

Wake County
Report on Agreed Upon Procedures -
Processing of Revenue and Cash Receipts
For the period from
July 1, 2017 through November 30, 2017

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INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

The Board of Commissioners and Management
of Wake County, North Carolina

We have performed the procedures described below, which were agreed to by Wake County (the County), related to the County's processing of revenue and cash receipts for the period from July 1, 2017 through November 30, 2017 (the Period). The sufficiency of these procedures is solely the responsibility of the County. Consequently, we make no representation regarding the sufficiency of the procedures referred to below, either for the purpose for which the agreed upon procedures report was requested or for any other purpose.

Our procedures and associated findings are as follows:

1. We performed the following for one hundred and four (104) cash collection sites operating within each of the departments as listed in *Attachment 1* to this report:
 - a. Obtained management's written responses to the questionnaire included in our November 15, 2017 engagement letter regarding processes and procedures surrounding revenue and cash receipts.
 - b. Judgmentally selected four hundred and nine (409) revenue and cash receipt transactions that occurred during the Period and observed supporting documentation for each. We then compared our observations to the written responses described in procedure 1a.
2. For each site we identified (as applicable) those processes and procedures described in the questionnaire which could not be determined as being in place based on our observations.
3. Based on the results of procedures 1 and 2, a summary of our findings is reflected at *Attachment 1* to this report.

This engagement to apply agreed-upon procedures was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged and did not conduct an audit or examination, or a review, the objective of which would be the expression of an opinion or conclusion, respectively, on the County's processing of revenue and cash receipts for the period from July 1, 2017 through November 30, 2017. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the County and is not intended to be and should not be used by anyone other than this specified party.

A handwritten signature in black ink that reads "Elliott Davis P.C." in a cursive style.

Raleigh, North Carolina
August 9, 2018

Summary of Findings

Attachment 1

			Grand Total	Percent of Locations with Indicated Finding	Board of Elections	Community Services				
						Libraries	Parks & Recreation	Planning / Development / Inspections	Community Services - Other	Total
Finding No.	Finding Area	Number of Sites Observed	104		1	22	6	5	2	35
		Finding Condition								
1	Use of Sub-ledgers to Reconcile Transactions	Sub-ledger is not in place and the record of transactions occurring at site is limited to bank deposits.	53	51%	1	22	1	0	2	25
2	Revenue Reconciliation Process	While a sub-ledger is in place, transactions per the sub-ledger are not being compared to the site's daily bank deposits.	34	33%	0	14	1	2	0	17
3	Transaction Approval	Cashiers have the ability to record items such as voids, zero charge transactions, fee waivers, refunds and other adjustments without documented approval from a designated supervisor.	46	44%	0	20	5	1	0	26
4	Reconciliation Oversight	There is no effective periodic review and approval of the reconciliation process by County personnel other than site employees.	6	6%	0	0	0	2	0	2
5	Access to Cash on Hand	Insufficient restrictions surrounding access to cash storage units including safes and cashier drawers.	48	46%	0	22	2	1	1	26
6	Cash Limits	Sites retained cash balances on hand overnight in excess of \$250, and weekly or monthly deposits were not taking place as required for balances for less than \$250.	13	13%	0	0	1	2	0	3
7	Saleable Inventories	Blank birth certificates are not tracked and logged, and sales of certificates are not reconciled to bank deposits. Access to the supply is not restricted to designated personnel.	3	3%	0	0	0	0	0	0
8	Segregation of Duties	Reconciliation of sub-ledger receipts to the daily bank deposit is being conducted by the same individual performing the cashing function.	26	25%	0	4	5	3	1	13
9	Timely Recording of Collections	Posting of revenue collections to the County's general ledger system through journal entries may be delayed up to fifteen days from the date of the deposit.	43	41%	0	21	5	5	0	31
10	Timely Deposit of Collections	Pre-payments received for future services are not being deposited in a timely manner and refunds are not being processed through the Finance Department.	1	1%	0	0	0	0	0	0
11	Restrictive Endorsement of Checks	Checks are either not restrictively endorsed for an extended period of time or are being processed with no endorsement.	33	32%	0	0	0	1	0	1
12	Check Log	A listing of payments received via mail is not being maintained to document the source of each payment and to identify the employees responsible for opening the mail.	8	8%	0	0	0	1	0	1
13	Number of Collection Sites	Certain departments and offices are receiving and handling payments that should be remitted directly to Finance, including insurance payments, reimbursements from municipalities for EMS services, and construction closing checks.	5	5%	0	0	0	0	0	0

