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CLARK COUNTY
WASHINGTON

AUDITOR
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Summary of Auditor's Unscheduled Internal Control Reviews 2018



Clark County Auditor's Office
Report #18-03

November 8, 2018



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I. Report Summary

Periodic Audit Service reviews of internal controls specifically provide three assurances:

- 1) That funds are being handled appropriately,
- 2) That cash equivalent items are properly safeguarded,
- 3) That control documentation is being maintained according to County policy.

Internal Control Reviews (“ICRs”) are a non-audit tool used by Clark County Audit Services to provide assurance to our elected leaders, managers and citizens that funds are being handled appropriately by our organizations. An ICR visit generally includes four elements:

- 1) An unannounced visit, usually by two auditors to your workplace during work hours
- 2) A joint counting of cash on hand in the targeted account with a representative of management
- 3) Observation of receipting and cash handling practices
- 4) Verification of internal controls being used to protect the cash and cash equivalents.

In addition to cash, ICRs may include “cash equivalent” accounts includes general use Visa “cash cards”; general credit or cash value vouchers; specific store or use cards; and incentive items acquired for official use with employees or clients. All purchase and use of cash equivalent cards should be reported to Audit Services.

The Audit Services team determines which accounts to test based on an annual risk analysis. The focus of the risk analysis is to help safeguard County assets, to detect errors, and to prevent misuse of assets. The work plan is designed to ensure that “at risk” funds are reviewed at least once every three years, with higher risk funds reviewed more often.

An internal control review lasts one to three hours and follows a consistent checklist. Observations and recommendations are assembled in a written report and a draft shared with the organization within two to three days of the visit. A final report is usually published within five days. Audit Services historically conducts between 20 and 25 internal control reviews annually, plus audits and other consulting work. In 2018 Audit Services reviewed twenty-three of the nearly one hundred eligible revolving or cash equivalent accounts currently in use.

In 2018 Audit Services recorded a reduction in recommendations compared to 2017. Of the twenty-three reviews conducted in 2018, twelve required no corrective action. The other eleven reviews in 2018 generated a combination of 28 recommendations, about half as many as the previous year.

Improvements in most areas were evident, but documentation and cash balances need greater emphasis. The two most common problems areas in 2018 were insufficient or out of date written procedures and variances in cash drawer balances. Cash variances, which are usually measured in cents, were more prevalent and significant this year. Variances ranging from a loss of \$54.00 in one register to a \$31.89 excess in another register in the same visit at **General Service’s** Tri-Mountain Golf Course. They had a similar, less severe issue during their last visit in 2015. Excluding the Golf Course, the greatest cash variance was an \$11.00 shortage in the **Treasurer’s** Change Fund. All other variances noted were under a dollar.

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Note

Please note that reported volume and cash value of transactions in this report are a new change and are provided as background and general context; as such, they are figures provided by the organizations.

For 2018, departments provided an estimate of the total volume and dollar value that passed through their cash handling operations. This initial data indicated as a group they handled in excess of \$245,749,617 and over 455,718 separate transactions. Some variance exists; for example, the Treasurer’s Office stated that their report includes all transactions handled by the joint lobby, consisting of the Treasurer, Assessor and Auditor cash handling operations. As a result, their data may include some transactions outside our review. The volume and value precision will be refined in each subsequent report.

This report can be downloaded from the Clark County Auditor’s Office external web page, under Internal Audit Services/Audit Reports, at www.clark.wa.gov/auditor/audit/aud_otherreports.html.

III. Introduction

The design, implementation, and monitoring of internal controls are the responsibility of management within each department of the County; however, [Clark County Ordinance 2.14.070](#) tasks internal audit to assist management in the discharge of their duties, including financial controls. To fulfill their duties, the internal auditors “perform analytical reviews of internal controls and accounting records”. Internal audit helps fulfill these objectives by working with management to provide 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).

IV. Internal Control Reviews (ICR)

We conduct internal control reviews based on an annual risk analysis that considers the assets under control, experience of the staff, management oversight and the ICR performance history of the organization. High risk organizations can expect to be visited as often as annually; low risk funds are inspected about once every three years.

Periodic reviews provide management with these assurances:

- That funds are being handled appropriately,
- That cash and cash equivalent items are properly safeguarded,
- That control documentation is being maintained according to County policy

As practical benefits for managers, the Washington State Auditor’s Office will consider the effects of recent internal control review work in determining their work plan.

What to Expect during an ICR

Reviews are conducted by a two person team on site at any time of day. They are unannounced, and take one to three hours to complete depending on complexity of the fund and work environment. 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](#)); see chapter X for excerpts. BARS also contain some key procedural, or process requirements in addition to the controls.

