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**CLARK COUNTY**  
WASHINGTON

AUDITOR  
GREG KIMSEY

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# Report on Internal Control Receipting Reviews

Clark County Auditor's Office  
Audit Services

Report # 06-03

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## RESULTS IN BRIEF

Audit Services attempts to review each of the County's cash funds and/or receipting functions once every two or three years. In 2006 the County had 79 different cash funds and/or receipting functions. During the current year, reviews of 47 of these funds and/or functions, representing 60 percent, were completed. In over 50 percent of these reviews, we found well controlled and managed funds, and there were no findings or recommendations made. We made 35 recommendations in the remaining reviews, including: two in high risk areas; eight instances where we repeated recommendations made within the last two years; and six reviews with multiple recommendations. While Audit Services performed the majority of these reviews (38), 11 were completed by the department or office management, and 11 were performed by the Washington State Auditor's Office (the total number of reviews exceeds 47 because some funds received more than one review).

Our recommendations were designed to strengthen controls over cash handling and receipting procedures. 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 more proactive management overview of the receipting function. While this is a general recommendation to all managers, we made this a specific recommendation in one instance.

The attached Exhibit summarizes all work performed by Audit Services, internal department or office management, and the Washington State Auditor's Office (SAO) for this calendar year.

During the year the County experienced four incidents of cash and/or property loss, estimated at \$1,479. These were reported to SAO in accordance with RCW 43.09.185. In the four incidents appropriate internal controls were in place, which allowed managers to readily identify the losses.

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This report can be found on the Auditor's Office web page, under Financial Services, Audit Reports, at [www.clark.wa.gov](http://www.clark.wa.gov).

# INTERNAL CONTROL RECEIPTING REVIEWS

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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. 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 2006 we share the following observations and recommendations. A summary of the funds can be found in the attached Exhibit.

## **INTERNAL MANAGEMENT REVIEWS**

Several departments and offices perform reviews of their cash funds and receipting functions 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 and/or SAO during the year.

The following departments and offices perform routine and periodic reviews. These reviews contribute to the effectiveness of management's internal control environment.

- Sheriff's Office performs reviews of the Inmate Trust Fund, drug buy and car buy funds, petty cash, and informant funds. In addition, they reconcile Civil receipting and bail funds.
- Department of Community Development reviews permitting change funds at both the Public Service Center and Battle Ground locations.
- Public Works reviews petty cash funds at the 78<sup>th</sup> Street Operations Center and also reviews their internal controls.
- Treasurer's Office reviews their vault cash and the change machines in the Public Service Center and in the Courthouse.
- Public Health staff review their Clinic change funds, but they do not necessarily send their results to Audit Services.

## **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**

We made two recommendations for management to take a more proactive involvement in the 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 deterrent control to guard against fraud and theft. In addition procedures can be formalized and staff trained in the procedures, including reconciliations and reviews, as appropriate.

### **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 review we found checks and related records were placed in a safe but a “quick access” setting was used so the dial only needed to be turned to a certain digit to open the safe. In this situation, **we recommend** that the quick access setting not be used, and that the safe dial be fully turned to clear the tumblers.

In another review, general security around the handling and security of the area was lacking. We noted that the door to the office building where the cash is held was not locked or monitored for authorized entrance. This situation allowed access to an unauthorized person, who had authorized access in the previous year and had lost over \$2,000 in cash. **We recommend** that management consider additional security at the back

door so unauthorized persons can not enter the cash handling area unchecked.

### **Restrictive Endorsement of Checks**

In two reviews, we found checks in cashier cash drawers without county restrictive endorsements. **We recommend** 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, and is both a best practice and a BARS requirement. In the single instance where the process has been designed for subsequent later application of an automated restrictive endorsement, management should place an emphasis on security of checks and compliance with cashiering procedures.

### **Verification of Employee References**

We learned that a former county employee, previously convicted of stealing money from the County, was subsequently hired as a temporary employee to handle county cash. **We recommend** that the County require criminal background checks on temporary staffing who will be responsible for handling cash.

## ***PREVENTIVE and DETECTIVE CONTROLS***

Some controls are both preventive and detective in nature. These controls help management prevent and detect attempts at theft or fraud, as well as prevent or mitigate errors.

### **Reconciliation and Replenishment of Funds**

In three instances, we found cash funds not routinely and periodically reconciled. The BARS manual spells out requirements related to the reconciliation and replenishment of cash funds<sup>1</sup>, specifically, requiring 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.<sup>2</sup>

**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

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<sup>1</sup> BARS, vol. 1, part 1, chapter 3, page 8.

<sup>2</sup> 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.

## Deposits<sup>3</sup>

Making deposits in a timely manner is a preventive and detective control as well as a BARS requirement. In three of our reviews, we found that departments were not making deposits in accordance with BARS.<sup>4</sup> 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 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 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 prevent and detect errors or theft. **We also recommend** that an exemption be obtained from the Treasurer's Office allowing for weekly deposits if the cash deposit is not large enough to justify someone traveling a distance to make the deposit at the Treasurer's Office.

