



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Franklin County

For the period January 1, 2016 through December 31, 2016

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Office of the Washington State Auditor
Pat McCarthy

April 30, 2018

Board of Commissioners
Franklin County
Pasco, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for County operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our independent audit report on the County's compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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AUDIT RESULTS

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, except as described below, County operations complied with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources.

As referenced above and described in the attached finding, we identified areas in which the County could make improvements over cash receipting and inventory controls at the Trade Recreation Agriculture Center (TRAC).

We recommend the County:

- Establish cash receipting policies and strengthen internal controls to ensure all funds are received, recorded and properly reconciled to the bank statements
- Establish policies and implement internal controls to track and safeguard inventory

These recommendations were included with our report and in a separate communication as a finding.

As referenced above, we also noted certain matters that we communicated to County management and Board of Commissioners in a letter dated April 19, 2018, related to the Veterans Fund. We appreciate the County's commitment to resolving those matters.

Additionally, as noted under the Related Reports – Special Investigations section of this report, certain matters were examined and reported as part of a separate engagement.

About the audit

This report contains the results of our independent accountability audit of Franklin County from January 1, 2016 through December 31, 2016.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the State Auditor to examine the financial affairs of all local governments. Our audit involved performing procedures to obtain evidence about the County's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, based on our risk assessment for the year ended December 31, 2016, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Restricted funds – Veterans’ Fund review of eligilibty and use of restricted funds
- Jail – commisary sales, revenues and inventory process
- Sheriff’s department – evidence room review of internal controls and evidence tracking
- Vendor and credit card disbursements – review of selected transactions for support and business purpose
- Contract monitoring – Career Path contract monitoring and reporting
- Payroll – retroactive pay calculations County wide and new employee hiring process for Trade Recreation Agriculutre Center (TRAC)
- TRAC – cash receipting of script sales and inventory process
- Building permit fee calculations and internal controls over cash receipting
- Surplus asset monitoring and associated revenues from sales

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2016-001 The County did not have adequate controls over cash receipting or inventory, increasing the risk that undetected errors or misappropriation could occur.

Background

In 2016 and 2017, the Trade Recreation Agricultural Center (TRAC) receipted about \$300,000 and \$100,000 in liquor sales for events and concessions, respectively. County management is responsible for designing and following internal controls that provide reasonable assurance of compliance with state laws, policies and safeguarding of public resources.

In 2017, the County reported a loss of a bank bag containing \$250. The bank bag was assigned to the Food and Beverage Manager for an event and was not turned in promptly for reconciliation after the event. TRAC has received a number of cash receipting recommendations in previous audits due to a lack of controls. During our audit, we found the County procedures have not improved. The County uses bank bags to manage and identify individual cashier deposits.

The lack of internal controls hinders the County's ability to follow applicable state laws and its own policies, and to prevent or detect misappropriation.

Description of Condition

We reviewed internal controls over receipting and inventory processes, and noted the following deficiencies:

Cash receipting

- The County did not have a formal cash receipting policy for events at TRAC.
- Commissioners had not authorized two checking accounts used to deposit ticket and event sales.
- Cashiers do not reconcile their bank bag; instead, two independent individuals perform the reconciliation. The County is unable to assign accountability if funds are misappropriated.
- TRAC had no system in place to ensure the drop box safe is opened by two people.

Inventory

- The County did not have a policy over the inventory process to identify how often and by whom inventory must be performed.
- The County did not reconcile liquor inventory to liquor sales to detect if a loss had occurred. In addition, the County does not have segregation of duties for purchasing and monthly reconciliation of inventory, and there is no independent review of the monthly inventory count.
- The County did not have a board-approved price listing of the markup amounts.

Cause of Condition

Management has not established policies and procedures to ensure the safeguarding of received revenue and inventory.

Effect of Condition

The lack of controls and monitoring over cash receipting and inventory increase the risk that misappropriation or misuse of County resources could occur and not be detected quickly, if at all.

Loss of Public Funds

The County had a known loss of \$250 in public funds related to a cash drawer. The loss resulted from not safeguarding cash drawers after events occur.

Cash Receipting

We reviewed deposits related to liquor sales for events and concessions held in 2016 and 2017. We found 19 bank bags were short by a total of \$857, and 25 bank bags were over by \$11,262. Beginning ticket sales were not retained for four bank bags; therefore, we could not confirm if the consolidated deposits were correct.

Inventory

Our audit found liquor purchases are not reflected in inventory records and therefore the inventory system is not accurate. Total inventory of liquor purchased in 2016 was \$61,351.

Recommendations

We recommend the County:

- Develop a formal cash receipting policy for TRAC and authorize all TRAC bank accounts
- Strengthen internal controls over cash receipting to ensure all funds are received, recorded and properly reconciled to the bank statements
- Ensure the drop box is opened by two people
- Retain ticket sale reconciliations
- Establish policies and implement internal controls to track and safeguard inventory
- Ensure two independent staff members count inventory and reconcile inventory to purchases and sales reports
- Establish a board-approved price listing on product markup

County's Response

We appreciate and generally concur with the State Auditor's finding regarding our current cash receipting and inventory control systems. To address needed changes we are currently in the process of working with the County Auditor's office in updating the County Commissioners approval of all TRAC bank accounts, amounts and associated requirements.

We are modifying the Cash Receipting policy so that we can securely and safely reconcile Script sales after each event by utilizing a script ticket inventory prior to the event, a script money drop slip signed by the cashier during the event, and requiring a dual entry to the drop safe following the event by two TRAC employees who will reconcile the funds.

TRAC is creating a policy and procedure to improve internal controls to better safeguard inventory and reconcile purchases and sales of inventory. This policy when completed will be approved with the rest of the TRAC's financial policies by the County Commissioners.

