



***Performance Audit:***

***County Cash Audit***

***Durham County Internal Audit Department***

***February 10, 2020***



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February 10, 2020

Mr. Wendell Davis,  
County Manager

Dear Mr. Davis:

Internal Audit completed its audit on internal controls related to cash handling processes in Durham County. The audit focused on (1) determining whether departments are complying with established cash handling procedures; (2) examining internal controls designed to ensure compliance with laws and regulations; and (3) determining whether established procedures and departmental practices are aligned with best practices. Internal Audit examined Durham County's cash handling policies and procedures by reviewing the practices from three (3) departments: Sheriff's Office (Inmate Commissary Funds and Animal Services), Social Services, and the Library.

Overall, there are several deficiencies that require immediate attention. Controls are insufficient over activities related to cash safeguarding activities, adherence to state statute (cash depositing procedures), engaging the County in reciprocal services without a contract, inactive surveillance cameras, and noncompliance with PCI DSS.

This report describes specific findings related to the audited departments and IS&T that provide recommendations to address the findings. All departments agree with the findings.

The audit team appreciates the cooperation and assistance provided by department directors, the Sheriff, additional departments staff, IS&T, and Finance during this audit engagement.

Sincerely,

Darlana M. Moore,  
Internal Audit Director

## **INTRODUCTION**

The Audit Oversight Committee approved this audit in the fiscal year 2019 Annual Audit Plan. This audit was conducted to identify and examine departmental controls for cash handling processes.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Performance audits are defined as audits that provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.<sup>1</sup>

## **BACKGROUND**

### **Office of the Sheriff**

The Durham County Office of the Sheriff (Sheriff's Office) is an agency subject to the budgetary appropriation of the Durham County Board of County Commissioners. Its mission is to serve the Durham community with the belief of doing so serves itself. The Sheriff's Office provides a variety of public services, including but not limited to: animal services, auctions, civil processing, detention services, criminal investigations, patrol, community outreach, gun permitting, and finger printing.

### **Department of Social services**

The Durham County Department of Social Services' (DSS) mission is to partner with individuals, families and the community to help county residents achieve physical, social and financial well-being. Social Services provides support to families, disabled adults, and the elderly. There are multiple services provided by the department including protective services for adults and children, as well as financial support. Financial support may include various services including program areas such as Medicaid, food stamps, day care, child support, and emergency assistance.

The Business Office is a division within the DSS. The Business Office is responsible for various functions, including payment; collection, budget creation, and authorizing and monitoring expenditures related to many different DSS programs.

### **Durham County Library**

The mission of the Durham County Library is to provide books, services, and other resources to the entire community that inform, inspire learning, cultivate understanding and excite the

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<sup>1</sup> Comptroller General of the United States, *Government Auditing Standards*, Washington D.C.: U.S. Governmental Accountability Office, 2011, p.17.

imagination. The library offers services such as providing space for meetings as well as providing books, tapes, and other educational and informational services. To conduct its mission the library has five locations: East Regional, North Regional, South Regional, Southwest Regional & Stanford L. Warren Library.

Some library services require a fee, for example, loaned books and materials which may require payment of fines when patrons exceed the time limit of the loan period. Each branch can accept fees and fines, and each branch is responsible for accounting for its revenue. Total revenues for provided services amounted to \$209,178.00 in fiscal year 2019.<sup>2</sup>

## **AUDIT OBJECTIVES**

The audit objectives were to (1) determine whether departments are complying with established cash handling procedures; (2) examine internal controls designed to ensure compliance with laws and regulations; and (3) determine whether established procedures and departmental practices are aligned with best practices.

## **AUDIT METHODOLOGY AND SCOPE**

In order to conduct our audit, we:

1. reviewed departmental procedures, and their common practices related to cash processing activities,
2. researched and reviewed laws governing cash handling,
3. assessed departmental policies and practices,
4. interviewed departmental staff who are responsible for the process and related sub-process,
5. tested a sample from the daily and/or monthly cash activities to determine if departmental practices were followed, and
6. performed surprise cash count visits.

Internal Audit, statistically, selected a representative sample of cash activities at a sub-process level and/or division level within the departments.

The audit scope includes activities that were completed during fiscal year 2019 (July 1, 2018- June 30, 2019).

## **FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS**

Internal Audit identified the following findings and discussed conclusions and recommendations.

### **Library**

#### **Cash Count Locations**

We observed that library staff at East Regional, South Regional, and Sandford L. Warren do not count cash in a secured environment. Best practices suggest that cash should be counted in a secured area away from public view.<sup>3</sup>

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<sup>2</sup> Durham County Finance Department

<sup>3</sup> <https://smallbiztrends.com/2017/08/cash-handling-best-practices>

This control deficiency resulted from inadequate instruction to staff by library management concerning safety during cash counts.

Counting cash in public could result in unwanted attention and increased likelihood of theft. It also places staff and patrons in an unsafe environment.

