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CLARK COUNTY
WASHINGTON

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Report on Internal Control Receipting Reviews

Clark County Auditor's Office
Audit Services

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INTERNAL CONTROL RECEIPTING REVIEWS

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Results in Brief

We completed internal control reviews of 38 funds or 50 percent, of the total 76 cash funds or cash receipting responsibilities in the county. Included in the 38 reviews; Department or Office management reviewed six of these funds, the Washington State Auditor's Office reviewed five, and the City of Vancouver's Internal Auditor reviewed an additional two park funds. We made recommendations that were designed to strengthen controls over cash handling procedures for 16 of the funds reviewed. These recommendations included providing proper security over cash, making deposits in line with legal requirements, and reconciling or replenishing funds on a routine basis. We also recommended improvements to cash-related *management controls*. For example, we recommended maintaining a log indicating when and who obtained goods and services. This log will help ensure that goods and services are not being purchased and used without the authority and knowledge of management.

During the year the county experienced four incidents of cash and/or property loss, estimated at \$1,742. These were reported to the Washington State Auditor's Office (SAO) in accordance with RCW 43.09.185. In one cash loss situation, adequate internal controls were in place but controls were overridden by management. Once identified, controls were followed to help prevent further loss of cash and property. The other three situations involved property stolen, or otherwise misused.

Our annual fraud and internal control training, entitled "Ethics and Fraud," provided management level staff with "real life" examples of what can go wrong and discussed resources available in the county to handle these types of events. A joint effort with the Treasurer's Office is underway to develop a cashier training to be provided as the new point of sale system is implemented.

This report can be found on the Auditor's Office web page, under Financial Services, Audit Reports, at www.clark.wa.gov.

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Internal Control Receipting Reviews

Audit Services has audit responsibilities for program and internal control reviews within the county. Specific to internal controls, Audit Services performs reviews of cash handling and receipting functions on selected funds annually. To assist management in implementing appropriate controls, Audit Services provides training to county managers and supervisors related to internal controls over cash-handling operations, and their role in the prevention and detection of fraud or theft. In addition to these responsibilities, Audit Services acts as the liaison between county departments and the Washington State Auditor's Office (SAO) in cases of suspected or known loss or theft of public assets – to include cash funds or items of property¹.

This report summarizes the results of work related to these responsibilities from December 2004 through November 2005.

Cash Receipting and Handling

Our work with petty cash funds, change funds, checking accounts, and receipting functions includes reviewing internal controls surrounding the function, balancing cash 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.

Staffs in several county departments routinely review their own cash handling functions. In 2005, staff in four departments – Public Works, Community Development, Community Services, and the Sheriff's Office – performed surprise reviews of funds and responsibilities independently and provided us with documentation of their results. Some of these funds and responsibilities were also reviewed by Audit Services, Vancouver's Internal Auditor, or the SAO. The results of all reviews are included in our analysis, attached as an exhibit.

¹ The Revised Code of Washington (RCW), 43.09.185, requires that any suspected or known loss be reported to the Washington State Auditor's Office immediately. The Auditor's Office acts as the liaison between county departments and the SAO in making any necessary reports.

Reviews Based on Risk Analysis

In accordance with our audit work plan, approved by the Audit Oversight Committee², Audit Services plans for and conducts internal control reviews of selected funds and cash receipting responsibilities. 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. **We commend** these actions on the part of the financial management in Public Works, Community Development, Community Services and Corrections, and the Sheriff's Office.

Our work consists of an **unannounced on-site visit to the department**, review of department procedures (if available), observation of the cashing 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. 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.

² 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: one County Commissioner, the Auditor, and one county citizen. In addition, the current committee has one honorary member from the community. 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.

Reviews Completed

In 2005, Clark County, and its closely affiliated agencies, had a total of 16 petty cash funds, 30 change funds, 16 checking accounts, 4 voucher operations (pre-paid certificates), and 10 other areas responsible for receipting payments. Employees located in various facilities throughout the county manage these 76 areas. During 2005, 38 of the funds/receipting responsibilities were reviewed resulting in 28 recommendations.

The table below provides a summary of the types of funds within the county and their current balances. In some instances the full authorized amount is not held by the fund.

Table 1: Funds by Type, 2005

Type of Fund	Number in County	Current Balance
Checking account	16	\$127,500
Cash Receipting	10	N/A
Change Funds	30	20,435
Vouchers (pre-paid certificates)	4	N/A
Petty Cash	16	22,450
Total	76	\$170,385

As a comparison, the number and balances for county funds have decreased over the past three years from a total of 77 funds and balance of \$175,825.

Our Recommendations

We categorized our recommendations for preventive and detective controls based on best practice and on those requirements found in the *Budgeting, Accounting, and Reporting System* (BARS) manual.

