



## OFFICE OF INTERNAL AUDIT

Report to the  
County Treasurer  
And  
Board of Supervisors

# Treasurer's Office

## Review of Treasury Accounts

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**Attachment: Management Response and Action Plan**

## Executive Summary

The Office of Internal Audit has completed an audit of Treasury accounts. This audit was included in the Office of Internal Audit's Fiscal Year 2010-2011 Annual Audit Plan, approved by the Board of Supervisors. Our audit was planned and conducted in accordance with Generally Accepted Government Auditing Standards. The purpose of our audit was to determine if internal controls over cash accounts were adequate.

The Pinal County Treasurer manages about \$400 million and maintains 975 accounts, providing financial services to Pinal County, its political subdivisions and special districts. To accomplish this service, the Treasurer maintains these sub accounts under the umbrella of one large bank account with Wells Fargo Bank. Funds are disbursed from these accounts by means of warrants, treasury checks or electronic fund transfers (EFT). A warrant is a demand draft drawn on a government's treasury to pay its bills, while a treasury check is similar to a certified check and drawn on the Treasurer's funds. The Treasurer is required to report its activity to the Board of Supervisors on a monthly basis.

Our conclusion is that generally internal controls over cash accounts are adequate. We specifically noted:

- Procedures have been established to ensure new accounts are approved by the Finance Department prior to opening.
- The Treasurer has properly established separate accounts for each fund.
- The Treasurer has submitted timely and properly certified reports to the Board of Supervisors.
- The Treasurer has established adequate procedures and internal controls to manage lines of credit, extended by Wells Fargo Bank, for authorized accounts.

However, some improvements would enhance the internal control environment:

- Procedures have not been established to determine if the initial requirement for an existing open account is still valid.
- The Treasurer's Refund Over/Short Account has not been adequately managed.
- Controls could be improved to ensure funds disbursed via warrants, treasury checks and electronic fund transfers (EFT) are properly authorized and in accordance with state statutes.
- As required by state statutes, treasury checks outstanding more than one year have been properly voided and returned to the Treasury; however, current procedures are not adequate to ensure all *warrants* outstanding more than one year are also voided.

Our specific recommendations for improvements include:

- Review open accounts annually, to determine current needs with the account owner, and close accounts no longer required.
- Establish procedures to review amounts in the Treasurer's Refund Over/Short Account and transfer funds in excess of requirements.

- Obtain current, and properly approved, signature authority for all account holders who are currently being issued warrant stock and disbursing funds via warrants.
- Establish procedures for the proper use of, and signature authority for, treasury checks.
- Obtain governing board designation, in accordance with ARS §11-493, for those individuals authorized to approve EFT's.
- Void all warrants remaining un-cashed after one year and return the funds to the General Fund, or other fund or agency, as authorized by statute.

We would like to thank the management and staff of the Pinal County Treasurer's Office, Finance Department, Sheriff's Office, Superior Court Administration, Clerk of the Court, and Jury Commissioner for their assistance and cooperation during the course of this audit.

The following report provides additional details of our audit observations and recommendations.

Lori Stripling  
Pinal County Internal Audit Officer

## **Background**

The Office of Internal Audit has completed an audit of Treasury accounts. The audit was conducted in accordance with Generally Accepted Government Auditing Standards and included such tests of internal controls as deemed necessary.

The Pinal County Treasurer manages about \$400 million and maintains 975 accounts, providing financial services to Pinal County, its political subdivisions and special districts. To accomplish this service, the Treasurer maintains these sub accounts under the umbrella of one large bank account with Wells Fargo Bank. Funds are disbursed from these accounts by means of warrants, treasury checks, or electronic fund transfers (EFT). A warrant is a demand draft drawn on a government's treasury to pay its bills. A treasury check is similar to a certified check and drawn on the Treasurer's funds. Monthly, the Treasurer is required to report its activity to the Board of Supervisors.

