



Mecklenburg County
Department of Internal Audit

Department of Finance
Audit Report 1161

February 21, 2011

Internal Audit's Mission

Through open communication, professionalism, expertise and trust, Internal Audit assists executive management and the Audit Review Committee in accomplishing the Board's objectives by bringing a systematic and disciplined approach to evaluate the effectiveness of the County's risk management, control and governance processes in the delivery of services.

Internal Audit Contacts

Joanne Prakapas Whitmore, Audit Director, (704) 336-2475 or joanne.prakapas@mecklenburgcountync.gov

Christopher Waddell, Audit Manager, (704) 336-2599 or christopher.waddell@mecklenburgcountync.gov

Staff Acknowledgements

Douglas Barber, Auditor-In Charge
Gewreka Robertson, Staff Auditor

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MECKLENBURG COUNTY Department of Internal Audit

To: Dena Diorio, Director, Department of Finance
From: Joanne Prakapas Whitmore, Director, Department of Internal Audit
Date: February 21, 2011
Subject: Finance Policies and Procedures Report #1161

The Department of Internal Audit has completed its FY2011 audit of the Department of Finance (the “Department”) cash receipt, payroll and procurement card policies and procedures that were in effect as of August 1, 2010. The audit objectives were to determine the adequacy of policies and procedures, process design and the Department’s internal staff activities to manage risks inherent to those activities. The audit scope did not include testing for compliance to policies and procedures. Internal Audit interviewed key personnel, observed and documented procedures and compared the Department’s policies and procedures against best practices.

Internal Audit conducted this audit under the guidance of generally accepted government auditing standards and the International Standards for the Professional Practice of Internal Auditing. 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.

OVERALL EVALUATION

Countywide policies and procedures, as well as the Department’s internal policies and procedures, were generally acceptable to manage the risks associated with cash receipts, payroll and procurement card operations.

The Department, however, lacks requirements within the policies and procedures assessed to ensure that they are routinely reviewed to accurately reflect the County’s objectives and address any procedural changes. Further, some policies and procedures do not reflect current or best practice, establish requirements for separation of duties or ensure other key controls are in place.

The issues listed below, as well as recommendations and management responses, are presented in detail in the following pages. Internal Audit will conduct a follow-up review at a later date to verify that recommendations are implemented and working as expected.

ISSUES

1. The Department does not have a formal, documented process to ensure countywide and internal policies and procedures are routinely reviewed and updated as necessary.
2. The countywide and internal cash handling, receipts and deposit policies and procedures do not document some current activities and best practices.
3. The countywide and internal payroll policies and procedures do not always reflect current activities and best practices.
4. The Department does not have comprehensive internal procurement card policies and procedures.

We appreciate the cooperation you and your staff provided during this audit. Please feel free to contact me at 704-336-2575 if you have any questions or concerns.

cc: Harry Jones, County Manager
Michelle Lancaster, General Manager
John McGillicuddy, General Manager
Bobbie Shields, General Manager
Tyrone Wade, Deputy County Attorney
Board of County Commissioners
Audit Review Committee

BACKGROUND

The Department of Finance is responsible for the administration of County finances in accordance with State laws and budget ordinances established by the Mecklenburg Board of County Commissioners. These administrative activities include, but are not limited to, investments of County money, financial reporting, cash flow and banking, debt management, budgetary compliance, payroll and accounts payable.

The Department establishes and documents countywide financial policies and procedures with which all departments must comply. Departments may adopt more stringent control practices for their operations but all exemptions to countywide policies and procedures must first be approved by the Department. In addition, the Department writes internal policies and procedures for its staff's activities.

Policies and procedures are important control activities to help ensure management's directives are carried out to accomplish tasks while mitigating risks that may prevent the organization from achieving its objectives. Policies and procedures include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, operational reviews, asset security and separation of duties.

Thus, it is critical that the Department's formal, documented policies and procedures contain key components to provide guidance to help ensure staff performs its activities in line with management's expectations and that there are adequate controls in place to effectively mitigate risks inherent to those activities. During this audit, the following policies and procedures were reviewed:

- Cash Handling, Receipts and Deposits—policies and procedures for cash collections, financial recording, deposits, bank reconciliation and collection of customer payment checks returned for insufficient funds
- Payroll—policies and procedures for employee time reporting and payroll distribution
- Procurement Card—policies and procedures for card issuance, expenditures, spending limits and program oversight

ISSUES, RECOMMENDATIONS AND RESPONSES

Issue 1: The Department does not have a formal, documented process to ensure countywide and internal policies and procedures are routinely reviewed and updated as necessary.

