



Washington State Auditor's Office

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Accountability Audit Report Yakima County

For the period January 1, 2015 through December 31, 2015

Published

Report No. 1018319





Washington State Auditor's Office

Issue Date – (Issued by OS)

Board of Commissioners

Yakima County

Yakima, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for County operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our report on the County's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

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AUDIT SUMMARY

Results in brief

In most areas we audited, County operations complied with applicable requirements and provided adequate safeguarding of public resources. The County also complied with state laws and regulations and its own policies and procedures in the areas we examined.

However, we identified areas in which the County could make improvements.

We recommended the Clerk's Office improve internal controls and oversight of its financial operations to safeguard public resources.

These recommendations were included in our report as a finding.

About the audit

This report contains the results of our independent accountability audit of Yakima County from January 1, 2015 through December 31, 2015.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

Our audit involved performing procedures to obtain evidence about the County's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Open Public Meetings Act
- Building permits
- Cost allocation plans
- Public Services – safeguarding of assets
- General disbursements
- Credit card use
- Sheriff's Office – property room, disposition of property, seized and forfeited property, fuel use, bidding and procurement
- Clerk's Office – cash receipts, billings and bank reconciliation

SCHEDULE OF AUDIT FINDINGS AND RESPONSES**2015-001 The Clerk's Office does not have adequate internal controls or oversight of its financial operations to safeguard public resources.*****Background***

The County Clerk's Office collected \$1,157,034 in revenue for fines, fees, and restitution payments in 2015. The Clerk is responsible for developing policies and ensuring adequate controls are in place and effective over office operations. As evidenced below, the Office lacks important controls over accounting operations. Without these controls, the Office cannot ensure funds are safeguarded and the risk of misappropriation, loss of public assets and noncompliance increases.

Description of Condition

We reviewed internal controls over Clerk's Office activities and identified control deficiencies in the following areas:

Trust Fund Bank Reconciliations

We identified the following control deficiencies regarding the monthly bank account reconciliation process for trust accounts.

- The person responsible for reconciling the trust account is also responsible for receipting money, preparing and depositing funds to the County Treasurer and adjusting cash receipts and accounts receivable. There has been no secondary or independent review of bank reconciliations since the implementation of the new software system in November 2015.
- The Office does not retain adequate supporting documentation for trust account reconciliations to allow for an effective secondary review. Specifically, the Office did not retain complete documentation of reconciling items used to support the difference between the bank balances and system balances. Without documentation of the reconciling items, we were unable to verify that bank reconciliations were performed accurately and that all funds were accounted for.
- In the prior audit we noted several pages of reconciling items dating back to 2009 that were not adjusted in the system or corrected through the bank. Through discussion with staff, these reconciling items remain uncorrected.

- Trust account bank reconciliations are not always performed timely. The August reconciliation was performed 37 days after the statement date and the September reconciliation was not yet complete during our audit in late November.
- The policy governing bank reconciliations is outdated as it specifically refers to the previous accounting system and former County Clerk.

Similar concerns were identified during the prior two audits and discussed with management during the audit exit conferences.

Cash Receipting and Adjustments

We identified the following control deficiencies in cash receipting, receipting adjustments and accounts receivable adjustments:

- The Office lacks segregation of duties over cash handling procedures. The employee assigned to compare the daily cash reconciliations with the validated deposit slip is also responsible for receipting money, preparing the deposit and transmitting the funds to the County Treasurer.
- There is no independent review of cash receipting adjustments or accounts receivable adjustments. Additionally, the two employees responsible for performing these adjustments are also involved in the daily cash deposit preparation, review of the bank validated deposit slips and the monthly reconciliation of the Clerk trust bank accounts.

Jury Service Billings

The Clerk's Office provides jury services to the County District Court and three local municipal courts. The Clerk has not established procedures to ensure the Office is paid for these services. The Office has not billed or collected for jury services provided to the District Court and two municipal courts from May 2015 through August 2016. We estimate these services to be approximately \$44,500. In addition, the Clerk provided jury services for one municipal court without an agreement in place from May 2015 to September 2016. The agreement was subsequently signed and billed in October 2016 for \$52,411, sixteen months after the service period started.

Child Support Orders

The Clerk's Office receives state and federal grant funding through the child support enforcement program. As part of the statutory requirements, the Office must submit orders for child support to the State Department of Social and Health

Services (DSHS) within five days of the court order. If not received timely by DSHS, the Department may not allow reimbursement through the program. We noted the following control deficiencies related to the reporting of child support orders and Child Support Enforcement grant reimbursement claims:

- The Clerk's Office does not monitor the reporting of child support enforcement orders to ensure DSHS receives them within the required five-day period.
- The Clerk's Office does not monitor grant activity to ensure grant claims are approved and reimbursements are received.