**Recommendation:** We recommend that cash counts be conducted in a secure location away from the public.

**Management's Response:** Effective March 1, 2020 each location will resume normal practice of counting funds in a secured area away from public view and with dual verification. This includes East Regional, North Regional, South Regional, Southwest Regional & Stanford L. Warren Library. The same practice is expected for Bragtown Library and Main Library with their respective opening dates of March & April 2020 (exact opening dates to be determined and subject to change).

Location managers and circulation staff at each open location will be informed in writing prior to March 1 to resume the normal practice of counting funds in a secured area that is both away from the public and with dual verification with an effective date of March 2020.

A specific area for counting funds will be identified at each location that is currently open by the March deadline. Specific areas for Bragtown and Main Library will be determined parallel with opening dates.

### **Copier Revenue**

Money from the copier is counted by an employee in a separate area within the library at each location. The money is then given to a staff member at the circulation desk for deposit. The copier does not generate a daily revenue report and at no time is this money counted by two individuals together simultaneously.

Each location has a different procedure for the processing of cash from the copiers. For example, Southwest library removes the dollar bills daily, leaving the coins until the coin tower becomes full. Other libraries leave both bills and coins for days at a time.

Best practices suggest a dual verification approach whereas two members empty the tower, count and verify total cash simultaneously and sign off on a daily cash report.<sup>4</sup> There are inadequate controls in place concerning copier revenue. In addition, there are no formal policies and procedures concerning the processing of copier revenue. The lack of adequate controls concerning copier revenue could result in the increased likelihood of theft, non-adherence to N.C.G.S.159-32, and lack of an audit trail.

**Recommendation:** We recommend the library create policies and procedures concerning copier cash collection, balancing the cash drawer, daily reporting, and depositing cash. The same process should be followed by each library.

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<sup>4</sup> [https://financial.ucsc.edu/Pages/Principles\\_CashControl](https://financial.ucsc.edu/Pages/Principles_CashControl)

In addition, library management should create a form documenting the dual count at each phase of the process for audit trail purposes. Finally, library management should inquire with the copier vendor to determine whether each copier can generate a daily revenue report.

**Management's Response:** The team consisting of library and circulation managers, in collaboration with other relevant staff shall develop procedures/guidelines relevant to copier cash collection, balancing cash drawer, daily reporting and depositing. A draft document should be presented to the Director & Deputy Director by June 2020 with an expected effective date of July 2020. Once approved training will occur for all relevant staff. It should be noted that audit has offered to provide a template for documenting the dual count at each phase of the process for audit trail purposes. In the absence of this document being shared from audit the team will create their own document in advance of the July 2020 effective date.

Matt Clobridge, Library IT Manager will inquire with the vendor to determine if each copier can generate a daily revenue report. This inquiry should be made in a time frame that aligns with an effective start date of July 2020.

### **Counterfeit Money**

During the audit, we noted each location has counterfeit pens; however, there are no policies and procedures documenting how to utilize the pens. Also, there was no documentation concerning formal training as to how to avoid the acceptance of counterfeit money.

Best practices suggest staff are provided policies and procedures on how employees should handle counterfeit money.<sup>5</sup> In addition, employees should be adequately trained to check watermarks, security thread, seals, and use of counterfeit pens.

Management has no written policies and procedures concerning this subject. In addition, staff has not been adequately trained concerning the process of handling counterfeit money. When counterfeit money is collected, it will be rejected upon depositing in the bank which will lead to delays in the depositing process and shortages in the library's revenue.

**Recommendation:** We recommend library management create policies and procedures to include the process of receiving, determining, rejecting, and notifying police when counterfeit money has been received. Also, we recommend staff is trained concerning the same.

**Management's Response:** The identified team in collaboration with other relevant staff shall create procedures to include the process of receiving, determining, rejecting, and notifying police when counterfeit money has been received. Staff will receive training on this finding by April 2020. A draft proposal will be submitted to the Director & Deputy Director by March 2020 with an expected approval date of April 2020. The team shall consult with the Assistant Director of Facility & Planning for the Library and if needed, with Durham County Sheriff Department.

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<sup>5</sup> <https://chainstoreage.com/news/best-practices-safeguarding-against-money-counterfeiters>

### **Manual Receipt Books**

All the locations store their manual receipt books in an unlocked drawer throughout the day. Moreover, the manual receipt books are not audited or reviewed at any time during the year. Finally, there are no written policies and procedures concerning the handling and reviewing of receipt books.

Manual receipt books are treated like cash, and they serve as confirmation of customers' payments. Therefore, they should be kept in a safe place and subject to routine audits. We noted that there are no formal written policies and procedures concerning the proper storing, accounting, handling, and auditing of manual receipt books.

Lack of monitoring of manual receipt books could result in fraudulent activities where a legitimate receipt is written but the money is kept by personnel.

**Recommendations:** We recommend all library locations keep their manual receipt books in a secured centralized location and limit personnel access to employees who require access for the performance of their job duties. Also, we recommend a routine audit be conducted and documented throughout the year. Formal policies and procedures should be written to address the storing, accounting, handling, and auditing of manual receipt books.