Based on our reviews, we share the following recommendations and observations with department managers and supervisors as items that they may need to be aware of in reviewing internal controls over a cash handling or receipting function.

SECURITY OVER FUNDS AND RECORDS

In **two reviews**, we found weaknesses related to the security over cash, checks, and records. Maintaining adequate security over county resources is a front-line defense against fraud and theft. Records also need to be adequately safeguarded.

In one of the two reviews, checks and related records were placed on open shelves in a room that is accessed by other personnel. The staff had too many books to be placed in the safe so the records and checks were placed on the shelf in a locked room. In this situation, **we recommended** that the records and checks be placed in a locked cabinet or other container, within the locked room and access should be limited.

To maintain appropriate security over funds and records, **we recommend** that

- Keys to locked containers should not be kept in readily available drawers or in open areas. Keys should be kept secured, and only authorized staff should be aware of their location.
- Management should maintain a list that includes the location of all keys, as well as staff having access to, or responsibility for, those keys.
- Checks and cash should always be placed in a secured location, especially if staff is not present.

In the other review, change fund records used to account for the replenishment of the cash were discarded preventing the accurate accounting for the cash replenishments. **We recommended** that fund records be maintained and kept to demonstrate that the proper amounts of cash were obtained to replenish the cash provided as change.

RECONCILIATION and REPLENISHMENT of FUNDS

From **two reviews**, we found one cash fund was not routinely and periodically reconciled, and another in which the fund had not been replenished in six months. The BARS manual spells out requirements related to the reconciliation and replenishment of cash funds.³ Specifically, BARS requires that cash be periodically counted and reconciled by someone other than the custodian. Funds should be replenished at least monthly by warrant or check, and should be subject to the same review and approval as processed invoices.⁴

We recommend all fund custodians follow BARS requirements for reconciliation and replenishment of funds. Routine reconciliation and replenishment procedures provide management with an opportunity to

³ BARS, vol. 1, part 1, chapter 3, page 8.

⁴ Some petty cash funds with few expenditures can be replenished quarterly, but no less than annually.

review fund activities and check for compliance with all fund requirements (for use, as well as for accounting procedures). Additionally, cash funds should always be replenished at the end of the fiscal year so that expenses are reflected in the proper accounting period.

APPROPRIATE REVIEW by MANAGEMENT

We made recommendations in three reviews that management take a more pro-active involvement in review and management of funds and responsibilities. **We recommend that** an appropriate level of management be involved in the process and review of the receipting and cash handling function, particularly when

- the program is new to the staff and the unit;
- a fund or receipting function are repeatedly out of balance; or
- control weaknesses have been identified and recommendations have been made.

There are many reasons for recommending that management provide review, monitoring, and oversight of any cash handling or receipting process. Among them is that management involvement acts as an important control to guard against fraud and theft.

DEPOSITS⁵

In **two of our reviews**, we found that departments were not making deposits in accordance with BARS.⁶ Specifically,

- BARS requires that monies 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 staff have 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.

⁵ Deposits are to be made in a timely manner, in accordance with BARS.

⁶ BARS, vol. 1, part 3, chapter 2, page 4; and RCW 43.09.240.

We recommend that deposits be made within one business day, 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 to prevent and detect errors or theft.

CANCELLATION of PETTY CASH RECEIPTS

In **one review**, we found that receipts were not being marked as cancelled as they were paid out of the checking account. Cancellation of reimbursed receipts is a significant control over petty cash expenditures. This prevents re-use, accidental or otherwise, and prevents confusion for the custodian of the petty cash fund.

We recommend that all petty cash or other reimbursed receipts be marked as cancelled, to include the date of payment, person receiving payment, and initials of person making the payment (custodian of the fund). Doing so leaves an audit trail for each transaction, helpful in correcting or identifying errors in the reconciliation process.

NUMBERED RECEIPTS ISSUED

During **one review**, we observed that a receipt had not been issued. The manager took immediate action, having a receipt made out and reminding all staff of the requirement to issue receipts.

We recommend that all receipts follow the BARS requirements⁷ and always be issued to citizens for transactions with the county. In addition, all receipts, manual or automated, should be issued in sequence.

ACCOUNT OVER/SHORT

In **four reviews** we found change funds under or over their authorized dollar amounts. In total, the differences amounted to \$22.65.

⁷ BARS, vol. 1, part 3, chapter 2, page 4.

We recommend that all fund overages or shortages be deposited into miscellaneous revenue in an over and short account as they are determined in the daily balancing process. This provides management with a tracking tool to determine if additional training may be required for staff or problems exist with equipment; this also serves as a detection tool for errors or theft.

OTHER OBSERVATIONS and RECOMMENDATIONS

There were several other observations and recommendations that we did not place in the categories discussed above. We make the following additional observations and recommendations related to items that are often found in cash handling and receipting environments.

