------------------------|
| Checking Accounts | 13 | \$118,500 |
| Cash Receipting Functions | 13 | N/A |
| Change Funds | 28 | \$119,395 |
| Vouchers (pre-paid certificates) | 8 | N/A |
| Petty Cash Funds | 17 | \$22,750 |
| Total | 79 | \$260,645 |

As a comparison, the total number of county funds has decreased by two from 81 to 79. The individual number within the fund types has changed. For example in 2010 there were 14 cash receipting functions, 26 change funds, and 11 voucher (pre-paid certificates) all funds totaling \$164,935. In 2011 there are 13 cash receipting functions, 28 change funds, and 8 voucher (pre-paid certificates) all funds totaling \$260,645, a decrease of two in number and an increase of \$95,710 in dollars. The large dollar increase was a result of the increase in the Fairgrounds' change fund total that increased for the new ATM machines.

Exhibit A
2011

Internal Control Reviews

| Department | Type of fund | No recommendations | | Account not used: close account | Account over/short | Cancel Receipts to Prevent Reuse | Develop Written Procedures | Endorse Checks When Received | Issue sequential receipts to customers | Make Deposits Timely | Management Review | Other | Other: low risk | Other: medium risk | Secure Fund and/or Related Records | Update custodial record with Treasurer's Office | |
|-------------------------------------|--------------|--------------------|----|---------------------------------|--------------------|----------------------------------|----------------------------|------------------------------|--|----------------------|-------------------|-------|-----------------|--------------------|------------------------------------|---|---|
| | | | | | | | | | | | | | | | | | |
| Risk Management - General Liability | CK | | | | | | | | | | | | | | | x | |
| Sheriff - Alarm Permits | CR | | | | | | x | x | | x | | x | | | | x | |
| Sheriff - Bail And Fines | CK | | x | | | | | | | | | | | | | | |
| Sheriff - Civil Change Fund | CH | | x | | | | | | | | | | | | | | |
| Sheriff - Civil Imprest Checking | CK | | x | | | | | | | | | | | | | | |
| Sheriff - Evidence | CR | | x | | | | | | | | | | | | | | |
| Sheriff - Informant Fund | PC | | x | | | | | | | | | | | | | | |
| Sheriff - Inmate Trust Fund | CK | x | | | | | | | | | | | | | | | |
| Sheriff - Tactical Detectives Unit | PC | | | | | x | | | | | x | | | | | | |
| Sheriff - Work Release | CR | | x | | | | | | | | | | | | | | |
| Superior Court Administration | CR | | x | | | | | | | | | | | | | | |
| Superior Court Drug Court Fee | V | x | | | | | | | | | | | | | | | |
| Treasurer - Vault and Change Funds | CH | | | | | | | | | | | | | x | | | |
| Tri-Mountain Golf Course | CR | | x | | | | | | | | | | | | | | |
| WSU Co-op Extension | CH | | x | | | | | | | | | | | | | | |
| WSU Co-op Extension - Change | CH | | x | | | | | | | | | | | | | | |
| WSU Co-op Extension - Petty Cash | PC | | x | | | | | | | | | | | | | | |
| TOTALS | | | 13 | 53 | 1 | 3 | 2 | 1 | 1 | 1 | 2 | 3 | 2 | 3 | 2 | 3 | 3 |

| | | |
|-------------------------------------|-----------|------------------|
| CK = Checking Accounts | 13 | \$118,500 |
| CR = Cash Receipting | 13 | N/A |
| CH = Change Funds | 28 | 119,395 |
| V = Voucher (Pre-paid Certificates) | 8 | N/A |
| PC = Petty Cash Funds | 17 | 22,750 |
| Total | <u>79</u> | <u>\$260,645</u> |