DECENTRALIZED BANK ACCOUNT INTERNAL AUDIT

Sheriff's Office

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.

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INTERNAL AUDIT PROGRAM

BACKGROUND – (Sheriff'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 Sheriff'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, 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 – SHERIFF'S OFFICE

1. **Jail Prisoner Finance Account (Stellar) –** The account was actively used to manage inmate's money from the fall of 2010 to the end of fiscal year 2013. The account is an agency account temporarily holding money on the inmates' behalf. There is no clear guidance as to how the funds shall be held, but the account is being phased out and remainder funds are escheated to the state annually.

2. **Jail Prisoner Finance Account #2 (Aramark) –** The County Jail switched to using Aramark as the Commissary vendor at 11/30/13 and opened a new bank account to manage County inmate's money. The account is an agency account temporarily holding money on the inmates' behalf. There is no clear guidance as to how the funds shall be held, but due to the fact it is an Agency account and the daily issuance of checks from the account; the funds should be kept decentralized.

3. **Safety & Education –** Receives funds through donations. The funds are used for safety programs to provide food for trainings and education events and fingerprinting for kids. There are no statutory references to this fund, but is kept decentralized to accept donations for safety and education programs.

4. **Narcotics Forfeiture –** The funds are related to state seizures and are used for the enforcement of Narcotics. The fund is also used to purchase narcotics to apprehend those selling and involved in illegal drug activity. 720 ILCS 570/505(g), 550/12(g), 646/85(g) and 21 U.S.C. 881(e)(1)(A)/18 U.S.C. 981(e)(2) further directs how proceeds from forfeitures should be handled. Specifically, 570/505(g)(2)(i) explains that the State's Attorney's funds shall be deposited in the County's Treasury. The statute is silent on how the Sheriff's narcotic funds should be managed, but centralizing is not recommended at this time due to other accounting and system priorities.

5. **Narcotics Fed Forfeiture -** Funds are related to federal seizures and are used for the enforcement of Narcotics. 720 ILCS 570/505(g), 550/12(g), 646/85(g) and 21 U.S.C.

881(e)(1)(A)/18 U.S.C. 981(e)(2) further directs how proceeds from forfeitures should be handled. Specifically, 570/505(g)(2)(i) explains the State's Attorney's funds shall be deposited in the County's Treasury. The statute is silent on how the Sheriff's narcotic funds should be managed, but centralizing is not recommended at this time due to other accounting and system priorities. Per the Federal Equitable Sharing Agreement the funds need to be kept in a separate per the signed agreement with the County.

6. **Narcotics Treasurer Forfeiture -** The Narcotics Division assists ICE-HSI (Immigration & Customs Enforcement – Homeland Security Investigations), which is part of the Federal Department of Treasury and not the Department of Justice. A separate bank account is required per the signed Federal Equitable Sharing Agreement for our agency to participate in this program. Centralizing is not recommended at this time due to agreement, other accounting and system priorities.

7. **Petty Cash –** The Sheriff's Office maintains a petty cash fund with a balance of $500.00. A portion of the fund is maintained in a cash drawer and the remaining amount is held in a petty cash checking account. The checking account functions as a petty cash fund and the fund is reimbursed through submission of receipts through the County's accounts payables process. The Counties code does not make reference to petty cash funds for the Sheriff's Office. However, similar funds are authorized for the Clerk, Recorder and Treasurer (55 ILCS 5/3-2003.4, 5005.4 and 100005.3). Petty cash fund expenditures are processed through the Counties accounting system during the reimbursement process allowing for transparency within the account.

FINDINGS AND RECOMMENDATIONS FOR IMPROVEMENT

Based on internal audit procedures performed, no findings were noted.

Respectfully submitted,

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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.).