



DECENTRALIZED BANK ACCOUNT INTERNAL AUDIT

Administration - McSeep
INTERNAL AUDIT REPORT
August 30, 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.

Shannon L. Teresi, County Auditor
MAS, CPA, CIA, CFE, CRMA
2200 North Seminary Avenue
Woodstock, IL 60098
(815) 334-4203

INTERNAL AUDIT PROGRAM

BACKGROUND – (Administration)

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 Administration 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, funds are adequately safeguarded, and 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 – ADMINISTRATION

McSEEP (McHenry County Schools Environmental Education Program) - This is funded partially from the Planning and Development’s Departments budget and an office is held within their office for the Director of McSEEP. County Administration manages the checking account for the McSEEP program. There is no statutory authority for this account to be decentralized.

FINDINGS AND RECOMMENDATIONS FOR IMPROVEMENT

Based on internal audit procedures performed, the following was noted and is a “repeat” finding.

FINDING (taken from the County Auditor’s Report on Decentralized Bank Account Audit, report dated 7/10/15): Centralizing McSEEP Account

The McHenry County Schools Environmental Education Program (MCSEEP) was noted as a County run program. Currently, Planning and Development pays Bethany Gola's independent contractor salary, teacher fees and additional curriculum expenses (\$21,000 budgeted for 2014). The program used to be managed by Regional Office of Education in 2010 and prior. The bank account has the County's tax ID and is managed by County Administration and receives a small fee from each school for presentations made related to environmental education. The checking account pays for the teachers and program expenses.

Since, this is considered a County run program, **it is recommended to centralize** the program by putting the revenues and expenses in a special revenue fund in the County's accounting system and a budget be created for the program. It was noted that there is no statutory authority for the account or for it to be decentralized. It is also recommended since the program is a County run program that revenues and expenditures should be recorded for financial reporting purposes, versus incorrectly as a liability as other agency accounts are recorded. **This can more easily be accomplished, if the account was centralized and greater transparency would be gained.**

Management Response - Peter Austin, County Administrator (from 7/10/15 County Auditor's Report on Decentralized Bank Account Audit):

County Administration does not have any concerns with centralizing the McSEEP account. This account was established many years ago, and was transferred to County Administration in 2006. It is funded through donations from Schools, grants, and private business. The County agreed to allocate \$21,000 of the tipping fees each year to support the programs of McSEEP, of which these funds are accounted for in the County's operating budget and financial statements. It is the recommendation of County Administration that the McSEEP Account be set up as a special fund since it is not taxpayer dollar funded, and should not be co-mingled with County Funds. As with all the decentralized accounts being recommended for becoming accountable on the County's books, it will require an emergency appropriation to the FY2015 budget to allow for the expenditure of the funds.

The County gives financial and office support to the program, however, County Administration is hesitant to agree that this is a "County operated" program. The County does not employ personnel, does not give direction on the types of programs to be developed, and does not have authority to end the program (its authority is whether or not to contribute funding). This is similar to funding given by the County to MCEDC, Soil & Water, Visit McHenry County, and the Illinois Extension Service. The only difference is that McSEEP funding is so small; it cannot afford office space, or personnel to maintain an office.

CURRENT FINDING: As a result of internal audit work performed in 2019, the above referenced account has not been centralized. Due to the funding source of the program coming from donations, it could be considered as an "Agency Fund" versus Special Revenue Fund."

CURRENT RISK RATING: Moderate

CURRENT RECOMMENDATION: Administration should take positive steps in ensuring the above mentioned account is centralized. Once centralized it is also recommended documentation be obtained from the Treasurer's Office supporting its move to being centralized and forwarded to the County Auditor's Office for inclusion in their 2019 workpapers for this internal audit. Due to the funding source of the program coming from partially donations, it could be considered as an "Agency Fund" versus Special Revenue Fund as previously recommended." Proper accounting determination should be analyzed further for fund classification.

Updated Management Response – Peter Austin, County Administrator 8/30/2019

Administration agrees with the recommendation and has requested a meeting in October with applicable staff to explore accounting, operational and system changes that may lead to decrease risk, increased efficiencies and transparency for the McSeep decentralized bank account. Administration will keep the Auditor's Office updated on progress and will provide support to the Auditor's Office once completed.

Estimated Completion Date: November 30th, 2019

This concludes our report.

Respectfully submitted,

Shannon L. Teresi, County Auditor
MAS, CPA, CIA, CFE, CRMA

Don M Anderson, Chief Deputy / Internal Auditor
CPA, CFE

McHenry County
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.). |