



## Douglas County Internal Audit

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September 13, 2013

Douglas County Board of Commissioners  
1819 Farnam Street, Suite LC2  
Omaha, NE 68183

Attention: Mary Ann Borgeson, Mike Boyle, Clare Duda, Marc Kraft, PJ Morgan,  
Chris Rodgers and Pam Tusa

John Ewing, Douglas County Treasurer  
1819 Farnam St.  
Omaha, NE 68183

Dear Commissioners and Mr. Ewing:

I have completed an audit of Douglas County Treasurer's office cash-handling processes. The purpose of the audit was to assess the adequacy and effectiveness of the control processes used to receive and process cash in the customer service branches and within the downtown accounting office. Generally accepted practices for processing cash with an emphasis on segregation of duties were used as the criteria to assess the adequacy of the design of each process. The audit revealed that there were weaknesses related mainly to inappropriate segregation of duties and reconciling the bank accounts to Oracle. Opportunities to improve controls were identified and appear below.

### **Background**

The Treasurer's office is responsible for receiving all money collected by the County including amounts collected on behalf of other political subdivisions. With the exception of a few County locations, all customer service branches and other departmental offices forward their receipts to the Treasurer's downtown location for account processing and bank deposit. Over \$1,000,000,000 is collected annually.

There are numerous systems that are used to process cash receipt and revenue transactions in the Treasurer's office. The customer service branches use the County's mainframe system for property tax collections, the state's VTR system for motor vehicle transactions and iNovah for cashing the payments. The branches generate system reports which are to each other and to the deposit slips which are then forwarded to the Treasurer's accounting office along with the receipts.

The Treasurer's office uses iNovah to cashier receipts sent by other offices and payments sent directly to the downtown office. Lockboxes are used during the March/April and July/August busy seasons. iNovah is not used for items that are posted directly to Oracle (e.g., billed receivable items and bond proceeds). The bank account activity is recorded using QuickBooks and Quicken. The total amount of cash received each day including electronic payments is balanced to Oracle and the bank accounts using iNovah and source systems. Each month the bank accounts controlled by the Treasurer are reconciled to QuickBooks.

### **Objective**

The purpose of the audit was to assess the adequacy of the control processes used to receive cash and reconcile Treasurer bank accounts. Specifically, the controls were assessed to see that they accomplished the following objectives:

- Accountability for cash receipts should be established to detect misdirected cash and should include verification that deposits were made intact.
- Access to accounts receivable and cash receipt information and processes should only be provided in accordance with management's approval which provides for adequate segregation of duties.
- Cash receipts are posted completely and accurately to the financial records.
- Cash receipts are adequately protected.
- Management should periodically substantiate and evaluate recorded balances for cash accounts and provide for proper preparation, appropriate review, and timely resolution of outstanding items.

### **Scope**

The audit covered cash receipt and bank reconciliation policies, procedures and transactions occurring and in place from July 1, 2012 through June 30, 2013.

### **Methodology**

Internal Audit documented the cash receipting process within the Treasurer's accounting department and the customer service branches. The information documented by Internal Audit was obtained by reviewing written policies and procedures, interviews, and observations of the processes and systems in place. The documentation was compiled and summarized in process flowcharts that were reviewed by Treasurer personnel for accuracy. These process flows served as the primary basis for assessing the controls in place to see that the above objectives were achieved. The procedures in place at the South Omaha branch were used as the basis for assessing the controls in place for all Customer Service branches.

System access listings for Oracle and other systems used by the Treasurer were generated by Internal Audit and provided by DOT.Comm for main frame systems and the Treasurer's office for cashiering. These listings along with the other duties performed by employees were used to determine if segregation of duties was adequate.

The thirty-eight days that were used in the year-end audit of motor vehicle and property tax testing were used to determine that Treasurer personnel verified that that cash receipts were balanced from source systems to Oracle and that the cashiered items were deposited in the banks. Ten of these days were used to determine if all of the miscellaneous receipt items were being traced to bank deposits according to procedures. Forty-nine individual receipts were tested.

