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CLARK COUNTY
WASHINGTON

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Report on Internal Control Receipting Reviews

Clark County Auditor's Office
Audit Services

Report # 08-03

October 20, 2008



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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 2007 the County had 84 different cash funds and/or receipting functions. In 2008, the County had 80 different cash funds and/or receipting functions. During the current year, reviews of 25 of these funds and/or functions, representing 32 percent, were completed. In 29 percent of these reviews, we found well controlled and managed funds, and there were no findings or recommendations made. We made 23 recommendations in the remaining reviews, including: 1 instance where we made a repeat recommendation within the last two years; and 6 reviews with 2 or more recommendations. While Audit Services performed the majority of these reviews (22), three were completed by the department or office management.

Our recommendations were designed to strengthen controls over cash handling and receipting procedures. These recommendations address the following areas:

- Management's review of funds;
- Canceling receipts to prevent reuse;
- Reconciling and replenishing funds according to BARS;
- Escheating un-claimed funds to State of Washington;
- Issuing receipts to customers in sequential order;
- Using over/short amount to balance fund;
- Updating custodial records; and
- Reviewing voided transactions.

The attached Exhibit summarizes all work performed by Audit Services, internal departments, or office management for this calendar year.

During the year the County experienced one incident of loss by accepting a \$100 counterfeit bill. This is a major improvement when compared to 2007 cash and/or property loss, estimated at \$53,577. In the current case, if a black light was used as an internal control when receipting bills \$20 and larger, the counterfeit bill could have been detected before deposit to the bank.

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

Table of Contents

RESULTS IN BRIEF	i
INTERNAL CONTROL REVIEWS	1
INTERNAL MANAGEMENT REVIEWS	1
REPEAT RECOMMENDATIONS.....	1
PREVENTIVE CONTROLS	2
Appropriate Review by Management	2
Canceled Receipts	3
PREVENTIVE and DETECTIVE CONTROLS	3
Reconciliation and Replenishment of Funds	3
Escheat funds to State of Washington.....	3
Issue Sequentially Numbered Receipts.....	4
PROCESS IMPROVEMENTS	4
Account Over/Short	4
Updating Custodial Records.....	4
Review Voided Transactions.....	5
OTHER MEDIUM AND LOW RISK RECOMMENDATIONS.....	5
LOSS INVESTIGATIONS IN 2008.....	6
APPENDIX A Objectives, Scope, and Methodology	A-1

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 2008 we share the following observations and recommendations. A summary of the funds can be found in the attached Exhibit A.

There was a significant decrease in the number of recommendations in 2008 over those made in 2007 – a decrease of about 51%, from 47 to 23.

INTERNAL MANAGEMENT REVIEWS

Two departments performed 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 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 performed reviews of their Petty cash fund, Informant funds, Drug Buy fund, and Car Purchase funds.
- Treasurer's Office performed reviews of the Public Service Center and Court House change machines.

REPEAT RECOMMENDATIONS

In one instance we made a repeat recommendation to the Treasurer's office. While the area may not be critical, it may become critical if management is not responsive. The repeat recommendation made in 2008 is:

- Treasurer's Office needs to balance and reconcile the Court House change machine to the authorized amount on a routine and periodic basis. This recommendation was made in August 2006 when we noted that the machine was not providing correct change to citizens. Historically the balance has been over, meaning citizens have been short changed.

In response to this repeat recommendation the Treasurer's Office has drafted a policy that states if the overage or shortage is less than \$10 it will not be recorded in the accounting records but the coins will be kept in the change machine. The differences are noted on paper and kept in the vault.

The practice of not recording overages and shortages, according to the Treasurer's policy, distorts the accounting records and creates an environment where moneys can be miss-used. In particular, overages result in a revenue source which remains unrecorded.

In addition since the Court House change machine continues to provide incorrect change to citizens and the maintenance performed on this machine does not seem to resolve the problem, **we recommend** the Treasurer replace this machine with one that works properly.

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 one recommendation for management to take a more proactive involvement in the review and management of funds and responsibilities. Review by department management will help keep staff following policy and procedures. While we commend department management for performing these reviews, **we recommend** that management provide a record of that activity to Audit Services. This will help prevent duplicative reviews.

