CLARK COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. The Sheriff's Office Finance And Planning Department Should Improve Accounting Controls And Comply With State Laws Over Inmate And Commissary Account Activity

During our audit of the sheriff's office finance and planning department, we discovered weaknesses in administration of the inmate trust accounts and county jail commissary as discussed below.

Independent Accounts Established:

The sheriff's office inmate trust and jail commissary bank accounts were each inappropriately established independently at the department and not recorded with the county treasurer or the county auditor. One account is used to hold money in trust on behalf of over 400 jail inmates, while the other is used for inmate welfare expenses including the purchase and sale of commissary products and other supplies and services. During 1995, these accounts had activity (revenues and expenditures) of approximately $700,000 and $400,000, with year end balances of $10,317 and $138,557, respectively. These accounts must be accounted for in the county records as required by law.

RCW 36.29.020 states in part:

> The county treasurer shall keep all moneys belonging to the state, or to the county, in his or her possession until disbursed according to law . . . .

RCW 43.09.240, further states in part:

> Every public officer and employee of a local government shall keep all accounts of his or her office in the form prescribed and make all reports required by the state auditor . . . .

The *Budgeting, Accounting, and Reporting System* (BARS) manual, prescribed by the State Auditor, Vol. 1, Part 1, Chapter 2, page 3, requires inmate trust accounts to be recorded in the county's records under "Other Internal Trusts (Not in Treasury)) Merchandise." Commissary expenditures are required to be recorded in the county's records under "Care and Custody of Prisoners."

During discussions with the sheriff's office director of finance and planning and the internal audit staff, management indicated they did not believe the inmate trust and jail commissary accounts were public funds. The county, however, has a fiduciary responsibility in the administration and custody of these funds which requires they be included in county systems and properly reflected in the

financial records.

Because these accounts were outside the county auditor's and county treasurer's records, commissary revenues and expenditures were not budgeted; expenditures were not certified or approved; and purchases were not properly bid according to state law. Additionally, failure to properly record these accounts contributes to weakened cash controls, as noted below, and an understatement of the county's assets and liabilities.

Internal Control Weaknesses:

Inmate Trust Account

a. Inappropriate Accounting For Outstanding Checks **)** Checks issued to inmates that are outstanding for over one year are routinely canceled with no corresponding reclassification made to individual inmate records. These canceled checks amount to approximately $100 to $200 per month and cause the bank account to be out of balance with the inmate records by increasing amounts.

b. Inmate Accounts Not Reconciled **)** Our examination of inmate accounts, which reflect sources and uses of their funds and the balance held in trust, were not reconciled with the amount of cash in bank. Such a reconciliation is a common internal control practice and necessary to properly account for inmate cash.

c. Discrepancies In Account Balances **)** The automated accounting system used to track inmate account activity contains unexplained discrepancies in the balances from month to month. We compared April, May, and June 1996 for consistency and found that month-end balances did not agree with the beginning balances of the following month, as illustrated below:

Month	Balances	Month	Balances
April Ending	$14,884.22	May Ending	$13,748.42
May Beginning	13,448.42	June Beginning	12,374.63
Discrepancy	$ 1,435.80	Discrepancy	$ 1,373.79

The discrepancies in the inmate ledger account balances were the result of flaws in the computer program used to track inmate accounts activity. The sheriff's office finance and planning department was not aware of the balance discrepancies because they were not reconciling the inmate ledger account balances to the inmate trust bank account.

Jail Commissary Account

a. No Receipting System In Place **)** During calendar year 1995, the finance and planning department reported $491,186.43 in sales from commissary products and telephone charge rebates, as well as other revenues. Our examination revealed there is no system in place to initially record these revenues as they are received in this department. Without a receipting system in place, we were unable to determine

whether all revenues received were, in fact, deposited.

RCW 43.09.200 states in part:

> The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents . . . necessary to isolate and prove the validity of every transaction . . . .

b. Improper Purchases) Additional testing disclosed the purchase of a computer and related equipment for $5,489. According to the director of finance and planning, the computer was located at his home and not used for commissary purposes.

The *Washington Administrative Code* (WAC) 289-22-200 states:

> (1) Commissary.
>
> Proceeds from a jail facility store shall be used for operation and maintenance of the commissary service and/or prisoner welfare expenses . . . .

RCW 42.24.090 states:

> No claim for reimbursement of any expenditures by officers or employees of any municipal corporation or political subdivision of the state for transportation, lodging, meals or any other purpose shall be allowed by any officer, employee or board charged with auditing accounts . . . All claims authorized under this section shall be duly certified by the officer or employee submitting such claims on forms and in the manner prescribed by . . . the office of the state auditor.

c. Weaknesses In Voucher Review) We found that when payments are made for pharmaceuticals and commissary products, the finance and planning department does not verify the amount of the invoice to ensure only those items received are paid for.

