



JACKSON COUNTY

Oregon

Internal Audit Report

Jackson County Receipting of Fee Revenue

Generally, controls over fee revenue provide assurance that cash receipts will be protected. However, we identified a few areas where controls should be strengthened.

July 3, 2014

Presented to the
Jackson County Board of Commissioners
by the
Internal Audit Program

Audit Team

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**JACKSON
COUNTY**
Oregon

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To: Board of Commissioners
From: Eric Spivak, County Auditor *ES*
Subject: Cash Handling
Date: July 3, 2014

The attached report presents the results of an audit of cash handling controls at Jackson County. This audit was included in the fiscal year 2013-2014 Annual Internal Audit Plan with the objective of determining if cash handling controls across the County adequately guard against loss and result in accurate revenue reporting.

The audit found that most programs have implemented cash handling controls that appropriately reduce the risk that fraud will occur or that cash revenue will be inaccurately recorded. In a few instances, improvements are needed to reduce the risk to an acceptable level.

Given the sensitivity of the topic, the report does not name departments. Instead, specific details regarding control weaknesses were communicated to the relevant department directors or program managers verbally and/or via memo. All department directors or program managers are in agreement with the findings and have either already implemented the recommendations, or are in the process of implementing them. The findings and recommendations were also shared with the County's Audit Committee.

The Internal Audit Program appreciates the cooperation and assistance received from the various departments throughout the course of the audit.

C: Audit Committee
Moss Adams, Certified Public Accountants

Jackson County Fee Receipting

<i>Audit Authority</i>	We conducted our audit in accordance with Codified Ordinance 218 pertaining to the County Auditor. Our audit was included in the fiscal year 2013-14 Internal Audit Plan.
<i>Compliance with Government Auditing Standards</i>	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.
<i>Confidential or Sensitive Information</i>	We withheld detailed information regarding the cash handling procedures of specific departments or programs because we consider this information to be confidential or sensitive.
<i>Audit Objectives</i>	The objective of the audit was to determine if fee handling controls across the County adequately guard against loss and result in accurate revenue reporting.
<i>Audit Conclusion</i>	Most programs have implemented cash handling controls that appropriately reduce the risk that fraud will occur or that fee revenue will be inaccurately recorded. In a few instances, improvements are needed to reduce the risk to an acceptable level.
<i>Audit Background</i>	<p>In fiscal year 2013-14, the County took in approximately \$24,921,000 in fees, fines, forfeitures, licenses, and sales, and an additional \$35,294,000 in property tax revenue. While the Finance Department collects property tax revenue and some other revenue, in most cases each department collects its own revenue. As such, revenue is received at multiple collection sites throughout the County. Some departments and programs record revenue using a software system specific to a program's industry (e.g., Animal Control and Development Services). Other departments use the County's financial system and some use manual receipt books.</p> <p>The uniqueness of each department's needs and characteristics result in decentralized cash handling processes. Some departments have their own cash handling policies while others have practices that have not been documented in policy. The Finance Director is developing a County-wide cash handling policy that will provide guidance and establish directives as applicable.</p>
<i>Audit Scope and Methodology</i>	The scope of the audit focused on programs that routinely collect cash payments from the public. We excluded some programs from the audit based on various

factors. Appendix A contains a listing of programs included and excluded and the reason for exclusions.

For each revenue collecting department, we reviewed the adequacy of the department's control system given the department's unique characteristics such as amount of annual revenue collected, number of sites at which revenue is collected, and recordation system used.

Our audit procedures included:

- Interviewing staff and conducting walkthroughs to gain an understanding of the program's control structure and using that information to identify control weaknesses.
- Performing detailed testing designed to detect fraud. The extent of testing varied by program, based on the extent to which control weaknesses were identified in each program.

Audit Criteria

Many organizations issue best practice guidance regarding cash handling. We utilized the guidance of the Government Finance Officers Association, Audit Net (an auditor's online resource site), and the Practitioners Publishing Company's Audits of Local Governments Guide to develop the following list of best practices, which served as the criteria for this audit:

- Change fund should be properly safeguarded
- Each staff member should have their own change fund, or access code to the cash register
- All payments should be promptly documented by cash register or pre-numbered receipt, and record the method of payment (cash/credit/check)
- Independent staff member should account for all receipts/Z tapes¹ and verify that the amount of cash/check matches documentation
- Deposits should be made intact on a daily/reasonable basis
- All void/cancelled receipts should be documented
- Checks should be immediately restrictively endorsed
- Deposit information from the Treasurer's office should be compared to the department reconciliation by an independent staff member.

Audit Results

We found the following:

- One program, which collects a substantial amounts of cash, has serious control weaknesses that could easily be exploited for the purpose of committing fraud. We reviewed a judgmental sample of deposits and did NOT find any evidence that fraud has occurred.

