



# JACKSON COUNTY

Oregon

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## Internal Audit Report FY 2009-10

### Petty Cash and Change Fund Reviews for:

Clerk Elections Program,  
Law Library,  
Health and Human Services Animal Shelter and Control Program,  
Health and Human Services Public Health Program,  
Community Justice Adult Supervision Program, and  
Community Justice Juvenile Services Program

Review of Parks Camping and Day Use Fee Revenue, and

Review of Compliance with the County's Investment Policy

October 29, 2010

Presented To The  
Jackson County Board of Commissioners  
By The  
Internal Audit Program

### Audit Team

Debbie Taylor, County Auditor  
Tanya Baize, Senior Auditor



**JACKSON  
COUNTY**  
Oregon

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**To:** Board of Commissioners  
**From:** Debbie Taylor, County Auditor *Debbie Taylor*  
**Subject:** Petty Cash and Change Fund Reviews, Review of Parks Camping and Day Use Fee Revenue, and Review of Compliance with the County's Investment Policy  
**Date:** October 29, 2010

The attached audit report provides information concerning petty cash and change fund reviews for certain departments, a review of Parks camping and day use fee revenue, and a review of compliance with the County's Investment Policy. The audit was included in the fiscal year 2010-11 Internal Audit Plan as part of the work performed annually in support of the County's external audit and ongoing internal control and risk assessment work.

The department directors or managers responsible for the various activities discussed have reviewed the audit findings and agreed with the recommendations. The results were also shared with the County's Audit Committee.

The Internal Audit Program appreciates the cooperation and assistance it received from County staff throughout the audit process.

c: Audit Committee  
Jack Walker, Commissioner  
Danny Jordan, County Administrator  
Shannon Bell, Finance Director/Treasurer  
John Vial, Roads & Parks Director  
Malisa Dodd, Health & Human Services Deputy Director  
Eric Guyer, Community Justice Transition Center Manager

External Auditors  
Kenneth Kuhns & Co.

Shane Hagey, Community Justice Director  
Mark Orndoff, Health and Human Services Director  
Chris Walker, County Clerk  
Judy Baalman, Library Manager  
Steve Lambert, Parks Program Manager



**JACKSON COUNTY**  
**Petty Cash and Change Fund Reviews,**  
**Review of Parks Camping and Day Use Fee Revenue, and**  
**Review of Compliance with the County's Investment Policy**  
**Fiscal Year 2009-10**

**Audit Authority**

We conducted our audit in accordance with Codified Ordinance 218 pertaining to the County Auditor. The audit was included in the fiscal year 2010-11 Internal Audit Plan as part of the work performed annually in support of the County's external audit and ongoing internal control and risk assessment work.

**Audit Background**

As of June 30, 2010 the County had 62 petty cash and change funds at various locations throughout the County totaling \$40,017.32. Departments must report balances for these funds to Accounting as of the end of the day each June 30<sup>th</sup>.

Jackson County has an investment policy outlining investment objectives, which is approved annually by the Board of Commissioners. As of June 30, 2010 the County had \$163,212,000 invested in Demand Equity, Depository Accounts, CDs, Corporate Paper, Federal Agency Coupon Securities (GSEs) and the Local Government Investment Pool (LGIP).

**Audit Objectives**

The objectives of the audit were to determine if:

1. Internal controls over petty cash and change funds follow best practices, and balances agree to amounts recorded in the financial system;
2. Internal controls over Parks camping and day-use revenue follow best practices;
3. Treasurer's Office practices comply with select aspects of the County's Investment Policy including:
  - a. Allowable investments;
  - b. Qualified depositories;
  - c. Diversification;
  - d. Weighted average maturity;
  - e. Internal controls;
  - f. Reporting;
  - g. Competitive Selection of investment instruments; and
  - h. Treasury system reconciliation.

