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CLARK COUNTY
WASHINGTON

AUDITOR
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Review of Select Internal Controls January – December 2016

**Clark County Auditor's Office
Report #16-02**

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Audit Services

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Summary

Internal Control Reviews (ICRs) are one of the tools used by Clark County Audit Services to provide assurance to our citizens that funds are being handled appropriately by our organizations. An ICR generally includes an unscheduled visit to the organization during business hours to count cash, observe receipting and cash handling practices, and verify internal controls being used to protect the cash and cash equivalents. "Cash equivalents" includes a variety of valued assets to include general use "cash cards", cash value vouchers, specific store or use cards, and incentive items acquired for official use with employees or clients.

Audit Services provides unannounced reviews of the County's revolving cash funds, cash equivalents, and receipting functions to provide management with three assurances:

- Funds are being handled appropriately
- Cash equivalent items are properly safeguarded, and
- Documentation is being maintained according to County policy.

We look at internal controls to help safeguard County assets, to help detect errors, and to prevent misuse of assets. Our work plan has been based on overall risk, designed to ensure all cash and receipting funds are reviewed at least once every three years. We also review a growing number of alternative voucher or "cash equivalent" funds that include pre-loaded cash cards and gift cards.

An internal control review normally lasts one to three hours, generally following a checklist and discussion. Observations and recommendations are assembled in a written report which is provided to the organization within three to five days. With a three auditor staff we historically review between 15 and 30 accounts every year. In 2016 we reviewed twenty of the over ninety cash and cash equivalent asset accounts being used. We expect about 30 reviews in 2017.

Of the twenty reviews conducted in 2016, two funds had no observed issues. The eighteen remaining organizations had a total of 33 recommendations, with only one review generating five issues; all others had three or less.

In 2016, we have seen a sharp increase in "cash value cards" for a multitude of uses, with widely varying controls in place. Areas of concern we found that were most prevalent include:

- Separation of key or incompatible duties to minimize risk;
- Written procedures were missing, incomplete, or inaccurate; and
- Limited or insufficient oversight of operations by management

The attached Exhibit A summarizes all internal control work over cash receipting performed by Audit Services and internal departments for calendar year 2016.

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

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Introduction

The design, implementation, and ongoing monitoring of internal controls are the responsibility of management within each department in the County. However, [Clark County Ordinance 2.14.010](#) tasks internal audit with assisting management in the effective discharge of their duties. Internal control reviews performed by internal audit help fulfill this objective by providing management with assurance that their controls are appropriate and functioning correctly. These limited evaluations of internal controls are a service that does not constitute an audit under the Generally Accepted Government Auditing Standards (GAGAS).

Internal Control Reviews

During the course of these reviews we examine the control environment for cash funds, cash equivalents and/or receipting functions. We look for preventative 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 2016, we have summarized the following reviews and observations. A summary list of funds and assets we reviewed can be found in the attached [Exhibit 1](#).

Annual Report of Results

Annually, Audit Services reports on the body of internal control reviews conducted during the current calendar year. The report indicates organizations that were reviewed as well as trends observed.

Individual internal control reports are available from the Audit Services Office, or they can be viewed on the County Auditor's intranet site. Management responses, follow-up inspections and other data are appended to the basic report when viewed from the intranet site.

Management Reviews

Setting Tone at the Top

Some departments perform reviews of their own funds, cash equivalent management or receipting functions; if provided, we review this work and consider it in our risk analysis. When departments perform reviews of their own cash funds independently from work performed by Audit Services and then share results, the risk related to fund use is greatly reduced.

The Prosecuting Attorney's Office has continued to set an appropriate management tone by critically reviewing their reconciliation of deposits and check logs and providing us the results of their management oversight. These reviews contributed to the effectiveness of management's internal control environment. **We commend** the Prosecuting Attorney's Office for their diligence in this area.

Results of Internal Control Reviews

Issues Compiled by Category

The following control activities help management prevent fraud and theft from occurring. They are listed in the order of frequency, with the most frequent issue listed first.

Written procedures are not adequate (14 instances, 42% of the findings)

This is the second year in a row that lack of accurate written procedures for staff to follow was the most prevalent problem. In 2015 this represented a third of the problems found; this year it represented 42% of the problems identified. These controls help management prevent or mitigate errors as well as prevent and detect attempts at theft or fraud.

