



AUDITOR'S OFFICE



AUDIT SERVICES

SUMMARY OF UNSCHEDULED INTERNAL CONTROL REVIEWS

REPORT NO. 19-02

December 2019

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I. Report Summary

In 2019 Audit Services reviewed 21 funds located at 11 departments throughout county. Department reported available data on receipting measures indicated that these funds handled approximately 540,755 transactions with a pass through revenue valued at over \$330 million. Five departments reviewed had zero recommendations issued on their reviews and three departments were commended on their internal control efforts. Of the recommendations issued, 29% were high risk, 47% were medium risk and 24% were low risk.

Due to the uniqueness of operations of many of the departments reviewed, some recommendations were placed in the general category “other” for each risk level. Of the remaining recommendations, general trend shows a need for departments to; separate key duties (High Risk), develop/adjust written procedures (Medium Risk) and review for excess funds (Low Risk).

Three funds had variances at the time our reviews were conducted. Two of the funds were within the Internal Services Department, who oversees management of contracts at the Clark County Fairgrounds and Tri Mountain Golf Course. Fairgrounds had a 1¢ overage; Tri Mountain Golf had overages totaling \$50.42 and a shortage of \$4.33. The Prosecuting Attorney’s office had a \$129.48 overage.

Other areas of improvement identified in 2019 were related to; the use of security containers, creation and completeness of logs, updating authorized signers/signature cards, video monitoring use, and updating electronic controls permissions and authorized users. A description of the internal control reviews (ICR) program’s objectives, scope and methodology can be found in Appendix A. For a list of key resources please see Appendix B.

These reviews are designed in keeping with RCW 36.22.040 which calls for the audit of all claims, demands and accounts against the county. Clark County Code 2.14.020 also requires Audit Services to perform analytical reviews of internal controls and accounting records with the intent of evaluating the security of county assets as well as the accuracy and reliability of financial reports. These limited evaluations are a service that is not an audit under the Generally Accepted Government Auditing Standards (GAGAS). The design, implementation, and ongoing monitoring of internal controls are a management responsibility.

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Note

Please note that reported volume and cash value of transactions in this report are provided by departments and included as background for general context. These figures are an approximation and are not the final values. Some variance exists on what comprise the count and value; for example, the Treasurer’s Office stated that their report includes all transactions handled by the joint lobby; Auto License transaction values include license funds remitted to the state.

This report can be downloaded from the Clark County Auditor’s Office external web page, under Internal Audit Services/Audit Reports, at <https://www.clark.wa.gov/auditor/internal-control-review-reports>.

III. 2019 Results

Overall Results

In 2019 Audit Services reviewed 21 funds located in 11 county departments. Staff reported that these funds handled approximately 540,755 transactions with a pass through revenue valued at over \$330,725,138, see Table 1. We issued 38 recommendations and three commendations. For the complete list by fund please Appendix B.

Table 1 Summary of 2019 ICRs

Department	Number of Funds	Number of Transactions	Value of Transactions	Number of Recommendations
Treasurer	1	72,791	\$267,632,719	1
Clerk	2	62,778	\$ 29,425,000	1
Auditor	2	106,071	\$ 19,577,154	3
District Court ★	2	117,634*	\$ 10,106,142	0 ★
Internal Services	3	179,571	\$ 3,453,537	8
Sheriff	4	388*	\$ 432,916	4
Prosecuting Attorney	2	766	\$ 42,664	9
Public Works	1	224	\$ 38,857	2
Law Library	1	531	\$ 16,074	2
Superior Court	2	1*	\$ 75*	5
Community Development	1	*	\$ *	3
Totals:	21	540,755	\$330,725,138	38

*blank or partial due to unavailable or non-applicable data at the time of the review

Top Performers

In 2019, there were six funds, within five departments, with completed reviews that had no recommended improvements. One department appears twice on this list. **District Court** ★ had no recommendations the times when we reviewed; the Camas and the downtown receipting locations. Combined both funds reported 117,634 transactions with an estimated value of \$10,106,142. The following funds also had no recommended improvements on the day of their Internal Control Review: Auditor's Auto License, Clerk's Collections Change Fund, Internal Services Non-fair Receipting (Fairgrounds), and Sheriff's Civil Change Fund, see Table 2.

Table 2: Top Performers in 2019

Department	Number of Transactions	Value of Transactions
District Court ★	117,634*	\$ 10,106,142
Auditor Auto License	105,959	\$19,548,412
Clerk Collections Change Fund	11,112	\$ 1,066,248
Internal Services Non-fair Receipting	236	\$ 316,393
Sheriff Civil Change Fund	unavailable	\$ 304,037

Commendations

Three departments were commended on their internal control efforts, District Court's Downtown receipting location, Superior Court's Juvenile Center Intake and Treasurer's Vault and Change Fund, see Table 3.

Table 3 Commendations in 2019

Department	Commendation
District Court <i>Downtown</i>	We commend District Court for their implementation of new controls and their ability to respond to operational challenges.
Superior Court <i>Juvenile Intake</i>	We commend management for their efforts in modernizing their video monitoring capabilities.
Treasurer <i>Vault & Change Fund</i>	We commend the strategic planning in progress at the Treasurer's Office, based on best practice driven standards.