## **Scope and Methodology**

The purpose of our audit was to determine if internal controls over cash accounts are adequate. Our specific objectives were to determine if:

- Controls have been established to ensure accounts are opened only for purposes specifically authorized by statute
- Separate accounts are established for each fund
- The Treasurer submits timely and certified reports to the Board of Supervisors
- Lines of credit are properly managed
- Accounts are closed when no longer required or necessary
- Transactions are properly authorized
- Checks and warrants outstanding more than one year are promptly voided and funds properly returned to the County

To accomplish our objectives, we:

- Interviewed appropriate Treasurer's Office and Finance Department management and staff
- Reviewed policies, procedures and other documents related to Treasury Accounts
- Determined compliance with applicable Arizona Revised Statutes (ARS)
- Reviewed bank statements, the general ledger and Treasury reports to the Board of Supervisors
- Analyzed documentation supporting established accounts
- Reviewed transactions, including treasury checks, cleared warrants, and EFT's
- Verified signature authority to sign warrants
- Reviewed Wells Fargo Bank, and County, procedures for managing lines of credit extended to the County and its' subdivisions

## SUMMARY OF AUDIT FINDINGS AND RECOMMENDATIONS

### Overall Evaluation

Our conclusion is that overall internal controls over cash accounts are adequate. We specifically noted:

- Procedures have been established to ensure new accounts are approved by the Finance Department prior to opening.
- The Treasurer has properly established separate accounts for each fund.
- The Treasurer has submitted timely, and properly certified, reports to the Board of Supervisors.
- The Treasurer has established adequate procedures and internal controls to manage lines of credit, extended by Wells Fargo Bank, for authorized accounts.

However, some improvements would enhance the internal control environment:

- Procedures have not been established to determine if the initial requirement for an existing open account is still valid.
- The Treasurer's Refund Over/Short Account has not been adequately managed.
- Controls could be improved to ensure funds disbursed via warrants, Treasury Checks and electronic fund transfers (EFT) are properly authorized and in accordance with state statutes.
- As required by State Statute, treasury checks outstanding more than one year have been properly voided and returned to the Treasury; however, current procedures are not adequate to ensure all *warrants* outstanding more than one year are also voided.

Details of our findings are discussed in the audit results section below.

### Audit Results

#### A. Account Requirements

The Treasurer's Office has not established procedures to periodically review accounts to determine if they are still needed. As part of our audit procedures, we reviewed 25 accounts, totaling \$26 million. For 5 of these accounts, totaling \$5,800, we found no currently authorized purpose or requirement for their continuance. Further, we noted another 6 accounts had no recent activity or balances,<sup>1</sup> but continued to be reported to the Board as active accounts.

For example, we specifically noted:

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<sup>1</sup> Accounts 4003001003, 4003001004, 7000502971, 7000502972, 7000502976, 7000502977

- **Account 2-00003-1007 – PC Clerk of the Court Child Support** – Balance: \$4,163 – No authorization on file and no activity since 2001
- **Account 2-00007-1999 – PC School PSE 99 Unemployment** – Balance: \$.06 – No authorization on file and no activity since 2004
- **Account 2-00008-1020 – Sheriff Peace Officer Memorial** – Balance: \$947 – Unclear authority
- **Account 2-00008-1023 – PC Sheriff Reserve** – Balance: \$30 – Unclear authority and no activity since 2003
- **Account 2-00008-1024 – Sheriff Toys for Tots** – Balance: \$669 – No authorization on file and no activity since 2006

Maintaining cash in unnecessary or unused accounts increases the potential for misappropriation, since there is no recurring review or frequent monitoring of those accounts.

**Recommendations:**

1. *The Treasurer should annually review and validate current requirements or need for all accounts with the account owners; close accounts no longer necessary; and appropriately distribute the funds per the account owner and applicable statutes. Emphasis should be placed on accounts with no activity during the past year.*
2. *The Finance Director should determine if there is a current need for the County Accounts listed above in this report (Account 2-00003-1007, 2-00008-1020, 2-00008-1023, 2-00008-1024) and work with Departments to close the accounts, if unneeded.*
3. *The Treasurer should properly identify and code dormant accounts (having no activity and no balance) so only active accounts are included in the regular report to the Board of Supervisors.*

**B. Treasurer’s Refund Over /Short Account**

Procedures have not been established to manage the Treasurer’s Over/Short Account. As of October 2010, the account balance was more than \$76,000. It is used to account for taxpayers’ over or underpayment of taxes of \$2 or less. We could not identify any current policies addressing the proper disposition of funds accumulated in this account. Since this cash is not connected to any current budgetary authority, maintaining the unnecessary cash increases the potential for misappropriation of County funds.

