



FOLLOW-UP AND INTERNAL CONTROL REVIEW OF 4-H FINANCIALS

Report No. 2019-07

Presented To

The Honorable Board of Marion County Commissioners
Mounir Bouyounes, County Administrator

September 17, 2019

Issued by

David R. Ellspermann, Clerk of the Circuit Court and Comptroller
Sachiko H. León, Internal Audit Director

ENGAGEMENT TEAM

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EXECUTIVE SUMMARY

Internal Audit completed a follow-up review of Report No. 2016-09 and a review of internal controls of financial transactions over Marion County 4-H Youth Program.

The original objective was to verify the implementation status of the recommendations to which the management agreed in the previous engagement (Report No. 2016-09). After the initial meeting and inquiries, we found that there had been changes in practice due to turnovers and implementation of the University of Florida Institute of Food and Agricultural Sciences (UF/IFAS) policies and procedures. As the Extension Services Director, a County employee, is accountable for the overall administrative oversight of the program, we expanded the scope to ensure that there are adequate internal controls over financial transactions.

It is our opinion that:

- Out of four recommendations from Report No. 2016-09, two were partially implemented and two were not implemented. (Results discussed in Page 4-5)
- Internal controls of financial transactions over the 4-H programs need improvement. (See Table 1 below for the types of internal controls on which the management should improve)

It is important to note that we found no instance of intentional misuse of the 4-H funds.

Table 1	
Observation Summary by Type of Internal Control	Applicable Observation No.
Segregation of Duties	Observation 1
Reconciliations of financial transactions	Observation 1, 2
Completeness of Records	Observation 3, 5
Compliance with policies and procedures	Observation 3, 5, 6, 8
Safeguarding of assets	Observation 7
Verification of records	Observation 4

We would like to express our appreciation to the 4-H staff and management of the Extension Services Department for their cooperation and assistance during this review.

OBJECTIVE(S)

Our objectives were as follows:

1. What was the implementation status of the recommendations to which the management agreed in Report No. 2016-09?
2. Were there appropriate and sufficient internal controls for handling of financial transactions of Marion County 4-H Youth Program?

SCOPE AND APPROACH

The scope consisted of transactions of, and processes over, two bank accounts which 4-H manages ("Operating account" and "Club account") between October 1, 2017 - September 30, 2018.

Our approach included interviewing staff members, observations and testing of processes, accounting system, and monthly files.

BACKGROUND

Marion County 4-H Youth Program (4-H) is provided through the Marion County UF/IFAS Extension Service Department (Extension Service), which is "a cooperation between (and funded by both) the Marion County Board of County Commissioners and the University of Florida." Organizationally, Extension Service belongs to the Public Works Division of Marion County Board County Commissioners (Board).

The overall 4-H mission is to "create supportive environments for youth to reach their fullest potential." 4-H was founded in 1902 and incorporated into Extension Service in 1914. There are 37 4-H clubs with nearly 1,000 participants under the age of 18 in Marion County.

The 4-H funding comes from grants, contributions, as well as fundraising. The governance of the program funding is independent of the Board and the Clerk's Finance Department does not process 4-H transactions. The 4-H program maintains its own bank accounts as a non-profit agency in a local community bank and assigns certain 4-H board members the check signing authority.

Daily maintenance and monitoring of those bank accounts are a responsibility of the 4-H Agents and/or County 4-H staff (The Agents and the employees work from the Extension Service office). The Extension Service Director, who is a County employee, is accountable for the overall administrative oversight¹.

Although the Board does not govern 4-H directly, its governance structure mentioned above creates reputational and financial risks for the Board if the program does not have proper internal controls.

Internal Audit has been involved with reviewing different processes of the 4-H program since 2011. In 2014, per a request of the Extension Services Director, Internal Audit reviewed the 4-H program's financial transactions and made recommendations to enhance the program's internal controls when the Director had concerns over the accountability of each club account and the existing procedures at the time.

