



**Mecklenburg County  
Department of Internal Audit**

Environmental Health Division  
Cash Collection and Change Funds  
Report 1702

June 19, 2017

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**Internal Audit's Mission** To support key stakeholders in cultivating an environment of accountability, transparency and good governance.

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Samita Shrestra, ACCA, Internal Auditor

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**MECKLENBURG COUNTY**  
**Department of Internal Audit**

**To:** Dr. Marcus Plescia, Director, Department of Public Health  
Mark Foster, Assistant County Manager/Interim Finance Director

**From:** Joanne Prakapas, Director, Department of Internal Audit

**Date:** June 19, 2017

**Subject:** Cash Collection and Change Fund Process Review Report 1702

The Department of Internal Audit has completed its audit of the Environmental Health Division's<sup>1</sup> cash collection and change fund process to determine whether internal controls effectively manage key business risks inherent to the activity. The scope of this audit was limited to an evaluation of process design. Internal Audit interviewed key personnel; reviewed and evaluated policies, procedures, and other documents; and observed operations.

**OVERALL EVALUATION**

Overall, key risks inherent to the cash collection and change funds processes were managed to an acceptable level; however, opportunities exist to improve the design of some control activities.

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<sup>1</sup> Environmental Health Division is part of the Public Health Department.

## RISK OBSERVATION SUMMARY

The table below summarizes the risk observations identified during the audit, grouped by the associated risk factor, and defined in Appendix A. The criticality or significance of each risk factor and Internal Audit’s assessment of the design of key controls to effectively mitigate the risks are indicated by the color codes described in Appendix B.

RISK OBSERVATION SUMMARY			
Risk Factors and Observations	Criticality	Design	Operation
1. Policies and Procedures Risk	●	●	N/A <sup>2</sup>
1.1 Formal Documentation			
2. Authorization Risk	●	●	N/A
2.1 Cash and Safe Access			
3. Receipt Risk	●	●	N/A
3.1 Manual Receipts			
4. Accountability Risk	●	●	N/A
4.1 Funds Transfer 4.2 Shortages and Overages			
5. Reconciliation Risk	●	●	N/A
5.1 Change Funds 5.2 Documentation			
6. Deposit Risk	●	●	N/A
No risk observations noted			
7. Physical Security Risk	●	●	N/A
No risk observations noted			
8. Accounting Risk	●	●	N/A
No risk observations noted			
9. Timeliness Risk	●	●	N/A
No risk observations noted			

<sup>2</sup> Not applicable (N/A); this audit was limited to an evaluation of process design evaluation.

10. Human Resources Risk			N/A
No risk observations noted			
11. Documentation Risk			N/A
No risk observations noted			
12. Compliance Risk			N/A
No risk observations noted			
13. Segregation of Duties Risk			N/A
No risk observations noted			

The risk observations and management’s risk mitigation strategies defined in Appendix C are discussed in detail in the attached document. Internal Audit will conduct a follow up review to verify management’s action plans have been implemented and are working as expected.

We appreciate the cooperation you and your staff provided during this audit. Please feel free to contact me at 980-314-2889 if you have any questions or concerns.

- c: County Manager
- Assistant County Managers
- Deputy County Attorney
- Senior County Attorney
- Board of County Commissioners
- Audit Review Committee
- Environmental Health Division Director

## **BACKGROUND**

The Environmental Health Division (EHD), part of the Public Health Department, focuses on all aspects of the natural and human-made environment effecting human health to prevent the spread of disease and promote personal safety. The EHD receives revenue from the following programs:

- Food Service Sanitation
- Lodging, Child-Care and Institutions
- Groundwater and Waste Water Service
- Pools and Environmental Health Services

### **Cash Collection Process**

Five cashiers collect customer payments for services and record the payments into the EHD's enterprise resource planning (ERP) software system. Payments can be made by cash or credit card via telephone, mail, or in person.

Each morning, cashiers retrieve from the safe their cash bags that provide funds to make change for customers throughout the day. At the end of the day, each cashier reconciles the amount of cash collected against the ERP system's Daily Cash Drawer Balancing Report that shows all payments recorded by that cashier during the day. Each cashier places the day's cash collections and balancing report in an envelope, seals it, and gives it to the supervisor to put in the safe.

The next morning the supervisor opens the cashier's envelopes from the prior day and runs the ERP balancing report that shows their cash collections received that day. The supervisor runs a separate report to reconcile credit card payments.