Risk Observations: Although the Department typically conducts an annual review of its countywide and internal financial policies and procedures, they have not developed a formal process to ensure that financial policies and procedures are documented, current and consistent with the County's goals and objectives.

Recommendations: Internal Audit recommends that the Department of Finance develop a formal, documented process to review and modify as necessary its countywide and internal policies and procedures. The written policies and procedures should have a framework that establishes, at a minimum:

- a. frequency of policies and procedures reviews
- b. assumptions, criteria, methods, processes and techniques used to develop and review relevant policies and procedures
- c. roles, responsibilities and selection criteria of participants involved in the development and review process
- d. a standard format for policies and procedures
- e. training for relevant County staff
- f. communication to appropriate internal and external stakeholders

Management Response: Agree - The Finance Department will convene a working group to include representatives from throughout the County to draft a proposed procedure for updating policies and procedures. The procedure will include the provisions recommended by Internal Audit. The anticipated completion date is June 30, 2011.

County Manager's Response: Finance Department management's response is appropriate to address the issue identified by the Internal Audit findings and recommendations.

Issue 2: The countywide and internal cash handling, receipts and deposit policies and procedures do not document some current activities and best practices.

Risk Observations:

- A. Countywide cash handling, receipts and deposits policies and procedures do not have specific requirements to help ensure staff follows key control activities, such as receipt issuance, daily reconciliations, system recordation and separation of duties.
- B. Countywide policies and procedures do not require departments who want to establish a revenue collection point to first obtain authorization and training from the Department of Finance. As a result, the Department may not be aware of revenue collection points to ensure that proper controls for collection, deposit and reporting are in place and that staff is adequately trained.
- C. Countywide policies and procedures do not require departments who want to accept credit card payments to first obtain authorization and training from the Department of Finance. As a result, the

Department cannot ensure adequate controls exist over the security, processing and reporting of credit card transactions.

- D. The Department's internal cash receipt policies and procedures do not direct staff to timely research, reconcile and adjust the general ledger for cash amounts not reconciled to the bank statements.
- E. The Department's internal policies and procedures for checks returned from the bank for insufficient funds are not formally documented.
- F. The Department's internal cash handling, receipts and deposit policies and procedures do not establish ongoing training requirements to ensure its staff is updated on any changes.

Recommendations: Internal Audit recommends that the Department of Finance:

- A. Develop a more comprehensive countywide cash handling, receipts and deposit policies and procedures that provide a consistent approach to help protect County assets. Relevant County staff should be trained on the new policies and procedures. The policies and procedures should include, at a minimum, directives and guidance to ensure:
 - a. proper separation of duties for cash receipts, deposits and reconciliations
 - b. security of cash receipts is commensurate with the amount of cash routinely collected
 - c. the use of subsidiary accounting systems, e.g., manual ledgers, cash registers or computerized systems, to record detail customer activity and support/validate/confirm general ledger entries and reconciliations
 - d. daily reconciliation of cash receipts with subsidiary accounting systems and bank deposits
 - e. timely posting of cash receipts to subsidiary accounting systems
 - f. issuance of pre-numbered customer receipts for all payments made in person at County facilities, which includes name, date, dollar amount, payment type and other relevant information
 - g. issuance of numbered receipts at the time of online customer payments, which includes name, date, dollar amount and other relevant information
 - h. recordation of cashier overages and shortages to a single general ledger account and submission of supporting documentation
 - i. payments received in the mail are recorded upon receipt either on a mail receipt log or in a cash receipt system, such as a manual ledger, cash register or computerized system.
 - j. proper handling of insufficient fund checks not directly returned by the bank to the Department of Finance
 - k. adequate training for countywide staff
- B. Establish and document in the current cash handling, receipts and deposit policies and procedures a protocol that requires departments who want to establish a cash collection point to first obtain authorization and training from the Department of Finance. Protocol should follow best practices to ensure proper controls for collection, deposit and reporting.
- C. Establish and document in the current cash handling, receipts and deposit policies and procedures a protocol that requires departments who want to accept credit card payments to first obtain authorization and training from the Department of Finance. Protocol should follow best practices to ensure adequate controls over the security, processing and reporting of credit card transactions.
- D. Formally document in the Department's internal cash handling, receipts and deposit policies and procedures directives for staff to timely research, reconcile and adjust the general ledger for cash amounts not reconciled to the bank statements.

