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**CLARK COUNTY**  
WASHINGTON

**AUDITOR**  
**GREG KIMSEY**

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# Review of Selected Internal Controls

January – December 2012

Clark County Auditor's Office  
Audit Services

Report # 13 - 01

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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. This year we have one repeat finding/recommendation based on this work.

Over a three year period, Audit Services 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, reviews of 30 of the 79 funds and/or functions, about 38 percent, were completed. In 12 of these reviews, we found well controlled and managed funds, and there were no findings or recommendations made.

We made 43 recommendations to strengthen controls in the remaining reviews for 18 departments and offices, ten of which had two or more recommendations. These recommendations address the following areas:

- Preventive controls such as
  - Funds reviewed by Management;
  - Receipts cancelled to prevent reuse;
  - Written procedures Developed
- Preventive and Detective controls such as
  - Funds Reconciled and replenished according to *Budgeting, Accounting, and Reporting System (BARS)*;
  - Funds escheat to State of WA.
  - Deposits made timely; and
- 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 2012.

Please note there is one department where reviews were performed more than once.

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](http://www.clark.wa.gov/auditor/audit/aud_otherreports.html).

# Review of Selected Internal Controls

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## **INTERNAL CONTROL REVIEWS**

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).

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 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 2012 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***

When department's perform reviews of their own cash funds independently from work performed by Audit Services and share results, the risk related to fund use is greatly reduced. These same funds may also be reviewed by Audit Services during the year.

In 2012, General Services reviewed their Court House and Public Service Center Change Machines. These reviews contribute to the effectiveness of management's internal control environment. **We commend** General Services for their diligence.

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, General Services found one change machine over the authorized balance, The overage identified by General Service is the only repeat finding. **We recommend** that the over/short account be charged every time a fund is out of balance. If the cash discrepancy caused by the change machine can't be resolved thru maintenance of the change machine, General Service might consider getting a new change machine.

## **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 four 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 establishing and implementing policies and procedures. Documentation required by these policies will help staff know what is expected by management.

### **Secure Funds and Related Records**

In six instances there were issues around securing funds and related records and assets. In one review we found too many staff had access to the cash drawer. In another review the door between the employee work area and customer area was not locked. In one review there was no cash box used to secure the funds. In one review there were other institution's cash in the same cash box as county cash. In one department there were three issues around securing assets. In two instances assets should be secured when staff not present.

**We recommend** management make sure the number of staff accessing the cash drawer is small enough to establish responsibility over funds. **We recommend** that the area separating employees

and the public be secured to prevent unauthorized access. **We recommend** cash be secured in a cash box and secured in an area accessed only by the custodian and alternate custodian. **We recommend** management consider finding a way to secure assets when staff is not present. **We recommend** that county cash be kept separate from other cash. Management adequately addressed our recommendations.

**Account not used**

In two instances we noted a change fund and a petty cash account had not been used in over two years. **We recommend** that both the petty cash and change fund be closed and the funds returned to the Treasurer's Office. In one instance this recommendation was addressed by closing the petty cash account.

**Cancel receipts to prevent reuse**

In two instances there were receipts that did not have the purpose for the expenditure and were not signed by the custodian. **We recommend** these receipts contain the purpose for the disbursement and the signature of the custodian issuing the funds. This will help indicate the money is spent for the authorized purpose of the fund and will help prevent receipts from being reused.

***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.

**Deposits<sup>1</sup>**

Making deposits in a timely manner is a preventive and detective control as well as a BARS requirement. In four instances we found departments were not making deposits in accordance with BARS<sup>2</sup> or established procedures.

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<sup>1</sup> Deposits are to be made in a timely manner, in accordance with BARS.

<sup>2</sup> 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 by the preparer. Departments are required to obtain a waiver from the Treasurer's Office to make deposits on other than a daily basis.

### **Reconciling and replenishing funds according to BARS**

In three instances departments did not replenish their petty cash funds according to BARS. The petty cash funds were not replenished on a regular basis and did not get replenished at year end. **We recommend** the staff replenish the petty cash funds on a regular basis and at year end to expense costs in the proper accounting period.