Summary of Findings

Attachment 1

			Environmental Services				General Services	Human Services			
			Animal Control	Permits /Lab	Solid Waste	Total		Public Health / Clinics	Regional Centers	All Other Sites	Total
Finding No.	Finding Area	Number of Sites Observed	1	2	3	6	6	14	3	12	29
		Finding Condition									
1	Use of Sub-ledgers to Reconcile Transactions	Sub-ledger is not in place and the record of transactions occurring at site is limited to bank deposits.	1	1	0	2	4	3	0	8	11
2	Revenue Reconciliation Process	While a sub-ledger is in place, transactions per the sub-ledger are not being compared to the site's daily bank deposits.	0	0	0	0	1	1	3	3	7
3	Transaction Approval	Cashiers have the ability to record items such as voids, zero charge transactions, fee waivers, refunds and other adjustments without documented approval from a designated supervisor.	0	1	2	3	1	9	1	1	11
4	Reconciliation Oversight	There is no effective periodic review and approval of the reconciliation process by County personnel other than site employees.	0	1	0	1	0	1	0	1	2
5	Access to Cash on Hand	Insufficient restrictions surrounding access to cash storage units including safes and cashier drawers.	1	1	0	2	1	7	1	5	13
6	Cash Limits	Sites retained cash balances on hand overnight in excess of \$250, and weekly or monthly deposits were not taking place as required for balances for less than \$250.	0	0	0	0	1	3	0	5	8
7	Saleable Inventories	Blank birth certificates are not tracked and logged, and sales of certificates are not reconciled to bank deposits. Access to the supply is not restricted to designated personnel.	0	0	0	0	0	0	3	0	3
8	Segregation of Duties	Reconciliation of sub-ledger receipts to the daily bank deposit is being conducted by the same individual performing the cashing function.	1	0	2	3	0	1	0	3	4
9	Timely Recording of Collections	Posting of revenue collections to the County's general ledger system through journal entries may be delayed up to fifteen days from the date of the deposit.	0	1	1	2	1	1	0	6	7
10	Timely Deposit of Collections	Pre-payments received for future services are not being deposited in a timely manner and refunds are not being processed through the Finance Department.	0	0	0	0	0	0	0	0	0
11	Restrictive Endorsement of Checks	Checks are either not restrictively endorsed for an extended period of time or are being processed with no endorsement.	1	0	0	1	1	8	0	6	14
12	Check Log	A listing of payments received via mail is not being maintained to document the source of each payment and to identify the employees responsible for opening the mail.	0	0	0	0	0	1	0	2	3
13	Number of Collection Sites	Certain departments and offices are receiving and handling payments that should be remitted directly to Finance, including insurance payments, reimbursements from municipalities for EMS services, and construction closing checks.	0	0	0	0	0	0	0	0	0