The supervisor counts the cash in each cashier's envelope to ensure the funds match the balancing report amount. Next, the supervisor completes a reconciliation of the prior day's cash collections, prepares the bank deposit, places and seals the funds in a bank bag, and takes it to another department for pickup by the armored car service. At drop off, the supervisor signs a log to evidence the transfer of funds.

The County's Financial Services Department (Finance) staff daily enters EHD's cash collections into Advantage, the County's financial management system. Finance also conducts monthly reconciliations of EHD's ERP system and Advantage to ensure the data matches.

## COUNTY MANAGER’S OVERALL RESPONSE

The County Manager concurs with all action plans and implementation timeframes.

## RISK OBSERVATIONS AND MITIGATION STRATEGIES

Risk Factor	Criticality	Design	Operation
1. Policies and Procedures Risk	●	●	N/A

### Risk Observation

1.1 Formal Documentation—The EHD did not have documented procedures for administering its cash collection and change fund activities. Yet, policies and procedures are important control activities to help ensure management’s directives are carried out while mitigating risks that may prevent the organization from achieving its objectives.

### Recommendation

1.1 Internal Audit recommends management document procedures for administering its cash collection and change fund activities and train staff accordingly. The procedures should be comprehensive, consistent with applicable County requirements, and include at a minimum:

- Essential operating activities, e.g., cash collection, receipt, reconciliation, recordation; supporting documentation maintenance; and fund handling, transfers, and storage
- Staff roles and responsibilities
- Staff training requirements
- Periodic procedure reviews and updates
- Internal and external communication requirements

### Management’s Response

1.1 **Risk Mitigation Strategy:** Reduce **Implementation Date:** July 2017

**Action Plan:** Mecklenburg County Environmental Health developed a “Change Fund Expectations” document in February 2017, which all staff with a change fund have reviewed and signed. The document establishes basic procedures for handling of change funds. We will develop a comprehensive procedure document for cash collection and change funds consistent with applicable County requirements.

Risk Factor	Criticality	Design	Operation
2. Authorization Risk	●	●	N/A

### Risk Observation

2.1 Cash and Safe Access—The EHD staff did not document those authorized to have access to cash

drawers and safes, nor did they annually report to County Finance the EHD staff with access, as required by the County’s cash handling policies and procedures.

**Recommendation**

- 2.1 Internal Audit recommends management document and report to County Finance those EHD staff authorized to have cash drawer and safe access.

**Management’s Response**

- 2.1 **Risk Mitigation Strategy:** Reduce **Implementation Date:** May 2017

**Action Plan:** Mecklenburg County Environmental Health will notify County Finance of all staff with change funds or safe access.

Risk Factor	Criticality	Design	Operation
3. Receipt Risk	●	●	N/A

**Risk Observation**

- 3.1 Manual Receipts—The EHD staff did not control the issuance and use of pre-numbered receipt forms used during periods when the ERP system was unavailable to record payments received. Specifically, EHD staff did not track pre-numbered receipt form inventory to ensure receipts were used in numerical sequence. Further, EHD staff collecting payments did not include a copy of the issued receipts with the daily bank deposit for reconciliation to ensure all payments were included.

**Recommendation**

- 3.1 Internal Audit recommends management ensure the receipt and issuance of pre-numbered receipt forms are sequentially issued and adequately documented, periodically reconciling unissued inventory. We also recommend staff includes in the daily bank deposit copies of issued pre-numbered receipts. To facilitate daily reconciliations, management should consider the use of pre-numbered receipt forms printed in triplicate.

**Management’s Response**

- 3.1 **Risk Mitigation Strategy:** Reduce **Implementation Date:** May 2017

**Action Plan:** Mecklenburg County Environmental Health has implemented the use of pre-numbered, triplicate receipts in sequential order. We will begin periodic reconciliation of unissued inventory and include a copy of each receipt used with our daily deposit. We will include this requirement in our financial policies.



- 5.2 Documentation—While Finance staff prepared monthly cash reconciliations between Advantage and the ERP system, they did not document key information to evidence their performance and review.

### **Recommendations**

- 5.1 Internal Audit recommends management ensure staff reconciles change funds at least monthly. Depending upon the use of the change funds, more frequent reconciliations may be warranted.
- 5.2 Internal Audit recommends Finance staff ensures their reconciliation documentation includes the preparer's and reviewer's signature and date.