Cause of Condition

The Clerk's Office has not devoted sufficient time and resources to ensure proper segregation of duties exists over cash handling and account reconciliations and has not taken the necessary steps to correct reconciliation items noted in the previous audit. The implementation of a new software system in November 2015 has caused challenges and confusion over key monitoring processes, such as the documentation, retention and review of monthly reports, as well as the processing of child support orders.

In addition, the Clerk's Office has not made it a priority to ensure anticipated revenues are billed and collected. Jury services are provided monthly, yet since May of 2015 the Office has not performed the necessary calculation to determine the amount to be billed.

Effect of Condition

Inadequate internal controls over Clerk's Office activities and lack of documentation for account activity increase the risk that a loss or misappropriation of public funds may occur and not be detected by management in a timely manner, if at all.

Specifically, the Office has not billed or collected on jury service revenues for a period of sixteen months in the amount of approximately \$44,500. Additionally, in November 2016 the Clerk's Office was notified by DSHS that it may not be reimbursed for child support enforcement grant claims submitted from January to August 2016 as the Office did not ensure DSHS received child support orders within the required five- day timeframe. According to DSHS, only 3 percent and 7.8 percent of court orders were received timely during January and February 2016, respectively. This percentage increased from 22 percent to approximately 74 percent between March and August 2016. According to reimbursement requests, the amount of lost revenue is estimated to be approximately \$206,500.

The Clerk's Office is currently working with DSHS in an attempt to recover the lost grant revenue.

Recommendation

We recommend the County Clerk's Office:

- Establish policies and procedures over cash receipting, adjustments and bank reconciliations to ensure accountability and safeguarding of public resources. This policy should include adequate segregation of duties, retention and review of monthly reports by an independent person.
- Properly reconcile the Clerk's trust bank account on a monthly basis to ensure all reconciling items are fully supported and retain documentation to allow for an effective secondary review.
- Research the list of outstanding reconciling items dating back to 2009 and properly address them in the system to avoid carrying them forward to future reconciliations.
- Ensure the daily cash reconciliation to the bank validated deposit slips be performed by a person that is independent from the cash receipting and depositing process.
- Perform an independent review of cash receipting and accounts receivable adjustments to ensure all adjustments are reasonable and properly supported.
- Monitor all contracts for services to ensure all amounts due are billed and collected timely.
- Monitor grant activity to ensure the Office receives all funds claimed and resolves differences immediately.
- Monitor all child protection order submissions to ensure DSHS receives the orders within the five-day deadline.

County's Response

Auditor's Remarks

Applicable Laws and Regulations

RCW 36.23.040 - Custody and delivery of records, states in part:

The clerk shall be responsible for the safe custody and delivery to his or her successor of all books and papers belonging to his or her office

RCW 36.23.030 - Records to be kept.

The clerk of the superior court at the expense of the county shall keep the following records:

- (1) A record in which he or she shall enter all appearances and the time of filing all pleadings in any cause;
- (2) A docket in which before every session, he or she shall enter the titles of all causes pending before the court at that session in the order in which they were commenced, beginning with criminal cases, noting in separate columns the names of the attorneys, the character of the action, the pleadings on which it stands at the commencement of the session. One copy of this docket shall be furnished for the use of the court and another for the use of the members of the bar;
- (3) A record for each session in which he or she shall enter the names of witnesses and jurors, with time of attendance, distance of travel, and whatever else is necessary to enable him or her to make out a complete cost bill;
- (4) A record in which he or she shall record the daily proceedings of the court, and enter all verdicts, orders, judgments, and decisions thereof, which may, as provided by local court rule, be signed by the judge; but the court shall have full control of all entries in the record at any time during the session in which they were made;
- (5) An execution docket and also one for a final record in which he or she shall make a full and perfect record of all criminal cases in which a final judgment is rendered, and all civil cases in which by any order or final judgment the title to real estate, or any interest therein, is in any way

affected, and such other final judgments, orders, or decisions as the court may require;

(6) A record in which shall be entered all orders, decrees, and judgments made by the court and the minutes of the court in probate proceedings;

(7) A record of wills and bonds shall be maintained. Originals shall be placed in the original file and shall be preserved or duplicated pursuant to RCW 36.23.065;

(8) A record of letters testamentary, administration, and guardianship in which all letters testamentary, administration, and guardianship shall be recorded;

(9) A record of claims shall be entered in the appearance docket under the title of each estate or case, stating the name of each claimant, the amount of his or her claim and the date of filing of such;

(10) A memorandum of the files, in which at least one page shall be given to each estate or case, wherein shall be noted each paper filed in the case, and the date of filing each paper;

(11) A record of the number of petitions filed for restoration of the right to possess a firearm under chapter 9.41 RCW and the outcome of the petitions;

(12) Such other records as are prescribed by law and required in the discharge of the duties of his or her office.