Summary of Findings

Attachment 1

			Public Safety					Revenue			Remaining Sites *
			CCBI	EMS	Fire & Emer Mgmt	Sheriff	Total	Central Collections	Municipal Sites	Total	
Finding No.	Finding Area	Number of Sites Observed	1	1	1	4	7	4	6	10	10
		Finding Condition									
1	Use of Sub-ledgers to Reconcile Transactions	Sub-ledger is not in place and the record of transactions occurring at site is limited to bank deposits.	0	1	1	0	2	0	0	0	8
2	Revenue Reconciliation Process	While a sub-ledger is in place, transactions per the sub-ledger are not being compared to the site's daily bank deposits.	1	0	0	4	5	0	4	4	0
3	Transaction Approval	Cashiers have the ability to record items such as voids, zero charge transactions, fee waivers, refunds and other adjustments without documented approval from a designated supervisor.	1	0	0	4	5	0	0	0	0
4	Reconciliation Oversight	There is no effective periodic review and approval of the reconciliation process by County personnel other than site employees.	0	0	0	0	0	0	1	1	0
5	Access to Cash on Hand	Insufficient restrictions surrounding access to cash storage units including safes and cashier drawers.	0	0	0	1	1	0	4	4	1
6	Cash Limits	Sites retained cash balances on hand overnight in excess of \$250, and weekly or monthly deposits were not taking place as required for balances for less than \$250.	0	0	0	0	0	0	1	1	0
7	Saleable Inventories	Blank birth certificates are not tracked and logged, and sales of certificates are not reconciled to bank deposits. Access to the supply is not restricted to designated personnel.	0	0	0	0	0	0	0	0	0
8	Segregation of Duties	Reconciliation of sub-ledger receipts to the daily bank deposit is being conducted by the same individual performing the cashing function.	0	0	0	2	2	0	3	3	1
9	Timely Recording of Collections	Posting of revenue collections to the County's general ledger system through journal entries may be delayed up to fifteen days from the date of the deposit.	1	0	0	0	1	0	1	1	0
10	Timely Deposit of Collections	Pre-payments received for future services are not being deposited in a timely manner and refunds are not being processed through the Finance Department.	0	0	0	1	1	0	0	0	0
11	Restrictive Endorsement of Checks	Checks are either not restrictively endorsed for an extended period of time or are being processed with no endorsement.	0	1	1	0	2	4	0	4	10
12	Check Log	A listing of payments received via mail is not being maintained to document the source of each payment and to identify the employees responsible for opening the mail.	0	0	0	0	0	0	1	1	3
13	Number of Collection Sites	Certain departments and offices are receiving and handling payments that should be remitted directly to Finance, including insurance payments, reimbursements from municipalities for EMS services, and construction closing checks.	0	1	1	0	2	0	0	0	3

* Remaining Sites include the following departments:

Communications, County Attorney, County Manager, Facilities Design & Construction, Finance, Housing, Human Resources, Information Services, Pool Permits, Workforce Development



MANAGEMENT LETTER

The Board of Commissioners and Management
of Wake County, North Carolina

In performing our agreed upon procedures described in our report dated August 9, 2018, we observed selected revenue and cash receipt transactions for the purpose of comparing our observations to the written responses generated from the County's internal control questionnaire, but not for the purpose of expressing an opinion on the effectiveness of the County's internal controls. Accordingly, we do not express an opinion on the effectiveness of the County's internal controls. However, as a result of performing our agreed upon procedures we noted certain findings that we deemed to be internal control deficiencies.

The scope of our agreed upon procedures engagement and the findings and recommendations below were limited in nature and were not designed or intended to be used in civil or criminal proceedings.

It is the responsibility of the County to establish internal controls over its compliance with all laws, ordinances, and County policies related to processing of revenue and the handling of cash receipts. It is also the County's responsibility to monitor internal controls over these areas to ensure that the County is in compliance with applicable laws, ordinances, and County policies.

Because of the inherent limitations in any internal control system, certain conditions could exist including collusion, management override of the control system, or neglect to follow established policies. Such conditions could result in errors, irregularities, or fraud occurring without being detected. Our procedures were not designed to provide assurance on internal control or instances of financial statement errors, omissions, negligence, irregularities, or violations of laws, regulations, or contracts. Therefore they cannot be relied upon to take the place of management's efforts to discover such occurrences, including illegal acts such as fraud or defalcations that may exist.

Engagement Scope and Approach

The scope of the engagement consisted of applying agreed upon procedures to the County's processes for accepting, posting, and depositing cash payments, during the period from July 1, 2017 through November 30, 2017. The focus of our procedures was on cash receipts, meaning checks and currency received from customers or other sources. Other forms of payment such as merchant card, bank wires, and automated drafts were not addressed in our engagement. We applied the agreed upon procedures to the activities of 104 cash collection sites throughout the County .

The scope of our engagement *did not* include processes and procedures surrounding the patient revenue cycle such as Medicaid and other third-party reimbursements, or the monitoring and collection of patient accounts receivable. Our procedures related to County Health and Human Services were limited to cash payments received and processed by cashiers located at the respective clinics.

Engagement Scope and Approach, continued

In addition, the County Register of Deeds was not included in the scope of this engagement. Cash handling procedures for the Register of Deeds were considered in another engagement for which a separate report was issued.

We assisted the County in its preparation of a comprehensive questionnaire to determine what processes were currently being performed at each site, and how these processes compared to the County's policies surrounding revenue and cash receipts. Once finalized, the questionnaire was provided to a designated individual at each site to be completed and returned to the Finance Department.