Corrections to Logs and Records (5 instances, 15% of the findings)

Accurate records are an important control for reducing loss. As staff fills out logs and records of cash handling, cash card or voucher issue and replenishment errors occasionally occur. We observed an increase in the use of “white out” or complete covering of the error to where it cannot be determined what the original entry said. When corrections are made, they need to be transparent enough that it is clear what change is made, who made the change, and when it was done.

Additional Staff Training Recommended (2 instances, 6% of the findings)

With three instances or about 10% of the findings, security of assets tied with The third most common issue we found was improperly secured funds or assets. Two organizations were not consistently securing funds, property or key records in a manner consistent with their value or risk of loss.

Conclusions

In 2016 the most common issue has been inconsistency in following controls and established procedures. Some of this has been because the procedures aren't written down, and some has been because they are outdated.

The second most common issue has been errors in amending or correcting records; removing receipts, using white-out, and making changes anonymously were techniques that would not be used by staff aware of acceptable ways to correct documents.

When difficulties arose, they were generally the result of faulty written procedures or newer employees who lacked basic knowledge of internal controls. Both of these factors would be improved with updated written procedures and targeted staff training.

Appendix A: Objectives, Scope, and Methodology

Our work with petty cash funds, change funds, checking accounts, receipting functions and cash equivalents (“assets”) 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 and assets 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

We conduct an annual risk analysis of these funds. Our plan is reviewed by the Audit Oversight Committee and approved by the County Auditor. In selecting funds for review, we consider:

- The date of the last review;
- Findings from the last review;
- Type of fund or account;
- Financial exposure (fund balance);
- Management oversight of the fund; and the
- Fund status (e.g. new, established, inactive).

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 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 memorandum form 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 2016, Clark County and its closely affiliated agencies had a total of over 90 cash or asset management funds. While the number of cash (checking, receipting and change) funds has decreased overall, the non-cash assets (cash cards and vouchers) have increased. Currently, there are approximately 60 cash accounts and 33 asset accounts in use.

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.

Exhibit 1: Summary Report

2016 Internal Control Review Summary Report



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ICR #	Fund Name	Authorized Balance	Inventory or pass through	Total Recommendations
557	Treasurer - Vault and Change Funds	\$ 10,000		1
558	Auditor - Recording & Marriage Lic. Chan	\$ 20,000		1
559	RTC - Petty Cash	\$ 100		0
560	DES - C-Tran Bus Passes		\$ 20,000	3
561	DCS - Crisis Service Vouchers		\$ 2,400	2
562	Sheriff - Civil Change Fund	\$ 300		4
563	Sheriff - Civil Imprest Checking	\$ 1,500		2
564	DC - District Court Drug Court Fee		\$ 1,280	1
565	PW - Real Property Services		unk	2
566	GS - Fair		\$ 1,005,062	3
567	Health - Prepaid cards		\$ 2,150	3
568	DCS - Tobacco Sting Fund		\$ 200	3
569	PA - Crime Victims Trans Cash Drawer	\$ 25		2
570	SC - Superior Court Drug Court Fee		\$ 7,797	2
571	DC - District Court Camas	\$ 900		3
572	Clerk - Trust Fund Checking		\$ 2,997,820	1
573	Sheriff - MCU Informant Fund	\$ 3,000		0
		\$ 35,825	\$ 4,036,709	33

Low Risk Issues

- Account Inactive: Elevated Risk
- Custodial Records: Not Current with Treasurer
- Excess Funds: Need to Reduce Balance
- Excess Funds: Need to Escheat Funds to State
- Receipts: Cancel or Mark to Prevent Reuse
- Receipts: Issue Sequentially to Customers
- Void or Refund Transactions: Self Approved
- Other low risk issues

Medium Risk Issues

- Account Balance: Over/Short
- Deposits: Not Timely
- Funds: Cash or Checks Not Logged When Received
- Mailed Funds: Dual Opening Recommended
- Develop or Adjust Written Procedures**
- Reconcile & Replenish consistent With BARS
- Reconciliations: Cash & Check Do Separately
- Training: Additional staff training recommended
- Other medium risk issues

High Risk Issues

- Checks: Not Endorsed When Received
- Correcting logs & records: only line through**
- Key Duties: Not Separated
- Management Reviews: Ineffective or Missing
- Security: Funds, Records, Valuables Not Secure
- Other high risk issues

2016 Issues by Category	33	2016 low risk: 3 9%	2016 medium risk 20 61%	2016 high risk: 10 30%
2015 Summary for Comparison	19	2015 low risk: 2 11%	2015 medium risk 8 42%	2015 high risk: 9 47%

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