**Management's Response:** A team consisting of library managers and circulation managers will be formed by the end of February 2020. This team will work in collaboration with other locations and circulation managers to develop guidelines of receipt book handling by May 2020.

Receipt books for each location will be purchased by March 1, 2020. Additionally, Annie Post, Grant Writer & Friends Liaison will work with Friends of Durham County Library to inform them of the needed receipt book format. It is expected that the Friends of Durham County Library secure the same type receipt books by March 1, 2020. Guidelines specific to the friends is dependent on recommendations from Crystally Wright, Compliance Manager. It is expected that the Friends receipt book process mirror that of Durham County Library.

Draft guidelines will be presented from the team to Tammy Baggett, Director & Terry Hill, Deputy Director by April 2020. This will include assigning appropriate staff to perform receipt book functions to include storing, accounting and handling of receipt books. Additionally, a regular audit plan will be included for each location Manager. The audit of receipt books should take place on a quarterly basis and reports indicating this function should be submitted to the Director & Deputy Director on a regular basis.

### **Petty Cash**

During our cash count visits, we observed that East Regional and South Regional libraries do not verify the petty cash twice a day or during the shifts. Also, the petty cash is accessible by a majority of the circulation desk members in all library locations.

As in all other locations of the library, the petty cash must be counted at the end of each shift. Only authorized and designated personnel should have access to the fund, so it can be controlled and traced. These errors resulted from lack of adequate instructions in the written policies and procedures regarding the petty cash handling.

The lack of proper procedures over petty cash handling could lead to cash misappropriation. Also, given the fact that most personnel have access to the funds, could lead to a lack or absence of accountability.

**Recommendation:** We recommend that management update their policies and procedures regarding the petty cash handling to include a dual verification of petty cash at the end of each shift. Also, we recommend that all locations restrict the number of employees who have access to the petty cash.

**Management's Response:** The identified team will offer suggestions to update procedures related to petty cash handling. This will include dual verification of petty cash at the beginning and end of each shift. This update will also include a monthly audit by the location manager, limited access to petty cash and adequate staff training. Changes should receive approval from the Director & Deputy Director with an effective date to coincide with the start of the upcoming fiscal year.

### **Friends of The Library (FOTL)**

During our audit we noted the following:

- There is no written contract between Durham County and the FOTL concerning roles and responsibilities and use of Durham County staff.
- Durham County Library receipt books are being used to record the sales collected on behalf of the FOTL.
- None of the library locations, except for Southwest Regional, record the items sold on behalf of the FOTL.
- None of the library locations, except for Stanford L. Warren, count the FOTL money daily.
- Portable credit card readers are provided by the FOTL are used to run transactions related to FOTL sales via an apple iPhone and square apparatus.
- Durham County library staff utilize the FOTL credit card to make purchases and there are no formal policies and procedures concerning the handling of this credit card and no management oversight.
- One staff member utilizes more than 75% of her time performing duties for the FOTL. The FOTL does not provide any financial support for this position.
- Check request packets are emailed to the Treasurer and Bookkeeper of the FOTL from a Durham County employee. These emails include social security numbers. A Durham County employee also maintains files dating over several years containing confidential information.
- FOTL credit cards are used to pay scholarship recipients' tuition, whereas this money should be reported to the respective school's finance office for appropriate processing within the individual's financial aid packet.

A clearly drafted contract provides a written record of the terms of agreement and is more reliable evidence of the parties' intentions than the memories of verbal conversations. The act of signing an agreement reinforces the fact that a contract gives rise to legal rights and duties. Also, it must be presented to the Compliance and Legal Departments for review.



The receipts books used in the sale of goods held by the library must be made using the FOTL receipts books. Keeping track of the FOTL money is critical. A daily cash count by reconciliation between sales logs and cash on hand is a necessary procedure for safeguarding cash.

If there is no written contract, the risk of conflict over duties, legal responsibilities, and timeframes will be critical. The use of Durham County manual receipts books for sales related to the FOTL, and the lack of safeguarding and monitoring of the FOTL money could lead to commingling.

Also, the use of a high-risk portable credit card reader through Durham County networks and by Durham County employees could put the County at a major risk, particularly, without having a contract that states the liabilities, and a PCI compliance policy that ensures proper handling for credit card transactions.

**Recommendation:** We recommend that management halts the operation with FOTL until a written contract is made and a set of proper policies and procedures are established.

**Management's Response:** The Friends of Durham County Library & Durham County Library shall work on the creation of a Memorandum of Understanding. This process should begin by April 2020 and be completed to coincide with the start of the upcoming fiscal year. The effective date is dependent on the amount of legal counsel needed from both parties.

Areas related to collection of funds from satellite book sales and purchase of earbuds require further conversation with Crystally Wright in finance. A meeting of such will occur prior to April 2020. A timeline for follow up is dependent on recommendations from Ms. Wright. It's my intent for this task to be completed by the start of the upcoming fiscal year.

Library IT, Library Director & the Deputy Director will discuss a best approach for credit card use with County IS&T. The timing of this meeting shall coincide with the start of the fiscal year. A specific effective date cannot be determined prior to recommendation from County IS&T & discussions with the Friends of Durham County Library.