We inspected the responses to the questionnaire as an initial assessment of the site. We then visited each site to review the questionnaire with the preparer and obtain clarification of questionnaire responses as necessary. During our site visits, we interviewed key employees regarding their roles and responsibilities as they relate to cash handling. We performed walkthroughs with employees of specific transactions in order to observe actions and supporting documentation for comparison to questionnaire responses. As part of our documentation, we generated written narratives based on the walkthroughs to summarize the processes that were occurring at the site. The narratives noted any inconsistencies that were observed in comparison to County policy and questionnaire responses.

For each site, we selected up to five days of deposits to observe related documentation for indication as to whether cash transactions are being processed in a manner consistent with the County's policies and responses to the questionnaire. Documentation that we observed included individual transaction receipts, general ledger details, reconciliations to deposits, supply access logs, and bank records.

As we identified instances of noncompliance with County policy, or inconsistencies with questionnaire responses, we prepared initial drafts of our findings and reviewed them during periodic status meetings with designated members of the Finance Department. These initial drafts also included findings that we identified as potential deficiencies in internal control over cash handling.

The final section of this report contains general observations including certain overall circumstances and conditions that we identified as a result of our procedures. These general observations should be considered when reviewing the following specific findings and recommendations.

Findings and Recommendations

The results of our procedures included thirteen categories of findings as described below. These findings were identified within individual functions as summarized at *Attachment 1* of our agreed upon procedures report.

Our findings and recommendations are as follows:

1.) Use of Sub-ledgers to Reconcile Transactions

Criteria or specific requirement: All transactions generated by each site should be recorded in a sub-ledger consisting of a point-of-sale (POS) or other cashiering system which is maintained separately from the site's bank deposit records.

Conditions: We noted that a sub-ledger is not in place for some sites and that the record of transactions occurring at the site is limited to bank deposits.

Context: We noted the above condition for fifty-three (53) sites.

Cause: The sites have not identified and implemented an effective sub-ledger system for recording all customer transactions.

Effect: All payments received from customers may not be accounted for. As a result, payments for goods and services collected from customers may be diverted from the County's bank account.

Recommendation: Each site should implement a POS system which serves as a sub-ledger in which all customer transactions are recorded, including voids, fee waivers, receivables, refunds and other adjustments. The system should have the ability to generate summary and detail-level reports in which each transaction for a given period can be identified and reviewed. In addition, the system should generate a payment receipt which the cashier is required to provide to each customer.

2.) Revenue Reconciliation Process

Criteria: Daily transactions as recorded in the sub-ledger should be checked against each site's daily bank deposit, and any differences should be resolved.

Conditions: We noted that while a site may have a sub-ledger in place, transactions per the sub-ledger are not being compared to the site's daily bank deposits.

Context: We noted the above condition for thirty-four (34) sites. This does not include those sites for which a sub-ledger was not being used (see *finding number 1*), thus precluding any type of effective reconciliation from being performed.

Effect: Potential customer transactions for which there is no corresponding bank deposit may not be identified. This condition increases the risk that improper reductions to revenue could go undetected in an effort to mask cash shortages.

Findings and Recommendations, continued

Cause: The sites have not implemented a formal reconciliation process to document the comparison of sub-ledgers to bank activity, and the review of any resulting differences.

Recommendation: All transactions per the sub-ledger should be compared to each site's daily cash receipts. Any resulting differences should be investigated and documented as having been traced to proper disposition.

3.) Transaction Approval:

Criteria: Proper segregation of duties requires that corrections and adjustments recorded in the sub-ledger should be reviewed and approved by someone other than the individual who initiated the related transaction.

Conditions: Cashiers have the ability to record items such as voids, zero charge transactions, fee waivers, refunds, and other adjustments without documented approval from a designated supervisor.

Context: We noted the above condition for forty-six (46) sites.

Cause: The sites have not implemented a formal process to document that corrections and adjustments are properly reviewed and approved by someone other than the cashier.

Effect: Cashiers who collect cash payments also have the capability to unilaterally make adjustments to the sub-ledger. This condition significantly reduces the effectiveness of the site's reconciliation process by increasing the risk of improper reductions to revenue per the sub-ledger in order to potentially mask cash shortages.