## **Audit Scope & Methodology**

Cash & Investment testing procedures included:

1. Performing surprise cash counts of selected petty cash and change funds including:
  - a. Clerk Elections Program – April 9, 2010
  - b. Law Library – March 2, 2010
  - c. Health and Human Services Animal Shelter and Control Program – January 12, 2010
  - d. Health and Human Services Public Health Program – January 12, 2010
  - e. Community Justice Adult Supervision Program - January 5, 2010
  - f. Community Justice Juvenile Services Program – January 5, 2010 and February 2, 2010
2. Observing the Parks camping and day-use fee revenue cash count at the Parks Office on August 23, 2010. Change funds at the individual parks were not reviewed, only the Park fees collected and delivered to the Parks Office for deposit.
3. Reviewing the County's Investment Policy and testing the Treasurer's Office compliance with select aspects of the policy. The policy is adopted annually by the Board of Commissioners, and was last adopted July 28, 2010.

## **Audit Criteria**

Criteria represent the laws, regulations, contracts, grant agreements, standards, measures, expected performance, defined business practices and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation.

Criteria consisted of best practices for petty cash and change funds, County's Investment Policy, and ORS 294 pertaining to County and Municipal Financial Administration.

## **Internal Controls**

We gained an understanding of controls over petty cash and change funds through discussions with fund custodians. We gained an understanding of the Treasurer's Office internal controls from the Treasurer's Office Administrative Guidelines and communications with the Finance Director. We gained an understanding of controls over Parks camping and day-use fees through discussions with the Parks Program Manager and Administrative Assistant.

## **Compliance with Government Auditing Standards**

We conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **Privileged and Confidential Information**

The location and amount of petty cash and change funds was withheld from the report for security reasons. In addition the section of the report pertaining to the internal controls over Parks camping and day-use revenue

was withheld due to the sensitive nature of the information. The information was shared with Parks management.

## **Audit Findings**

### **Petty Cash and Change Funds**

Best practices for change funds include:

- The fund is properly safeguarded;
- The amount of the fund is appropriate for operational needs;
- Payments are controlled by an electronic receipting system or pre-numbered receipts;
- Deposits are prepared by an independent person;
- Checks are restrictively endorsed upon receipt;
- Voids are adequately documented;
- The fund is properly reflected in the financial system;
- Cash less receipts equal the authorized balance; and
- Cashing of personal checks is prohibited.

Best practices for petty cash funds include:

- The fund is properly safeguarded;
- The amount of the fund is appropriate for operational needs;
- Disbursements are for authorized, legitimate purposes;
- The fund is periodically reconciled by independent staff;
- A petty cash ledger is maintained reflecting all activity;
- All purchases are supported by signed receipts or equivalent;
- The fund is properly reflected in the financial system; and
- Cash plus receipts equal the authorized fund balance.

### **Clerk Elections Program Change Fund**

*The Elections change fund complied with best practices except that the checks are not restrictively endorsed upon receipt. However, checks are endorsed by the Helion system when processed by the Recording Office staff.*

Best practices recommend restrictively endorsing checks upon receipt to reduce the likelihood that they could be misappropriated for personal use. The change fund and revenue is kept in a locked drawer; however, we noted that the Elections checks are not immediately endorsed. This is because the receipts are forwarded to the Clerk's Recording Office where the Recording Supervisor reviews the receipts and enters them into the Helion system, which endorses the checks. The deposit is prepared by Recording staff, and a copy is forwarded to the Elections Manager. Without compensating controls, not endorsing the checks immediately increases the risk that the checks could be misappropriated.

### **Recommendation:**

To improve compliance with best practices and enhance internal controls, the Recording Supervisor should account for all receipt numbers and be watchful for excessive voided receipts, as the receipt would have to be voided in order for the check to be misappropriated.