- In **two** of our reviews, we found voucher logs that contained columns for information that was not being captured. **We recommend** that logs only contain columns, or fields, for information/data necessary to track and record activities. Columns, or fields, for data not collected give the impression that data should have been captured. Completion of logs take valuable staff time, and to increase efficiencies, should contain only the essential data that needs to be captured.
- In **one** review, **we recommended** the fund custodian use the state's escheatment process for outstanding (uncashed) checks that were over 6 months old. This process clears the account, making checking account reconciliations easier to perform.
- In **one** review, **we recommended** that checks be restrictively endorsed immediately upon receipt. This provides a restriction on the check, designed to help ensure that funds are appropriately accounted for. In the single instance where the processes have been designed for a later restrictive endorsement, management should place an emphasis on security of checks and compliance with cashing procedures.

Loss Investigations in 2005

The Revised Code of Washington, 43.09.185, indicates that state agencies and local governments shall immediately report to the state auditor's office known or suspected loss of public funds or assets or other illegal activity. In Clark County,

the Auditor's Office (Audit Services) acts as liaison between departments and the SAO in reporting and acting on instances of known or suspected theft, fraud or other illegal actions. Audit Services gathers pertinent information on any suspected or known loss or theft situation before contacting the state. Often intervention by Audit Services, with a resulting report to the state, may suffice. In some situations, the state may perform additional work to determine if sufficient controls have been put into place to deter further loss/fraud.

Between November 2004 and November 2005, Audit Services learned of and reported four losses to the State Auditor's Office. During this period losses included

- GPS equipment valued at \$ 1,580. One office discovered the loss of a hand-held GPS device after leaving it on a desktop in an unsecured area in staff absence. Enforcement of existing policies and exercising more control over the "attractive" and more expensive equipment -- such as creating a sign-out log assigning responsibility to specific individuals and securing these items, and others such as laptop computers, at end of day.
- Two halogen pen lights valued at \$88. Although the technician's supplies, including the halogen pen lights, were assembled on the cart behind a locked door, just these items were taken, one on each of two occasions. Several staff had keys to the room used by the technician, and clients could access this area, even though it was staff only. To provide more security over the supplies, entry was limited to authorized staff.
- Property valued at \$74. An employee used services designated for county program clients for the employee's personal use. There are several steps that can be taken to prevent misuse of county obtained goods and/or services. These include routine and periodic reconciliations to invoices, receipts, and use logs to determine appropriate use; additional logs for usage within units of the program; periodic review by management; and clear expectations of staff that are contained in written policies and procedures.
- Reimbursed loss of \$2,650. An employee of a contractor, responsible for transporting sums of cash between close locations, lost a bag containing cash receipts and credit card charges. The bag was never located, although a search was conducted. Existing controls may have prevented the loss opportunity, but were bypassed because of short staffing and pressing time constraints. The loss was not discovered for several hours, after the employee had gone for the day. The need for controls was reinforced to all staff involved in this situation and resulted in additional

steps to tighten what they had in place. This included strengthening the logging controls to help detect a missing bag more immediately.

In this situation, the contractor's employees were bonded so the contractor will reimburse the loss amount to the county.

In total, we estimated a net loss to the county of \$1,742. For each instance, Audit Services performed a limited review of related internal controls and department operations to determine appropriate suggestions and recommendations to help decrease further losses.

Training Opportunities Provided

Audit Services annually provides one formal training opportunity to staff in the county, as well as individual consultations upon request. The focus of our training is on appropriate internal control structures for management level staff. In 2005, our formal training included information on how to design an internal control environment and featured a presentation on *Ethics in Public Service*. We explored ethical issues that could occur related to specific county operations.

This training was held in the Commissioner's Hearing Room on October 7, 2005, and

- Audit Services presented information to managers on the principles of a sound internal control structure, including methods for setting up the control environment to better detect and/or prevent fraud.
- The keynote speaker, Mike Evans, Chief Criminal Deputy, Clark County Sheriff's Office, presented information on *Ethics in Public Service*. He used examples from his experiences in the Sheriff's Office, the County in general, and from his personal experiences, in looking at our core values and how they relate to the public sector code of ethics.
- Audit Services presented several case studies for the participants to discuss. County staff from the selected case study areas were present to assist the discussions.

This training provided four hours of continuing professional education to staff needing to meet licensing and certification needs.

Audit Services is currently working with the Treasurer's Office to develop a cash handling course for cashier staff, with the expectation that it will be provided before the new Point of Sale system goes live. This training will provide cashier staff with information on the nature of currency and checks, explaining what makes them "legal", best practice methods for maintaining their work stations, and how to deal with counterfeit currency should that be presented to them.