¹ The Z tape summarizes all sales activity for the shift.

For this program, a combination of factors result in the perfect storm of opportunity to commit fraud. The nature of this program requires that more than one system be used to record payments received. Reconciliation and deposit responsibilities are assigned to one individual who also has access to cash and other systems. Additionally, one of the software systems used does not have proper controls built into it.

Some weaknesses were known prior to the start of the audit and the County's IT software applications program is in the process of developing a new system. Other weaknesses were uncovered during the course of the audit. Interim controls have been recommended to the department director for use until development of the new system is completed.

- In one department it would be easy for an employee to provide the service for which the money is collected but not record the payment. Audit testing did NOT reveal any instances in which this occurred. The department has been informed of the weakness and the recommended controls are being implemented.
- Four small departments or programs lack the number of staff needed to segregate duties and/or provide increased supervisory review of financial transactions. The Internal Audit Program will periodically conduct reviews of two of these departments/programs to verify revenue is properly accounted for. The third will implement increased independent review of financial transactions. The remaining one takes in relatively small amounts of revenue and therefore the cost of implementing additional controls outweigh the benefit of reduced risk.
- One department receipts revenue through a software system with an inherent control weakness. The weakness exists due to other needs of the department. Internal Audit will conduct periodic reviews to verify that the weakness has not been exploited for personal gain.
- The audit also identified minor control weaknesses in several departments. These minor weaknesses were all easily correctable. We discussed the issues with the applicable departments and the appropriate corrective actions were immediately taken. Examples of the weaknesses included:
 - Not restrictively endorsing (i.e., stamping checks “deposit only in the account of Jackson County...”) checks upon receipt. Restrictively endorsing checks is an accepted cash handling best practice; however, not all departments had implemented the practice. The reason it was not occurring was simply because departments were not aware of the importance of this practice. The departments have been educated and all have already implemented the practice.

- Holding client checks until completion of the service to be provided. This practice was occurring in departments that accept payment and then must determine if the service can be provided given the specific details of the property. Checks were held rather than deposited as it would be easier to return the check than to issue a refund. The departments agreed to institute additional controls to ensure the checks are properly safeguarded until deposit or return occurred.
- Not properly securing the change fund or revenue, such as storing the change fund in an unlocked drawer at night, or having an employee walk the revenue to the Treasurer's office. Relying on an employee to transport revenue on foot places too much responsibility and risk on the employee. The departments have agreed to keep the change fund in a locked location at night and to use a locked bag transported by the County courier to transfer revenue to the Treasurer's Office.
- Creating a change fund from revenue that is not properly recorded in the Treasurer's office. Using revenue to create a change fund understates revenue. The department has agreed to formally establish a change fund with the Treasurer's Office.
- Not all departments were verifying that the amount deposited by the Treasurer on behalf of the department agreed with the department's receipt records. We recommended that these departments compare the receipt received from the Treasurer to the department's own record.
- Departments that use manual receipt books reported that customers paying by check would state that they did not need a receipt, as the canceled check would provide proof of payment. We recommended that receipts be issued regardless, as it is important that the department have a record of payment independent of the canceled checks.

Audit Recommendations

Recommendations were communicated separately to each department or program along with a summary of the control system observed during the review.

Recommendations included:

1. Restrictive endorsement of all checks by the person responsible for opening the mail or receiving the checks to help prevent misappropriation.

2. Comparison of the amount deposited by the Treasurer on behalf of the department to the department's receipt records by an independent staff member to help ensure all sales revenue is properly deposited.
3. Issuing receipts for all transactions even if not requested by the customer to provide documentation of the transaction.
4. Safeguarding checks that are not immediately deposited to help prevent loss or misuse.
5. Transporting all revenue to the Treasurer via the courier in a locking bag.
6. Properly safeguarding the change fund and sales revenue.
7. Implementing the practice of additional review when one person has both reconciliation and deposit responsibilities.

Management Response

All department directors or program managers are in agreement with the audit findings and have either implemented or are in the process of implementing recommendations.

Appendix A

Status of Cash Receipting Audit by Department

Department	Cash Receipt Audit Status
Airport	Completed
Assessor	Completed
Board of Commissioners	N/A very little revenue collected from the public
County Administrator's Office – Human Resources	Completed
Community Justice	Completed
Clerk - Elections	Completed
Clerk – Recording	Completed
County Counsel	N/A very little revenue collected from the public
District Attorney	Completed
Development Services	Completed but new system will be tested after implementation
Expo – Rodeo	Completed
Finance	Completed
Health and Human Services	Will be tested after move to new building
Health & Human Services Animal Control	Completed
Information Technology	N/A very little revenue collected from the public
Justice Court	Completed
Library	N/A very little revenue collected from the public
Roads & Parks	Parks will be tested during the summer
Sheriff	Completed
Surveyor	Completed
Watermaster	Completed