



proud past, promising future

CLARK COUNTY
WASHINGTON

AUDITOR
GREG KIMSEY

Review on Selected Internal Controls

Clark County Auditor's Office
Audit Services

Report # 10-05

December 8, 2010



For other formats, contact the Clark County ADA Office: **Voice** (360) 397-2000;
Relay 711 or (800) 833-6388; **Fax** (360) 397-6165; **E-mail** ADA@clark.wa.gov.

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

This report is available in hard copy from
The Clark County Auditor's Office
360-397-2310
Or by fax at 360-397-6007
Or from the Auditor's Office web page at
www.clark.wa.gov/auditor/audit/
Or by mail to
Clark County Auditor
1300 Franklin Street, Suite 575
PO Box 5000
Vancouver, Washington 98666-5000

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.

Over a three year period, Audit Services, Department Management or the State Auditor's Office will review all of the cash and receipting funds. During the current year, reviews of 32 of the 81 funds and/or functions, representing 40 percent, were completed. In 67 percent of these reviews, we found well controlled and managed funds, and there were no findings or recommendations made. We made 19 recommendations in the remaining reviews, five of which had two or more recommendations. While Audit Services performed the majority of these reviews (30), two were completed by the department or office management.

Our recommendations were designed to strengthen controls over cash handling, receipting procedures and contract administration. We look at internal controls to help safe guard county assets and to help detect errors and prevent miss use of assets. These recommendations address the following areas:

- Preventive controls such as
 - Management's review of funds;
- Preventive and Detective controls such as
 - Reconciling and replenishing funds according to BARS; and
- Process Improvements
 - Using over/short account when out of balance

We also address repeat findings/recommendations in more detail. This year we have one repeat finding/recommendation surrounding the security of vouchers (gift certificates).

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

Included in the report this year are Professional Service Contract reviews. The review of professional service contracts was requested by the Department of General Services. The Purchasing Manager put together policy and procedures for the handling of professional service contracts and requested Audit Services review implementation of the procedures.

Overall, we found the seven contract files reviewed to be organized in a manner allowing retrieval of the documents specified in the procedures.

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

INTERNAL CONTROL RECEIPTING REVIEWS

Table of Contents

RESULTS IN BRIEF	i
INTERNAL CONTROL REVIEWS	1
INTERNAL MANAGEMENT REVIEWS	1
PREVENTIVE CONTROLS	1
Appropriate Review by Management	1
Secure Funds and Related Records	2
PREVENTIVE and DETECTIVE CONTROLS	2
Cancel Receipts to Prevent Re-use	3
Deposits	3
PROCESS IMPROVEMENTS	4
Account Over/Short	4
Updating Custodial Records	4
OTHER RECOMMENDATIONS	4
High risk	4
Low risk	4
Contract File Reviews	5
APPENDIX A Objectives, Scope, and Methodology	A-1
EXHIBIT A	

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. We review documentation provided for reviews performed by internal department or office management. We look for both 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.

Based on those reviews completed in 2010 we share the following observations and recommendations. A summary of the funds can be found in the attached Exhibit A.

INTERNAL MANAGEMENT REVIEWS

One department 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 and the Drug Buy fund. The Sheriff's cash funds represent 68% of the total petty cash funds. These reviews contribute to the effectiveness of management's internal control environment. **We commend** the office for their diligence.

PREVENTIVE CONTROLS

The following control items 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 two 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 access to cash drawers and safes, logging receipts coming through the mail, and accounting for vouchers (prepaid certificates) issued to program recipients to help prevent the misuse of assets. Documentation required by these

processes will help management know who is responsible for performing these functions.

Secure Funds and Related Records

In five instances there were issues around securing funds and related records. In one review we found the lock to a cash drawer had not been changed after an employee left the county. In one review we found management does not have a list of staff authorized to access the safe. In another review we found personal money kept in the county safe. In still another review we found management does not note when the safe combination was changed after staff left the department. For these findings, **we recommend** management maintain lists of staff authorized to access the safe and when these staff no longer have the authority to access the safe or cash drawer, change the lock and safe combination. This change should be documented. In addition no other funds/money should be kept in a cash drawer or safe containing county money or other county assets. It is considered co-mingling funds and all funds in the drawer or safe will become the asset of the County.

In a repeat finding the Department of Environmental Services did not maintain control over vouchers used as incentives for participating in the Trip Reduction program. We found that the Department of Environmental Service's program for Trip Reduction did not properly document the disbursement of vouchers (gift certificates) for a meeting held to promote van pooling. **We recommend** Environmental Services management provide written procedures for securing and issuing vouchers. These vouchers are purchased with grant funds and have a dollar value. In addition to meeting grant requirements for documentation in support of expenditures, it is important for controls to be placed around accounting and issuing vouchers, thereby helping to prevent these assets from unauthorized use or misuse.

The Department of Environmental Services has taken steps to account for receipt and issuance of vouchers (gift certificates) by preparing policy and procedures and log sheets for tracking the issuance of vouchers. We commend management for taking action on safeguarding these assets.

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.

Cancel Receipts to Prevent Re-use

In one instance, receipts were not cancelled to prevent re-use. **We recommend** that all receipts be marked “**paid**”, dated, and signed by the custodian indicating that money due the purchaser was reimbursed. This process will help prevent the possible misuse of receipts for reimbursement. In addition, the receipts used should be authorized county receipts. These receipts should be fully completed and issued in numeric order. When receipt books are not used, they should be stored in a secure location.

Deposits¹

Making deposits in a timely manner is a preventive and detective control as well as a BARS requirement. In one review, we found the department was not making deposits in accordance with BARS.² **We recommend** that money be deposited in a timely manner, funds deposited intact (as received) and deposit slips initialed or signed.