**Recommendations:**

4. *The Treasurer should annually review the balance in the over/short account and transfer the funds appropriately.*

### **C. Warrant Signatures**

We noted some County warrants were not signed by individuals specifically authorized to do so by state statutes. ARS §11-493 requires that County warrants be signed by the Chairman of the Board of Supervisors and the Clerk of the Board. Additionally, the Treasurer is responsible for ensuring appropriate signature authorities are established for warrants issued by other subdivisions, such as Fire and School Districts. We reviewed signatures on warrants for 34 individual cash accounts. Nine (9) of the signatures were not authorized or properly approved by the respective governing boards for the accounts. Further, authority to sign warrants is not clearly defined in statutes for an additional 8 of the 34 accounts we reviewed.<sup>2</sup>

Specifically, for the 9 accounts we identified where warrant signatures were not authorized or properly approved, we found:

- Warrants for the Apache Junction Fire District, Thunderbird Fire District, Mammoth Volunteer Fire District, and Eloy Fire District were signed by individuals from an expired list of approved individuals.
- Warrants for Jury Fees from the County General Fund were signed by the Clerk of the Court rather than the Chairman of the Board of Supervisors and the Clerk of the Board.
- Warrants for Clerk of the Superior Court Funds were signed by the Clerk of the Court based on authority from a member of the Clerk's staff.
- No documented authority is on file to sign warrants for the Magma Control Flood District and the Stanfield Volunteer Fire Department.
- Authority to sign warrants for the Pinal County Community College District is based on a list approved by a staff member, rather than the governing board, more than three years ago. Further, the signature equipment used by the District was out of ink, so the warrants were actually paid by the bank without visible signatures.

Allowing warrants to be cashed without properly authorized signature authority increases the potential for fraud and misappropriation of funds.

#### **Recommendations:**

- 5. The Treasurer should obtain current and proper authorization, by governing boards in accordance with state statute, to sign warrants for all accounts that use blank warrant stock.***
- 6. For Pinal County accounts, the Treasurer should only accept warrants signed by the Chairman of the Board of Supervisors and Clerk of the Board, unless otherwise approved by Board resolution or supported by written legal opinion.***

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<sup>2</sup> These were for imprest and trust type funds for Court and Sheriff Personnel. Statute is unclear if these are governed by the provisions of ARS §11-493

- 7. The Treasurer should annually revalidate authority to sign warrants for all accounts.*

#### **D. Treasury Checks**

Adequate controls have not been established for the use of treasury checks. ARS §11-493 specifically authorizes the disbursement of county funds to be made only by county warrant, electronic fund transfer, or as otherwise provided by law. The use of treasury checks is not cited in the statute. No policies, governing the use of treasury checks, have been established to ensure they comply with state statute. Further, controls over authority to sign treasury checks are weak. Only one signature is required for any dollar amount, and the checks are variably signed by the Treasurer, the Treasurer's Chief Deputy, or the Administrative Assistant. For example, a warrant in the amount of \$570,000 was paid on the City of Casa Grande School District account and signed only by the Treasurer's Chief Deputy. Adequate controls over disbursement of funds are essential to prevent fraud, waste and abuse.

#### **Recommendations:**

- 8. The Treasurer should establish policies to ensure, in all instances, the use of Treasury Checks complies with state statutes.*
- 9. The Treasurer should establish dual signature requirements for Treasury Checks at a defined dollar threshold.*

#### **E. Electronic Fund Transfers**

Electronic fund transfers (EFT's) are not always properly approved. ARS §11-493 includes a requirement that EFT's be made, via written authorization, by an individual specifically designated by the governing board. There are no policies in place to ensure appropriate authorization has been established, prior to initiating an EFT. For example:

- The Deputy Finance Director authorized the Treasurer's Office to make an EFT for a \$1.1 million land purchase. Since the Board of Supervisors authorized the land purchase, it was believed the EFT could also be authorized by the Finance Department personnel. However, the Board of Supervisors had not specifically designated EFT approval authority as required by ARS §11-493.
- In another case, the CFO authorized an EFT of \$.5 million for a bond payment. Finance personnel again perceived the resolution, authorizing issuance of the bonds, also authorized the CFO to approve an EFT for bond payment. Audit's opinion is EFT's should only be authorized by individuals specifically designated by the Board of Supervisors, as required by ARS §11-493.
- A \$200,000 EFT was completed by the Treasurer's office for the Apache Junction Fire District. The Chief Deputy Treasurer stated he attempts to ensure EFT's are authorized only by individuals who at least have authorization to sign warrants. As discussed earlier in Finding C, regarding warrant signatures, the Apache Junction warrant signature authority on file had expired. Further, the individual who authorized this EFT was not on the expired list either. We noted another EFT made for the Maricopa Stanfield Irrigation District was

authorized by an individual having no authorization to either sign warrants or approve EFT's.

We noted the Treasurer's Office has established good internal controls over the actual EFT process, requiring a two person initiation and the use of an encryption device. Completing EFT's approved by individuals not having properly documented authorization to do so, however, increases the potential for fraud and misappropriation of funds.

**Recommendations:**

***10. The Treasurer should obtain designation from each governing board identifying individuals authorized to approve EFT's.***

***11. The Assistant County Manager for Administrative Services should draft a resolution for the Board of Supervisors' approval, designating the individuals authorized to approve EFT's. We suggest as a minimum, the Finance Director be given this authority.***

**F. Outstanding Warrants**

Outstanding Treasury Checks were properly voided and returned to the Treasury after one year; however, outstanding county *warrants* were not always voided as required. ARS §11-644 states that a check or warrant that is not presented for payment within one year has no further force or effect, and any monies shall be transferred, or revert back, to the county General Fund or other appropriate fund. While the Treasurer's Office has established procedures to request timely voiding of outstanding warrants by the Finance Department, some warrants were not voided.

- We identified General Fund warrants in the amount of \$25,000 outstanding more than one year. These warrants should be voided and returned for use by the General Fund. Many of these are old warrants for jury fees that were missed, because the Treasurer's Office and Finance Department did not coordinate with the Clerk of the Court, to void the outstanding warrants. Finance also indicated \$11,000 in outstanding warrants were not jury fee payments, and were not voided timely due to oversight.
- We noted outstanding warrants for about \$14,000 from the Pinal County Sheriff's Office (PCSO) Civil Division were not voided. PCSO recently hired a Finance Manager, who is developing new procedures to address this issue.
- About \$11,000 in outstanding warrants from the Casa Grande Justice Court were not voided, because personnel were reportedly unaware of the requirement to void these warrants.

Voiding warrants outstanding for more than one year ensures compliance with state statute and makes additional funds available for use by the County, which is particularly important considering current fiscal limitations.

**Recommendation:**

- 12. The Treasurer should coordinate with the Finance Director, other Elected County Officials, and officials from other subdivisions to ensure warrants outstanding more than one year are promptly voided and funds are properly transferred back to the appropriate accounts.*

**Evaluation of Management Comments**

Management agreed to implement 11 of our 12 recommendations. Management disagreed with recommendation 9 to require dual signatures on high dollar value Treasury checks due to staffing levels and the cost of ordering new check stock. In our opinion, establishing a dollar limit for single signature checks and requiring two signatures for large disbursements would enhance internal controls and reduce the potential for misappropriation of funds.

**Attachment:**

**Management Response and Action Plan**

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Audit Recommendation	Concur (Yes or No)	Management's Response and Action Plan	Target Date	Individual(s) Responsible
<p><i>1. The Treasurer should annually review and validate current requirements or need for all accounts with the account owners; close accounts no longer necessary; and appropriately distribute the funds per the account owner and applicable statutes. Emphasis should be placed on accounts with no activity during the past year.</i></p>	Yes	<p>The Pinal County Treasurer's Office will develop a policy and procedure to review all accounts with the responsible county department or other political subdivisions using the service of the County Treasurer's Office.</p>	07/01/11	Levi Gibson
<p><i>2. The Finance Director should determine if there is a current need for the County Accounts listed above in this report (<u>Account 2-00003-1007, 2-00008-1020, 2-00008-1023, 2-00008-1024</u>) and work with Departments to close the accounts, if unneeded.</i></p>	Yes	<p>The Finance Department is in communication with the Sheriff's Office. We have requested that if the funds are not needed the accounts should be closed and all available funding reverted to the original source or the General Fund. Account 2-0003-1007 is not on the General Ledger and should be the responsibility of the Treasurer's Office.</p>	6/30/11	Yiannis Kalaitzidis for the Finance Department and Teresa Heaton for the Sheriff's Office
<p><i>3. The Treasurer should properly identify and code dormant accounts (having no activity and no balance) so only active accounts are included in the regular report to the Board of Supervisors.</i></p>	Yes	<p>The Pinal County Treasurer's Office will adopt a policy and procedure to identify accounts having no activity and zero balances mark them as inactive.</p>	12/31/11	Levi Gibson