¹ UF/IFAS Policies and Procedures for Handling Funds in County Extension Programs

Follow-up and internal control review of 4-H financials

The Department later adopted "Procedures for Handling Funds Marion County 4-H Club Accounts" (Marion County 4-H Procedures). 4-H is responsible for maintaining a "Club" bank account and a "Operating" bank account and reconciling the bank accounts to internal sub-accounts in QuickBooks, an accounting system utilized by 4-H.

In 2016, upon a request of the Director, Internal Audit again reviewed the program's financial operations to ensure the Marion County 4-H Procedures were being followed and issued a report dated July 28, 2016 (Report No. 2016-09).

In July 2018, we engaged the Director for a follow-up of the status of the recommendations associated with the report. After the initial meeting, we noted that, due to personnel turnovers and implementation of the UF/IFAS policies and procedures, the staff were no longer following the Marion County 4-H Procedures. We expanded our scope to examine whether the processes in place had appropriate and sufficient internal controls in addition to monitoring the implementation of our recommendations reported in Report No. 2016-09.

RESULTS

Objective 1: What was the implementation status of the recommendations to which the management agreed in Report No. 2016-09?

	2016-09 Recommendation	Management Response	Implementation Status
1	Designate alternative personnel who is not involved with data entries and transaction approval process to review financial records at least monthly. The designated employee should also receive and review the 4-H bank statements including images of checks that cleared through the 4-H bank accounts. The review process should consist of ensuring each transaction has complete supporting documentation (Funds Request form, club minutes, receipts, etc.); and ensuring transactions in the accounting software were correct and reconciled to the bank accounts.	Concur	Partially Implemented
2	1) Attach Club minutes to every funds request form received as required by the existing 4-H policy; 2) Print and attach the receipts to the original request form if they receive any receipts via email; 3) Set reminders of when to follow up with the individual that requested the funds to verify items purchased; 4) Combine the reimbursement request form and the fund request (pre-payment) forms by adding a line for funds type requested with a check box for reimbursement or prepayment.	Concur	Partially Implemented
3	Utilize the software functions and reconcile monthly bank statements in the accounting software to gain more efficiency.	Concur	Not Implemented
4	Utilize the software function and print bank deposit reports from the accounting software to reduce the need to manually transpose the information to multiple forms to gain more efficiency.	Concur	Not Implemented

Objective 2: Were there appropriate and sufficient internal controls for handling of financial transactions?

We found that internal controls over the financial transactions of 4-H need improvement. The management and staff should implement segregation of duties, better processes for safeguarding of money, and timely review of 4-H transactions. The program also should adhere to the Marion County 4-H Procedures as well as the UF/IFAS policies and procedures.

See the following summary of opportunities for improvements based on our observations and testing. More detailed information can be found in Exhibit A.

	Observation Summary	Recommendation	Management Response
1.	Nobody reconciled QuickBooks since 2015 and there was not sufficient segregation of duties.	Management should assign the Budget and Administrative Coordinator to perform monthly bank reconciliations within QuickBooks as part of the monthly review.	Effective May 24, 2019, responsibilities for collection of cash and checks for 4-H accounts have been shifted from the 4-H Program Assistant to the two Customer Service Representatives (CSRs) at the front desk. The Program Assistant is now responsible to record, transport and deposit 4-H funds at Community Bank. Locked bank bags have been purchased and are used to transport funds. The Budget and Administrative Coordinator has been assigned to review the 4-H account statements monthly to ensure funds are intact and to insure that requirements for disbursement of funds are being met.
2.	Financial records review did not occur timely.	The Budget and Administrative Coordinator should review financial records at least monthly as an alternative control to prevent, deter or detect possible wrongdoings.	Effective April 24, 2019, the Budget and Administrative Coordinator has been assigned this task, to be conducted at the beginning of each month. This practice has been implemented.