The effect of these weaknesses and violations of state law are cited below:

- Places public funds at increased risk that errors and irregularities could occur and not be detected in a timely manner. Further exposes the county to increased risk of misuse, abuse, or loss of public funds.

- Jeopardizes the process of public involvement and scrutiny in how public funds are managed, as well as the process which assists in assuring the public receives the benefit of the lowest

possible price for purchased goods and services.

- Results in higher audit costs due to the increased risk from lack of adequate internal control.

- Distorts the financial reporting for operations of the sheriff's office and could have an affect on the decision making process.

We recommend the sheriff's office finance and planning department and the county's internal audit staff develop procedures to correct the internal control weaknesses and comply with state law as follows:

a. Bank account activity should be reported as required by the BARS.

b. Individual inmate accounts should be routinely reconciled with the amount of cash in bank. Inconsistencies in the automated system for inmate accounts should be resolved to ensure the integrity and accuracy of this system.

c. A sequentially numbered receipting system should be implemented that records all proceeds received within the department. The daily deposits to the county treasurer should be verified to the sequential use of these receipts and verified by separate individuals to ensure they are intact and accurate.

d. Commissary account activity should be included in the annual budgetary process.

e. Commissary expenditures should be certified by the county's auditing officer in the Clark County Auditor's Office and approved in a public meeting as required by law.

f. Estimated expenditures exceeding the statutory threshold should go through the formal bidding process as required by law.

g. Controls should be improved to ensure that only those products and services received are paid for.

2. Cash Control And Accounting In The Corrections Department Should Be Improved

The Clark County Corrections Department receives payments for monitoring offenders from a variety of sources including compliance monitoring fees, supervised probation fees, indigent defense cost recovery payments, DWI center fees, deferred prosecution payments, electronic home confinement fees, and work crew fees. In 1995, corrections served over 3,000 offenders and collected fees in excess of $308,000, much of it cash. Because of the large amount of cash received, and the system's complexity, strong internal controls are essential. However, during our examination of corrections, we discovered significant internal control weaknesses as follows:

Incompatible Duties: Employee duties are not properly segregated. The employee who prepares the deposit also records the daily receipts in the various data bases. Additionally, this individual can enter noncash credits into the system. Although we found no evidence of misuse of funds, these system weaknesses should be eliminated because they unnecessarily place the county's funds at risk. Additionally, they unfairly place county employees in a compromised position. The system should be constructed so that no individual has both access to cash and the ability to manipulate records which account for cash. Without these controls, funds could be misappropriated and the accounts altered to conceal the loss.

Cash/Check Composition Unreconciled: The mode of payment recorded on the cash register tape is not reconciled to the cash and checks in the bank deposit. Without this control, transactions paid by check may not be recorded while the system is balanced by removing cash from the deposit, resulting in the loss of public funds. During our tests of February 1996 activity, we discovered eight instances where the mode of payment in the deposit didn't agree with the cash register tape. Cash and check distinction is not entered properly and miscellaneous revenues were not rung through the cash register. Because of these weakness, we could not determine if all cash had been properly recorded.

Untimely Deposits: Deposits are routinely made one or two times a week. Four nonsequential days' cash collections totaling $3,590 were inappropriately held and deposited together at a later date. In one case, the deposit for February 7th and 8th was not made intact. The $405 difference was deposited nearly one month later on March 5, 1996. Daily intact deposits, where the cash and check composition match actual receipts, are a necessary element in a strong system of cash controls. In addition, daily deposits are required by RCW 43.09.240, which states:

> Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the taxing district once every twenty-four hours. (Emphasis ours.)

Weak Database Controls: Eight different databases are maintained. The databases can not readily generate accounts receivable balances. As a result, no accounts receivable control is maintained nor is an aged accounts receivable analysis performed. Additionally, past due accounts are not reviewed or routinely collected. The cash collection database is not tied to the seven databases which track each different type of fee collected. Manual entries are made from the cash register tape to the cash collection database to the fee databases. In many instances, manual calculations are made to determine the new balance owing. We found one account where the fee assessed less the amounts collected did not agree to the balance owing. The balance was reduced by $50 with no cash receipt to support the reduction. In addition; update, edit, and delete access is given to employees who handle the cash.

The weaknesses place public funds at a significantly higher risk that errors and irregularities could occur and not be detected in a timely manner. Further, these weaknesses could result in loss, misuse or abuse of public money.

