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OFFICE OF INTERNAL AUDIT

REPORT TO THE BOARD OF SUPERVISORS

Pinal County Hearing Office **Cash Handling Procedures Audit**

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TABLE OF CONTENTS

Executive Summary	Page 3-4
Introduction	Page 5
Objective, Scope, Methodology	Page 5
Background	Page 6
Finding A : Improper segregation of duties	Page 7
Recommendation 1 & 2	Page 9
Finding B: Inadequate reconciliation procedures	Page 9
Recommendation 3, 4, & 5	Page 11
Management Response	Page 12 - 14

Executive Summary

The Office of Internal Audit recently completed an audit of cash handling procedures at the Pinal County Hearing Office. This audit was included in the Office of Internal Audit's FY2010/2011 annual audit plan approved by the Board of Supervisors.

Key areas reviewed during the audit include:

- Cash handling policies and procedures
- Protection and security of cash assets

Our overall conclusion is the Hearing Office currently has procedures in place to safeguard cash assets; however, improvements are needed in the following areas:

- Segregation of duties
- Reconciliation procedures

Our recommendations include:

- Cash receipting duties should be assigned to an employee with no responsibility for, or access to, files and documents pertaining to financial accounts or records.
- Mail should be opened with two employees present, and a daily mail log should be prepared and signed by the individual receipting the cash.
- All monies not immediately placed in the office safe should be kept in a locked deposit bag. A locked bag should also be used to transfer deposits to the Treasurer's Office.
- With Board of Supervisors' approval, the Hearing Office should develop standard procedures, forms, agreements and repayment schedules for the current practice of accepting partial payments of fines and fees. Payment schedules should offer a reasonable, but not excessive, amount of time to finalize payments.
- The Hearing Office should review available debt collection software and identify a program with features best suited for their specific needs. The software should include audit and reconciliation functions.

- The Hearing Office Program Coordinator should revise current written policies and procedures to include cash handling procedures for payments received by mail, over-the-counter, and credit card.

The following report provides additional details of our audit observations, findings, and recommendations for improvement. We would like to thank the management and staff of the Pinal County Hearing Office for their assistance and cooperation during the course of this audit.

Lori Stripling
Pinal County Internal Audit Officer

Audit Note: The scope of our audit was limited to cash handling procedures and related processes. During the course of our audit we noted two issues that we believe merit further review.

The first issue relates to the Pinal County Hearing Officer Rules of Procedure (HOROP). Based on our review we found these rules are not current; for example, they make references to statutes that are no longer in existence. The HOROP should be updated and a revised copy should be posted on the Hearing Office website and made available to all citizens opting for an administrative hearing.

The second issue involves placement of the Hearing Office within the County organizational structure. The Office was recently moved from the Human Resources Department to its current placement within Development Services. After a limited evaluation, we determined this alignment may not be conducive to ensuring an appropriately controlled operating environment. As a result, the scope of the annual audit plan may be expanded to include an assessment of the Hearing Office operations and its placement within the County organizational structure.

Introduction

The Office of Internal Audit has completed an audit of cash handling procedures in the Pinal County Hearing Office. Our audit was planned and conducted in accordance with Generally Accepted Government Auditing Standards ¹(GAGAS). These 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 our audit objectives.

Audit Objectives

The primary objectives of this audit were to:

- Evaluate adequacy of controls for physical security of cash
- Evaluate cash handling procedures

Audit Scope and Methodology

Our audit included such tests of internal controls, procedures, and documentation as were necessary to accomplish audit objectives. Our methodologies included:

- Interviews with Hearing Office management and personnel
- Tour of facilities and observation of operational activities
- Examination of relevant documentation
- Testing of security controls
- Research of applicable laws and regulations

¹ <http://www.gao.gov/govaud/ybk01.htm>

Background

The Hearing Office provides regulatory services for violations of county codes and ordinances in the following areas:

- Zoning ordinances, with some restrictions
- Building Safety Code ordinances, with the exception of appeals
- All Arizona statutes, county codes, and county ordinances authorizing the county hearing officer to hear violations including alarm code and animal control code violations.

Services provided include:

- Advising defendants about the violation and appeals hearing process. Violation appeals are adjudicated through an administrative hearing process.
- A default/appeal hearing process and related management functions
- Arranging payment and payment schedules for the collection of fine monies

Payments for fines and fees can be made by mail, online, or in person. When paying by mail or in person, the Office accepts check or money order only.

The Pinal County Hearing Office has also established an agreement with Official Payments Corporation² to provide its customers with automated credit card payment services by phone or online. Official Payments charges a convenience fee³ for this service. Pinal County Hearing Office does not receive any portion of this convenience fee.

In FY2009/2010 the budget for the Office was \$95,404 and authorized staffing was 4 fulltime employees (FTE). Currently the Office employs 2 FTE and 3 part-time Hearing Officers.

According to Hearing Office records, the Office received \$78,223.05 in total fine monies in FY 2008/2009.

² [Official Payments Corporation](#)

³ 2.5 – 3.0% of total costs

SUMMARY OF AUDIT FINDINGS AND RECOMMENDATIONS

A. Segregation of duties

The Hearing Office has not maintained proper segregation of duties during the processing of cash receipts.