Recommendation: Corrections and adjustments resulting from instances such as cashier errors or refunds should be reviewed by a designated supervisor, and in the presence of the customer whenever possible. Sub-ledger systems should have the capability to generate an audit report documenting that such items have been properly reviewed and approved. In the absence of an automated audit trail, review and approval should be documented manually and subject to examination by Internal Audit.

4.) Reconciliation Oversight

Criteria: The reconciliation of sub-ledgers to bank deposits should be subject to effective oversight by County personnel external to the site.

Conditions: There is no effective periodic review and approval of the reconciliation process by County personnel other than site employees.

Context: We noted the above condition for six (6) sites. This does not include those sites for which a sub-ledger was not being used or a reconciliation was not performed (see *finding numbers 1 and 2*), thus precluding any type of effective reconciliation from being reviewed by personnel external to the site.

Findings and Recommendations, continued

Effect: Lack of external oversight limits the extent of accountability experienced by site employees, increasing the risk that the reconciliation process may not be effective in identifying improper transactions.

Cause: Regular reporting of the reconciliation process to the Finance Department is not being prepared and/or submitted in a format that allows for effective periodic review and approval.

Recommendation: A monthly summary report which compares daily deposits to daily transactions per the sub-ledger should be prepared and submitted to the Finance Department. A designated individual in Finance should review the report and periodically request support for individual differences to determine that proper resolution occurred, and that supervisory review and approval is being documented. The summary report and supporting documentation should also be subject to review by Internal Audit.

5.) Access to Cash on Hand

Criteria: Access to cash on hand should be limited to designated individuals who do not engage in duties related to authorizing or recording transactions, or performing reconciliation functions.

Conditions: We noted insufficient restrictions surrounding access to cash storage units including safes and cashier drawers.

Context: We noted the above condition for forty-eight (48) sites.

Effect: Cash on hand may be accessed by unauthorized personnel, including individuals who also perform incompatible functions such as approving and accounting for cash transactions. These conditions result in insufficient segregation of duties which increases the risk of error or misappropriation.

Cause: Adequate procedures and controls are not in place to limit the number of employees who have access to keys and combinations to secured locations.

Recommendation: Access to keys and/or combinations to secured storage units should be restricted to individuals identified as having responsibilities that require such access. In order to facilitate proper segregation of duties, employees who have approval authority, recording responsibilities, or perform reconciliation functions related to cash transactions should be prohibited from having access to or custody over cash. Combinations and locks should be changed as necessary when employee turnover occurs. An updated listing of employees having key or combination access should be maintained and reviewed and approved by a designated supervisor. This listing should include cash drawer assignments identifying an individual as having sole access to and responsibility for a specific cash drawer to be used for completing customer transactions during the day. If a drawer must be shared among multiple cashiers, access should be limited by requiring individual login to a POS system via secured passwords. Secured cash locations should be accessed under dual control whenever possible. In addition, each instance of access should be documented via system login or a manual log.

Findings and Recommendations, continued

6.) Cash Limits

Criteria: County policy requires that all cash collected is deposited in a County approved bank account, and that deposits occur daily for amounts \$250 and greater, weekly for amounts less than \$250 and always on the last day of the month regardless of the amount.

Conditions: Some sites retained cash balances on hand overnight in excess of \$250, and weekly or monthly deposits were not taking place as required for balances less than \$250.

Context: We noted the above condition for thirteen (13) sites.

Effect: Cash on hand is being retained at levels in excess of the County's policy, increasing the amount of cash exposed to potential theft or misappropriation.

Cause: Procedures are not in place to sufficiently limit the amount of cash on hand, and to facilitate timely deposits in accordance with County policy.

Recommendation: Internal controls should be implemented to ensure that the amount of cash retained at each site and the frequency of cash deposits is in accordance with County policy.

7.) Saleable Inventories

Criteria: Supplies of all items having saleable value should be safeguarded and the receipt and distribution of such items should be controlled and properly documented.

Conditions: Blank birth certificates are not tracked and logged, and sales of certificates are not reconciled to bank deposits. We also noted that access to the supply is not restricted to designated personnel.

Context: We noted the above condition for three (3) sites.

Effect: Certificate supplies may be accessed by unauthorized individuals, and sales of certificates may not be accounted for, allowing for the potential misappropriation of cash payments.

Cause: Procedures are not in place to effectively secure and monitor blank certificate stock.