Canceled Receipts

In one review we found receipts documenting purchases were not marked paid to prevent possible reuse. **We recommend** that all reimbursed receipts be marked paid, dated, and signed by the custodian indicating that moneys due the purchaser were reimbursed. This process will help prevent the possible miss-use of receipts for reimbursement.

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.

Reconciliation and Replenishment of Funds

In two 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.

Escheat funds to State of Washington

In one instance we found un-cashed checks that were over a year old. **We recommend** that all un-cashed checks older than a year be provided to the Treasurer's Office for escheatment to the State of Washington. This process will help keep the cash fund records up to date and clear up old checks. It will also allow un-claimed/un-cashed checks to be claimed by their owners.

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.

Issue Sequentially Numbered Receipts

BARS requires³ 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 and these receipts should be issued in sequential order. Following this policy and procedure makes reconciling the deposit faster.

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 four change funds over or under their authorized dollar amounts. **We recommend** that the over/short account be charged every time the fund is out of balance.

Updating Custodial Records

In four instances we found the custodians for one checking account and three petty cash accounts had changed and the departments did not inform the Treasurer’s and internal audit offices. The custodian and alternate custodian are the persons responsible for maintaining the accounts. If these persons are not known by the treasurer and internal audit, we can not assign responsibility for the operation and safe care of these assets. **We recommend** that the departments officially inform the treasurer and internal audit departments of the persons responsible for the operations of the funds.

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

Review Voided Transactions

In one instance we found some hand written receipts that had been voided but all the copies of the receipt were not in the receipt book. If all copies of the receipt are not in the receipt book, you will not know if this is a truly voided transaction. The customer can always say they paid for the service by producing the paid receipt. This can also attempt to hide a fraud by receiving the money and then voiding the transaction and keeping the money. **We recommend** that management go over the procedures again with staff of the importance of having all copies of a voided hand receipt secured in the receipt book.

OTHER MEDIUM AND LOW RISK RECOMMENDATIONS

Based on work conducted, there were two other medium risk recommendations and six low risk recommendations provided to managers. The medium risk recommendations were related to security of funds – specifically that a more secure location be found for extra cash drawer keys, and changing the combination to the safe after staff who had the combination left county employment. Ensuring the security of funds are both preventative and detective controls.

Low risk recommendations included:

- Not storing non-county funds with county funds. Staff funds for coffee or parties should not be stored with county cash or petty cash funds. They should be stored in a separate secured location.
- Cashier's cash bag keys should be kept in secured location and they should not be available to others.
- Fraud Fighter equipment should be kept in good working order; bulbs should be replaced if they burn out so equipment can be used.
- Increasing security around the County Fair entry booths and the processing of Fair tickets.

Each of these recommendations was communicated during our visits and documented with a memo to the department or entity management at the conclusion of our work.

LOSS INVESTIGATIONS IN 2008

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 2007 and September 2008, Audit Services learned of and reported one loss to the State Auditor's Office. The total of this loss is \$100.

In this instance, the department management promptly informed Audit Services of the loss due from accepting counterfeit money. There are controls in place to detect this type of potential loss. **We recommend** the staff be reminded to use the black lights to check all currency \$20 and larger for counterfeit.

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 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

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: one County Commissioner, the Auditor, and one county citizen. In addition, the current committee has one non-voting 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.

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.

County Funds

In 2008, Clark County and its closely affiliated agencies had a total of 18 petty cash funds, 30 change funds, 15 checking accounts, 5 voucher operations (pre-paid certificates), and 12 other areas responsible for receipting payments. Employees located in various facilities throughout the County manage these 80 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, 2008

Type of Fund	Number in County	Current Balance
Checking account	15	\$125,150
Cash Receipting	12	N/A
Change Funds	30	\$22,335
Vouchers (pre-paid certificates)	5	N/A
Petty Cash	18	\$22,650
Total	80	\$170,135

As a comparison, the number and balances for county funds have decreased from 84 and \$208,435 respectively in 2007 to 80 and \$170,135 respectively in 2008.

During 2007, 42 of the total 84 funds/receipting responsibilities were reviewed resulting in 47 recommendations. In 2008, 25 funds were reviewed resulting in 23 recommendations.