The Pinal County Hearing Office was established to provide an administrative hearing process and collection services for the county code and ordinance violation process.

A citizen receiving a code or ordinance violation ticket in Pinal County initially has two options, which include: (1) pay the violation before the notice to appear hearing date shown on the citation or, (2) request a default administrative hearing. Alleged violators are provided an opportunity to appear before a Pinal County Hearing Officer on the date and time shown on the citation and appeal the violation.

Fines assessed may be paid by mail, in-person, or on-line. On-line processing is completed by phone or on the Internet by a third party vendor. Checks and money orders are accepted by mail or in-person at the Hearing Office.

If possible, responsibilities and duties involving the cash receipting process, which includes receiving, processing, recording, reviewing, and monitoring cash transactions, should be separated among different employees to ensure no one employee has total control over the entire process.

In the Pinal County Hearing Office we found both employees in the Office directly receipt cash and also have unrestricted access to the record keeping system. This includes the ability to adjust amounts owed, suspend billing or remove records. The accounting application used in the Office, Microsoft Excel (MS Excel), does not permanently record changes to data. This is discussed later in this report in finding B.

We also found daily mail is collected by either one of the two employees, who may open the mail with no one else present and record any and all checks received. Checks are not logged into a separate daily log, but instead are recorded directly into the accounting system under the appropriate record, and later aggregated, at least weekly, for the Treasurer's Office deposit list.

Ideally, someone independent of the cash receipting process should summarize cash receipts and reconcile a daily mail log.

In-person payments completed at the Development Services front counter, or after a Hearing Office administrative proceeding, are also collected by one of the two Hearing Office employees.

There are no formal policies guiding cash receipting; however, the Hearing Office Program Coordinator explained it is practice to restrictively endorse checks when they are received and record the transaction on the MS Excel spreadsheet used to track case information.

The Office also generates a four-part, sequentially-numbered receipt for all transactions. One part is given, or mailed, to the customer; one part is placed in the case file; one part is maintained for the Treasurer's Office deposit; and one part is maintained in a desk file binder in the Hearing Office.

If checks and money orders received daily total less than \$500, receipts are stored in a safe in the Hearing Office until a total deposit of \$500 is reached. If the weekly total does not reach \$500 by Friday, a weekly deposit is prepared regardless of the amount, and all monies are transferred to the Treasurer's Office.

All the Treasurer's Office deposits are accompanied by a deposit list. Copies of the deposit list are signed by Treasurer's Office staff and returned to the Hearing Office. Hearing Office employees do not use a locked bag to deliver deposits to the Treasurer's Office.

The Hearing Office also accepts on-line credit card payments transacted through a third-party vendor⁴ and receives notification of credit card payments from the vendor on a daily basis.

Recommendations

- 1. The Hearing Office Program Coordinator should ensure the responsibilities for opening and logging mail receipts and receiving cash are assigned to an employee who has no responsibility for, or access to, files and documents pertaining to financial records and accounts. Mail should be opened with two employees present and a daily mail log should be prepared and signed by the individual receipting the cash.*
- 2. The Hearing Office Program Coordinator should ensure that all monies not immediately placed in the Office safe are kept in a locked deposit bag. A locked bag should also be used to transfer deposits to the Treasurer's Office.*

B. Reconciliation Procedures

The citation process is not properly reconciled to ensure all payments are accurately received and recorded.

Ideally, the duties of cash handling and making entries into the department accounting system should not be completed by the same employees; however, as discussed previously the Hearing Office only has two full time employees to complete all office functions.

⁴ <https://www.officialpayments.com/index.jsp?JSESSIONID=MfphtyTglq6pJd2!-1289552041!-175612980>

The Hearing Office process begins when a citation is issued to an individual by an animal control or code compliance officer. The citation is issued in triplicate with one copy retained by the code violator, one copy retained by the issuing department (i.e. animal control, building safety, etc.) and one copy forwarded to the Hearing Office.

According to the Hearing Office Program Coordinator, when the Office receives notice of issuance of a citation, a unique numbered⁵ case file is started. At this point in time, the issuing department only knows that a citation has been issued. They do not know if the individual, reported to be in violation of an ordinance or code, will accept the issuing officer's assessment and pay the citation in full, or decide not to pay the citation and initiate the default hearing process.

If the individual chooses the hearing process and appeals the original fine, the case will remain open, and the case file will be maintained throughout the entire hearing⁶ and subsequent collection process.

During a Hearing Office administrative proceeding, a hearing officer can autonomously dismiss, reduce or increase a fine. Also, each alleged violator is allowed one appeal after the initial hearing decision, and the Hearing Officer may, again, adjust fines.

Hearing Office personnel may collect fines immediately after a hearing ruling is declared or make an independent decision to allow partial payments for individuals unable to immediately pay their fine in full. There are no standard schedules established for partial payments.

The Hearing Office monitors this protracted process using the original case number assigned and maintains information for all fines assessed and collected on Microsoft Excel spreadsheets.