Local Government Common Records Retention Schedule (CORE) Section 3.4 – Banking, states in part:

Records relating to the agency's banking activities and documenting its banking transactions shall be retained for 6 years after end of fiscal year.

Local Government Common Records Retention Schedule (CORE) Section 3.4 – Accounting, states in part:

Records documenting all resources received and expended by the agency provided that receipts and expenditures are not for

bond, grant or levy projects shall be retained for 6 years after end of fiscal year.

RCW 26.18.080 – Wage assignment order – Issuance – Information transmitted to state support registry.

(1) Upon receipt of a petition or motion seeking a mandatory wage assignment that complies with RCW 26.18.070, the court shall issue a wage assignment order, as provided in RCW 26.18.100 and including the information required in RCW 26.18.090(1), directed to the employer, and commanding the employer to answer the order on the forms served with the order that comply with RCW 26.18.120 within twenty days after service of the order upon the employer.

(2) The clerk of the court shall forward a copy of the mandatory wage assignment order, a true and correct copy of the support orders in the court file, and a statement containing the obligee's address and social security number shall be forwarded to the Washington state support registry within five days of the entry of the order.

RCW 26.23.033 – State case registry – Submission of support orders.

(1) The division of child support, Washington state support registry shall operate a state case registry containing records of all orders establishing or modifying a support order that are entered after October 1, 1998.

(2) The superior court clerk, the office of administrative hearings, and the department of social and health services shall, within five days of entry, forward to the Washington state support registry, a true and correct copy of all superior court orders or administrative orders establishing or modifying a support obligation that provide that support payments shall be made to the support registry.

(3) The division of child support shall reimburse the clerk for the reasonable costs of copying and sending copies of court orders to the registry at the reimbursement rate provided in Title IV-D of the federal social security act.

(4) Effective October 1, 1998, the superior court clerk, the office of administrative hearings, and the department of social and health services shall, within five days of entry, forward to the Washington state support registry a true and correct copy of all superior court orders or administrative orders establishing or modifying a support obligation.

(5) Receipt of a support order by the registry or other action under this section on behalf of a person or persons who have not made a written application for support enforcement services to the division of child support and who are not recipients of public assistance is deemed to be:

(a) A request for payment services only if the order requires payment to the Washington state support registry;

(b) A submission for inclusion in the state case registry if the order does not require that support payments be made to the Washington state support registry.

Budgeting, Accounting and Reporting Systems (BARS) manual – Accounting, Revenues, Cash Receipting, states in part:

Internal control is defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), in standards adopted by the American Institute of Certified Public Accountants and by the Federal Office of Management and Budget as follows:

Internal control is a process – affected by those charged with governance, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is

also the responsibility of management and the governing body. The governing body has *ultimate* responsibility for ensuring adequate controls to achieve objectives, even though *primary* responsibility has been delegated to management. Since management and the governing body are assumed to work in harmony, both parties are collectively referred to as "management" throughout the rest of this section.

COSO and professional auditing standards define five interrelated components of effective internal control, as follows:

1. Control environment – The tone set by management that influences the control consciousness of staff. Control environment includes communication of integrity and ethical values, commitment to ensure that staff are competent, management's philosophy and operating style, extent of participation by the governing board in scrutinizing activities and holding management accountable, and human resource practices (hiring, organization, development, evaluation, promotion and remedial action).
2. Risk assessment – Management's identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be addressed or controlled. Risk assessment includes identification of internal and external risks to the achievement of objectives, such as new contracts or grants, changing regulations and accounting standards, new technology, new personnel, new or discontinued activities and programs, new or discontinued organizational policies and procedures, obsolescence of facilities, and so on. Risk assessment also includes evaluation of risks and determining how to best address them.
3. Information and communication – Systems to support the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities. This encompasses the organization's methods of capturing and sharing

information as well as its software, including its accounting information systems.