Follow-up and internal control review of 4-H financials

	Observation Summary	Recommendation	Management Response
3.	Staff reimbursed 4-H Club members without all required supporting documentation per the Marion County 4-H Procedures.	Staff should reimburse individuals when they can account for all required supporting documentation.	This policy was reviewed with new staff on May 1, 2019 and will become part of orientation for all subsequent new staff. All staff are committed to gatekeeping requests from 4-H club leaders to ensure a copy of the meeting minutes verify club approval, through a motion and vote, for requested disbursement of funds. A copy of the meeting minutes will be attached to the check record for audit purposes.
4.	Staff obtained a signed blank check and purchased items that did not fit the documented purpose.	Staff should include all purchases to be made in the purpose description on the Check/Reimbursement Request Form. Management should monitor purchases by spot checking of actual items purchased to ensure they are appropriate for the intended and documented purpose. Items purchased from a retail store are usually identifiable by internet search by entering product numbers or descriptions on the receipt.	Effective May 24, 2019, checks are no longer signed by signatories and held in the 4-H office. Check requests are made and, when approved, the check is prepared for signature.
5.	Staff did not consistently provide pre-numbered income receipts when they collected money as required by the UF Policies and Procedures for Handling Funds.	Staff should adhere to the existing policies and procedures by filling out receipts when collecting money. Additionally, when reviewing and updating the local policies and procedures, management should require staff to make copies of incoming checks or to retain check stubs to document the source and purpose of all deposits.	Effective May 24, 2019, responsibility for collection of all funds has been transferred from the 4-H office to the Customer Service Representatives at the front desk. These individuals will create a duplicate receipt for all financial transactions. The 4-H Program Assistant will make a copy of all incoming checks for documentation purposes.

Follow-up and internal control review of 4-H financials

	Observation Summary	Recommendation	Management Response
6.	Staff did not timely deposit collections on hand within one business day when they exceeded \$500 as required by the UF Policies and Procedures for Handling Funds.	Staff should adhere to UF Policies and Procedures for Handling Funds in County Extension Programs and deposit collections on hand within one business day when they exceed \$500.	Accounts are monitored more closely and deposits are made when the \$500 threshold is approached, sometimes several times a week. This practice was implemented February 1, 2019. Monies are held in a safe until the deposit is made. Deposits are triggered for transfer to the bank when a threshold of \$500 is reached.
7.	The 4-H Division lacked controls over the cash handling process.	Management should implement proper and effective controls over cash in the office and establish petty cash procedures. When staff is out of the office, access should be restricted by locking the door and directing customers to another location.	These policies were revised effective February 1, 2019, to include: 4-H candy sales have been discontinued. The 4-H office door is locked when no one is in the office and a sign on the door directs people to the front desk in the Extension Office lobby. The mechanical room is unlocked because other departments need access. Petty cash is kept in the locked safe in a locked bank bag. Each 4-H agent, and only the 4-H agents, have a key to the bank bag for access to petty cash. A petty cash request form has been developed and must be completed before petty cash is removed. The petty cash balance is reconciled monthly.
8.	Staff did not follow existing local policies and procedures.	Management should review and update the local policies and procedures. Once formalized, management should distribute the revised policies and procedures to the appropriate staff and provide training. Management should periodically reassess the policies and procedures to determine their continued relevance and revise them when necessary.	Local policies and procedures have been updated, effective August 1, 2019.

EXHIBIT A

Exhibit A includes detailed information of each observation listed under Objective 2 in the Results section (Page 5-7)

Observation 1 – Nobody reconciled QuickBooks since 2015 and there was not sufficient segregation of duties

Criteria:

The Marion County 4-H Procedures states that "Bank reconciliations must be conducted monthly."

As a best practice, there should be proper segregation of the duties of handling, recording, and reviewing cash transactions. It is essential for appropriate staff, who meets the segregation of duties criteria, to reconcile the bank statements to both the check register and QuickBooks.

If segregation of duties is not feasible due to limited personnel and operational needs, management has a responsibility to design alternative controls to prevent, deter or detect possible wrongdoings.

Condition:

Prior to January 31, 2019, the former 4-H Program Assistant performed the following duties:

- Received funds
- Held funds that were available for deposit
- Updated accounting records in QuickBooks
- Reconciled monthly bank statements manually on the back of the bank statements

The former 4-H Program Assistant reconciled the monthly bank statements to the check register. Transactions were entered into QuickBooks throughout the month; however, monthly reconciliations within QuickBooks were not performed.