### **Management's Responses**

- 5.1 **Risk Mitigation Strategy:** Reduce **Implementation Date:** January 2017

**Action Plan:** Mecklenburg County Environmental Health has implemented random monthly change fund audits.

- 5.2 **Risk Mitigation Strategy:** Reduce **Implementation Date:** May 2017

**Action Plan:** The preparer and the reviewer will sign and date to document that the reconciliation was completed, and verified each month.

## APPENDIX A—Risk Factor Definitions

Risk Factor	Definition
Accountability Risk	Failure to establish and maintain accountability of funds collected, assigned, or transferred to individuals may result in lost or stolen, or otherwise diverted funds.
Accounting Risk	Failure to accurately and timely record transactions may result in untimely or inaccurate compilation of information needed for financial and operational reporting and analysis.
Authorization Risk	Failure to clearly articulate and communicate authority to commit the organization may result in internal and external misunderstandings.
Compliance Risk	Failure to comply with established policies, procedures, and/or statutory requirements may result in unacceptable performance that impacts financial, operational, or customer objectives.
Deposit Risk	Failure to deposit cash receipts intact may result in a loss of funds or a material impact on reported financial and operational information.
Documentation Risk	Failure to adequately collect, file, and retain key documentation may result in lack of accountability and/or evidence to support key transactions and events.
Human Resources Risk	Failure to attract, train, develop, deploy, and/or empower competent personnel may inhibit the organization's ability to execute, manage, and monitor key business activities.
Physical Security Risk	Failure to adequately secure assets may allow unauthorized access and increase the risk of loss or impairment.
Policies and Procedures Risk	Failure to have formal, documented, clearly stated, and updated policies and procedures may result in poorly executed processes and/or increased operating costs.
Receipt Risk	Failure to properly record payment receipts may allow loss or theft of funds without accountability or timely detection.
Reconciliation Risk	Failure to consistently and completely reconcile accounts, transactions, and other activities may prevent accounting errors or omissions from being timely detected and adjusted.
Segregation of Duties Risk	Failure to adequately segregate duties may allow an employee or group of employees to perpetrate and conceal errors or irregularities without timely detection.
Timeliness Risk	Failure to comply with State deposit regulations may result in fines, penalties, criminal or civil claims, and/or damage to the organization's reputation.

## APPENDIX B—Color Code Definitions

The criticality of a risk factor represents the level of potential exposure to the organization and/or to the achievement of process-level objectives before consideration of any controls in place (inherent risk).

Criticality	Significance and Priority of Action
	The inherent risk poses or could pose a significant level of exposure to the organization and/or to the achievement of process level objectives. Therefore, management should take immediate action to address risk observations related to this risk factor.
	The inherent risk poses or could pose a moderate level of exposure to the organization and/or to the achievement of process level objectives. Therefore, management should take prompt action to address risk observations related to this risk factor.
	The inherent risk poses or could pose a minimal level of exposure to the organization and/or to the achievement of process level objectives. Risk observations related to this risk factor, however, may provide opportunities to further reduce the risk to a more desirable level.

The assessment of the design and operation of key controls indicates Internal Audit’s judgment of the process and system design to mitigate risks to an acceptable level.

Assessment	Design of Key Controls	Operation of Key Controls
	The process and system design does not appear to be adequate to manage the risk to an acceptable level.	The operation of the process’ risk management capabilities is not consistently effective to manage the risk to an acceptable level.
	The process and system design appear to be adequate to manage the risk to an acceptable level. Failure to consistently perform key risk management activities may, however, result in some exposure even if other tasks are completed as designed.	The operation of the process’ risk management capabilities is only partially sufficient to manage the risk to an acceptable level.
	The process and system design appear to be adequate to manage the risk to an acceptable level.	The operation of the process’ risk management capabilities appears to be sufficient to manage the risk to an acceptable level.

### APPENDIX C—Risk Mitigation Strategy Definitions

Risk Mitigation Strategy	Definition
Reduce	Risk response where actions are taken to reduce a risk or its consequences.
Accept	Risk response where no action is taken to affect the risk.
Transfer	Risk response where a portion of the risk is transferred to other parties.
Avoid	Risk response to eliminate the risk by avoiding or withdrawing from the activity giving rise to the risk.