These weaknesses are the apparent result of a lack of management review, high staff turnover, and a lack of written polices and procedures.

We recommend that the corrections department:

- Develop written cash handling policies and procedures.
- Segregate cash collection from input of receipts and non-cash credits into the database.
- Restrict cash access to cashiers.
- Deposit revenue daily.
- Ensure that all deposits are made intact.
- Develop procedures for collection of past due accounts.
- Establish and maintain an accounts receivable control account.
- Perform regular aged accounts receivable analyses.

3. Clark County Should Improve Controls Over Contract Administration

During the course of business, the county routinely contracts for a variety of goods and services such as public works construction, legal assistance, architect and engineering, and other professional services. We selected numerous contracts in effect during calendar years 1994 and 1995 for testing. We reviewed the contracts to ensure the county-wide system in place for controlling the approval, execution, and requirements of the agreements, is functioning as designed. The results of our examination revealed weaknesses in the administration of professional service contracts.

Contract Monitoring) Administrative procedures identified in the county's Contract Administration Form (1/15/88) place responsibility with the Clark County Auditor's Office for ensuring payments do not exceed the amount or the duration established in individual contracts. The auditor's office prepares a contract listing used for monitoring the county's contracts. However, we found that the list of contracts was not reliable when compared to contracts approved by the county commissioners. Without having a complete list of all contracts, the auditor's office cannot adequately monitor all county contract payments as required. This increases the risk that the county will overpay contracts, pay for uncontracted services, or inappropriately pay for services after the expiration of the contract.

Prescribed Contract Administration Documents Not Consistently Used By County Departments) Many county departments initiating contracts we tested failed to prepare the required Contract Administration Form (1/15/88). In its instructions, this document states in its Purpose paragraph:

> This contract administration form has been developed to provide centralized contract monitoring and control for Clark County.

Without the required form being filed by the contracting departments, it is difficult for the county auditor's office to monitor contracts as required by the county administrative procedures cited above.

Individuals Delegated With Authority to Sign County Contracts Is Unclear) County officials were also unable to provide a list of "delegated signees" who are authorized to sign contracts. Because of this we were unable, in some cases, to determine if the county's signee actually had the authority to contractually obligate the county.

Contract Administration Form (1/15/88), Instruction Page, Section 4, Contracting Authority, Paragraph 1 states:

> The authority to bind the County in a contractual relationship is held by the Board of County Commissioners and by delegation, the Purchasing Department. That authority may be delegated further by resolution. All contracts must be signed and dated by the County Commissioners, the Purchasing Department, or a delegated signee. The resolution number supporting the delegation of contracting authority is to be noted. (Emphasis ours.)

The director of finance indicated that, in 1988, the auditor's office attempted to provide additional internal controls over contract administration by adding the centralized monitoring aspects of the Contract Administration Form (1/15/88) to the responsibilities of those department heads with contracts under their control. This attempt was abandoned a short time later as impractical given the technology available at the time. County

officials also noted that no alternative guidance was provided to departments regarding contract administration. We also found that the practice of using manually prepared contract payments, instead of the automated system in place, made contract monitoring more difficult.

The county was unable to readily provide us with a complete list detailing the total number of contracts or personal service agreements in place during 1994 and 1995. However, from those personal service contracts we identified during the audit, we reviewed the 29 contracts represented in the table below:

Contractor	Contracts Reviewed	Contract Payments Reviewed	Contract Overpayments	Paid After Contract Expired	Paid Without Contract
Dygert & Simpson	14	$ 165,313	$2,818	$ 2,980	$42,120 4,000*
Hopper & Dennis	6	80,503	597	6,762	-0-
JD White Company	4	126,441	5,055	2,749	-0-
Ed Murphy	2	23,214	214	-0-	-0-
Motorola	1	274,328	-0-	-0-	-0-
Space Management Consultants	1	212,950	-0-	-0-	-0-
John Graham	1	25,000	-0-	-0-	-0-
Totals	29	$907,749	$8,684	$12,491	$46,120

* $4,000 for additional services were paid under contract number PK94-136, but were unrelated to this contract.

Of the 29 professional service contracts reviewed, 11 were overpaid or paid without a contract. Five had payments made after the expiration date and one was split into two separate contracts to bypass the requirement for board approval of all contracts over $7,500 and to expedite the process. One contract was "open ended" with no established dollar limit, while another had no expiration date.

We recommend the county implement internal controls over contract administration to ensure payments are not made in excess of the contract amount or outside the expiration date, personal service vendors are not paid without a contract, and all projects and contracts over $7,500 are approved by the board. We further recommend the county maintain a list of all authorized designees for signing contracts, along with the authorizing resolution number.