4. Control activities – Specific policies or procedures that directly address risks related to the achievement of objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities such as approvals, reviews, reconciliations, segregation of duties, performance measurement, tracking events or assets, etc.
5. Monitoring – Management’s review of the operation of internal controls over time. Monitoring is accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two. Ongoing monitoring occurs during the course of operations when management observes controls and can discern whether they were effective. Separate evaluations occur when management reviews and assesses a particular control to determine if it has been effective.

Internal control should be viewed as an integral or inherent part of the policies, systems and procedures management uses to operate and oversee the organization. This is not to say effective control will never require additional or incremental effort. Rather, controls exist to provide reasonable assurance about the achievement of objectives and so should be integrated into all the organization’s fundamental business processes. Controls are normally most effective when built into the government’s infrastructure rather than being treated as supplemental or separate processes. In the same way, implementation and monitoring of internal controls should not be viewed as a singular event, but rather a continuous or iterative process.

Since internal control is as fundamental as the objectives the controls relate to, the need for effective control is applicable to all organizations, regardless of size. While small entities may implement internal controls differently than larger ones, effective internal control is still both necessary and possible.

Budgeting, Accounting and Reporting Systems (BARS) manual - Accounting, Revenues, Cash Receipting, states in part:

Internal Control

See the BARS manual 3.1.3, Internal Control for general guidance on internal controls. The following are minimum expected controls for cash receipting:

1. More than one employee should open the daily mail and prepare a list of cash and checks received (remittance list). If dual custody is not feasible, the government should consider compensating controls such as having mail opened in an area observable by other employees or stronger monitoring controls over revenues.
2. Deposits may be prepared by the person who received the payment. The government should implement a system of supervisory review of the remittance list and bank deposits to ensure deposits are made intact.
3. Checks received in the mail should be briefly reviewed for accuracy (e.g., proper payee, date, signature of payor, etc.). Checks with obvious inaccuracies should not be included in the deposit. In such a case, the entity should contact the payor and request that the payment be corrected or reissued.
4. The daily remittance list should be compared (reconciled) to daily deposit slips and to the cash receipts journal (or check register) on a regular basis. This should be performed by someone other than the employee who prepared the remittance list. Any shortage should be resolved.
5. A duplicate copy of the bank-validated deposit slip showing the composition of receipts should be retained by someone other than the employee making up the deposit.
6. The bank statement reconciliation should be performed by a person who does not have custody of or access to cash during any point in the receipting and depositing

process. This reconciliation should include comparing deposits per bank to recorded receipting transactions in the general ledger.

7. Deposits should be physically safeguarded using bank bags with locks or other tamper-proof devices.
8. Receipts should be physically safeguarded during the operating day and secured in a safe or vault overnight. Access to the cashiering area should be appropriately restricted whenever possible.
9. Access to the safe or vault should be limited and combination should be changed periodically. In addition, the safe and vault combination should be changed after employees terminate employment.
10. If the government utilizes cash registers, there should be one change fund and one cash register (or drawer) per cashier. This enables assignment of responsibility for cash to a specific individual at all times.
11. Policies should contain instructions for identifying cash receipts and for dating cash receipts journal entries for that day's receipts.

RELATED REPORTS

Financial

Our opinion on the County's financial statements and compliance with federal grant program requirements is provided in a separate report, which includes the County's financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

Federal grant programs

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the County's major federal program, which is listed in the Schedule of Findings and Questioned Costs section of the separate financial statement and single audit report. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

Special investigations

During the current audit period, the State Auditor's Office issued a report on a misappropriation of public funds at the County. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE COUNTY

Yakima County is located in central Washington. The County encompasses 4,296 square-miles and is the second largest county in land area in Washington and seventh largest in population. It serves approximately 247,000 residents and is administered by an elected, three-member Board of Commissioners. The County has seven independently elected positions including Assessor, Auditor, Clerk, Coroner, Prosecuting Attorney, Sheriff and Treasurer. In addition, there are eight elected Superior Court judges and four elected District Court judges.

The County has an annual budget of approximately \$289 million. The County has approximately 1,200 permanent employees who provide a full range of services including: judicial and public safety; operation and maintenance of the County jail and youth detention center; building inspection; planning and zoning; property valuation; tax collection and distribution; vehicle licensing; construction, reconstruction and maintenance of streets, highways, bridges; employment and social services; parks and recreation and general administrative services.

Contact information related to this report

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Information current as of report publish date.

Audit history

You can find current and past audit reports for Yakima County at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as fraud, state whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office

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