Durham County Library staff stopped use of the Friends of the Library credit card as directed by audit and finance near the end of 2019. The practice of storing vendor information stopped by direction of audit near the end of 2019 as well.

The Friends of Durham County Library have been notified of the needed changes for presenting scholarships to Durham County Library employees. They have a dedicated committee to update their practices to align with the recommendations of audit.

### **Refunds, Voids, Overages and Shortages**

During our audit, we noticed that none of the library locations have procedures concerning the refund process and proper processing of overages and shortages.

There are inadequate segregation of duties concerning refunds, voids, overages and shortages. All library locations (except East Regional) can process refunds and voids. The register keys are kept in the register at most locations enabling staff to process their own refunds and voids. In addition, overages and shortages are not adequately tracked and investigated by management.

Refunds, voids, overages, and shortages are considered part of the cash handling process and must be taken into consideration when developing a policies and procedures manual. Reasons for overages or shortages must be investigated and documented. Disciplinary actions must be taken against employees that have recurring overages or shortages during their shifts. Refunds and voids should be handled by a member of management and documented.

Management has no formal policies and procedures as to how to adequately process refunds, voids, overages and shortages. In addition, staff duties are inadequately segregated concerning refunds and voids due to register keys being kept in the register.

The lack of procedures and accountability could lead to cash misappropriation. Every employee can issue a refund to customers without the proper level of approvals. Also, non-documented or investigated overage/shortages could result in a recurring issue for all personnel.

**Recommendation:** We recommend library management create formal written policies and procedures concerning refunds, voids, overages and shortages. In addition, keys should be removed from registers and the appropriate level of authority introduced into the process to ensure the adequate processing of refunds and voids. Finally, management should keep a log of all refunds, voids, overages and shortages in order to track employees who are potential repeat offenders. This log could help facilitate additional training needs. Also, staff should be trained concerning all new policies and procedures.

**Management's Response:** The identified team in collaboration with other relevant staff shall create draft procedures related to refunds, voids, overages & shortages by May 2020. A draft document should be submitted to the Director & Deputy Director by April 2020. Staff will receive training to coincide with a May 2020 effective date.

### **Safe Access**

At all library locations, most staff members have access to the safe. At Stanford L Warren, money is placed in the manager's drawer instead of the safe. There is no safe access log at any location documenting all staff who have safe access. Also, there are no policies and procedures concerning safe access. Best practices suggest that safe access is limited to pertinent staff only.<sup>6</sup>

The managing of safe access is not formally documented. Libraries are at risk of cash misappropriation due to inadequate controls concerning the safeguarding of cash.

**Recommendation:** We recommend policies and procedures are created concerning the access, authorization, and managing of the safe. Staff should be trained concerning any new policies and procedures. In addition, a safe access log should be created for each site to document all staff with access. Also, we recommend the Stanford L Warren location to utilize the safe instead of keeping the money in the drawer.

**Management's Response:** The identified team in collaboration with other relevant staff shall create procedures concerning the access, authorization, and managing of the safe. Staff will receive training on said policies. Additionally, a safe access log shall be created for each site to document all staff with access. The Assistant Director of Planning & Facilities will work with each

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<sup>6</sup> <https://blink.ucsd.edu/finance/accountability/controls/practices/cash.html>

location to determine the best location for safes, and to ascertain that each location has an appropriate safe. The Assistant Director will work in collaboration with the Security Manager as appropriate. All tasks under this finding should coincide with the start of the upcoming fiscal year.

### **PCI DSS Compliance**

The library entered into a contract with TSYS. TSYS is a service provider who processes electronic payments. The contract states both the County and TSYS are responsible for PCI-DSS compliance. Library does not have written policies and procedures concerning PCI-DSS to ensure staff knowledge or compliance with PCI-DSS no. 12.<sup>7</sup> Also, we noted the department uses network Voice Over IP (VOIP) to transmit data from credit card readers to the vendor. This activity places the Library IS&T in scope with all PCI-DSS technical requirements.

All organizations (regardless of size or number of transactions) that accepts, transmits, or stores any cardholder data either over the phone lines or online payments, must adhere to the PCI-DSS.

Library administration does not have written policies and procedures regarding PCI compliance. Using network to transmit data put all locations in scope of the PCI DSS. Also, the library entered into a contract with TSYS assuming part ownership of liability.

The lack of written policies and procedures exposes the Library to non-compliance and violation of PCI-DSS. Any PCI-DSS violation could result in identity theft, fraud, penalties and fines. In addition, Using Voice Over IP (VOIP) to transmit data from credit readers to the vendors, places the library in scope of PCI-DSS requirements.

Finally, a contract with the County assuming part ownership of liability when the service provider is responsible for credit card transactions is not business savvy. It increases the County's likelihood of non-compliance if/when the service provider becomes non-compliant.