Five days were chosen randomly to see that the Treasurer provided cashiering receipts to the departments submitting deposits to the Treasurer indicating that the receipts submitted were cashiered and deposited. Four additional days were chosen to see that all electronic payments received in various bank accounts for each day were completely and accurately posted to Oracle.

One day was chosen to see that all items cashiered for the day from all sources were agreed to the source system and to postings in Oracle and that all the items cashiered or posted directly to Oracle were deposited in the various bank accounts in a timely fashion.

All of the bank accounts reconciled by the Treasurer's office for October 2012 and March 2013 were tested to see that:

- The reconciliation was properly prepared and completed in a timely fashion.
- There was a resolution for all outstanding items in a reasonable amount of time.
- There was proper and timely review.
- The reconciliation included an original bank statement and all reconciling items were supported by appropriate documentation.

## **Findings**

### **Bank Reconciliations**

**Criteria:** Management should periodically substantiate and evaluate recorded balances for cash accounts and provide for proper preparation, supervisory review, and timely resolution of outstanding items.

**Condition:** The following bank reconciliation issues were noted:

- There was no evidence of supervisory review of the bank reconciliations.
- The accounts were not properly reconciled to Oracle each month. There was no detail of the reconciling differences between the bank accounts and Oracle. The differences between the QuickBooks reconciled balances and Oracle for all cash accounts averaged (\$395,000) over the 2103 fiscal period.
- First National Accounts 35460806 and 110154781 had numerous outstanding checks dating back to 2007.

**Effect:** Without proper supervisory review, management cannot be sure that reconciliations are being prepared properly and promptly. Without knowing the detail of the differences between Oracle and Quickbooks, management cannot know with certainty that all transactions were posted completely and accurately and any error or irregularities were properly resolved. The County has not submitted to the State Treasurer the uncashed checks older than five years.

Cause: The Treasurer's office did not have a policy requiring supervisory approval of bank reconciliations. The reconciliation process in place did not provide for providing detailed explanations of differences between Oracle and QuickBooks. The investigation of outstanding checks to determine their status as unclaimed property has not been completed within the past year.

Recommendation: Develop and enforce a reconciliation policy that includes proper supervisory review of bank reconciliations and detailed explanations of all Oracle reconciling items. With the help of other County departments develop a strategy to migrate from QuickBooks and Quicken. The beginning step should begin with putting all bank accounts in the Oracle general ledger and posting to the appropriate bank accounts rather than to a summarized cash account. Investigate the uncashed checks and submit the unclaimed property to the State Treasurer as required per state statute.

Management Response: The Accounting Division management team reviews a variety of transactions on a day-to-day basis as bank transactions are processed. Documented evidence of managements' review would include a signature on a check or a bank transfer that is processed, etc.

The Treasurer's Office will develop a bank reconciliation policy that will require the Accounting Division management team:

- document their review of the completed bank reconciliations;
- ensure all reconciling items are properly supported;
- completes the process of forwarding checks (that have been outstanding for more than five years) to the State Treasurer's Office per Nebraska's Disposition of Unclaimed Property Act.

### Segregation of Duties

Criteria: Access to accounting and financial records should only be provided in accordance with management's approval with established procedures to detect misdirected cash and verification that deposits were made intact.

Condition: Five Treasurer Department accounting employees had system access that provided the ability to apply receipts to customer invoices and miscellaneous receipts that were not related to billings. There were two controls cited that mitigate the lack of segregation. For Oracle billings, receivables are monitored by the departments billing the customers as well as by County Administration personnel. Past due notices are sent when appropriate. Additionally, the Treasurer's office created a log of checks presented to accounting for processing. Individual checks were to be chosen from the log on a sample basis to verify that they were included in bank deposit and applied to the appropriate billing. There was no evidence to show that individual checks were sampled for verification.

