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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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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 to provide management with assurance that funds are being handled appropriately. In 2006 the County had 79 different cash funds and/or receipting functions. In 2007, the County had 84 different cash funds and/or receipting functions. During the current year, reviews of 42 of these funds and/or functions, representing 51 percent, were completed. In 60 percent of these reviews, we found well controlled and managed funds, and there were no findings or recommendations made. We made 50 recommendations in the remaining reviews, including: five instances where we repeated recommendations made within the last two years; and nine reviews with three or more recommendations. While Audit Services performed the majority of these reviews (33), six were completed by the department or office management, and three were performed by the Washington State Auditor's Office.

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 three instances.

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 nine incidents of cash and/or property loss, estimated at \$53,577. These were reported to SAO in accordance with RCW 43.09.185. In three of the eight incidents appropriate internal controls were in place, which allowed managers to readily identify the losses, the remaining five incidents were physical break-ins with theft of property.

This report can be found on the Auditor's Office web page, under Internal Audit, Audit Reports, at 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 2007 we share the following observations and recommendations. A summary of the funds can be found in the attached Exhibit A.

There were an increased number of recommendations in 2007 over those made in 2006 – an increase of about 68%, from 28 to 47. Most of the increases stemmed from two reviews, where management and key staff had turned over in the previous three years. In addition, these units had no written procedures for new staff to follow.

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 petty cash, and informant funds. In addition, they reconcile Civil receipting and bail funds.
- Department of Community Development reviews permitting change funds at the Public Service Center and their Battle Ground location.
- Public Health staff review their Clinic change funds and receipting operations.

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 2007 are:

- Children's Justice 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. In addition Children's Justice Center does not have formalized written procedures and staff trained in these procedures; these procedures would include reconciliations and management reviews of the receipting function.
- Department of Community Services needs to close an unused checking account. This is a finding and recommendation made in 2005 and 2006. **We again strongly recommend** that this account be closed and the appropriate steps be taken to destroy the remaining blank check stock.

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 four 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

- There is new staff to the unit or there is a change in the location of the office;
- Control weaknesses have been identified and recommendations have been made;
- There has not been activity in an account for some time;
- Employees are able to process/receipt their own personal transactions.

Further, **we recommend** that management establish a policy against employees processing their own or family transactions and on a random basis review documentation of employee transactions to help detect

possible misconduct by employees capable of processing their own transactions. 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 six 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 the day's cash receipts are kept in the cash drawer and placed under the counter over night along with the receipt book and then balanced the next morning. In this situation, **we recommend** the cash be taken out of the cash drawer and secured in another not so obvious location, preferably a safe; the receipt book should be kept in a secure locked file cabinet.

In another review, office management performed a random check of all cash drawers to verify that they were locked and secure. One of the cash drawers was found unlocked. **Management instructed** the employee that when the cash drawer is not being used it should be secured and placed in the safe.

Restrictive Endorsement of Checks

In three 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.

We found one receipting function does not have a restrictive endorsement stamp and accordingly their checks are not restrictively endorsed. The Treasurer's Office will provide these stamps.

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 funds¹, 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.²

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 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.

Deposits³

Making deposits in a timely manner is a preventive and detective control as well as a BARS requirement. In two reviews, we found that departments were not making deposits in accordance with BARS.⁴ Specifically one department has been holding money in a safe for an inordinate length of time. **We recommend** that money that is not returned to citizens be deposited in the same manner as any other receipt of cash.

- BARS require 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

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

² Some petty cash funds with few expenditures can be replenished quarterly, but no less than annually.

³ Deposits are to be made in a timely manner, in accordance with BARS.

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

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.

Issue Sequentially Numbered Receipts

BARS requires⁵ 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 pre-numbered receipts provides an audit trail for better accounting of funds received.

In one review the department was using the official county receipt book to receipt cash transactions only. **We recommend** and explained that the receipt book should be completed for every transaction; checks, cash, or other payment modes.

PROCESS IMPROVEMENTS

In addition to specific internal or management controls, there are processes that can be strengthened to improve the “control environment”. The following process was 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 its authorized dollar amount and one change fund under its authorized dollar amount.

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

⁵ BARS, vol. 1, part 3, chapter 2, page 4.

LOSS INVESTIGATIONS IN 2007

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 2006 and September 2007, Audit Services learned of and reported nine losses to the State Auditor's Office. The total of these losses before recovery is \$75,625.67. The county has recovered \$22,048.67 making the total net loss of \$53,577.00.

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 Committee⁶, 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

⁶ 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 2007, Clark County and its closely affiliated agencies had a total of 18 petty cash funds, 30 change funds, 17 checking accounts, 5 voucher operations (pre-paid certificates), and 14 other areas responsible for receipting payments. Employees located in various facilities throughout the County manage these 84 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, 2007

Type of Fund	Number in County	Current Balance
Checking account	17	\$171,950
Cash Receipting	14	N/A
Change Funds	30	\$20,285
Vouchers (pre-paid certificates)	5	N/A
Petty Cash	18	22,650
Total	84	\$208,435

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 2006, 38 of the total 76 funds/receipting responsibilities were reviewed resulting in 28 recommendations. In 2007, 42 funds were reviewed resulting in 47 recommendations.