- 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. The State Auditor’s Office has allowed that monies collected on a Friday can be deposited on the following Monday, without need for specific exception.
- 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. In addition **we recommend** that deposits be made within one business day unless otherwise exempted by the County Treasurer, and that the composition of the deposit be verified to the records at the time of the deposit (through the balancing process) in accordance with BARS. These are examples of good internal controls related to deposits that help prevent and detect errors or theft

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.

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 one change fund over the authorized balance. **We recommend** that the over/short account be charged every time the fund is out of balance.

Updating Custodial Records

In one instance we found the custodian for one change fund had changed and the department did not inform the Treasurer's Office or Audit Services. The custodian and alternate custodian are the persons responsible for maintaining the accounts. It does not appear that management has established accountability for the operation and safe care of these assets. **We recommend** that the department officially inform the Treasurer and Audit Services departments of changes in persons responsible for the change fund.

OTHER RECOMMENDATIONS

Based on work conducted, there were one high risk and one low risk recommendations provided to managers.

High risk:

- The Department did not obtain the recipient's signature when issuing a bus pass. **We recommend** documenting the issuance of bus passes, to include recipient's signature. In addition bus passes should be issued in sequential order to better account for all bus passes received and issued. This process will help ensure that assets are accounted for, protected and only authorized recipients receive the bus passes.

Low risk:

- A change fund has a single \$100 bill. **We recommend** that the \$100 bill be broken into smaller denominations so change can be provided to citizens.

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. Seven contracts were selected from four county departments and offices and compared to Purchasing Office procedures³. After file review, any recommendations were communicated directly and documented with a memo to the department or entity management, in the same manner used for cash related reviews.

Overall, we found the files to be organized in a manner allowing retrieval of the documents specified in the procedures. However, we found that in some cases, keeping all documents in one centralized hard copy file was not practical. For example, email correspondence with the contractor (which may be voluminous) is often kept in electronic form by the responsible program official rather than in hard copy. Similarly, county financial documents were kept in a file maintained by the department/office's finance personnel, rather than by contract personnel.

The new purchasing procedures are a good start at establishing consistency in professional service contract files, especially to ensure adequate contract monitoring and appropriate payment. Updates to procedures based on these reviews might provide more flexibility while retaining the key control elements.

The Purchasing Manager has acknowledged the need for flexibility because some documentation will be kept in electronic format and not in a hard paper file.

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.

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

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 2010, Clark County and its closely affiliated agencies had a total of 17 petty cash funds, 27 change funds, 13 checking accounts, 11 voucher operations (gift certificates), and 13 other areas responsible for receipting payments. Employees located in various facilities throughout the County manage these 81 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, 2010

Type of Fund	Number in County	Current Balance
Checking Accounts	13	\$120,100
Cash Receipting Functions	14	N/A
Change Funds	26	\$22,235
Vouchers (pre-paid certificates)	11	N/A
Petty Cash Funds	17	\$22,600
Total	81	\$164,935

As a comparison, the total number of county funds has remained the same while the individual number within the fund types has changed. For example in 2009 there were 15 checking accounts totaling \$125,150. In 2010 there are 13 totaling \$120,100, a decrease of two in number and \$5,050 in dollars.

In 2009 there were 12 cash receipting functions. In 2010 there are 14, an increase of two.

In 2009 there were 27 change funds totaling \$22,285. In 2010 there are 26 totaling \$22,235, a decrease of one in number and \$50.

In 2009 there were nine voucher programs. In 2010 there are 11, an increase of two.

The only fund type that remained the same in number and dollar amount is the petty cash funds.

During 2009, 49 of the total 81 funds/receipting responsibilities were reviewed resulting in 30 recommendations. In 2010, 36 funds were reviewed resulting in 19 recommendations.

EXHIBIT A

Department	Type of fund	No recommendations	No testwork done	Recommendations 2010														
				Cancel Receipts to Prevent Reuse	Dual opening of mail	Excess funds; reduce balance	Make Deposits Timely	Management Review	Need to escheat funds to State	Other: high risk	Other: low risk	Other: medium risk	Secure Fund and/or Related Records	Separate Key Duties	Update custodial record with Treasurer's Office			
PW - ER&R	PC		x															
PW - Operations	CK		x															
PW - Real Property Services	CR		x															
PW - Roads - 78th Street	PC		x															
PW - Roads - Admin	PC		x															
PW - Roads Permits	CH		x															
PW - Sewer Treatment Plant	PC			x													x	
PW - Solid Waste - Trip Reduction Gift Cards	V															R		
PW - Survey	CH	x																
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															
Sheriff - Evidence	CR	x																
Sheriff - Informant Fund	PC		x															
Sheriff - Inmate Trust Fund	CK		x															
Sheriff - Tactical Detectives Unit	PC		x															
Sheriff - Work Release	CR		x															
Superior Court Administration	CR						x									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 - Change	CH		x															
WSU Co-op Extension - Petty Cash	PC		x															
TOTALS		36	49	1	1	1	1	2	1	1	6	1	2	1	1			
REPEAT RECOMMENDATIONS		1	0	0	0	0	0	0	0	0	0	0	1	0	0			

EXHIBIT A

Department	Type of fund	No recommendations	No testwork done	Recommendations 2010									
				Cancel Receipts to Prevent Reuse	Dual opening of mail	Excess funds; reduce balance	Make Deposits Timely	Management Review	Need to escheat funds to State	Other: high risk	Other: low risk	Other: medium risk	Secure Fund and/or Related Records

CK = Checking Accounts	13	\$120,100
CR = Cash Receipting	14	N/A
CH = Change Funds	26	\$22,235
V = Voucher (Pre-paid Certificates)	11	N/A
PC = Petty Cash Funds	17	\$22,600
Total	81	\$164,935

R = Repeat from prior year(s)