**Recommendation:** We recommend the establishment of policies and procedures that adhere to PCI-DSS requirements. In addition, we recommend mandatory training for all employees who are involved with credit card processing. Also, we recommend that contracts should be updated to put all ownership on the vendor.

Finally, we recommend IS&T to cover the technical part of the PCI-DSS compliance regarding the security of the County's network that is utilized in transferring credit card data.

**Management's Response:** It is my understanding that the library is in compliance with PCI DSS standards. The Library IT Manager will work in collaboration with appropriate vendors and County IS&T to confirm compliance. This task shall be completed by May 2020. Training and establishing procedures will be completed by the start of the upcoming fiscal year. This is dependent on response time from vendors and County IS&T. If it is determined that we are not in compliance, we will strive for a start date of October 2020. Once again this is dependent on response time from vendors and County IS&T.

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<sup>7</sup> "PCI DSS Requirements and Security Assessment Standards V3.2", *Maintaining a policy that addresses information security for all personnel.*

## **Deposit Packets Testing**

During our testing of the daily deposit packets, we noticed the following:

### **East Regional Library**

- 11 out of 25 (44%) samples reviewed, were not deposited the next business day.
- 11 out of 25 (44%) samples reviewed, the revenue was not properly classified.
- 11 out of 25 (44%) samples reviewed, the revenue report did not reconcile with Daily Money Report Z-tape totals.
- 12 out of 25 (48%) of samples reviewed, the dual verification failed to address the misclassification, or the dual verification was absent.

### **Stanford L Warren Library**

- 4 out of 9 (44%) samples reviewed did not contain a dual verification on the Daily Revenue Report.
- 9 out of 9 (100%) samples reviewed were not deposited the next business day.

### **North Regional Library**

- 6 out of 25 (24%) samples reviewed did not contain a cash count form or revenue report with dual verification.
- 4 out of 25 (16%) samples reviewed were not deposited the next business day.
- 1 out of 25 (4%) samples reviewed, the deposit slip did not reconcile with the Revenue Report.

### **South Regional Library**

- 16 out of 25 (64%) samples reviewed did not contain a dual verification on the Daily Revenue Report.
- 20 out of 25 (80%) samples reviewed were not deposited in the next business day.

### **Southwest Regional Library**

- 25 out of 25 (100%) samples reviewed did not have a dual verification for cash count form or the revenue report.

In pursuant to N.C.G.S 159-32, all taxes and other moneys collected or received by an officer or employee of a local government or public authority shall be deposited in accordance with this section. Each officer and employee of a local government or public authority whose duty it is to collect or receive any taxes or other moneys shall, on a daily basis, deposit or submit to a properly licensed and recognized cash collection service all collections and receipts.

Dual verification is a critical procedure in cash handling. It is considered as a review control which would help in detecting errors and discrepancies. Also, proper classification of revenue is a necessity when it comes to internal financial reporting and analysis.

The libraries are at risk for misappropriation of cash and violation of state statute for holding large amounts for extended days. In addition, the lack of a complete set of procedures, regarding dual verification, could lead to an improper review process and cash mishandling. Finally, misclassifications in revenue categories could lead to inaccurate internal financial reports.

**Recommendation:** We recommend the library's management to take the necessary actions to revise the existing procedures for all locations and have them under a unified written policies and procedures to mitigate further risks.

**Management's Response:** The identified team in collaboration with relevant staff and with approval of the Director & Deputy Director will create written procedures to uniform the way cash is processed and handled at each location. Process approval shall coincide with the start of the upcoming fiscal year and should include adequate staff training.

### **Surveillance Camera**

There are no security cameras above the cashiers except for South Regional and North Regional. Also, the cameras are positioned in a way that makes them unfunctional by not allowing one to see the register or the area surrounding the register.

Security cameras allow the department to keep a constant eye on the business. Additionally, it will boost efficiency and productivity as well as provide evidence to resolve any conflicts.

The lack of operational surveillance cameras imposes problems for library management to review staff and any potential problems that may arise. Due to the lack of cameras, library management is incapable of maintaining recorded scenarios and activities in order to arrive at the right decisions and hold staff accountable.

**Recommendation:** We recommend the department install new cameras at each location. In addition, cameras should be adequately positioned, and the recordings backed up to prevent and monitor any potential theft and illegal activities.

**Management's Response:** A request to determine cost associated with operational surveillance cameras for all locations will be made to Sandra Lovely, Assistant Director of Planning & Facilities by March 1, 2020.

Sandra Lovely will work in collaboration with Ed Miller, Security Manager to determine feasibility based on cost and other relevant factors. A request for operational surveillance cameras will be included within the library FY21/22 budget cycle. Additionally, it will be requested to be included in the General Services budget. Requests in both budgets further demonstrates the need for operational surveillance cameras.

## **Department of Social Services (DSS)**

### **Program Integrity, Child Support, and Emergency Assistance**

During our testing of cash handling activities, we noticed the following:

#### **Program Integrity**

- 3 out of 13 (23%) samples tested, have manual receipts that did not reconcile to the Log of Cash Receipts.
- 13 out of 13 (100%) samples tested, illustrated an improper segregation of duties.
- 1 out of 13 (8%) samples tested were not deposited the following business day, according to the statute.
- 1 out of 13 (8%) samples tested, the deposit slip did not reconcile to the manual receipt.