Recommendation: Supplies of blank birth certificates, should be stored in a secured location with access restricted to designated individuals. Receipt and disbursement of pre-numbered certificates should be logged and tracked. Issued certificates should be compared to the corresponding payments received on at least a monthly basis, and any resulting differences should be investigated and resolved.

8.) Segregation of Duties

Criteria: In order to maintain proper segregation of duties, an individual having custody over cash should not be involved in accounting for cash.

Findings and Recommendations, continued

Conditions: We noted that the reconciliation of sub-ledger receipts to the daily bank deposit is being conducted by the same individual performing the cashiering function.

Context: We noted the above condition for twenty-six (26) sites.

Effect: One or more individuals may have overriding control of the cash handling process resulting in an increased risk of errors and the opportunity for misappropriation of cash.

Cause: Individuals performing the cashiering function are not restricted from performing activities related to bank deposits as required by County policy.

Recommendation: In order to maintain proper segregation of duties, daily customer receipts per the sub-ledger should be reconciled to the daily bank deposit by someone who does not have custody over cash, including any individual who performs the cashiering function.

9.) Timely Recording of Collections

Criteria: County policy requires payments from customers to be recorded in the general ledger on the day the payments are deposited.

Conditions: The posting of revenue collections to the County's general ledger system (*Advantage*) through journal entries, may be delayed up to fifteen days from the date of deposit.

Context: We noted the above condition for forty-three (43) sites.

Effect: Since the County records revenue to *Advantage* on the cash basis, deposits which are submitted to the bank, but are not immediately posted to the general ledger causing a delay in revenue reported to the Finance Department.

Cause: Revenues related to daily collections are being recorded at the time the site receives notification that the deposits have been processed by the County's bank rather than on the day the deposit occurred.

Recommendation: County management should emphasize with department leaders the timely recording of collections in accordance with County policy. In addition, the Finance Department should consistently compare bank activity to general ledger postings to help ensure the timeliness of recording revenue in *Advantage*.

10.) Timely Deposit of Collections

Criteria: Payments from customers should be deposited to the bank as soon as possible from the time of receipt.

Conditions: Pre-payments received for future services are not being deposited in a timely manner and refunds are not being processed through the Finance Department in accordance with County policy.

Context: We noted the above condition for one (1) site.

Findings and Recommendations, continued

Effect: Payments from customers that are not immediately deposited to the County's bank account are at greater risk of misappropriation.

Cause: Checks and credit card information received in advance of providing services are being withheld from processing and deposit to the bank until the cancellation period has expired.

Recommendation: All collections, including pre-payments for future services should be deposited to the County's bank account immediately upon receipt.

11.) Restrictive Endorsement of Checks

Criteria: Checks and money orders should be restrictively endorsed immediately upon receipt in accordance with County policy

Conditions: Checks are either not restrictively endorsed for an extended period of time, or are being processed with no endorsement.

Context: We noted the above condition for thirty-three (33) sites.

Effect: By not being immediately endorsed, checks and money orders remain as negotiable instruments that can potentially be passed from the stated payee (Wake County) to a third party.

Cause: Cashiers are waiting until the end of their shifts before applying a restrictive endorsement, or are omitting the endorsement entirely.

Recommendation: A designated supervisor should perform periodic inspections during cashiers' shifts to ensure that they are restrictively endorsing checks and money orders as these items are being received from customers.

12.) Check Log

Criteria: Payments received via mail should be opened under dual control (in the presence of two individuals) and a log should be maintained for such payments.

Conditions: A listing of payments received via mail is not being maintained to document the source of each payment and to identify the employee(s) responsible for opening mail.

Context: We noted the above condition for eight (8) sites.

Effect: A listing of payments received via mail is not available for subsequent comparison to the sub-ledger and the daily bank deposit. As a result, completeness of the deposit cannot be assured.

Cause: Payments received via mail are being recorded directly in the sub-ledger without first being logged.

Findings and Recommendations, continued

Recommendation: A designated employee should be assigned the responsibility of opening the mail and compiling a log of payments in the presence of a second individual. The log should be maintained on a prescribed form which includes the signatures of both employees in order to document that the payments were opened and logged under dual control. The logged payments should be compared to receipts per the sub-ledger and to the daily bank deposit. This comparison should be documented as having been performed by someone other than the individuals performing the logging function.