- E. Formally document in the Department's internal cash handling, receipts and deposit policies and procedures directives for staff regarding the return check procedure.
- F. Amend current internal cash handling, receipts and deposit policy to indicate staff ongoing training requirements.

Management Response: Agree - The Finance Department will revise its policies and procedures to reflect current activities and best practices as recommended by Internal Audit. The anticipated completion date is June 30, 2011.

County Manager's Response: Finance Department management's response is appropriate to address the issued identified by the Internal Audit findings and recommendations. The Finance Department management also should seek Internal Audit Department's input on the draft revisions to policies and procedures prior to final approval of the revisions.

Issue 3: The countywide and internal payroll policies and procedures do not always reflect current activities and best practices.

Risk Observations:

- A. While County departments may be conducting comparisons of actual to budgeted payroll costs, countywide payroll policies and procedures do not require it.
- B. Although the departments of Human Resources and Finance assign payroll function tasks between the two departments to ensure proper separation of duties, current internal payroll policies and procedures do not require it.
- C. The internal payroll policies and procedures do not define staff key roles and responsibilities; timelines for required activities; approval requirements; federal, state and other agency reporting requirements; or other guidance to ensure staff executes their duties in accordance with management expectations.

Recommendations: Internal Audit recommends that the Department of Finance:

- A. Amend current countywide payroll processing and accounting policies and procedures to require County departments' staff to conduct routine comparisons of actual to budgeted payroll costs. Staff should be trained so they are aware of and understand the documented policies and procedures.
- B. Amend current internal payroll processing and accounting policies and procedures to define department and internal staff roles to ensure proper separation of duties between the departments of Human Resources and Finance. Department of Finance staff should be trained so they are aware of and understand the documented policies and procedures.
- C. Ensure that the internal payroll policies and procedures adequately define roles of Department of Finance staff to ensure that processing and oversight of countywide payroll activities adequately protect against errors or fraud. The policies and procedures should include, at a minimum:
 - a. defined staff roles and responsibilities
 - b. proper separation of duties between staff

- c. timelines for completion of required activities
- d. approval requirements
- e. federal, state and other agency reporting requirements
- f. internal staff training requirements

Management Response: Agree - The Finance Department will revise its policies and procedures to reflect current activities and best practices as recommended by Internal Audit. The anticipated completion date is June 30, 2011.

County Manager's Response: Finance Department management's response is appropriate to address the issued identified by the Internal Audit findings and recommendations. Given that the payroll function tasks involve two departments (Finance Department and Human Resources Department), the Finance Department also should seek input from the Human Resources Department in drafting revisions, consistent with the division of duties and tasks. Both the Human Resources and the Finance departments' management should seek Internal Audit Department's input on the draft revisions to payroll policies and procedures prior to final approval of the revisions.

Issue 4: The Department does not have comprehensive internal procurement card policies and procedures.

Risk Observations: While internal staff responsible for processing and overseeing countywide procurement card activities has informal procedures to carry out their duties, there are no formal policies and procedures to ensure staff executes their duties to meet management's expectations and to ensure proper internal controls. Internal policies and procedures do not:

- a. establish the specific steps expected of the program administrator to conduct the review and follow-up of countywide procurement card expenditures to detect errors, omissions or potential fraud.
- b. require separation of duties between the approval and receipt of new procurement cards.
- c. address the type and frequency of staff training to ensure competency and awareness of any procedural changes.

Recommendations: Internal Audit recommends that the Department of Finance management establish and document internal procurement card policies and procedures to define internal staff roles and to ensure that processing and oversight of card activities adequately protect against errors or fraud. The policies and procedures should include, at a minimum:

- a. defined procedures for staff processing and overseeing countywide procurement card activities, such as routine test for split transactions, unallowable purchases and spending limit violations
- b. proper separation of duties between the approval and receipt of new procurement cards
- c. internal staff training requirements

Management Response: Agree - The Finance Department will revise its procurement card policies and procedures to define internal staff roles and ensure that the oversight of card activities protect against error and fraud. The anticipated completion date is June 30, 2011.

County Manager's Response: Finance Department management's response is appropriate to address the issued identified by the Internal Audit findings and recommendations. The Finance Department management also should seek Internal Audit Department's input on the draft revisions to procurement card policies and procedures prior to final approval of the revisions.