⁵ AC =Animal Control 04= month 10= year 1234= sequential number

⁶ A judgment remains in force for four years

The Office does not utilize database or accounting software of any kind that would retain an audit trail of any changes made to a record. The current system is also incapable of maintaining or reconciling fine collections to any expected accounts receivable.

Copies of these spreadsheets are sent monthly to each department with active cases. The spreadsheets only show fines paid for the month and do not indicate a cumulative collected total and, unless the department has also received any changes to initial fines assessed, they are unable to use this information to perform any kind of a reconciling procedure.

Recommendations

3. *With Board of Supervisors' approval, the Hearing Office should develop standard procedures, forms, agreements and repayment schedules for the current practice of accepting partial payments of fines and fees. Payment schedules should offer a reasonable, but not excessive, amount of time to finalize payments.*
4. *The Hearing Office should review available debt collection software and identify a program with features best suited for their specific needs. The software should include audit and reconciliation functions.*
5. *The Hearing Office Program Coordinator should revise current written policies and procedures to include cash handling procedures for receipts received by mail, over-the-counter, and credit card.*

Audit Recommendation	Concur Y/N	Management's Response and Action Plan	Target Date	Individual(s) Responsible
<p>1. The Hearing Office Program Coordinator should ensure the responsibilities for opening and logging mail receipts and receiving cash are assigned to an employee who has no responsibility for, or access to, files and documents pertaining to financial records and accounts. Mail should be opened with two employees present and a daily mail log should be prepared and signed by the individual receipting the cash.</p>	Y	<p>Effective July 1, 2010 the Hearing Office Program Coordinator will pick up the mail daily. The Coordinator and another staff member will open mail and log checks (Note there are only two full-time employees within the Hearing Office). As a result of segregation of programs each of the two full-time staff members will assess and invoice the fees in Accela the check received for their counter parts cases. The checks and invoices will be provided to the One Stop Front Counter staff that will pay the fees, provide a receipt, and deposit the fees with the Treasurers Office before the end of the following business day.</p>	07-01-10	Program Coordinator and Staff
<p>2. The Hearing Office Program Coordinator should ensure that all monies not immediately placed in the office safe are kept in a locked deposit bag. A locked bag should also be used to transfer deposits to the Treasurer's Office.</p>	Y	<p>Effective July 1, 2010 all Hearing Office checks with corresponding invoices will be assessed in Accela and provided to the One Stop Front Counter staff by 3:00 PM each day. In the event that a payment received by mail is received after 3 PM it will be kept in the Hearing Office safe and will be processed the following business day. The Hearing Office staff will invoice all payments made in person in the booth and payment will be made directly to the One Stop Cashier. The One Stop Staff will receipt all payments, provide a receipt to the customer, and transport the deposit to the Treasurers Office before the end of the following business day in a locked money bag to which only the One Stop Cashier and the Treasurer Office have a key.</p>	07-01-10	Program Coordinator, Hearing Specialist and One Stop Staff

Audit Recommendation	Concur Y/N	Management's Response and Action Plan	Target Date	Individual(s) Responsible
<p>3. With Board of Supervisors Approval, the Hearing Office should develop standard procedures, forms, agreements and repayment schedules for the current practice of accepting partial payments of fines and fees. Payment schedules should offer a reasonable, but not excessive, amount of time to finalize payments.</p>	Y	<p>Under the direction of the Assistant County Manager for Development Services, the Hearing Office Coordinator will develop a comprehensive Policy and Procedures Manual which will include forms, payment agreement templates, and a repayment schedule with reasonable time frames for payment. A final draft will be completed and submitted to the Board of Supervisor's for approval by June 30, 2010.</p>	06/30/10	ACM for Dev Services, Program Coordinator
<p>4. The Hearing Office should review available debt collection software and identify a program with features best suited for their specific needs. The software should include audit and reconciliation functions.</p>	Y	<p>The Hearing Office Coordinator will monitor and provide a quarterly review of the current debt collection service provider's activities to the Assistant County Manager for Development Services to ensure that acceptable measures are being taken to collect unpaid debt. Under the direction of the Assistant County Manager for Development Services, the Hearing Office Coordinator will work with the Pinal County IT department to develop a program module for the Hearing Office which will document and track all payments and debt collection activities.</p>	07-01-10	ACM for Dev Services and Program Coordinator
<p>5. The Hearing Office Program Coordinator should revise current written policies and procedures to include cash handling procedures for receipts received by mail, over-the-counter, and credit card.</p>	Y	<p>Under the direction of the Assistant County Manager for Development Services, the Hearing Office Coordinator will develop a comprehensive written Policy and Procedures Manual which will include procedures for all department functions; including cash handling, forms, payment agreement templates, a repayment schedule with reasonable time frames for payment to comply with the 2005</p>	06/30/11	ACM for Dev Services and Program Coordinator

Audit Recommendation	Concur Y/N	Management's Response and Action Plan	Target Date	Individual(s) Responsible
		Pinal County Cash Handling Policy. A final draft will be completed and submitted to the Board of Supervisor's for approval and the Hearing Office will be in full compliance by June 30, 2011.		