13.) Number of Collection Sites

Criteria: Collection sites should exist only as necessary to effectively facilitate processing of payments with minimal handling of funds by County personnel.

Conditions: Certain departments and offices are receiving and handling payments that should be remitted directly to Finance, including insurance payments, reimbursements from municipalities for EMS services, and construction closing checks.

Context: We noted the above condition for five (5) sites.

Effect: Greater risk of misappropriation exists when unnecessary handling of payments occurs prior to deposit.

Cause: Payments that should be received directly by the Finance Department are instead being accepted by several departments and offices and then mailed or hand-delivered to Finance.

Recommendation: Collections should be centralized as much as possible including remittance of funds directly to the Finance Department, use of a lockbox, or an electronic means of collection that sufficiently restricts access to payments and minimizes the need for employees to handle cash and checks.

General Observations

In performing the agreed upon procedures, we observed certain circumstances and conditions that should be considered when reviewing the above findings and recommendations. These general observations include internal control risks that we found to be common to many of the sites. We have also noted potential mitigations of these risks, the implementation of which should be subject to cost-benefit analysis:

Decentralized Structure

County governments have inherent characteristics that make risk mitigation for cash collection activities more challenging, including resource-restrictive budgets, employees with limited financial background, and a decentralized structure. In order to facilitate convenience for citizens, cash receipt activities have been decentralized throughout the County, both geographically and by department (or site). Based on our observations, we noted several key factors to consider in addressing risks related to the County's cash handling activities. These include recognizing the concept of "reasonable assurance", developing a culture of accountability, adopting universal risk mitigation approaches such as a whistleblower policy, and consolidating collections and cash handling activity to the greatest extent possible.

Reasonable Assurance – The County's objective should be to attain a "reasonable" level of assurance that it is protected from loss resulting from the processing of cash transactions. Attaining an "absolute" level of assurance is not practical due to the following reasons:

- It is cost-prohibitive
- Individuals can bypass or override internal controls
- Individuals may collude with each other.
- Human error will occur

In a decentralized environment, controls cannot, by themselves, provide reasonable assurance that the sites are adequately controlled. Certain controls (authorization and approval process), if followed, will reduce the risk of loss. However, controls may be circumvented or ignored at the site level when adequate emphasis is not placed on internal controls and/or the controls are not being monitored to see that they are functioning properly.

Accountability - In a decentralized control environment developing a culture of accountability is integral to achieving a reasonable level of assurance. Because accountability begins with the "tone at the top", it should be clearly demonstrated to employees that the County's internal controls over cash handling activities are being overseen and implemented by County management under the authority of the Board of Commissioners. Expectations for each employee as to his or her responsibilities for maintaining effective internal controls should be clearly communicated and tied to performance goals. The evaluation process for each employee should include measurement of performance against specific criteria related to his or her internal control responsibilities. In addition, employees at each site should be made aware that compliance with County policies and procedures is subject to regular oversight by central administration including the Finance Department and Internal Audit.

General Observations, continued

Whistleblower Policy –The County should consider implementing a formal whistleblower policy in which employees are able to access a hotline to easily and anonymously report instances of fraud, mismanagement of funds or resources, abuse of authority, or misconduct.

Consolidation - With cash collections occurring at over 104 sites, eliminating payment locations and reducing the number of County employees engaged in cash-handling activities should be a primary objective. The risk of loss from misappropriation of currency can be significantly reduced by increasing the county's acceptance of payments in noncash form such as checks, merchant cards, online payments or other forms of electronic payment.

The County should also maximize use of a lockbox arrangement or an electronic means of payment in which collections are streamlined by being sent directly to a central depository having sufficiently restricted access. Since employees would have no direct contact with remittances, the risk of mishandling or misappropriation can be significantly mitigated. At the same time, cash flow is improved because credit is applied for payments as soon as they are received. Another benefit would be the time the County employees would save by not having to prepare a deposit and go to the bank.

