

Washington State Auditor's Office
Accountability Audit Report

Franklin County

Report Date
March 4, 2014

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March 10, 2014



WASHINGTON
TROY KELLEY
STATE AUDITOR



Washington State Auditor Troy Kelley

March 10, 2014

Board of Commissioners
Franklin County
Pasco, Washington

Report on Accountability

We appreciate the opportunity to work in cooperation with your County to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role to advocate for government accountability and transparency and to promote positive change.

Please find attached our report on Franklin County's accountability and compliance with state laws and regulations and its own policies and procedures. Thank you for working with us to ensure the efficient and effective use of public resources.

Sincerely,

TROY KELLEY
STATE AUDITOR

Table of Contents

**Franklin County
March 4, 2014**

Audit Summary 1

Related Reports 2

Description of the County 3

Schedule of Audit Findings and Responses 5

Audit Summary

Franklin County March 4, 2014

ABOUT THE AUDIT

This report contains the results of our independent accountability audit of Franklin County from January 1, 2012 through December 31, 2012.

We evaluated internal controls and performed audit procedures on the activities of the County. We also determined whether the County complied with state laws and regulations and its own policies and procedures.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. The following areas were examined during this audit period:

- Third party cash receipting
- Jail contracts
- Trust account
- General disbursements
- Petty cash/imprest funds
- Sheriff department
- Cash receipting
- Bond compliance
- Restricted funds
- Accounts receivable-courts

RESULTS

In most areas, the County complied with state laws and regulations and its own policies and procedures.

However, we identified a condition significant enough to report as a finding:

- The County's internal controls over Automated Teller Machines (ATMs) and petty cash handling at the Trade, Recreation, and Agriculture Center (TRAC) were inadequate to safeguard public resources.

We also noted certain matters that we communicated to County management. We appreciate the County's commitment to resolving those matters.

Related Reports

Franklin County March 4, 2014

FINANCIAL

Our opinion on the County's financial statements and compliance with federal grant program requirements is provided in a separate report, which includes the County's financial statements.

FEDERAL GRANT PROGRAMS

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the County's major federal programs, which are listed in the Federal Summary section of the financial statement and single audit report.

OTHER REPORTS

During the current audit period, the State Auditor's Office issued a report in September 2012 on a misappropriation of public funds at the County. That report is available on our website, www.sao.wa.gov.

Description of the County

Franklin County March 4, 2014

ABOUT THE COUNTY

Franklin County, incorporated in 1883, has a population of approximately 80,500 residents. An elected, three-member Board of Commissioners governs the County. The County has 14 additional elected positions including Assessor, Auditor, Coroner, Clerk, District Court Judge, Prosecuting Attorney, Sheriff, six Superior Court Judges and Treasurer. Approximately 250 employees provide public safety, road improvement, parks and recreation, judicial administration, health and social services and general administration services. The County's budget for fiscal year 2012 was approximately \$70 million, including a \$23.8 million current expense budget.

ELECTED OFFICIALS

These officials served during the audit period:

Board of Commissioners:

Assessor
Auditor
Coroner
Clerk
Prosecuting Attorney
Sheriff
Treasurer

Robert E. Koch
Brad Peck
Rick Miller
Steven Marks
Matt Beaton
Dan Balsdel
Mike Killian
Shawn Sant
Richard Lathim
Josie Koelzer

APPOINTED OFFICIALS

County Administrator
Public Works Director
Information Systems
Jail Superintendent
Planning and Development
Superior Court Administrator
TRAC Manager
Human Resources Director

Fred Bowen
Matt Mahoney
Kevin Scott
Rick Long
Jarrod Macpherson
Pat Austin
Troy Woody
Rosie Rumsey

COUNTY CONTACT INFORMATION

Address: Franklin County
1016 N. 4th Avenue
Pasco, WA 99301-3706

Phone: (509) 545-3540

Website: www.co.franklin.wa.us

AUDIT HISTORY

We audit the County annually. There have been no accountability findings in the past five years. The County has been responsive to our audit recommendations.

Schedule of Audit Findings and Responses

Franklin County March 4, 2014

- 1. The County's internal controls over Automated Teller Machines (ATMs) and petty cash handling at the Trade, Recreation, and Agriculture Center (TRAC) were inadequate to safeguard public resources.**

Background

TRAC is a convention center and receives annual revenue of approximately \$2.2 million. TRAC operates three ATMs from which customers withdrew \$240,740 in 2012. TRAC also has petty cash with annual expenditure activity of \$57,285 for 2012.