## Law Library Change Fund

*The Law Library change fund complied with best practices except that:*

- *Pre-numbered receipts are not always used, because the funds are generally small amounts collected for photocopy sales.*
- *The change fund is not always reconciled by an independent staff member; however, the deposit is prepared by the Library Administration Program Manager, who is independent of the fund's transactions.*
- *On the day of the cash count, the cash less receipts exceeded the authorized fund balance by \$2.58.*
- *An envelope containing change was observed under the cash drawer. The Librarian indicated that this was her personal change which she kept there for use in the event she ran out of change.*

Best practices recommend that pre-numbered receipts be used so that all sales can be accounted for. We found that pre-numbered receipts are available at the Law Library, but are not always filled out unless the customer requests one. Not using pre-numbered receipts increases the risk that sales could be misappropriated; however, there is no County policy requiring the use of pre-numbered receipts. Law Library photocopies are \$0.15 each and total Law Library photocopy sales for 2009-10 were \$2,037.73. The Law Library photo copy machine has a meter that tracks the number of copies made, but at the time of our review, the meter count was not being recorded.

Ideally someone who is not responsible for accepting the Law Library fees should be responsible for balancing the change fund. The Law Library is staffed with one full time Senior Library Assistant. There are also several staff hired through a temporary agency that work on a very limited basis. Due to staff limitations the change fund is balanced by the Senior Librarian Assistant who also accepts fees. This increases the risk that funds could be misappropriated. The Library has implemented additional controls to compensate for this by having the deposit prepared by the Library Administration Program Manager who is independent of the fund's transactions, and monitors activity.

The total cash and checks in the cash box less receipts should equal the authorized fund balance. On the day of the cash count, we found that cash less receipts exceeded the authorized fund balance by \$2.58. The librarian said that someone had probably forgotten to record a photocopy sale on the Daily Fee Report. When the report was turned in at the end of the week, entries for \$2.55 and \$0.03 had been added, resulting in a balanced fund for the day. Photocopies are \$0.15 each, so it is not known what the \$0.03 entry represented.

Best practices also recommend that change funds be kept separate from other funds to prevent comingling of different funds. On the day of the cash count we found an envelope containing change under the cash drawer. The librarian indicated that this was her personal change which she kept there for use in the event she ran out of change. Comingling personal and Library funds increases the risk that misappropriation could occur and not be detected.

### **Recommendations:**

To improve compliance with best practices and enhance internal controls, Library management should:

- Remind the librarians to record each photocopy sale on the Daily Fee Report at the time of sale. If the fund is short or over at the end of the day, the amount should be recorded as short/over.
- Have the librarian record the beginning and ending photocopier count for each day on the Daily Fees Report. The librarian would also need to record the number of copies made for Library purposes. Management should then compare the change in the daily photocopier count to the daily photocopier sales revenue for reasonableness.
- Review the change fund amount for sufficiency. Personal change should not be commingled with the Law Library change fund. If the fund is not adequate it should be increased.

### **Health and Human Services Animal Shelter and Control Change Fund**

*The Animal Control change fund complied with best practices except that due to staff limitations the deposit is not always prepared by an independent person. The Animal Control Manager has implemented periodic management review of the deposit to compensate for the lack of independence.*

Ideally someone who is not responsible for accepting Animal Control fees should be responsible for preparing the deposit. Due to staff limitations, the deposit is sometimes prepared by staff who have processed fees, which increases the risk that funds could be misappropriated. To minimize this risk, the Animal Control Manager periodically reviews the deposit on an unannounced basis.

#### **Recommendation:**

To maintain compensating controls for the lack of independence in preparing the Animal Control deposit, the Manager should continue to perform periodic surprise reviews.

### **Health & Human Services Public Health Change Fund**

*The Health and Human Services Public Health change fund complied with best practices except that the fund balance exceeded the authorized amount by \$2.11.*

The total cash and checks in the cash box less receipts should equal the authorized fund balance. On the day of the cash count we found that the Public Health change fund exceed the authorized amount by \$2.11. This overage was also reflected in the Accounting Clerk II's records. The change fund is divided up so that each staff member has two funds, the change fund they are using, and a back-up change fund. The change fund also includes a custodian fund that the Accounting Clerk II uses to make sure each individual change fund has appropriate denominations of cash and change. On the day of the cash count all change funds and back-up change funds balanced. The \$2.11 overage was in the custodian's fund, but we could not determine the source of the overage. Public Health has cash policy I-10 which requires all discrepancies to be reported to the Health and Human Services Business Office. The overage was reported to the Business Office, but the Public Health Policy does not specify how over/short amounts are to be handled, nor is there any other County policy explaining how these situations should be handled.