Causes:

Staff was unaware of the importance of reconciling the accounting software and maintaining segregation of duties with the accounting process.

Effects:

When the appropriate staff does not reconcile the bank statements to QuickBooks, data entry mistakes and fraudulent entries could go unnoticed.

When management assigns the responsibility for all the accounting functions to one person, there is a potential for not detecting misappropriation of assets such as theft of customer payments.

Recommendation:

Management should assign the Budget and Administrative Coordinator to perform monthly bank reconciliations within QuickBooks as part of the monthly review.

Management Response:

Effective May 24, 2019, responsibilities for collection of cash and checks for 4-H accounts have been shifted from the 4-H Program Assistant to the two Customer Service Representatives

Follow-up and internal control review of 4-H financials

(CSRs) at the front desk. The Program Assistant is now responsible to record, transport and deposit 4-H funds at Community Bank. Locked bank bags have been purchased and are used to transport funds.

The Budget and Administrative Coordinator has been assigned to review the 4-H account statements monthly to ensure funds are intact and to insure that requirements for disbursement of funds are being met.

Observation 2 – Financial records review did not occur timely

Criteria:

As a best practice, responsible personnel should perform control activities in a timely manner. Policies need to be deployed thoughtfully and the related procedures must be timely and be performed diligently and consistently by competent personnel.

Condition:

We previously made the following recommendation:

“Designate alternative personnel who is not involved with data entries and transaction approval process to review financial records at least monthly...”

Management assigned the Budget and Administrative Coordinator to review financial records to ensure each transaction had proper supporting documentation.

The following table shows three of the four months of financial records that we sampled were not reviewed in a timely manner.

Month of Operation	Date Range of Timely Review	Date of Actual Review	*Time Lag (Number of Days)
October 2017	November 1-30	2/28/2018	90
February 2018	March 1 - 31	3/22/2018	0
May 2018	May 1 - 31	7/20/2018	50
August 2018	August 1 - 31	11/01/2018	62

****The calculation of the time lag started on the last date from the date range of timely review.***

Causes:

The staff did not understand the importance of timely reviews and did not prioritize this task.

Effects:

Without a monthly review, the Budget and Administrative Coordinator may not detect intentional wrongdoings or unintentional mistakes promptly.

Recommendation:

The Budget and Administrative Coordinator should review financial records at least monthly as an alternative control to prevent, deter or detect possible wrongdoings.

Management Response:

Effective April 24, 2019, the Budget and Administrative Coordinator has been assigned this task, to be conducted at the beginning of each month. This practice has been implemented.

Observation 3 – Staff reimbursed 4-H Club members without all required supporting documentation

Criteria:

When receiving requests for club funds, the Marion County 4-H Procedures states that "Requests for reimbursement must include receipts or invoices for all amounts requested, and a copy of the club minutes showing the expenditure is approved."

Condition:

All 4-H Clubs did not consistently submit club minutes (minutes). Even when provided, staff did not always attach the minutes to the Check/Reimbursement Request Forms. The former 4-H Program Assistant made a note on the Check/Reimbursement Request Forms indicating that minutes were available and on file if the Check/Reimbursement Request Forms were for expenditures that were previously approved.

We reviewed 50 reimbursement requests for the club account and observed the following:

- Nineteen transactions did not have minutes attached or a note to indicate that the appropriate minutes were on file.
- Nine of the transactions did not have the required supporting documentation attached to the Check/Reimbursement Request Form.

Effects:

Without having the proper supporting documentation, staff could potentially provide reimbursements for expenditures that were not agreed upon by the club members, or items that do not serve the intended/documented purpose.

Causes:

Staff was lenient with club leaders and did not collect required and necessary supporting documentation.

Recommendation:

Staff should not reimburse individuals until they can account for all required supporting documentation.

Management Response:

This policy was reviewed with new staff on May 1, 2019 and will become part of orientation for all subsequent new staff. All staff are committed to gatekeeping requests from 4-H club leaders to ensure a copy of the meeting minutes verify club approval, through a motion and vote, for requested disbursement of funds. A copy of the meeting minutes will be attached to the check record for audit purposes.