Description of Condition

ATM machines

In our review of TRAC's processes over cash handling and reconciliations of the ATMs we found:

- The Commissioners did not authorize the cash ATMs at TRAC.
- TRAC does not have a formal policy for cash handling and reconciliation of the ATMs.
- There is a lack of segregation of duties over the cash handling of the ATMs. The Finance Manager refills the ATMs and reconciles the ATM to the bank statements and accounting system on a weekly basis. There is no independent review of the Finance Manager's activity.
- The County uses a provider that withdraws funds from the customer's account that uses the ATMs. The provider then sends the funds collected to the County and the County refills the ATMs. The County does not reconcile the provider reports of total withdrawals to the cash replenishments. Therefore, the County does not know if the provider replenished the correct amount.
- The Finance Manager does not print and retain a detailed ATM report. This report is printed directly from the ATM and lists each transaction detail. In addition, the Finance Manager has the ability to change the information in the transaction detail report. The County cannot ensure all ATM transactions and remaining ATM cash in the machine agrees to the amount deposited by the third party vendor.

Cash funds

- TRAC operates a change fund of \$10,000. This fund is broken into smaller funds as needed depending on event activity at TRAC. The change fund exceeded the Commissioner's approved amount by \$10,300.
- The Commissioners did not approve TRAC's internal policy allowing temporary cash increases for change funds.
- TRAC operates a petty cash fund of \$25,000. The internal policy states withdrawals should be made from the petty cash fund. However withdrawals were made from the settlement account instead, which is holds event ticket sales.
- There is no petty cash policy establishing the proper use of the petty cash account.

Cause of Condition

The County lacks policies and procedures over cash handling and reconciliation of the cash machine and petty cash accounts. County management has not made it a priority to monitor TRAC to ensure safeguarding of public funds.

Effect of Condition

The County's lack of policies, internal controls and documentation retention creates a potential for County resources to be misappropriated without being detected.

Recommendation

We recommend the County:

- Ensure all cash fund authorized amounts and policies are approved by the Commissioners.
- Establish policies and procedures over use and monitoring of ATM funds.
- Establish policies and procedures to reconcile the ATM to provider reports and the bank statement and accounting system.
- Ensure an adequate review of reconciliations and cash handling procedures be performed by someone other than the custodian.
- Print and retain daily detailed ATM reports and third party vendor reports for each ATM in accordance with records retention requirements.

County's Response

- **Ensure all cash fund authorized amounts and policies are approved by the Commissioners.**
 1. *TRAC management has prepared two resolutions for the County Commissioners' approval*
 - a. *Approval of TRAC Extra Event Change in addition to Resolution #2009-066*
 - i. *Attached to the resolution will be TRAC's internal policy on the handling of these funds*
 - b. *Approval for the use of ATM machines at the TRAC Center*
 - i. *Attached to the resolution will be TRAC's internal policy on ATM Refill and Reconciliation*
- **Establish policies and procedures over use and monitoring of ATM funds.**
- **Establish policies and procedures to reconcile the ATM to provider reports and the bank statement and accounting system**
- **Ensure an adequate review of reconciliations and cash handling procedures be performed by someone other than the custodian**
- **Print and retain daily detailed ATM reports and third party vendor reports for each ATM in accordance with records retention requirements.**
 1. *TRAC's goal, if possible, is to have a Third Party take over ownership and maintenance of the ATMs, via a Bid Process.*
 2. *In the meantime, it is the County and TRAC management's desire to follow the State Auditor's recommendation in policies, internal controls and document retention and has finalized TRAC's internal policy – ATM Refill & Reconciliation*
 - a. *This policy outlines the segregation of duties and reconciliation process based on the recommendations of the SAO.*
 - b. *TRAC management has also contacted Columbia Bank to remove the ability of the Finance Manger to sign checks or transfer funds within TRAC's bank accounts (Settlement, Future, Petty Cash and Franklin County RV Park) or access each ATM's individual safe that holds the Cash Cassettes. This allows the Finance Manager to be responsible for the reconciliation process for these accounts.*
 - c. *As per the policy, the Finance Manger, the General Manger or designee will be the witness when the ATMs are being refilled.*

Auditor's Remarks

We appreciate the steps the County is taking to resolve this issue. We will review the condition during our next audit.

Applicable Laws and Regulations

RCW 43.09.200 states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefore; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Budgeting, Accounting and Reporting System (BARS) Manual, Chapter 1, Accounting Principles and General Procedures, Section B Internal Control, states in part:

Internal control is a process – effected by those charged with governance, management and other personnel – designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

Management is responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management.



ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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