



DECENTRALIZED BANK ACCOUNT INTERNAL AUDIT

Regional Office of Education
INTERNAL AUDIT REPORT

September 3, 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 – (Regional Office of Education)

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 Regional Office of Education (ROE) 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.

DECENTRALIZED CHECKING ACCOUNTS – Regional Office of Education

General Fund – It collects GED, bus driver, teacher certification, fingerprinting and diploma fees. Funds are used to pay expenses of the ROE.

Distributive Fund – Contains state and federal money earmarked for very specific purposes such as: Regional Safe Schools Fund, Title II (Teacher Quality and Leadership grant) to purchase training modules and KIDS professional education consortium between DeKalb, Boone, Winnebago and McHenry Counties.

Registration Fees E-Pay – Illinois Funds – Teachers pay registration fees to the State of Illinois and the funds are deposited into a bank account ROE has with the state. The State of Illinois took over receipt of registration fees starting June 30, 2013.

Registration Fees E-Pay Holding Account - Pass through bank account for the E-Pay funds. \$5,000 balance is maintained in account.

The McHenry County Regional Office of Educ. – Illinois Funds – This is a bank account ROE has with the state. ROE receives deposits of different grants that are immediately transferred into the ROE's Distributive Fund account.

FINDINGS AND RECOMMENDATIONS FOR IMPROVEMENT

Based on internal audit procedures performed, the following findings and recommendations were noted:

1) FINDING – SEGREGATION OF DUTIES BETWEEN APPROVAL AND CHECK SIGNING

A sample of transactions were selected from deposit account bank statements and related reconciliations of all the department's decentralized bank accounts within the scope period.

Based on audit work performed, 11 of the 25 sample items selected for review did not have the initials of an approver on the related invoice. However, the check signer for all of these items was the Head of the ROE Office.

In order to put in place proper segregation of duties over the approval of invoices and their payment, two employees should be involved, one over the approval and the other for disbursement. The check signer should be a different employee from the employee approving the invoice. The objectives of internal controls over decentralized cash disbursements are to ensure that cash is disbursed only upon proper authorization of management, for valid business purposes and that all disbursements are properly recorded with adequate support. Without proper internal controls, there would be unnecessary risks that are avoidable with proper due diligence. Given the limited staff of this department, which are three employees, and based on discussions with the Head of the Department, it would be difficult to adhere to the above segregation of duties at the time of this writing.

RISK: High.

RECOMMENDATION: Due to the limited staff, implementation of proper segregation of duties as noted above would cause unnecessary hardships and inefficiencies on the department's operations. As such it is recommending that a mitigating control be put in place instead. This involves reviewing the support documentation for all disbursements (since the last review) and comparing the amount to either the actual check or the copy of the check kept on file. This review should occur by the department's deputy within one week after the check was signed and should incorporate a procedure to ensure that a fullproof way that all disbursements were reviewed. After this review has been performed, the department's deputy should date and provide their handwritten initials on the invoice reviewed along with providing their handwritten initials in front of the Head of the ROE Department's signature on the file copy of the check as well.

MANGEMENT RESPONSE: *The Regional Office would welcome and appreciate the creation of a mitigating control to ensure the proper handling of the department's finances and alleviate any external department/agencies concerns of any financial mismanagement. We agree will all recommendations and would like to have controls in place by the beginning of the new fiscal year.*

Estimated Time of Completion: 11/30/2019

2) FINDING – CREDIT CARD BALANCE CARRIED AND LIMITED SUPPORT

The business BMO Harris Bank Credit Card assigned to the Superintendent of the Regional Office of Education had a balance carried for at least one month instead of being completely paid off to avoid having to pay finance charges. The BMO Harris Bank credit card is paid often with a combination of the ROE's decentralized bank account and County's financial system, D365. Administration is overseeing and assisting the ROE Office's daily financial operations, since they have been short staffed for several months. Administration's requirement that was communicated to the Superintendent is that the Assistant Administrator-Finance will approve all ROE invoices due to workflow with D365. As of this writing, training is ongoing to teach staff within the ROE office to assist with D365 processing, so approvals can be documented electronically in the system by the ROE superintendent or delegate. In addition, there was limited support provided for the credit card expenditure tested totaling \$600.00 for conference attendees. Additional support was requested to validate expenditure occurred and who received the training.

RISK: Moderate

RECOMMENDATION:

The credit card statement balance associated with the Superintendent's business credit card, from BMO Harris, for ROE should be paid off entirely as to avoid finance charges. Good stewardship of taxpayer funds would be to have this balance paid off each month as to avoid the payment of finance charges and any other related charges, such as late fees, etc. The ROE Office should meet with Administration to ensure there are procedures in place for Administration to have invoice balances paid in full each month and on a timely basis. In addition, priority of the D365 training should occur by ROE staff, so timely processing of payments can occur with accountability within ROE.

During the Deputy's review recommended in finding 1, disbursement support should be reviewed weekly to ensure all documents maintained adequately substantiates any expenses occurred and payments are made timely.

Additional support related to the credit card expense of \$600.00 should be maintained and documented in ROE files. Support is recommended to be supplied to Auditor's Office as well for the expense, once located.

MANAGEMENT RESPONSE: *The Regional Office believes that all payments need to be made in a timely fashion. Implementation of a new financial system and loss of department bookkeeper have caused delays in getting bills paid on time. We look forward to learning and using D365 in order to expedite bookkeeping and avoiding any late fees/charges. We agree will all recommendations and would like to beginning D365 training for pertinent staff immediately so all controls and practices are in place for the beginning of the new fiscal year.*

Estimated Completion Date: 11/30/2019

This concludes our report on decentralized bank accounts within the Regional Office of Education.

Respectfully submitted,

Shannon Teresi

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

Donald M. Anderson

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, extent 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.).