Observation 4 – Staff obtained a signed blank check and purchased items that did not fit the documented purpose

Criteria:

UF Policies and Procedures for Handling Funds in County Extension Programs states that "All disbursements should be fully documented to provide a clear audit trail. Original invoices, receipts, and sales slips shall be part of the documentation to make expenditures from the account."

Condition:

Staff obtained a blank check that was already signed by a 4-H authorized check signer for a purchase from Walmart because the price of items were uncertain. Staff documented the purpose on the Check/Reimbursement Request Form as “Stabilizers for ATV safety;” however, the corresponding receipt showed the purchase of a board game, candy, soda, storage bins, and a battery charger for \$117.60.

Causes:

Staff listed an unrelated item as the purpose of the Check/Reimbursement Request Form.

Effects:

Staff purchased items that did not fit the intended and documented purpose. Without proper control, staff can buy items for personal or frivolous use.

Recommendation:

Staff should include all purchases to be made in the purpose description on the Check/Reimbursement Request Form. Management should monitor purchases by spot checking of actual items purchased to ensure they are appropriate for the intended and documented purpose. Items purchased from a retail store are usually identifiable by internet search by entering product numbers or descriptions on the receipt.

Management Response:

Effective May 24, 2019, checks are no longer signed by signatories and held in the 4-H office. Check requests are made and, when approved, the check is prepared for signature.

Observation 5 – Staff did not consistently provide pre-numbered income receipts when they collected money

Criteria:

UF Policies and Procedures for Handling Funds in County Extension Programs states “Income receipts are required. Pre-numbered receipts including date, customer name, reason for receipt, amount received, type of transaction (cash, check, or credit-card), name of receiving party, signature of the person receiving the funds, and name of sub-account to which it is to be credited are required for every transaction.”

As a best practice, management establishes control activities built into business processes and employees’ day-to-day activities. Transaction controls are selected and developed wherever a business process resides. These controls should ensure the completeness and accuracy of the transactions.

Condition:

Staff did not consistently use pre-numbered income receipts (receipts). Staff often backdated and created receipts later after being noted as missing during the Budget and Administrative Coordinator’s review.

On 10/30/2017, staff deposited \$3,340 into the operating account. There was no supporting documentation to indicate the source and purpose of this deposit. Upon inquiring staff and confirmation with QuickBooks, it was concluded that this deposit comprised of two payments: a grant payment of \$3,000 from Yamaha and \$340 from the Robotic Team.

Causes:

The staff did not immediately fill out a receipt when they collected money.

Effects:

Payments could potentially be left off the books or unrecorded. Receipts serve as documentation of income.

Recommendation:

Staff should adhere to the existing policies and procedures by filling out receipts when collecting money. Additionally, when reviewing and updating the local policies and procedures, management should require staff to make copies of incoming checks or to retain check stubs to document the source and purpose of all deposits.

Management Response

Effective May 24, 2019, responsibility for collection of all funds has been transferred from the 4-H office to the Customer Service Representatives at the front desk. These individuals will create a duplicate receipt for all financial transactions. The 4-H Program Assistant will make a copy of all incoming checks for documentation purposes.

Observation 6 – Staff did not timely deposit collections on hand within one business day when they exceeded \$500

Criteria:

UF Policies and Procedures for Handling Funds in County Extension Programs states “Collections on hand should not exceed \$500. Deposits should be made within one business day when collections exceed this amount.”

Condition:

We reviewed the details of ten deposits which were more than \$500 and within our scope. Staff did not deposit four of the deposits within one business day of the required date of deposit after reaching \$500. The following table summarizes the timing of the four deposits.

Month/Account Name	Deposit Amount	Number of Days After the Required Date of Deposit
October 2017 – Club Account	\$730.00	19
February 2018 – Operating Account	\$10,682.60	1
May 2018 – Club Account	\$2,307.51	7
August 2018 – Operating Account	\$5,219.00	15

Two deposits made in October 2017 for the Operating Account did not have sufficient documentation to determine the required date of deposit.

The remaining four deposits were either deposited on the same day or within one business day.

