

OFFICE OF THE COUNTY ADMINISTRATOR

416 West Fourth Street
Davenport, Iowa 52801-1187

Ph: (563) 326-8702 Fax: (563) 328-3285
www.scottcountyiowa.com
E-Mail: admin@scottcountyiowa.com



September 30, 2003

TO: Board of Supervisors

FROM: Craig Hufford, Financial Management Supervisor
Pat Reynolds, Budget Coordinator
Wes Rostenbach, Accounting and Tax Manager
C. Ray Wierson, County Administrator

SUBJ: Quarterly Status Report from the Financial Review Committee on Various Financial Management Improvements – September 2003

The Financial Review Committee (FRC) consisting of Craig Hufford, Financial Management Supervisor in the Treasurer's Office, Pat Reynolds, Budget Coordinator, Wes Rostenbach, Accounting and Tax Manager in the Auditor's Office, and C. Ray Wierson, County Administrator reports quarterly to the Board on the status of various financial management improvements.

Attached to this memo are the following status reports:

- FY03 Open Budget Issues
- FY04 Open Budget Issues
- FY02 Audit Management Letter comments

The County recently received word from the Government Finance Officers Association (GFOA) that the County has received the Certificate of Achievement Award for Excellence in Financial Reporting for the County's FY02 Comprehensive Annual Financial Report. We also received word that the County received the GFOA Distinguished Budget Presentation Award for the County's FY04 Budget Document.

During the past quarter the Board approved various changes and enhancements to the County's purchasing card policy as recommended by the Auditor's Office and FSS. Also, changes were made to the County's Financial Management Policies regarding the consideration of capital funding requests from outside organizations.

GASB34 implementation transition procedures are underway with McGladrey & Pullen, LLP, the County's audit firm. They are currently working with County staff to prepare both the June 30, 2002 balance sheet audit and the FY03 annual audit following GASB34 guidelines. The Board has scheduled

a meeting for Tuesday, November 25, 2003 to discuss the draft FY03 audit report with McGladrey representatives.

Please contact us should you have any questions regarding this memo or any of the attached status reports.

Attachment

cc: All County Departments and Offices
McGladrey & Pullen, LLP

STATUS REPORT ON FY03 OPEN BUDGET ISSUES
September 2003

SUBJECT	RESPONSIBILITY	TIMEFRAME
1. Review Payroll Specialist positions Current status: This position will be reviewed once the new systems are in place.	Human Resources/Auditor	Fall 2003

STATUS REPORT ON FY04 OPEN BUDGET ISSUES
September 2003

SUBJECT	RESPONSIBILITY	TIMEFRAME
<p>1. Decision on GIS implementation.</p> <p>Current status: Completed. The Board has had several updates throughout this project. The final strategic implementation plan report was submitted in August 2003. The recommendation from the GIS Steering Committee to defer the full implementation at this time was approved by the Board.</p>	GIS Steering Committee/Admin	August 2003
<p>2. Buffalo Ambulance service continuation.</p> <p>Current status: Completed. Buffalo Ambulance continues to operate at this time. The Board of Health will continue to monitor the agency's performance and compliance.</p>	Board of Health	On-going monitoring
<p>3. Organizational changes as recommended in Jail staffing study</p> <p>Current status: Several organizational changes were approved by the Board during the past several months. A jail programming position will be brought to the Board in the near future.</p>	Sheriff/Human Resources	June-November 2003
<p>4. Renovations at Jail annex Tremont site for jail programs</p> <p>Current status: Currently out for bid on this project.</p>	FSS/Sheriff	December 2003
<p>5. Implementation of jail programs as recommended by CJAAC</p> <p>Current status: A federal grant for in-facility substance abuse treatment was awarded to Scott County. The State Department of Public Health is coordinating the grant and is currently selecting a vendor to provide these services.</p>	CJAAC/Sheriff	January 2004