V. Annual Report of Reviews

Annually, Audit Services compiles a summary report of all internal control reviews conducted during the previous year. This report identifies specific organizations that were reviewed as well as general trends observed.

Annual summaries and individual internal control reports for the most recent four years are available from the Audit Services Office upon request, or they can be viewed by personnel with appropriate access on the County Auditor’s internal intranet site. Management

responses, follow-up actions and other relevant data related to the reviews are appended to the basic report stored on the Audit Services intranet site.

Scope of Reviews

Prior to 2018, we focused on the value of cash on hand with the cash handling functions, which normally represented between \$38,000 and \$40,000 total value. This, however, doesn't represent the true volume of cash handled nor the risk it represents. We have begun asking departments to quantify two different indicators: the total number of transactions processed and the total dollar value that has passed through the operation in the previous 12 months. We believe these indicators better represent the work being done and the risk.

This year we asked departments to estimate both the volume and dollar value that passed through their cash handling operations. In 2017 the initial data reported by departments indicated as a group they handled in excess of \$245,749,617 with over 455,718 transactions. Please note that reported volume and cash value of transactions are unaudited as provided by the organizations; we anticipate refining them in the future to help management and the public better understand both the volume and value of transactions handled – as well as the expanded internal controls needed to keep them safe.

Setting Tone at the Top

We recommend management maintain an active role in providing oversight of public funds. In some departments, management performs regular reviews of their funds and receipting functions and sends copies of their oversight work to Audit Services. When provided, we review this work and consider it in our risk analysis. For a third year, we found the **Prosecuting Attorney's Office** was exceptional in their diligence with management oversight, setting an effective tone at the top. Their management team regularly conducted unannounced cash counts, reconciled deposits, verified check logs and forwarded copies of their reviews to Audit Services regularly. These reviews improved the effectiveness of management's internal control environment. When departments perform regular reviews of their cash funds independently from work performed by Audit Services the risk of loss or misuse is greatly reduced; we encourage managers to follow this practice.

Top Performers

In 2018 twelve funds completed reviews with no recommended improvements, an improvement over the four in 2017. Four of the well managed funds came from the **Sheriff's Office**; Two managed by the *Tactical Detectives Unit* and two managed by the *Drug Task Force* had no deficiencies noted. The other funds with no deficiencies included:

Community Development *Permit Center Change Fund*
Community Services *Access to Recovery Program*
District Court *TSC Bus Passes*
General Services *Cash Change Machines(no longer in use)*
Information Technology's *GIS Mapping Change Fund*
Public Works' *Parks Facility Rental Change Fund*
Prosecuting Attorney's Office *Petty Cash Checking Account*

Losses

Minor positive and negative variances of under \$1 were noted in a few funds, and two had large variances in their cash balances; **General Service's 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 short (\$54 and \$2 respectively) and the third cash drawer was over by \$31.89. The only other operation with an excessively high variance in 2018 was the \$11.00 shortage identified in the **Treasurer's Change Fund**.

Security Containers & Safes

Audit Services examined physical security of safes or locking drawers for most funds. While we recommend cash normally be kept separate from other valuables, it may occasionally be necessary to temporarily store high risk or valuable items with cash. If needed, temporary storage should be a well-documented, short-term measure.

We recommend the contents of safes, cash storage containers and drawers meant to store cash should be documented in a running log that includes who put the item in and when; what it is; and who removed it and when. Management should verify the contents of these containers visually at least once per year.

VI. 2018 Findings by Risk Categories

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.

a. Low Risk: 6 findings or 21% of the total recommendations

The most common low risk issue was keeping accurate custodial records, although it improved greatly over 2017. The primary negative effect of outdated records is that it hampers locating appropriate responsible parties (custodians) for the fund when questions arise. When custodians change, a complete replenishment to full value before transfer is required. The Treasurer's Office sends out a notice at the end of each calendar year to update custodial records, but changes occur throughout the year. Custodial records were corrected as changes were identified.

b. Medium Risk: 15 findings or 54% of the total recommendations

Most issues that require correction tend to fall in the "medium risk" category. 2018 was exceptional in that the most common medium risk issue was with balancing the cash drawer. We identified five cases where the cash drawer balance was incorrect, a higher quantity of errors than normal. In most cases the variance was less than a dollar, but in four cases the difference was higher: The **Treasurer's Office Change Fund** balance was short \$11.00 when inventoried. **General Services' Tri Mountain Golf Course Change Fund** had three cash drawers in operation, and all three were out of balance. One cash drawer was short \$54, a second drawer short \$2.00, and the third register had an overage of \$31.89. In each case, management stated additional training was conducted to address the inaccuracies.