## Issue Sequentially Numbered Receipts

BARS requires<sup>5</sup> that receipts be issued to citizens for transactions with the County. In addition, all receipts, manual or automated, should be issued in numeric sequence, and should bear the County name and organizational unit issuing the receipt. The issuance of the pre-numbered receipts provides an audit trail for better accounting of funds received.

We observed that departments have various issues with receipts. In one review the department was not using an official county receipt book. **We recommend** that when providing hand written receipts to customers, an

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<sup>3</sup> Deposits are to be made in a timely manner, in accordance with BARS.

<sup>4</sup> BARS, vol. 1, part 3, chapter 2, page 4; and RCW 43.09.240.

<sup>5</sup> BARS, vol. 1, part 3, chapter 2, page 4.

official county receipt book be used. These receipts are pre-numbered, carry the County logo, and can be obtained from the Auditor's office, at no cost.

In a third instance, we found a department not issuing receipts in strict numeric order. **We recommend** that department management remind staff to issue receipts in numeric order. This helps during the reconciliation process by identifying the proper deposit for cash received. It also meets BARS requirements.

## ***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**

We found one change fund over its authorized dollar amount.

**We recommend** that the over/short account be charged every time the fund is out of balance. In this given instance, the fund is a change machine and is often out of balance. A designated threshold for charging over/short may be appropriate, and a policy should be adopted, documented, and a copy kept with the fund log.

### **Unclaimed Money**

Money which remains unclaimed for a period of one year or longer should be removed from a fund and turned over to the State of Washington under the escheatment process. We found one fund with uncashed, outstanding checks that were over two years old. **We recommend** that staff review outstanding items in a fund and use the state's escheatment process to remove these amounts from the fund account. Departments are referred to the Treasurer's Office for specific details on completing a fund transfer to clear old, outstanding items, making checking account reconciliations easier to perform.

## ***REPEAT RECOMMENDATIONS***

In several instances we made repeat recommendations to departments and offices. While individually the areas may not be critical, it may become critical if management is not responsive. Repeat recommendations made in 2006 are:

- Child Abuse Intervention Center needs to properly endorse checks when received in accordance with BARS criteria. We have worked with the Center to ensure that they have a proper endorsement stamp.
- Clark County Fair needs to improve security over funds and related records, as well as to ensure that money couriers have background checks for criminal records.
- Department of Community Services needs to close an unused checking account.
- Juvenile Court's checking account needs to be reconciled and replenished in accordance with BARS criteria on a routine and periodic basis.
- The Sheriff's Office needs to ensure that receipts are issued for all transactions in Booking in compliance with their General Orders.
- The Treasurer's Office needs to ensure that the over/short account is charged for change machine differences over/under the authorized balance and to reconcile and replenish funds in accordance with BARS criteria.

## LOSS INVESTIGATIONS IN 2006

The Revised Code of Washington, 43.09.185, requires that state agencies and local governments shall immediately report to the SAO 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 satisfy SAO needs. 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 2005 and September 2006, Audit Services learned of and reported four losses to the State Auditor's Office. During this period losses included

- Four Digital Cameras totaling \$1,159 were stolen from one office. The first two cameras were discovered missing one morning after being checked in the previous night thereby leading us to believe the theft must have happened after hours. After the first two cameras were stolen, the department purchased a locking cabinet and secured the newly purchased cameras and laptop computers in it. It was later discovered that two new cameras in the cabinet were also stolen. The cabinet was not broken into so the assumption is someone with a key, or who knew where the key was hidden, accessed the cabinet and took the cameras. We suggested the department work with Facilities on various security issues and options.
- Two cash amounts in two different departments totaling \$320 were stolen. In one department someone stole the petty cash fund totaling \$144.50. The fund was kept in a locked drawer and the loss was discovered one morning when the custodian opened the drawer where the fund was kept. **We recommended** that a new location and locking cash box be used in the future.

The other cash loss was a staff person in a cash receipting function who took the cash out of the cash drawer. That loss was \$175 and the employee did not have a believable explanation for the missing money. The employee has since been terminated from county employment. This loss has been referred to the Sheriff's Office.

In total, we estimate a net loss to the County year to date 2006 of \$1,479. 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.

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 Committee<sup>6</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 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

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<sup>6</sup> 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.

of our results in a memorandum to the department manager. In some cases we used non-probability sampling to obtain 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 2006, Clark County and its closely affiliated agencies had a total of 17 petty cash funds, 30 change funds, 18 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 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, 2006*

<b>Type of Fund</b>	<b>Number in County</b>	<b>Current Balance</b>
Checking account	18	\$166,050
Cash Receipting	10	N/A
Change Funds	30	19,935
Vouchers (pre-paid certificates)	4	N/A
Petty Cash	17	22,450
<b>Total</b>	<b>79</b>	<b>\$208,435</b>

As a comparison, the number and balances for county funds have increased over the past three years from a total of 76 funds and balance of \$170,385.

During 2005, 38 of the total 76 funds/receipting responsibilities were reviewed resulting in 28 recommendations. In 2006, 47 funds were reviewed resulting in 35 recommendations.