Departments Self-review and Updates

We thank the following departments for their ongoing internal control work; the Prosecuting Attorney's Office for conducting/reporting 12 self-review of their funds, the Treasurer's Office conducting/reporting 8 self-review of their funds, Public Health for communicating their updates of controls on new program incentives, and the Sheriff's Office for communicating updates on fund custodian changes. We also appreciate the many departments who reach out to our office with questions or advice on their internal controls.

IV. 2019 Findings by Risk Level

The Low, Medium and High risk levels are comprised of a general grouping of control deficiencies categories that funds may experience. Control deficiencies categories' rankings are based on historical occurrences and general risk guidance. Unique or less frequent issues are placed in the general "other" category for each risk level. The following are 2019's areas of improvement we made recommendations for and are listed within each level, with the most frequent category listed. For the complete list by fund please see Appendix B.

a. High Risk: 11 findings or 29% of the total recommendations

In 2019, segregation of duties was a common concern shared in several funds reviewed. A separation of duties means that one person does not control all key aspects of a transaction. Rather, duties and responsibilities should be assigned systematically to a number of individuals to ensure that effective checks and balances exist. Key duties include authorization, approval and receiving payments, recording transactions, security over cash, and making deposits. When establishing your internal controls, no single person should have more than two incompatible duties without the use of compensating controls. A type of compensating control includes periodic management reviews of transactions.

In response to the high risk level deficiencies found in 2019, departments provided our office with their identified or planned actions related to the recommendations.

There were several recommendations that were unique to the type of funds reviewed. These recommendations were placed in the “other” high risks category.

b. Medium Risk: 18 findings or 47% of the total recommendations

Most issues that require correction tend to fall in the “medium risk” category. In 2019 a concern was the need for management to develop or adjust written procedures. The primary negative effects of inadequate written procedures are that staff would not have clear guidance on how to perform the control or they continue to perform obsolete tasks due to changes in operations. Internal controls should be periodically revisited to ensure that their design and implementation still address the risk identified.

Another common concern identified in several funds was timely deposits. All cash and checks received on a given day should be deposited the same day or the next available business day. The fund manager or program supervisor should periodically review the Treasurer reports and the revenue ledger to confirm funds are deposited accurately and in a timely manner. Depositing should be in compliance with the RCW 43.09.240 twenty-four hour requirement or have an approved exemption granted by the Treasurer.

There were several recommendations that were unique to the type of funds reviewed. These recommendations were placed in the “other” medium risks category.

c. Low Risk: 9 findings or 24% of the total recommendations

A common low risk issue was the need to reduce fund balances. The primary negative effect of excess funds is that the risk of loss increases. If more than two months elapse and a replenishment is not needed (the funds are not low), then the account balance may be too high. Management should consider reducing the authorized amount. Generally, the account balance should be adequate to replenish two months of expenses.

There were several recommendations that were unique to the type of funds reviewed. These recommendations were placed in the “other” low risks category.

Other Areas of Improvement Identified in 2019

Variations and Losses

Positive and negative variances were noted in three funds. Two of the funds were within the **Internal Services Department**, who oversees management contracts at the Clark County Fairgrounds and Tri Mountain Golf Course. The Fair had four cash drawers we reviewed and only one had an overage of 1¢. The second fund, *Tri Mountain Golf Change Fund* had three cash drawers in use when reviewed, and all three were out of balance when tested. Two drawers were over (\$2.52 and \$47.90 respectively) and the third cash drawer was short by \$4.33. The **Prosecuting Attorney’s Office Adult Restitution Trust** checking account had an overage of \$129.48. The overage was identified by PA staff members who were actively resolving the issue.

Security Containers and Logs

The method of securing funds is dependent on the amount of revenue or value of the items to be stored. Safes, lock boxes, lock/security deposit bags, and locking drawers are effective if their access is limited to the appropriate personnel and used correctly. Improper segregation of duties or keys/combinations that are readily available will diminish the control’s effectiveness.

Logs serve as a custodial record of the revenue or valuable item(s). It is important that the log contain sufficient information to inform the reader on the intake, holding and final disposition of the recorded item(s). The absence of a log or missing/incomplete fields will diminish management's ability to make a determination on the recorded item's status.

Authorized Signers and Signature Cards

Periodic reviews of approved signers on checking accounts is essential to ensure that separated or reassigned employees no longer have access to the funds. New employees or reassigned employees that manage the checking account should be added on a timely basis.

Video monitoring and Electronic Controls

Consideration of existing video surveillance and its location respective to the safe/security containers should be periodically reviewed. Additional factors for consideration; recording resolution, data retention schedules and signage indicating video capture should also be reviewed by management.

Electronic controls such as software permissions and electronic locking cabinets assist in limiting access to authorized users. Staff changes due to separation or changes in responsibilities require that management periodically review their authorized users list. Adjustments should be done at a minimum annually or more frequently depending in the severity of the risk they were designed to control.