We also identified six instances of out of date or missing policies and procedures. While a concern, it is an improvement over last year. Old or missing documentation of

policies and procedures is the most prevalent of all problems identified. The primary negative effect of inadequate written policies is that internal controls are not clearly reinforced for employees to follow, increasing risk of loss. Improved management oversight is needed to improve this area.

c. High Risk: 7 findings or 25% of the total recommendations

Staff identified seven high risk issues covering six categories. In 2017 we found prevalent problems with storage security of funds or valuables; in 2018 we only identified a single instance of possibly compromised storage in the **District Court Change Fund** that was quickly corrected. As in 2017 we noted multiple organizations making corrections to official records with “white out” instead of a single ink line through, an error that most often occurs with new employees or those unfamiliar with financial record keeping. Management reviews are still infrequent and less effective than desired in addressing these areas. Management in each organization indicated staff had received additional records keeping training to address the corrections.

VII. Conclusions

We continue to see an increase in personnel with little or no cash handling experience assuming responsibility for change funds. Management participation in periodic reviews has remained minimal. The combination of new staff in cash handling positions and low participation in reviews by management shows weakness in some internal controls.

Management needs to reinforce their role in conducting and documenting periodic checks of the operations.

VIII. Exhibit 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 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 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 100 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 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. 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. We provide a summary of our results in memorandum form to the department manager.

County Funds

In 2018, Clark County and its affiliated agencies had a total of nearly 100 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 64 cash accounts and 36 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.

IX. Exhibit B: Summary Report



ICR #	Owner - Fund Name	Annual Pass-Thru Value	Est. Annual Transactions
596	Treasurer - Vault and Change Funds	\$ 201,241,162	64,401
597	PW - Roads - 78th Street Roads Petty Cash	\$ 596	na
598	PW - Parks Facility Rental Change Fund	\$ 140,278	na
599	HR CTR - Bus Passes	\$ 16,000	na
600	Sheriff - Evidence Storage (cash, SAI)	\$ 65,684	na
601	Sheriff - Tac Detect Unit Imprest Fund	\$ 4,000	na
602	Sheriff - Tac Det Unit Petty Cash	\$ 500	na
603	DC - TSC Bus Pass/Tickets	\$ 4,354	na
604	Auditor - Elections	\$ 5,677	na
605	Sheriff - Permits Cash Receipting	\$ 390,000	1,270
606	IT - GIS - Mapping	\$ 552,299	986
607	DCS - Access To Recovery	\$ 419,481	1,263
608	GS - Courthouse Change Machine	\$ 2,497	9,888
609	GS - PSC Change Machine	\$ 2,497	9,888
610	DC - Change Fund	\$ 3,623,000	na
611	PA - Child Support Checking Account	\$ 2,500	30
612	PA - Petty Cash Checking Account	\$ 2,500	50
613	DCD - Permit Center Change Fund	\$ 35,988,570	21,287
614	DTF - Seizures	\$ -	na
615	DTF - Drug Task Force - Petty Cash	\$ 1,000	na
616	DTF - Drug Task Force - Drug Buy Fund	\$ 15,000	na
617	GS - Fair Revolving Fund (tickets, awards)	\$ 1,400,000	275,000
618	GS - Tri-Mountain Golf Course	\$ 1,872,022	71,655
Est. total		\$ 245,749,617	455,718

Number of Recommendations Made	Low Risk >>					Medium Risk >>					High Risk >>							
	Custodial Records: Treasurer not Current	Excess Funds: Need to Reduce Balance	Excess Funds: Need to Escheat Funds to State	Receipts: Cancel or Mark to Prevent Reuse	Other low risk issues (multiple reasons)	Account Balance: Over/Short	Deposits: Not Timely	Mailed Funds: Dual Opening Recommended	Develop or Adjust Written Procedures	Reconcile & Replenish funds consistent w/BAPS	Training: More staff training recommended	Other medium risk issues	Checks: Not Endorsed When Received	Correcting logs & records: only line through	Key Duties: Not Separated	Management Review: Ineffective or Missing	Improve Security: Funds, Records, Valuables	Other high risk issues
1						1												
1																		
0																		
3									2						1			
4							2	1		1								
0																		
0																		
0																		
3	1							2										
2	1	1																
0																		
0																		
0																		
3														1	1	1		
1										1								
0																		
0																		
1																	1	
6																	1	
3																		1
28	2	1	0	0	3	5	2	0	6	1	1	0	2	1	2	1	1	7
					6						15							
	2018 low risk: 21%					2018 medium risk: 54%					2018 high risk: 25%							
48	2017 low risk: 27%					2017 medium risk: 38%					2017 high risk: 35%							

X. 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 BARS (Budgeting, Accounting and Reporting System) 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 3.8.8.15 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.