2001-02 MANAGEMENT LETTER COMMENTS
September 2003

SUBJECT	RESPONSIBILITY	TIMEFRAME
<p>1. Comment: We noted through our testing of cash and investments, that ending balances on the County's workpapers that were also in agreement with balances on the bank statements did not agree to the general ledger in total. Most of the discrepancy was due to more cash being recorded on the general ledger for the Sheriff's fund than what was listed on their "Daily Cash Sheets" which show the cash taken in for the day by the Sheriff's office. In addition, the Sheriff's Department takes their deposits to the Treasurer's Office the day after deposits are actually received, causing their deposits to be recorded with a one day lag. Therefore, at the end of a period, the Sheriff's last deposit is not included in the County's general ledger, but is included on the Sheriff's civil system.</p> <p>Recommendation: We recommend the general ledger be reconciled to the Sheriff's civil system at least monthly.</p> <p>Current Status: The new civil system from Cody is currently being installed. Also, the County's Platinum accounting system will be upgraded to be Windows 200x compliant with open architecture that will allow improved interfacing with subsidiary third party systems. The Accounting and Tax Manager and Financial Management Supervisor will be discussing ways to improve internal bank reconciliation procedures with the McGladrey audit team while they are performing the FY03 audit fieldwork.</p>	<p>Sheriff/Treas/Auditor</p>	<p>Mar to Dec 03</p>
<p>2. Comment: Check fraud occurs when fraudulent identification is presented to cash a check. Checks are forged using high-resolution scanners and color copiers. Check fraud can happen when blank laser check stock is used without entity customization. Furthermore, it is not always the bank's responsibility when a phony check is accepted and cashed. New Uniform Commercial Code regulations have recently been revised to shift responsibility away from the banks to the party in the best position to prevent the fraud from occurring.</p> <p>So what can be done?</p> <p>Banks are now offering a new tool to battle check fraud: Positive Pay. Positive pay is a service purchased for your entity's account. As a customer, you provide the bank a listing of checks you issue. Checks presented for payment are compared with this list and only authorized items are paid. This service should be available through the cash management department at your bank. The fee is an insurance premium. When purchasing this service, your entity is transferring liability to the bank.</p> <p>Another way to battle check fraud is to use fraud proof checks. The use of a high security check</p>	<p>Treasurer/Auditor</p>	<p>Fall 2003</p>

2001-02 MANAGEMENT LETTER COMMENTS
September 2003

SUBJECT	RESPONSIBILITY	TIMEFRAME
<p>will deter most forgers. Controlled check stock's distribution and use is restricted by the manufacturer. It is not available as blank generic laser checks. One cannot simply buy this check stock at an office supply store, computer company or mail order catalog. Fraud proof checks offer the following:</p> <ul style="list-style-type: none"> • Watermarks • Heat sensitive ink • Copy void pantograph • Chemical reactive paper • Micro printing • Inventory control sequences • Warning banners <p>Recommendation:. In order to protect the County against check fraud and its consequences, we recommend evaluating the options listed above.</p> <p>Current Status: The Treasurer's Office will be going out for bid for banking services this summer. The additional safety features will be costed out at that time.</p>		
<p>3. Comment: The County's "Capitalization and Inventory" policy states that a physical inventory shall be done at least every five years. However, it has been longer than five years since the County last performed an inventory.</p> <p>Recommendation:. We recommend the County either follow their policy or have the policy revised.</p> <p>Current Status: The Facility and Support Services Department will conduct a physical inventory this calendar year.</p>	FSS	July 2003 to December 2003
<p>4. Comment: Deposits are received throughout the month, but primarily the first through the third of every month. The majority of deposits are done through direct deposits at Wells Fargo. Nancy Knapp and Teresa Lessman receive a direct deposit download report from Wells Fargo called "Alphabetic Norwest Check List'. This report includes client name, social security number, and type of income, amount, and income code. Community service client's names and dollar amounts of their expected directly deposit rollover in the system each month. Nancy and Teresa compare the Wells Fargo list to the system list and make any necessary changes. In the end, totals in the system must agree to the Wells Fargo listing before the system will accept</p>	Community Services/Auditor/IT	January to December 2003

