DECENTRALIZED BANK ACCOUNT INTERNAL AUDIT

Recorder's Office

INTERNAL AUDIT REPORT

August 28, 2019

MCHENRY COUNTY AUDITOR'S OFFICE

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance process.

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INTERNAL AUDIT PROGRAM

BACKGROUND – (Recorder's Office)

Each department reviewed is presented separately for this County-wide internal audit due to the volume of bank accounts and departments reviewed. This is a recommended best practice to ensure attention is brought to all recommendations. Findings for only the Recorder's office are presented in this report. Findings for the other departments will be presented separately.

CENTRALIZATION OF BANK ACCOUNTS

Internal audit reviewed the possibility of centralizing the decentralized bank accounts. At this time, due to a new system implementation, banking and accounting delays; it is not recommended for consideration for most of the accounts. Many of the barriers to centralizing some accounts is the ability to cut checks from the system in other County departments and setting up new accounting in the D365, accounting system. Additionally, some bank accounts have additional legal and statutory concerns and requirements that prevent centralization or possibly would need to be explored further. These accounts were considered during the ERP process and ultimately it was concluded this would not occur during Phase one (1) or two (2) of the ERP project, but could be considered in future system changes. Internal Audit Division will explore further at the appropriate time in the future.

INHERENT RISKS

The inherent risks involving the decentralized checking accounts are;

- Mishandling of the fund by employees,
- Lack of approval for transactions,
- Incomplete supporting documentation,
- Reconciliations are not performed timely and accurately, and
- Expenditures are not supported by documented invoices.

Lastly, an internal audit of the decentralized checking accounts does not provide absolute assurance, but gives additional assurance that the accounts are adequately controlled and safeguarded. Due to inherent limitations in any system of internal control; errors or irregularities may occur and may not be detected timely.

OBJECTIVES

Our internal audit objectives were to determine transactions are properly accounted for and funds are adequately safeguarded and are being used for their intended purpose. Also, decentralized accounts were reviewed to determine if they can be centralized.

AUDIT PROCEDURES

To achieve our internal audit objectives, the Internal Audit Division performed the following internal audit procedures:

1. Reviewed **custody** and **access to** deposits and check stock,
2. Confirmed a sample of transactions for support, business purpose and authorization,
3. Verified outstanding checks were eligible for unclaimed property,
4. Emailed internal control questionnaires to assess and document controls and department procedures,
5. Evaluated **segregation of duties**,
6. Reviewed documented bank account reconciliations and secondary reviews,
7. Follow-up past internal audit findings for applicability and implementation, and
8. Analyzed ability to centralize any bank accounts with statute and business case.

SCOPE AND METHODOLOGY

The scope covered all decentralized checking accounts Countywide from December 1, 2018 – April 30, 2019. Reconciliations for March 2019 were reviewed. Additional reconciliations were reviewed for limited bank accounts dependent on findings. Decentralized accounts are ones that are maintained within a County department and not kept in the County's central accounting system.

SUMMARY OF DECENTRALIZED CHECKING ACCOUNTS – RECORDER'S OFFICE

Petty Cash Refund – Overpayments of fees are placed into the account and are refunded back to the customer. There was no noted statutory authority for this account. However, a minimal balance of a few hundred dollars exists and it is managed decentralized to increase the speed of refund return and processing for customers.

FINDINGS AND RECOMMENDATIONS FOR IMPROVEMENT

Based on internal audit procedures performed, the following finding was noted:

FINDING:
In order to evidence that monthly reconciliations over the petty cash refund account undergoes periodic and consistent review/approval by personnel other than the preparer, the initials of the reviewer/approver should be documented and dated on the reconciliation. When the employee who normally reviews/approves reconciliations is called to perform the reconciliation, then the review/approval must be performed by another employee with knowledge of this reconciliation process in order to avoid the same employee preparing, reviewing and approving the reconciliation for proper segregation of duties.

RISK: MEDIUM

RECOMMENDATION:
The review/approver's initials would indicate that the reconciliation is performed on time, no outstanding items exist over 90 days and balances used in the reconciliations are accurate by tracing them (book and bank statement balances) to source documents.

MANAGEMENT'S RESPONSE:
The Chief Deputy in the Recorder's Office will initial and date the reconciliation evidencing the review/approval process was performed.

Estimated Completion Date:
August 3, 2019

This concludes our audit report.

Respectfully submitted,

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Appendix A Audit Findings Risk Rating Definitions

Rating	Description
Critical	This item should be addressed with a sense of urgency. Processes and controls are either nonexistent or fail to effectively manage risks. For example, the current processes do not sufficiently prevent or detect asset misappropriation, noncompliance with regulations, transaction errors, etc. Finally, the underlying assets affected (finances, reputation, property, stakeholders, etc.) are considered significant (e.g., dollar amount, number of stakeholders impacted, potential fines, extend of media exposure etc.). Requires ongoing executive level oversight. The level of risk warrants that all possible mitigation measures be analyzed in order to bring about a reduction in exposure.
High	This item should be addressed with high priority. Formal processes and controls may exist, however, they fail to effectively manage risks. For example, the current processes do not sufficiently prevent or detect asset misappropriation, noncompliance with regulations, transaction errors, etc. Finally, the underlying assets affected (finances, reputation, property, stakeholders, etc.) are considered significant (e.g., dollar amount number of stakeholders impacted, potential fines, extent of media exposure etc.) but is not substantial enough to be considered critical. Action plans and resources required. The level of risk is likely to endanger capability and should be reduced through mitigation strategies where possible.
Moderate	Formal or informal processes and controls may exist, however, they are only partially effective at managing risks. For example prevention or detection of unwanted outcome may occur, but, the prevention does sufficiently cover the population at risk or the detection is not timely. Finally, the underlying assets affected (finances, reputation, property, stakeholders, etc.) are moderately significant (e.g., dollar amount, number of stakeholder impacted, potential fines, extend of media exposure etc.).
Low	Formal process and controls exist and are partially effective at managing risks. However, the underlying assets affected (finances, reputation, property, stakeholders, etc.) are minimal (e.g., dollar amount, number of stakeholders impacted, potential fines, extent of media exposure etc.).