### **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 three change funds over the authorized balance, one of which was identified by the department management. The overage identified by the General Service Department is the only repeat finding. **We recommend** that the over/short account be charged every time a fund is out of

balance.

### **Updating Custodial Records**

In two instances we found the custodians for the petty cash fund and change fund had changed and the department did not have documentation informing the Treasurer's Office of the names of the present custodians. **We recommend** that departments officially inform the Treasurer of changes in persons responsible for the funds and a copy of that information on custodians be sent to Audit for their records.

### **OTHER RECOMMENDATIONS**

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

#### **Medium risk:**

- We found one department had not cleared old checks for many years causing their balance to be far below the authorized amount. **We recommend** the department escheat the old unclaimed checks to the State of Washington and replenish the checking account to the authorized balance.

#### **Low risk:**

- One department did not have a designated alternate custodian. **We recommend** management designate an alternate custodian and provide this information to the Treasurer's Office.
- One department used volunteers to receipt money for functions offered. There is no written authorization allowing non employees to handle county funds. **We recommend** that management obtain authorization for non-employees to collect funds for any program and have the volunteers' names in writing.
- One department had receipts for money received with no explanation concerning what program the money was for. **We recommend** that all receipts given for money received have explanations for the receipt of funds.

- One department did not take any action to conceal valuable assets when staff is not present. **We recommend** management consider ways to protect assets when staff is not present.

**Other:**

- One department staff did not ask for identification of the auditors before allowing them to enter cash handling area. **We recommend** management inform staff that only authorized personnel is allowed in the cash handling area and if the Internal Auditor staff or State Auditors ask for entry, identification must be presented. This control should be written in policies and procedures.
- One department did not use petty cash for the purposes intended by the authorizing staff report. **We recommend** the fund be used for the purposes intended or fund closed if no longer needed.
- One department has staff receipting and balancing three cash drawers. **We recommend** management move to receipting from one cash drawer per staff. This will help avoid errors and requires less time for balancing.
- In six instances department management did not have current written procedures to provide instruction and expectations to employees. **We recommend** management prepare cash handling or receipting policies and procedures for staff to follow and provide these policies and procedures to staff.
- In three instances departments had excess funds because the fund did not need to be replenished on a monthly or every two months basis. **We recommend** management review the appropriate level of funding needed and if over funded prepare a staff report to give funds back to the Treasurer's Office.

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 biennial work plan, approved by the Audit Oversight Committee<sup>3</sup>, 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.

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<sup>3</sup> Audit Services' work plan is prepared for and approved by the Audit Oversight Committee approximately every 24 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 2012, 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, 2012*

<b>Type of Fund</b>	<b>Number in County</b>	<b>Current Balance</b>
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
<b>Total</b>	<b>79</b>	<b>\$260,645</b>

As a comparison, the total number of county funds has remained the same at 79 as of the writing of this report. The individual number within the fund types has also remained unchanged. The total dollar value of all accounts has changed with the checking account category increasing by \$1,000. The total for all funds as of December 2012 is \$260,645.





Exhibit A

Department	Type of fund	Recommendations 2012															
		No recommendations	No testwork done	Account not used: close account	Account over/short	Cancel Receipts to Prevent Reuse	Develop Written Procedures	Excess funds; reduce balance	Make Deposits Timely	Management Review	Other	Other: low risk	Other: medium risk	Reconcile & Replenish Fund in Accordance with BARS	Secure Fund and/or Related Records	Update custodial record with Treasurer's Office	
Risk Management - General Liability	CK		x														
Sheriff - Alarm Permits	CR		x														
Sheriff - Bail And Fines	CK		x														
Sheriff - Civil Change Fund	CH	x															
Sheriff - Civil Imprest Checking	CK					x				x							
Sheriff - Evidence	CR		x														
Sheriff - Inmate Trust Fund	CK		x														
Sheriff - MCU Informant Fund	PC		x														
Sheriff - Tactical Detectives Unit	PC	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							x			x			
WSU Co-op Extension - Change	CH	x															
WSU Co-op Extension - Petty Cash	PC										x						
<b>TOTALS</b>			12	49	2	3	2	6	3	4	4	3	4	1	3	6	2

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** 79 \$260,645

R = Repeat from prior year(s)