2001-02 MANAGEMENT LETTER COMMENTS
September 2003

SUBJECT	RESPONSIBILITY	TIMEFRAME
<p>and post amounts to all of the individual accounts. Nancy and Teresa are the only ones who do interviews of new clients and maintain the files on each person in their office. When reviewing the deposit listing they look for any unknown clients.</p> <p>Recommendation: We recommend the capability of adding new clients to the system be restricted from employees who verify and update direct deposit amounts and check disbursement functions.</p> <p>Cash and other sources of income for the clients received directly at the Community Service Department should be segregated from the ability to update the files. These items should be stamped with a restrictive endorsement. A listing of items received, which designates the client to whom it should be posted should be prepared. The listing should be forwarded to Teresa or Nancy for posting to the accounts. The individual responsible for reconciling the bank statement should compare the deposit for the day to posting totals.</p> <p>Current Status: The Auditor's Office, Community Services and the Information Technology Department are working together to develop a strategy to increase and improve the current segregation of duties for the Community Service Protective Payee Account and the Community Services Reimbursement Account. Several functions including check writing, account reconciliation, client confirmation and direct deposit revenue postings will be transferred to the Auditor's Office. Additional security features will be added to the existing in-house computer application to allow for this split in duties and functions. A six-month trial period will be suggested to see if the proposal is successful. Ultimately it would require increasing an existing part-time position in the Auditor's Office to full-time and abolishing a part-time case aide position in the Community Services Department.</p>		
<p>5. Comment: Disbursements made from the Community Service Payee Account are primarily for nursing home services, utilities, phone service, and personal needs. Nancy, Teresa, and their supervisor review and sign disbursement checks. As invoices are paid, they are marked paid with the date and check number and the amount is posted to the individuals account. On a monthly basis Nancy and Teresa set budgets for each individual of amounts that will be paid for that month. Before checks are printed, they must go in and change budgeted amounts to pay status. A "Payee Check Writing System" report is then printed and reviewed by Terry (bookkeeper). Terry goes through each person on the list and compares to what was posted on the system. Terry writes OK on it and then it gets filed away. Nancy and Teresa print checks.</p> <p>Recommendation: Check signing capabilities should be removed from Nancy and Teresa who</p>	Community Services/Auditor/IT	January to December 2003

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SUBJECT	RESPONSIBILITY	TIMEFRAME
<p>have the ability to post to the client accounts. The individual signing the checks should ensure check sequence and propriety of payee.</p> <p>The check stock should be maintained and secured by an individual not involved in check writing capabilities. Check sequence should be logged and monitored before every check run.</p> <p>Current Status: See comments under item #5 above.</p>		
<p>6. Comment: Based on a discussion with personnel, it is our understanding that Nancy, Teresa and their supervisor also endorse the back of the check before it is mailed.</p> <p>Recommendation: The County should investigate the intent, purpose and necessity of this endorsement.</p> <p>Current Status: See comments under item #5 above.</p>	Community Services/Auditor	January to December 2003
<p>7. Comment: After Budgets are set up, it is possible to go back into a payee and change amounts before checks are cut in order to update for errors or changes. Nancy and Teresa do not go back and look at the list of checks being paid to see if any of the budgeted amounts have been changed or if there are any additional checks being processed or unusual payee amounts.</p> <p>Recommendation: A report should be generated with the check run listing amounts paid, payee and account it was posted to. This should be reviewed by Nancy and Teresa. Once they have approved the check listing, the physical checks should be mailed by a person independent of Nancy and Teresa.</p> <p>Current Status: See comments under item #5 above.</p>	Community Services/Auditor/IT	January to December 2003
<p>8. Comment: Janet Kimmel (usually delegated to Terry – bookkeeper) who has no check signing ability reconciles bank statements. However, the check sequence is not accounted for or reconciled to the sequence on the bank statement to identify any missing checks. In addition, the person reconciling does not scan through the cancelled checks looking for unusual payees and amounts.</p> <p>Recommendation: The employee reconciling bank statements on a monthly basis should look through the returned cancelled checks for any unusual payees. Check sequence should also be accounted for and reconciled to the bank statements to ensure all checks noted by the bank</p>	Community Services/Auditor	January to December 2003

2001-02 MANAGEMENT LETTER COMMENTS
September 2003

SUBJECT	RESPONSIBILITY	TIMEFRAME
<p>as cleared are properly returned. Periodically, the restrictive endorsement on the checks should be reviewed.</p> <p>Current State: See comments under item #5 above.</p>		
<p>9. Comment: Currently, payees do not receive statements of activity of their accounts on a periodic basis.</p> <p>Recommendation: Statements should be sent to all clients or their guardian on a monthly or quarterly basis. This would allow clients the opportunity to verify activities occurring within their accounts.</p> <p>Current Status: See comments under item #5 above.</p>	Community Services/Auditor/IT	January to December 2003
<p>10. Comment: The above recommendations relate specifically to the Community Service Payee Account and not the Reimbursement Account. The Reimbursement Account was established to hold money paid to Scott County by other agencies. Citizens in need of assistance (rent payments, utilities, etc.) may obtain funds from Scott County to be spent on necessary items while their application for federal or state aid is being processed. Scott County then received the money from the aid program and deposits it in this account. Receipts should always equal disbursements.</p> <p>Recommendation: The County of Scott, Iowa should complete a thorough walkthrough of the Community Service Reimbursement Account and apply the same general procedures as recommended above.</p> <p>Current Status: See comments under item #5 above.</p>	Community Services/Auditor	January to December 2003