V. Conclusions

Internal control reviews are an opportunity for our office and the individual departments to review controls put in place to reduce risk around revenue or valuable items. This year's opportunity for improvement trends included; updating controls after operational or staff changes, a need for increase segregation of duties, updates to written procedures, review of authorized signers/users, and maintaining best practices in data entry/recording of receipting.

We look forward to working with the departments in the 2020 internal control reviews.

VI. Appendix A: Objectives, Scope, and Methodology

Objective: Audit Services works with petty cash funds, change funds, checking accounts, receipting functions and cash equivalents (“assets”). That work includes testing a range of internal controls including balancing cash or checking accounts; reviewing supporting records; and performing a limited review of those controls associated with the processing and depositing of payments received.

Scope: More specifically, internal control reviews focus 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 approved and records are maintained which adequately support the administration and activity of the fund.

Methodology: Reviews Based on Risk Analysis

Audit Services conducts an annual risk analysis of these and the remaining cash funds, about 65 total. Our work 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;
- Fund status (e.g. new, established, or 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.

Audit Services’ reviews consist 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 time of our review. In some cases we draw a judgmental sample of transactions for review to determine if procedures are being followed. More extensive reviews may be performed in cases of loss or suspected loss. We provide a summary of our results in memorandum form to the department manager.

County Funds

In 2019, Clark County and its affiliated agencies had a total of 65 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.

VIII. Appendix C: Key References

Involvement of the governing body in establishing, changing or closing revolving funds is a requirement of the Washington State Auditor's Office (SAO) for imprest, petty cash, and other revolving funds under Budgeting, Accounting and Reporting System (BARS) manual chapters 3.8.8.15 and 3.8.8.20. The SAO promulgates the BARS manual and requirements for local governments under RCW 43.09.200.

BARS 3.6 Cash Receipting extracts:

1. Every public officer and employee, whose duty it is to collect and receive payments should deposit receipts with the treasurer of the local government **at least once every 24 hours**. The treasurer of the local government may grant an exception where such daily transfers would not be administratively practical or feasible (RCW 43.09.240).
2. **Deposits must be made intact**, meaning all payments received must be deposited without substitution. This is evidenced by the composition of checks and cash listed on the deposit slip matched to related receipt records.
3. **Checks must be restrictively endorsed** "For Deposit Only" immediately upon receipt.

BARS 3.6.1.40 Internal Control:

See the BARS manual 3.1.3, Internal Control for general guidance on internal controls. The following are minimum expected controls for cash receipting:

1. More than one employee should open the daily mail and prepare a list of cash and checks received (remittance list). If dual custody is not feasible, the government should consider compensating controls such as having mail opened in an area observable by other employees or stronger monitoring controls over revenues.
2. Deposits may be prepared by the person who received the payment. The government should implement a system of supervisory review of the remittance list and bank deposits to ensure deposits are made intact.
3. Checks received in the mail should be briefly reviewed for accuracy (e.g., proper payee, date, signature of payor, etc.). Checks with obvious inaccuracies should not be included in the deposit. In such a case, the entity should contact the payor and request that the payment be corrected or reissued.
4. The daily remittance list should be compared (reconciled) to daily deposit slips and to the cash receipts journal (or check register) on a regular basis. This should be performed by someone other than the employee who prepared the remittance list. Any shortage should be resolved.
5. A duplicate copy of the bank-validated deposit slip showing the composition of receipts should be retained by someone other than the employee making up the deposit.

6. The bank statement reconciliation should be performed by a person who does not have custody of or access to cash during any point in the receipting and depositing process. This reconciliation should include comparing deposits per bank to recorded receipting transactions in the general ledger.

7. Deposits should be physically safeguarded using bank bags with locks or other tamper-proof devices.

8. Receipts should be physically safeguarded during the operating day and secured in a safe or vault overnight. Access to the cashiering area should be appropriately restricted whenever possible.

9. Access to the safe or vault should be limited and combination should be changed periodically.

In addition, the safe and vault combination should be changed after employees terminate employment.

10. If the government utilizes cash registers, there should be one change fund and one cash register (or drawer) per cashier. This enables assignment of responsibility for cash to a specific individual at all times.

11. Policies should contain instructions for identifying cash receipts and for dating cash receipts journal entries for that day's receipts.

BARS 3.8.8.15 extract: "This (BARS) guidance applies to imprest, petty cash, and other revolving funds"

Other key BARS 3.8.8.20 extracts:

1. The governing body must authorize each revolving fund in the manner that local legislation is officially enacted, i.e., resolution or ordinance. This applies also to all subsequent increases or decreases in the imprest amount.

4. On at least monthly basis, the fund should be reconciled to the authorized balance and to the actual balance per bank statements or a count of cash on hand.

6. Whenever disbursements are made, the fund must be replenished at least monthly by warrant or check. The replenishment should be subject to the same review and approval as processed invoices.

10. Whenever a revolving fund is abolished or an individual's appointment as custodian is terminated, the fund must be replenished to the authorized amount, reviewed and certified as being turned over to the treasurer or new custodian.

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