## **Child Support**

- 6 out of 6 (100%) samples tested, have improper segregation of duties.

## **Emergency Assistance**

- 1 out of 40 (3%) samples reviewed, did not have the proper level of approval.

Best practices suggest dual controls in relation to cash. When cash is received, the person turning the cash in should count the cash with the person receiving the cash to ensure accuracy and completeness of recording the cash. For audit trail purposes, both should sign/initial the log to illustrate the verification process has occurred.

Logs should include the receipt number, who the receipt was written to, initials of who accepted the cash, date of receipt, and initialed by the person receiving the cash within the business office. This ensures the establishment of dual controls.

In pursuant to NCGS 159-32<sup>8</sup>, all taxes and other moneys collected or received by an officer or employee of a local government or public authority shall be deposited in accordance with this section. Each officer and employee of a local government or public authority whose duty it is to collect or receive any taxes or other moneys shall, on a daily basis, deposit or submit to a properly licensed and recognized cash collection service all collections and receipts.

Finally, all payments in the Department of Social Services are subject to an authority matrix threshold.

In all instances, the department personnel did not ensure or comply with departmental procedures or there was the lack of adequate procedures. The department is at risk of misappropriating fund due to improper segregation of duties. In addition, errors, discrepancies and inaccurate application of cash receipts may occur. Finally, holding cash for extended days results in a violation of state statute NCGS 159-32.

**Recommendation:** We recommend the following:

- Controls are put in place to ensure the information from manual receipts are correctly logged on the Log of Cash Receipts.
- All logs are updated to reflect the establishment of dual control whereby two staff members are counting, documenting, and depositing all cash receipts.
- Cash is deposited daily.
- Controls are put in place to monitor all processes concerning cash receipts.
- Controls are put in place to ensure the proper level of authority is obtained prior to the release of any funds.
- Policies and procedures are updated to reflect all of these changes.

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<sup>8</sup> § 159-32. Daily deposits.

## **Management's Response:**

**Program Integrity-** We agree with the Auditors findings and corrective action is addressed within finding "Deposit Verification" will provide dual controls (1, 3, 4). Social Services will ensure through a review policy (developed by February 4, 2020) to ensure all funds received are deposited in pursuant to NCGS 159-32.

**Child Support-** We agree with the Auditors findings and corrective action is addressed within finding "Child Support Fees".

**Emergency Assistance-** We agree with the Auditors findings and corrective action is addressed within finding "Written Policies and Procedures".

### **Food and Bus Card Spending Authorization**

During our testing, we noticed that 11 out of 30 (37%) samples reviewed were missing the Spending Authorization form.

According to Department of Social Services Accounting Policy for Bus Passes and Food Cards, Fast Food Cards and P-Cards: Part VI – Distribution of Food Cards and Bus Passes to Social Workers states that social workers must submit a Spending Authorization form to an identified staff member for approval prior to the issuance of the cards/passes.

Social workers and identified staff members did not comply with written policies and procedures. The lack of preparing a Spending Authorization form eliminates the review by the adequate level of authority. The review ensures the cards will be used for the expressed intent and purpose documented on the form. In addition, missing forms do not provide an adequate audit trail concerning how program funds are utilized. This increases the possibility of theft and misuse of cards/passes.

**Recommendation:** We recommend management create a monitoring system by which they review this information on a periodic basis to ensure staff is following established policy.

**Management's Response:** We agree with the Auditors findings that Spending Authorization Form are not always completed within the Social Services policies. We will conduct training of managers and supervisors by the end of March 2020 to ensure spending authorization forms are completed per policy.

### **Manual Receipt Books**

The business office maintains manual receipt books that are used for various programs. The books are not routinely reconciled, accounted for, and audited. Policies and procedures do not included procedures for auditing and safeguarding manual receipt books.

Manual receipt books are treated like cash and serve as confirmation of customer payments. These books should be accounted for, reviewed, and audited. Management should also ensure these books are adequately safeguarded when not in use.

The lack of monitoring manual receipt books could result in fraudulent activities where a legitimate receipt is written, and the money is retained by staff.

**Recommendation:** We recommend policies and procedures are updated to reflect the safeguarding and periodic auditing of manual receipt books.

**Management's Response:** We agree with the Auditors findings that historically Social Services has not maintained manual receipt book "like cash" and currently do not have a policy or procedure for auditing and safeguarding manual receipt books. Social Services will develop a manual receipt book policy and procedure by February 4, 2020.

### **Cards and Voucher Stock Audit**

During our audit we noticed the business office does not conduct periodic audits of food cards, bus passes, and clothing vouchers. In addition, management does not monitor this activity, as well.

These cards and vouchers have a street value and are treated the same as cash and should be inventoried and monitored by staff and management. The DSS management does not have any procedures in place to audit the food cards, bus passes, and clothing vouchers.