#### **Recommendation:**

To improve controls over change funds, the Finance Director should write a change fund policy for all county change funds, and include information on how short/over amounts should be handled.

## Health & Human Services Public Health Petty Cash Fund

*The Health and Human Services petty cash fund complied with best practices except that:*

- *A few office supply purchases were made from petty cash that should have been purchased from the County's office supply contract with Office Max.*
- *The petty cash ledger reflects all activity, but could be improved by having a column for the purchased items' description.*
- *The fund exceeded the authorized amount by \$0.10.*

The County's Purchasing Card Policy prohibits the purchase of items already under contract with the County. The County currently contracts with Office Max for office supplies. While reviewing the Public Health petty cash fund, we noted that several office supply purchases were made from other vendors. One receipt commented that the Office Max order had been delayed, and the purchase was urgently needed, which appears to be an acceptable emergency purchase. Two other receipts for a filing box and masking tape did not indicate why the items were not purchased from Office Max. Staff may not be aware of the County's office supply contract with Office Max, and may not be getting the best price for office supplies when they are purchased elsewhere.

The petty cash ledger is used to track activity in the fund and aid in balancing the account. The Public Health petty cash custodian does maintain a ledger reflecting all activity, but the ledger does not record a description of the item purchased. There is no current policy requiring the ledger to reflect the item's description, but a description column would aid in verifying that all petty cash purchases were appropriate.

Petty cash funds plus receipts should equal the authorized fund balance. On the day of the cash count we found that the petty cash fund was over by \$0.10. It is not known where the overage came from.

### **Recommendations:**

To improve compliance with best practices and enhance internal controls, it is recommended that Health and Human Services management:

- Remind all Health & Human Services staff that office supplies need to be purchased from Office Max unless it is an emergency purchase.
- Have the petty cash custodian add a column to the petty cash ledger for the purchased item's description.

## Community Justice Adult Supervision Program Change Fund

*The Community Justice Adult Supervision change fund complied with best practices except that the cash drawers all use the same key.*

Access to each change fund should be restricted to one staff member, so that shortages or overages can be more easily traced to a specific individual. On the day of the cash count we found four drawers in use at Community Justice. The drawers can be locked, but all use the same key. This increases the possibility that a cashier could misappropriate funds from a co-workers drawer.



**Recommendation:**

To enhance security over the change funds, it is recommended that Community Justice management change the locks on each cash drawer so that access is limited to one employee.

**Community Justice Juvenile Services Change Fund**

*The Community Justice Juvenile Services change fund complied with best practices except that the fund is not reflected in the financial system.*

Each petty cash and change fund should be correctly reflected in the financial system, so that the amount and location of each fund is documented. We found that the Community Justice Juvenile Services office has a change fund that is not reflected in the financial system. It is not known when, or how the fund was created. Accounting has been notified of the fund, and the financial system has been updated accordingly.

**Recommendations:** To improve controls over change funds, Community Justice management should remind all staff that any need for a new change fund should be communicated to the Community Justice Business Office, and that the Business Office will contact the Finance Department if it is deemed there is a legitimate need for a new fund.

**Community Justice Adult Supervision and Juvenile Services Petty Cash Funds**

*The Community Justice Adult Supervision and Juvenile Services petty cash funds complied with best practices except that signed receipts are not always obtained.*

Best practices recommend obtaining signed petty cash receipts for each purchase. This allows each purchase to be traced back to the purchaser. Neither the Adult Supervision nor Juvenile Services petty cash custodians consistently obtain signed receipts. There currently is no petty cash policy requiring signed receipts to be obtained, but signed receipts would increase accountability for petty cash purchases.

**Recommendation:**

To improve accountability over petty cash Community Justice management should require signed receipts for every purchase.

**Parks Revenue Collection Process**

This section of the report was withheld from public disclosure due to the sensitive nature of the information; however, the findings were shared with Parks management.