Effect: Having access to cash receipt and the ability to post the receipts provides an opportunity to convert assets to personal use possibly without detection. Monitoring receivables provides one mitigating control. Further mitigation could have been effectively provided by tracing individual checks to deposits and postings.

Cause: The volume of checks received in the Treasurer's accounting office in relation to the staffing capabilities make segregating receipt duties difficult. Any work that might have been completed to verify postings and deposits was not properly documented.

Recommendation: Provide clear and convincing evidence of sampling work verifying that particular checks were posted and deposited. Further investigate where feasible the use of additional lockboxes, barcoded receipt processing, and requiring electronic payments from customers.

Management Response: The Douglas County Internal Auditor was provided a copy of a report of the review of the mailed check log process currently used by the Treasurer's Office Accounting Division. That report represents work that was completed subsequent to field work and serves as clear and convincing evidence of sampling work that was completed to verify particular checks were posted and deposited. The Treasurer's Office will periodically audit this process to ensure items received in the mail are posted and deposited.

Further, the Treasurer's Office has been exploring ways to process the thousands of food and pool permits that are processed in our office via a lockbox process. The Treasurer's Office has been collaborating with the Health Department and Dot.Comm in this endeavor. A meeting is scheduled for this week to complete the scope of work for the permits.

### iNovah Cashiering System

Criteria: Voided transactions should be approved by appropriate supervisory personnel to provide for adequate segregation of duties.

Condition: Only managers, assistant managers, and thirds have the appropriate access within the iNovah cashiering system to process transactions that need to be voided. The iNovah system has the capability to produce a report of all voids and adjustments including the user who processed the void. This report is not being used by management. Since managers, assistant managers, and thirds in branches and in accounting may have access to cash receipts and have the ability to process voids, review of this report would be an important mitigating control to detect unauthorized activity.

Effect: Any unauthorized voids resulting from personnel with the ability to void transactions and also having access to cash receipts may not be detected.

Cause: The Treasurer's office does not have a policy requiring review of the iNovah report of all voids and adjustments.

Recommendation: Develop and enforce a policy requiring documented management review of void and adjustment reports by appropriate personnel. The review should include an analysis that would bring to light any suspicious individual transactions or trends by personnel or within specific locations.

Management Response: The Treasurer's Office will develop a policy requiring its management team periodically document their review of the voids/adjustments reports that are generated by the iNovah system.

Criteria: All cash receipts received should be promptly classified, summarized and reported.

System Balancing

Condition: Receipts are traced to Oracle from iNovah allocation reports and source system reports if there are one-to-one ledger account and transaction code relationships. However, for motor vehicle fees and other miscellaneous items there are not one-to-one transaction and account code relationships. It is impractical to balance these individual items to Oracle at this time on a daily basis.

Effect: It is impractical to verify for accuracy all receipt postings to Oracle on a daily basis. Erroneous or misclassified transactions may not be detected.

Cause: Resources needed to develop a more detailed balancing process have been devoted to other areas considered higher priorities.

Recommendation: Develop appropriate transaction code and reporting relationships that will allow accounting to use the allocation reports to trace to from source systems to Oracle postings.

Management Response: The Treasurer's Office Accounting and Systems Divisions will develop the appropriate transaction codes.

**Audit Standards**

Internal Audit conducted this audit in accordance with generally accepted government auditing standards. Those standards require that the audit is planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Internal Audit believes that the evidence obtained provides a reasonable basis for its findings and conclusions based on the audit objectives.

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This report was reviewed with the Douglas County Treasurer, Chief Deputy Douglas County Treasurer and the Treasurer's Senior Director of Accounting/Auditing. Internal Audit appreciates the excellent cooperation provided by the various departmental managers and staff. If you have any questions or wish to discuss the information presented in this report, please feel free to contact me at (402) 444-4327.

Sincerely,

Mike Dwornicki  
Internal Audit Director

cc: Paul Tomoser  
Trent Demulling  
Joni Davis  
Donald Stephens  
Thomas Cavanaugh  
Tim Cavanaugh  
Patricia Carter  
Kathleen Hall  
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