The lack of adequate monitoring of these items could result in misuse and theft.

**Recommendation:** We recommend management update current policies and procedures to include a process for monitoring and auditing the food cards, bus passes, and clothing vouchers.

**Management's Response:** We agree with the Auditors findings that historically Social Services has not conduct periodic audits of food cards, bus passes, and clothing vouchers. Social Services will develop a policy and procedure for audits of food cards, bus passes, and clothing vouchers by March 1, 2020.

### **Deposit Verification**

During our review, it was noted there was no evidence of a dual review when preparing the deposit slip and the accounting form that is sent to County Finance.

The Daily Cash Log does not provide an adequate audit trail concerning the receipt of cash. The log only shows the receivers initials. The omission of the distributors initials does not provide support to validate the type (i.e., money order, check, cash, etc.) and amount of funds given were received. Policies and procedures do not reflect a dual control concerning bank deposits and cash receipts.

There is a lack of a dual control concerning the preparation of bank deposits and receipt of funds. The absence of a dual control whereby both the preparer and verifier sign off on deposits and receipt of cash, could result in lack of accountability, misappropriation of funds and increased likelihood of fraud.

**Recommendation:** We recommend the department revise its procedures to ensure the signatures of all staff involved in preparing the deposit are documented. Also, we recommend the department update the Daily Cash Log to reflect dual controls concerning cash receipts.

Finally, we recommend policies and procedures are updated to reflect the implementation of dual controls concerning bank deposits and cash receipts.



**Management's Response:** We agree with the Auditors findings that historically Social Services has not used dual controls concerning bank deposits and cash receipts. Social Services will develop a policy and procedure for dual controls by February 4, 2020.

### **Child Support Fees**

The Department of Social Services (DSS) business office maintains money orders collected for child support applications until the child support application has been processed. The average timeline between the receipt and deposit is over a month. In addition, we noticed the policies and procedures do not mention deposits at all.

In pursuant to NCGS 159-32, all taxes and other moneys collected or received by an officer or employee of a local government or public authority shall be deposited in accordance with this section. Each officer and employee of a local government or public authority whose duty it is to collect or receive any taxes or other moneys shall, on a daily basis, deposit or submit to a properly licensed and recognized cash collection service all collections and receipts.

DSS business office is in noncompliance with state statute. Policies and procedures should be updated. The department is at risk for misappropriation of cash and violation of state statute for holding large amounts for extended days.

**Recommendation:** We recommend management update policies and procedures to reflect daily deposits. We also recommend management implement a monitoring control to ensure deposits are being made timely.

**Management's Response:** Child Support is required to collect application fees at the time of application submission (NCDHHS). Families receiving public assistance (TANF, Medicaid and/or Foster Care) are not charged an application fee for support services. Families that are not receiving public assistance are charged a non-refundable application fee of up to \$25. If the applicant's income is below 100 percent of the Federal Poverty Guidelines, a reduced application fee of \$10 is available. Child Support does not have the ability to determine if the client is exempt from the child support application fee until the case is established by the State of North Carolina.

Processing all application fees pursuant to NCGS 159-32 will result in an increase of refunds to clients. This will increase the County's non-reimbursement cost to produce refund checks.

We agree with the Auditors findings that historically Social Services Child Support has held application fees until approved by the State of North Carolina. We will update our policies and procedure by February 4, 2020.

### **Written Policies and Procedures**

DSS does not have formal policies and procedures concerning the following:

- The completion of the Spending Authorization Form detailed explanation section.
- Follow-up procedures on unreturned or unmatched store receipts for clothing vouchers.

Policies and procedures are an essential part of any organization. Policies and procedures provide a roadmap for day-to-day operations. They ensure compliance with laws and regulations, give guidance for decision-making, and streamline internal processes.

The lack of written policies and procedures could result in inconsistencies and inefficiencies in performing tasks, the lack of accountability, and inadequate documentation to support the use of program funds.

**Recommendation:** We recommend that DSS create formal, documented department-level policies and procedures for all programs. Personnel should be trained concerning the new policies and procedures to ensure their understanding. Management should implement processes by which to monitor for compliance.

**Management's Response:** We agree with the Auditors findings that full detail explanations are not always completed within the Spending Authorization Form. We will conduct training of managers and supervisors by the end of March 2020 to ensure a full detail explanation is included.

- a. Clothing vouchers- Social Services provide clothing vouchers to foster parents when they receive a child without essentials (cloths, diapers, etc.). Foster parents are advised during their training that all receipts must be returned to DSS and could result in a reduction of board rate payment.
- b. Social Services takes great pains to comply with all legal, regulatory, and administrative policy requirements. We balance these requirements with the needs of our clients to prevent any barriers to service

We agree with the Auditors findings that unreturned or unmatched store receipts for clothing vouchers does exist with all our foster parents. Social Services will revise our policies to reflect the dynamics of the services we provide and realize that memos signed by the social worker and foster parents maybe be needed when the store receipts are lost or missed placed by March 1, 2020.