**Investments**

*The Treasurer’s Office practices comply with the County’s Investment Policy except that investment pool reports were only prepared for 7 out of 12 months for 2009-10 instead of monthly as specified in the Investment Policy.*

The Investment Policy is adopted annually by the Board of Commissioners, and states that the Finance Director will provide monthly investment pool reports to the Board of Commissioners, County Administrator, Internal Auditor and others expressing an interest in receiving them. Seven of the twelve investment reports were

prepared for 2009-10. The Finance Director tries to prepare the reports monthly, but has not always had time, and consequently County officials have not always had timely information on the composition and status of investments<sup>1</sup>. In addition the policy states that a 13 month time line graph should be displayed in the reports showing the county's pool rate and benchmark. The first six reports prepared in 2009-10 showed a 13 month timeline, but by mistake, the June 30, 2010 report only showed a 12 month timeline.

The Investment Policy states that the Finance Director shall maintain a system of internal controls, documented in writing, designed to help prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees and officers of the county. The Treasurer's Office has Administrative Guidelines dated April 2006 that discusses internal controls, but they were written by the former Finance Director who retired in August 2008, and may be out of date. The current Finance Director plans to update the guidelines.

We also reviewed compliance with the Investment Policy's diversification requirements. One of the diversification requirements is that corporate indebtedness not exceed 5% by issuer. While reviewing the Summary by Issuer reports it initially appeared that investments in Wells Fargo corporate paper were frequently at 6% of the investment portfolio. Further investigation revealed that the 6 % actually represented three different issuers: Wells Fargo Corporation, Wells Fargo Bank, and Southtrust Bank.

The Investment Policy states that the County will maintain a weighted average maturity of not greater than 1.5 years (547 days). We calculated the June 30, 2010 weighted average maturity at 536 days as shown below.

**Weighted Average Maturity on June 30, 2010**

Days to Maturity	Value	% of Total Value	Weighted Average Maturity
0	8,967,760.43	0.05	-
91	13,003,873.44	0.08	7.18
182	24,999,333.96	0.15	27.60
273	7,028,624.38	0.04	11.64
364	12,000,000.00	0.07	26.49
455	26,526,331.51	0.16	73.21
546	2,513,710.53	0.02	8.32
637	4,990,416.41	0.03	19.28
728	18,013,178.24	0.11	79.54
819	4,159,264.26	0.03	20.66
910	5,000,000.00	0.03	27.60
1001	27,169,526.20	0.16	164.96
1095	10,500,000.00	0.06	69.74
Total	164,872,019.36	1.00	536.20

The Investment Policy also states that prior to purchasing an investment, the Finance Director shall request and document quotes from qualified brokers and/or financial institutions. If a maturity range is specified, either for cash flow purposes or for conformance to maturity guidelines, bids will be requested for instruments that meet this required term. The Finance Director stated that the economic climate has changed considerably. She looks at offerings daily and therefore has a good indication of current rates. When she finds a good investment, she

<sup>1</sup> The Finance Director reports that no one requested an investment report for the months that one was not prepared.

must move quickly before it is sold out. We requested competitive bidding documentation for three investments and the Finance Director provided inventory sheets or information on bids received via telephone.

In addition we also confirmed that:

- All June 30, 2010 investments were allowed by the policy;
- All investments were with qualified depositories; and
- The Treasury System was reconciled monthly to the E-1 financial system.

**Recommendations:**

To improve compliance with the County's Investment Policy the Finance Director should:

- Prepare investment reports on a monthly basis and show a 13 month graph of the county's interest rates; or, consider updating the Investment Policy to require quarterly investment reports after discussion with County Counsel, County Administrator, and Board of Commissioners.
- Update the Treasurer's Office Administrative Guidelines to reflect current internal controls.
- Update the Investment Policy competitive selection requirements to reflect the current economic environment.

**Management Response**

The department directors or managers responsible for the various activities discussed have reviewed the audit findings and agreed with the recommendations.