TRAC does have generally established rates associated with equipment, fees, labor, room rent, drink prices, etc. In certain circumstances, due to special requirements of the vendor or event, there is a negotiation of these rates with the TRAC General Manager to attain a result that is workable for the customer and results in an optimum solution for TRAC. TRAC management is working with the County Administrator to present this practice as policy information to the County

Commissioners for their approval and identify those circumstances when deviation from an established price list is warranted.

When complete, we will have all the financial policies associated with the TRAC facility approved by the County Commissioners. Our goal is to have this process completed no later than May 31, 2018.

Auditor's Remarks

We appreciate the County's commitment to resolve this finding and thank the County for its cooperation and assistance during the audit. We will review this condition during our next audit.

Applicable Laws and Regulations

Budgeting, Accounting and Reporting System (BARS) Manual – Accounting, Accounting Principles and Internal Control, Internal Control states in part:

Management and the governing body are 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 and the governing body. The governing body has ultimate responsibility for ensuring adequate controls to achieve objectives, even though primary responsibility has been delegated to management.

Budgeting, Accounting and Reporting System (BARS) Manual – Accounting, Special Topics, Expenditure, Imprest, Petty Cash and Change Funds states in part:
Controls

The following are minimum requirements for establishment and operation of such funds:

1. The governing body must authorize each petty cash account 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. The original authorized balance and any subsequent increase may be established by treasurer's check.
2. The governing body or its delegate must appoint one custodian of each petty cash account who should be independent of invoice processing, check signing, general accounting and cash receipts functions. As part of the appointment, the custodian should render a receipt for the imprest amount to the treasurer, clerk-treasurer or

auditor from whom he/she receives it. When it is not practical to hire additional personnel or to reallocate these duties among existing personnel, the governing body must establish some mechanism of review that accomplishes the objectives of the segregation of duties. For example, periodic monitoring of cash receipts and/or independent performance of the reconciliation may be adequate compensating controls for when complete segregation of duties is not possible.

3. The authorized balance should not exceed one month's salary or the surety bond covering the custodian.
4. On a 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. If this reconciliation is done by the custodian, it should be checked or re-performed periodically by someone other than the custodian.
5. For funds on hand (i.e., petty cash or change funds), the custodian must ensure cash is kept in a secured place, such as a locked drawer or box.

Budgeting, Accounting and Reporting System (BARS) Manual –3.3.11.40
PHYSICAL INVENTORY

Controls

1. Assignments. Overall responsibility for the work plan should be assigned to one or more staff.

In turn, responsibility for work plan procedures should be assigned. Assignments should consider:

- a. Ability. Staff assigned to perform inventory procedures should be sufficiently training, knowledgeable and/or expertise to be able to identify and locate the asset and perform procedures to assess it. For example: identifying possible impairments may require special training in accounting criteria; reviewing infrastructure asset records may require operational knowledge of how assets are used and system changes during the year; and assessing the condition of a building and its useful life may require special expertise.
- b. Segregation of duties, when appropriate. For assets with an identified risk of misappropriation, misuse or loss, inventory procedures should be assigned to someone other than the

person with custody over the asset. However, for asset types such as infrastructure or land, it is often more effective to have those with custody over those assets perform procedures, as they are often due to the need for expertise.

c. Supervision. Supervision may be used to supplement the ability of staff assigned or provide for segregation of duties. For example, accounting personnel may supervise department employees in performing the inventory to ensure sufficient consideration of accounting criteria and records in combination with the department's knowledge and expertise on the assets, or vice versa. The work plan may call for direct supervision, spot checking, or just being present and available during the inventory procedures. Further, the need for supervision may vary by location and asset type. An appropriate level of supervision provides a general control if employees are aware their work will be checked.

2. Timing. Inventory procedures should be scheduled to minimize administrative burden and best achieve objectives, commensurate with the identified risks. Work plans may schedule a single inventory of all assets, or establish different schedules for inventories for different locations or asset types. For example, physical inventories of certain asset types may be scheduled to be concurrent with operational work, such as condition assessments for roads and bridges, or regular maintenance on equipment and vehicles. Likewise, such inventories may be continuous, monthly, annually, on a multi-year basis or performed in sections over a multi-year cycle. Other asset types may need to be evaluated at year end as part of the financial reporting process, like construction in progress.

RCW 43.09.200 Local government accounting – Uniform system of accounting states, in part:

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.

RCW 43.09.240 Local government accounting – Public officers and employees – Duty to account and report – Removal from office – Deposit of collections states in part:

Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the local government once every twenty-four consecutive hours. The treasurer may in his or her discretion grant an exception where such daily transfers would not be administratively practical or feasible as long as the treasurer has received a written request from the department, district, or agency, and where the department, district, or agency certifies that the money is held with proper safekeeping and that the entity carries out proper theft protection to reduce risk of loss of funds. Exceptions granted by the treasurer shall state the frequency with which deposits are required as long as no exception exceeds a time period greater than one deposit per week.

RELATED REPORTS

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. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

Federal grant programs

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the County's major federal program, which is listed in the Schedule of Findings and Questioned Costs section of the separate financial statement and single audit report. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

Special investigations

During the current audit period, the State Auditor's Office issued a report on a misappropriation of public funds at the County. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE COUNTY

Franklin County was incorporated in 1883 and currently has a population of approximately 80,500 residents.

An elected, three-member Board of Commissioners governs the County. The County Administrator reports directly to the Board of Commissioners. 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 expenditures for fiscal year 2016 was approximately \$46.7 million.

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Information current as of report publish date.

Audit history

You can find current and past audit reports for Franklin County at <http://portal.sao.wa.gov/ReportSearch>.

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 to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

Contact information for the State Auditor's Office	
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