Causes:

Staff did not prioritize the task of making timely deposits.

Effects:

When the staff does not timely deposit money, it is not readily available for its necessary use. In addition, there is a higher impact of potential monetary loss if theft were to occur.

Recommendation:

Staff should adhere to UF Policies and Procedures for Handling Funds in County Extension Programs and deposit collections on hand within one business day when they exceed \$500.

Management Response:

Accounts are monitored more closely and deposits are made when the \$500 threshold is approached, sometimes several times a week. This practice was implemented February 1, 2019. Monies are held in a safe until the deposit is made. Deposits are triggered for transfer to the bank when a threshold of \$500 is reached.

Observation 7 – The 4-H Division lacked controls over the cash handling process

Criteria:

As a best practice, there should be physical controls over cash and other assets (e.g., in locked or guarded storage areas with physical access restricted to authorized personnel). Cash and other assets should be periodically counted and compared with amounts shown on control records.

Condition:

The 4-H Division lacked proper control over the cash handling with 4-H operating and club related funds, fundraiser money, and petty cash.

We noted the following:

- The office door was unlocked when no staff was present.
- A jar with cash for a candy donation was left out in an open area.
- Cash was in an unlocked desk drawer. The cash totaled to approximately \$65.
- The safe was in an unlocked mechanical room.
- The former 4-H Program Assistant asserted that everyone in the office knows the location of the key for the petty cash box.

On January 31, 2019, the auditor observed the contents of the petty cash box and noted the following:

- A "Monthly Ledger for Income and Expenses" dated for August was the only evidence of tracking.
- The key was in the lock of the petty cash box.
- Pre-numbered income receipts ranged from dates 7/24/18 to 8/3/18.
- Publix receipt dated 1/5/18.
- Domino's receipt dated 5/29/18.
- Dollar General receipt dated 10/17/18.
- Lowe's receipt dated 11/14/18.
- The amount spent at Papa John's was handwritten on an envelope. There was no receipt for this transaction.

Staff did not consistently track the petty cash flow.

The current 4-H Program Assistant had started to keep receipts for petty cash transactions. She asserted that the amount of petty cash on hand is never a consistent amount.

Causes:

Management did not enforce safeguarding of assets and staff had placed undue trust with the people who frequent the 4-H office.

Effects:

With a lack of physical controls over cash handling, there is potential for theft of cash in which

management will not be able to determine the responsible person.

Recommendation:

Management should implement proper and effective controls over cash in the office and establish petty cash procedures. When staff is out of the office, access should be restricted by locking the door and directing customers to another location.

Management Response:

These policies were revised effective February 1, 2019, to include:

4-H candy sales have been discontinued.

The 4-H office door is locked when no one is in the office and a sign on the door directs people to the front desk in the Extension Office lobby.

The mechanical room is unlocked because other departments need access. Petty cash is kept in the locked safe in a locked bank bag.

Each 4-H agent, and only the 4-H agents, have a key to the bank bag for access to petty cash. A petty cash request form has been developed and must be completed before petty cash is removed. The petty cash balance is reconciled monthly.

Observation 8 – Staff did not follow existing local policies and procedures

Criteria:

As a best practice, management establishes control activities built into business processes and employees' day-to-day activities through policies establishing what is expected and relevant procedures specifying actions. Management periodically reviews control activities to determine their continued relevance and revises the policies and procedures when necessary.

Condition:

Staff did not follow existing local policies and procedures. Staff was only familiar with the UF Policies and Procedures for Handling Funds in County Extension Programs.

Causes:

The existing staff were not aware of any local policies or procedures.

Effect:

Staff may not be performing tasks consistently or accurately and there is potential for loss of existing knowledge or expertise in the case of future turnover.

Recommendation:

Management should review and update the local policies and procedures. Once formalized, management should distribute the revised policies and procedures to the appropriate staff and provide training. Management should periodically reassess the policies and procedures to determine their continued relevance and revise them when necessary.

Management Response:

Local policies and procedures have been updated, effective August 1, 2019.

REPORT DISTRIBUTION LIST

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