## Exhibit A: Internal Control and Receipting Reviews

Department	Type of fund	No testwork done	No recommendations	Reviewed by State Auditors	RECOMMENDATIONS 2006														
					Account over/short	Develop Written Procedures	Endorse Checks When Received	Issue sequential receipts to customers	Make Deposits Timely	Management Review	Other	Other: high risk	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		
Assessment & GIS	CH	x																	
Auditor - Advance Travel	CK	x																	
Auditor - Auto License	CH	x																	
Auditor - Elections	CH							x					x						
Auditor - Recording & Marriage Lic.	CK												x					x	
Auditor - Recording & Marriage Lic. Change	CH		x																
Boundary Review Board	CR	x																	
Child Abuse Intervention Center	CR					x	R	x	x	x									
Clark County Fair	CH									x		R		x				R	
Clark County Fair - non-fair activities	CR	x																	
Clerk Trust Fund Checking	CK		x																
Clerk Change Fund	CH	x																	
Commissioners	PC												x						
Corrections - LEC	CH	x																	
Corrections - Mabry	CH	x																	
DCD - Administration	CH		x																
DCD - Battle Ground Svc Center	CH		R																
DCD - Building & Planning	CH		R																
DCS - Access To Recovery	CK			x										R					
DCS - Partnership for Youth	V													x					
DCS - Receipts	CR	x																	
DCS - Regional Support Network	CK			x									R						
DCS - Veterans Relief Fund	CK		x	x															
District Court - Camas	CH	x																	
District Court - Downtown	CH					x													x
Drug Task Force - Car Fund	CK		x	x															
Drug Task Force - Drug Buy Fund	PC		x	x															
Drug Task Force - Petty Cash	PC			R															
Drug Task Force - Seizures	CR		x																
Fair Revolving Fund	PC	x																	
Health - Clinic Change Fund	CH			x		x								x					x

R = Repeat from prior year(s)

EX.A-1

Department	Type of fund	No testwork done	No recommendations	Reviewed by State Auditors	RECOMMENDATIONS 2006																
					Account over/short	Develop Written Procedures	Endorse Checks When Received	Issue sequential receipts to customers	Make Deposits Timely	Management Review	Other	Other: high risk	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				
Health - Environmental Change Fund	CH			x																	
Health - Environmental Change Fund in DCD	CH	x																			
Health - HIV Case Management	V	x																			
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																				
Juvenile Court Diversion	CH																				x
Juvenile Court Petty Cash	PC																				
Juvenile Court Restitution Program	CK																				
Juvenile Detention movie rental program	V	x																			
Law Library	CH		x																		
Medical Examiner	PC	x																			
PA - Adult Diversion	CK			R	x																
PA - Child Support	CK		x																		
PA - NSF Diversion	CK	x																			
PA - Petty Cash	PC		x	x																	
Parks - Frenchmans Bar Park	CH	x																			
Parks - Lewisville Park	CH	x																			
Parks - Salmon Creek Park	CH	x																			
Parks - Vancouver Lake Park	CH			R																	
Public Information & Outreach	PC		x																		
Purchasing	CR	x																			
PW - ER&R	PC			R																	
PW - Operations	CK			R																	
PW - Real Property Services	CR										x										
PW - Roads - 78th Street	PC		x																		
PW - Roads - Admin	PC		x																		
PW - Roads Permits	CH			R																	
PW - Sewer Treatment Plant	PC	x																			
PW - Survey	CH			R																	
Risk Management - General Liability	CK	x																			
Risk Management - Workers Compensation	CK			x	x																

R = Repeat from prior year(s)

Department	Type of fund	No testwork done	No recommendations	Reviewed by State Auditors	RECOMMENDATIONS 2006												
					Account over/short	Develop Written Procedures	Endorse Checks When Received	Issue sequential receipts to customers	Make Deposits Timely	Management Review	Other	Other: high risk	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
Sheriff - Bail And Fines	CK				x												
Sheriff - Civil Change Fund	CH	x															
Sheriff - Civil Imprest Checking	CK	x															
Sheriff - Informant Fund	PC		R														
Sheriff - Inmate Trust Fund	CK						R										
Sheriff - Tactical Detectives Unit	PC	x															
Sheriff - Work Release	CR							x									
Superior Court Administration	CR		x	x													
Treasurer - Change Machine Courthouse	CH				R							x		R			
Treasurer - Change Machine in PSC	CH	x															
Treasurer - Vault and Change Funds	CH					x											
WSU Co-op Extension - Change	CH	x															
WSU Co-op Extension - Petty Cash	PC	x															
<b>TOTALS</b>	<b>79</b>	<b>33</b>	<b>25</b>	<b>11</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>7</b>	<b>2</b>	<b>3</b>	<b>2</b>	<b>3</b>
<b>REPEAT RECOMMENDATIONS</b>					<b>1</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>2</b>	<b>1</b>	<b>0</b>

CH = Change Fund	30	\$19,935
CK = Checking Account	18	166,050
CR = Cash Receipting Function	10	0
PC = Petty Cash Fund	17	22,450
V = Voucher (Pre-paid Certificates)	4	0
<b>Total</b>	<b>79</b>	<b>\$208,435</b>