Internal Audit – The Internal Audit Department (IA) should have sufficient access to all functions, departments and elected offices within the County for the purpose of implementing an annual audit plan. The audit plan should be based on IA's annual risk assessment to identify those functions, departments, or processes that pose the greatest risk for misappropriation, or non-compliance, including processes related to cash handling activities. A sufficient level of access for IA to implement the annual audit plan should be stipulated in the County's written policies and memos of understanding with elected officials. This should include unrestricted access to senior management and the Board of Commissioners for purposes of obtaining feedback regarding the proposed audit plan and reporting findings resulting from IA oversight. IA's operating budget should provide for adequate resources to achieve audit plan objectives based on an evaluation of the nature, complexity and time constraints required by the audit plan. Audit plan objectives should include effective monitoring and oversight of County-wide cash handling activities by IA.

Use of Sub-ledgers

Many of the County's collection sites are not reconciling bank deposits to daily receipts as recorded in a point-of sale (POS) system or other form of computerized sub-ledger. In many cases we observed that a sub-ledger was simply not being used. As a result, there was no documentation to provide assurance that all transactions occurring during a given day were either accounted for as part of the daily bank deposit, or explained as a legitimate reconciling item, such as an approved void, a receivable, or other proper non-cash item.

General Observations, continued

We further noted that for certain sites in which a separate sub-ledger ledger *is* being utilized, there is no interface or upload of information between the site's sub-ledger and the County's general ledger system (*Advantage*). As a result, employees must create a manual journal entry in order to post receipts per the site's sub-ledger to *Advantage*. When economically feasible, system interfaces and upload capability to *Advantage* should be considered for future County use.

Segregation of Duties

Separate duties and responsibilities should be clearly established for personnel who accept cash receipts. For example, a staff member collecting customer payments should not be reconciling those collections to the site's sub-ledger or preparing the bank deposit. Proper segregation of duties is required in order to sufficiently mitigate the risk of intentional and unintentional loss of cash by employees.

We observed that the proper segregation of duties over cash handling activities was lacking at many of the sites. Insufficient segregation of duties without compensating controls increases the risk of errors and misappropriation. No single individual should have control over two or more phases of a transaction or operation. Responsibilities should be assigned to ensure a crosscheck of duties. Duties or responsibilities can be broadly classified into:

- Authorization
- Custody
- Record-keeping
- Reconciliation

Ideally different employees should perform each of these four major functions. The more liquid an asset, such as cash, the greater the need for proper segregation of duties. Misappropriation of cash is most likely to occur when employees perceive that the work environment lacks proper segregation of duties.

Authorization - Authorization is the process in which a designated individual has reviewed and approved a transaction, including relevant supporting documentation, and is satisfied that the transaction is appropriate, accurate, and complies with applicable laws, regulations, policies, and procedures. To ensure proper segregation of duties, the person initiating a transaction should not be the person who approves the transaction.

Custody – Custody is the process of having access to, or control over, any physical asset including cash. In order to reduce the temptation of fraud, custody over cash should be separated from accounting for cash. A cashier handling money for an eight-hour shift should not reconcile his or her own cash drawer. It would be acceptable for the cashier to count and record his or her end-of-day totals, but a designated supervisor should reconcile the totals to verify the cash against receipts per the POS system. In addition, authorizing transactions should be separated from custody over the cash related to those transactions. Within a POS system, a person with custody of assets, such as the cashier, should not have access to programming or any input records to the system. Similarly, an individual who handles programming or input records should not have access to cash.

General Observations, continued

Record-keeping - Record-keeping is the process of creating and maintaining records of revenues which support deposited cash. These records are in the form of the transaction details generated by the POS system to serve as a paper trail that follows the related cash. Such records should be maintained and controlled in accordance with the County's established retention policy. Proper record retention serves as documentation to provide reasonable assurance that all revenue transactions have been accounted for as cash deposits or legitimate reconciling items.

Reconciliation - Reconciliation consists of verifying the processing or recording of transactions to ensure that all transactions are valid, properly authorized and properly recorded on a timely basis. This includes following-up on any differences or discrepancies identified. An effective reconciliation process demonstrates that everyone who handled cash accounted for it correctly. When a designated supervisor or employee reconciles a cashiers' cash totals for the day or week to receipts per the POS system, it affords the opportunity for to catch any errors in accounting or discover potential internal theft. The employee or supervisor who performs the reconciliation function should never be the same individual who receives, handles or records cash collections.

This report is intended solely for the information and use of Wake County Commissioners and management of Wake County, North Carolina, is not intended to be, and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Elliott Davis".

Raleigh, North Carolina
August 9, 2018