## **Department of Sherriff's Office (DOSO)**

### **Jail Daily Packets**

The Detention Center keeps a Money Intake Log for cash collected upon the admission of inmates. During our testing, we noticed that in 6 out of 25 (24%) samples reviewed, the Money Intake Log did not agree to the Core-Banking system. Also, we noted the Booking Audit report for the Inmate's transfer funds was not a system generated report to show the inmate's balance, instead the amounts were manually inputted.

All monies that are collected and logged on the Money Intake Log should match the Core-Banking System report. All receipt entries must be signed by the recipient and verifier. Booking Audit Report balances should be system generated as a validation for printing checks.

The department did not emphasize the importance of having a complete log that agrees to the actual cash collected, in addition, there is not a system generated report used in identifying the balances of the transferred inmates. Lack of monitoring the Money Intake Log could result in inaccurate reporting and misplace of cash received. Human errors could take place if manually writing out the amounts; and as a result, the check amount will be inaccurate.

**Recommendation:** We recommend personnel to strictly adhere to the policies and procedures of the department and ensure the use of system generated numbers when preparing the daily packets.

**Management's Response:** We agree with the finding and we have taken the following actions prior to the completion of the audit.

1. The Money Intake Log has been revised to require both recipient signature and verifier signature.
2. Since we are unable to generate a report from the CORE system, a screenshot of the transferred inmate account transactions screen will be taken to prove the system generated inmate balance instead of a manually input log balance. Fiscal Services will also speak with the vendor to obtain an understanding of why a daily report cannot be generated from the system.
3. With regard to the Money Intake Log not agreeing to the Core Banking System, it was determined that voided debit cards were being treated as deposits into the money intake log. CORE does not recognize voided debit card balances and as a result, the transaction balance recorded in the log did not match the balance in the CORE system. The balance was off by the amount of the unrecognized voided debit cards. When this issue was noted, staff immediately discontinued the practice of logging these cards.

### **Deposit Testing**

During our testing we noticed the following:

- 1 out of 25 (4%) daily deposits for the jail were not deposited by the next business day.
- 1 out of 25 (4%) the daily deposits for Animal Services were not deposited by the next business day.
- 1 out of 25 (4%) daily deposits for Animal Protection Services (APS) were not deposited the next business day.

In pursuant to NCGS 159-32, all taxes and other moneys collected or received by an officer or employee of a local government or public authority shall be deposited in accordance with this section. Each officer and employee of a local government or public authority whose duty it is to collect or receive any taxes or other moneys shall, on a daily basis, deposit or submit to a properly licensed and recognized cash collection service all collections and receipts.

In these instances, the departments did not follow state statute of depositing cash daily. The department is at risk of violating state statute NCGS 159-32. The longer cash is held, it increases the possibility of theft.

**Recommendation:** We recommend all Office of the Sheriff personnel ensure deposits are made daily.

**Management's Response:** We agree with the finding and as a result of this finding, we will ensure that funds collected are deposited on the next business day through bank verification. Each department will be required to send deposit information to management for verification on a daily basis.

### **Manual Receipt Books**

The manual receipt books at Animal Services are not audited or reviewed at any time during the year. Manual receipt books are treated like cash, and they serve as confirmation of customer payments. Therefore, books should be kept in a safe place and subject to routine audits.

There are no formal written policies and procedures concerning the proper storing, accounting, handling, and auditing of manual receipt books. The lack of monitoring manual receipts' books could result in fraudulent activities where a legitimate receipt is written, and the money is retained by staff.

**Recommendation:** We recommend a routine audit to be conducted and documented throughout the year. Formal policies and procedures should be written concerning the storing, accounting, handling, and auditing of manual receipt books.

**Management's Response:** We agree with this finding. A policy and procedure with regard to the manual receipt book will be created within ninety (90) days from the date of this response. This policy will include procedures regarding proper storing, accounting, handling and auditing of manual receipt books. We will also schedule routine audits throughout the year to confirm the policies and procedures are being followed.

### **Animal Protection Society (APS) Cash Reconciliation**

During our testing we noticed the following:

- 3 out of 25 (12%) of APS closing reports, Animal Shelter Boarding report and deposit slips did not reconcile. In addition, the Animal Services Receipt form combined a donation to Animal Protection Society causing the daily deposit to not balance.
- 1 out of 25 (4%) deposit slip did not agree to the Finance deposit form.

End of day reports (i.e., Animal Shelter Boarding report, APS closing reports and deposit slips, etc.) should reconcile. The lack of reconciliation and monitoring could increase the possibility of theft.

**Recommendation:** We recommend management reviews deposit packets ensuring they adequately balance, and all forms agree.

**Management's Response:** We agree with this finding. To resolve this issue, those responsible at APS are going to separate all APS funds (in this case donations) from County fees collected. In order to achieve this, the transactions will now be processed as separate transactions which will avoid the comingling of funds. The credit card batches settle automatically, and we will ensure that we have a batch settlement report for each day. If for any reason the batch does not settle as scheduled, we will contact the credit card provider to have it settled manually and we will also notify management regarding the settlement.