Conclusions

Audit Services' staff provides a variety of services to all county departments and offices related to the safeguarding of cash assets and establishment of adequate internal controls. Our review of cash funds and receipting functions throughout the county helps to ensure that: public assets are secure; RCW, BARS, and Board policies are being followed; and that appropriate internal controls are in place. Further, this work helps to identify training needs which can be handled within a department or provided by the Auditor's Office upon request.

We wish to thank all the staff with whom we worked during the course of the year either on an investigation or in performing an internal control review. We appreciate the assistance from management and their actions to implement our recommendations. We commend those individuals from departments who have consulted with us on a variety of control issues and appreciate their proactive approach.

Exhibit of Internal Control Receiving Reviews

Department	Type of fund	No testwork done	No recommendations	Reviewed by State Auditors	RECOMMENDATIONS															
					Account not used: close account	Account over/short	Cancel Receipts to Prevent Reuse	Develop Written Procedures	Excess funds; reduce balance	Issue sequential receipts to customers	Make Deposits Timely	Management Review	Reconcile & Replenish Fund in Accordance with BARS	Secure Fund and/or Related Records	Other: medium risk	Other: low risk	Other			
Assessment & GIS	CH	x																		
Auditor - Advance Travel	CK	x																		
Auditor - Auto License	CH					x													x	
Auditor - Elections	CH	x																		
Auditor - Recording & Marriage Lic.	CK	x																		
Auditor - Recording & Marriage Lic. Change	CH	x																		
Boundary Review Board	CR	x																		
Child Abuse Intervention Center	CR																R			R
Clark County Fair	CH															x				R
Clark County Fair - non-fair activities	CR	x																		
Clerk Change Fund	CH					x														
Clerk Trust Fund Checking	CK	x																		
Commissioners	PC	x																		
Corrections - LEC	CH		R																	
Corrections - Mabry	CH		x	x																
DCD - Administration	CH	x																		
DCD - Battle Ground Svc Center	CH		R																	
DCD - Building & Planning	CH		x	x																
DCS - Access To Recovery	CK																			x
DCS - Partnership for Youth	V	x																		
DCS - Receipts	CR	x																		
DCS - Regional Support Network	CK					x														
DCS - Veterans Relief Fund	CK	x																		
District Court - Camas	CH	x																		
District Court - Downtown	CH	x																		
Drug Task Force - Car Fund	CK												x							
Drug Task Force - Drug Buy Fund	PC													x						
Drug Task Force - Petty Cash	PC		R																	
Drug Task Force - Seizures	CR	x																		
Health - Clinic Change Fund	CH		x	x																
Health - Environmental Change Fund	CH		x	x																
Health - HIV Case Management	V	x																		

R = Repeat from prior year(s)

Exhibit of Internal Control Receiving Reviews

Department	Type of fund	No testwork done	No recommendations	Reviewed by State Auditors	RECOMMENDATIONS																		
					Account not used: close account	Account over/short	Cancel Receipts to Prevent Reuse	Develop Written Procedures	Excess funds; reduce balance	Issue sequential receipts to customers	Make Deposits Timely	Management Review	Reconcile & Replenish Fund in Accordance with BARS	Secure Fund and/or Related Records	Other: medium risk	Other: low risk	Other						
Health - HIV Prevention	V		x																				
Health - Skamania Change Fund	CH	x																					
Health - Skamania Petty Cash	PC	x																					
Health - Tobacco Buy Fund	PC	x																					
Human Resources - COBRA	CR	x																					
Juvenile Court Checking	CK							x								x					x		
Juvenile Court Diversion	CH	x																					
Juvenile Court Petty Cash	PC	x																					
Juvenile Detention movie rental program	V									x						x						x	
Law Library	CH	x																					
Medical Examiner	PC	x																					
PA - Adult Diversion	CK		x																				
PA - NSF Diversion	CK	x																					
PA - Petty Cash	PC	x																					
Parks - Frenchmans Bar Park	CH		x																				
Parks - Lewisville Park	CH		x																				
Parks - Salmon Creek Park	CH		x																				
Parks - Vancouver Lake Park	CH		x																				
Public Information & Outreach	PC	x																					
Purchasing	CR															x							
PW - ER&R	PC		x																				
PW - Operations	CK		x																				
PW - Real Property Services	CR	x																					
PW - Roads - 78th Street	PC									x	x												
PW - Roads - Admin	PC	x																					
PW - Roads Permits	CH		x																				
PW - Sewer Treatment Plant	PC		x																				
PW - Survey	CH		x																				
Risk Management - General Liability	CK	x																					
Risk Management - Workers Compensation	CK	x																					
Sheriff - Bail And Fines	CK	x																					
Sheriff - Civil Change Fund	CH		x																				

R = Repeat from prior year(s)