Audit Recommendation	Concur (Yes or No)	Management's Response and Action Plan	Target Date	Individual(s) Responsible
4. <i>The Treasurer should annually review the balance in the over/short account and transfer the funds appropriately.</i>	Yes	The Pinal County Treasurer's Office will adopt a policy and procedure to annually review the balance of the over/short account at the close of each fiscal year and if excess funds exist transfer those funds to the proper accounts.	07/01/11	Levi Gibson
5. <i>The Treasurer should obtain current and proper authorization, by governing boards in accordance with state statute, to sign warrants for all accounts that use blank warrant stock.</i>	Yes	The Pinal County Treasurer's Office will adopt a policy and procedure to ensure that the governing board of each of the political subdivisions using the services of the County Treasurer properly authorize those individuals having the ability to sign warrants.	07/01/11	Levi Gibson
6. <i>For Pinal County accounts, the Treasurer should only accept warrants signed by the Chairman of the Board of Supervisors and Clerk of the Board, unless otherwise approved by Board resolution or supported by written legal opinion.</i>	Yes	The Pinal County Treasurer's Office will review our policies and procedures for accepting county issued warrants in consultation with legal counsel and will adopt or amend our current policies based upon this council	07/01/11	Levi Gibson
7. <i>The Treasurer should annually revalidate authority to sign warrants for all accounts.</i>	Yes	The Pinal County Treasurer's Office will adopt policies and procedures to revalidate authority to sign warrants for all accounts.	07/01/11	Levi Gibson

Audit Recommendation	Concur (Yes or No)	Management's Response and Action Plan	Target Date	Individual(s) Responsible
8. <i>The Treasurer should establish policies to ensure, in all instances, the use of Treasury Checks complies with state statutes.</i>	Yes	The Pinal County Treasurer's Office will adopt policies and procedures to ensure that the use of Treasury Checks complies with state statute.	07/01/11	Levi Gibson
9. <i>The Treasurer should establish dual signature requirements for Treasury Checks at a defined dollar threshold.</i>	No	At this time the Pinal County Treasurer's Office can not adopt this additional control, primarily due the size of our office and the additional costs associated with acquiring dual signature check stock.		
10. <i>The Treasurer should obtain designation from each governing board identifying individuals authorized to approve EFT's.</i>	Yes	The Pinal County Treasurer's Office will adopt policies and procedures to obtain designation from each governing board identifying those individual authorized to approve EFT's.	07/01/11	Levi Gibson
11. <i>The Assistant County Manager for Administrative Services should draft a resolution for the Board of Supervisors' approval, designating the individuals authorized to approve EFT's. We suggest as a minimum, the Finance Director be given this authority.</i>	Yes	A resolution has been drafted and will be presented to the Board of Supervisors for approval.	6/30/11	Manny Gonzalez

Audit Recommendation	Concur (Yes or No)	Management's Response and Action Plan	Target Date	Individual(s) Responsible
<p><i>12. The Treasurer should coordinate with the Finance Director, other Elected County Officials, and officials from other subdivisions to ensure warrants outstanding more than one year are promptly voided and funds are properly transferred back to the appropriate accounts.</i></p>	<p>Yes</p>	<p>The Pinal County Treasurer's Office will develop policies and procedures to notify the Finance Director, other Elected County Officials, and officials from other political subdivisions to the existence of warrants outstanding for more than one year to ensure that they are voided and that the funds are transferred back to the appropriate accounts.</p>	<p>07/01/11</p>	<p>Levi Gibson</p>