SUBJECT: Present Report No. 2016-09 Regarding Limited Consulting Engagement of Extension Services Department 4-H Division

INITIATOR: Sachiko H. Leon, Internal Auditor

DEPARTMENT: Clerk of Court

DESCRIPTION/BACKGROUND: Internal Audit performed a limited consulting engagement of Extension Services Department 4-H Division pursuant to a request of Department Director. Internal Audit's engagement objectives were to ensure 1) sufficient internal controls were in place; 2) proper bookkeeping was maintained; 3) the current accounting procedures of the 4-H Division were followed. Internal Audit determined that, in general, the objectives were met but also found opportunities for improvements.

BUDGET IMPACT: None

RECOMMENDED ACTION: None, for informational purposes only
Executive Summary

Internal Audit completed a consulting engagement for Extension Services Department 4-H Division. This engagement was pursuant to a request of the Extensions Services Department Director (Director), David Holmes. The Director requested this engagement to assess if the Department was following the current procedures established in 2014.

Our objectives were to provide an extra measure of accountability to ensure 1) sufficient internal controls were in place; 2) proper bookkeeping was maintained; 3) the current accounting procedures of the 4-H Division were followed.

The scope consisted of the period from December 2014 to August 2015 and was limited to reviewing 4-H financial transactions and internal controls over those transactions.

Our opinion was, in general, the objectives were met in material respects, but we found opportunities for improvement and recommended the following.

1. Implement a monthly review process of bookkeeping and the supporting documentation by a staff member who is not involved with 4-H daily activities for better internal controls. (Observation #1)
2. Maintain a complete set of documentation in monthly folder: fund request form, club minutes to show fund usage authorization, and receipts or vendor statement showing the zero balance to increase accountability. (Observation #2)
3. Reduce manual and repetitive process by utilizing available features of an accounting software currently in use for monthly reconciliation and deposit process to improve efficiency. (Observation #3 and #4)


**Background**

Marion County UF/IFAS Extension Service is “a cooperation between the Marion County Board of County Commissioners and the University of Florida,” both in funding and in execution of certain programs. Extension agents are experts in their fields. Their research and resources of the university are extended to Marion County residents through educational programs and services. Organizationally, it provides services as Extension Services Department under Public Works Division.

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

Internal Audit has been involved with reviewing different processes for the 4-H program since 2011. In 2014, per a request of the Director, Internal Audit reviewed the 4-H programs’ transactions and assisted in enhancing the program’s internal controls when the Director had concerns over the accountability of each club account and the existing procedures at the time.

The Department later adopted “Procedures for Handling Funds Marion County 4-H Club Accounts” (Marion County 4-H Procedures) that is currently used. The 4-H agents and staff became responsible for maintaining a “Foundation” bank account and a “General Operating” bank account, and reconciling the bank accounts to at least 74 internal sub-accounts in the accounting system.

In July 2015, The Director requested Internal Audit to review the program’s financial operations to ensure the current Marion County 4-H Procedures were being followed. Internal Audit accepted this request as a consulting engagement to review the changes his team had implemented and make recommendations for enhancements as necessary.

**Objectives and Scope**

The objectives of the consulting engagement were to provide an extra measure of accountability to ensure the following:

- Sufficient internal controls were in place;
- Proper bookkeeping was maintained;
- Existing procedures of 4-H were followed.

The scope consisted of the period from December 2014 to August 2015. In December 2014, the 4-H Division had consolidated multiple 4-H club accounts into two local bank accounts. August 2015 was the end of 4-H fiscal year 2015. We limited our scope to a review of financial transactions recorded in bank accounts and associated records. We did not review correctness of each sub-account balance in the current accounting software or appropriateness of each expenditure.

**Methodology**

Internal Audit reviewed 4-H documents including its policies and procedures at the State level and the local level, bank statements, monthly reconciliation processes and associated files. We
conducted interviews and observed the 4-H staff members on multiple occasions to learn their procedures, tasks and processes. They explained their day to day processes including check and reimbursement requests, entries into the accounting software, and the various internal accounts. We also looked for ways for employees to gain efficiency by better utilizing the accounting software.

We judgmentally selected one monthly file per quarter for sampling.

**Observations**

**Observation #1: Financial records should have a formal review process at least monthly by a designated member who does not either enter or reconcile transactions in the accounting software**

Segregation of duties is essential to maintain internal controls in preventing and deterring any potential improper transactions; however, when it is not practical within an operational process because of limited personnel or other factors, management needs to design alternative control activities. In general term, lack of segregation of duties allows improper transactions and conducts to go unnoticed.

All three 4-H staff members had the administrator level of access to the accounting software and were capable of performing data entries as well as reconciliation. The staff confirmed that there was no monthly formal review process currently. Designated 4-H Foundation volunteer members were assigned to review financial records only annually, and the review was limited to three transactions per month. The 4-H Foundation Chairman signed each business check, but the Chairman reviewed transactions and supporting documentation related to the check only.

This observation led us to conclude that there was not sufficient segregation of duties in place. However, the staff explained that any of the 4-H staff members could be in the field for extensive amount of time; therefore, other available staff members needed to be able to perform accounting duties in a timely manner to meet the needs of 37 4-H clubs in the County.

If segregation of duties is not feasible due to limited personnel and the operational needs, the management has the responsibility to design alternative control to prevent, deter or detect possible wrong doings.

**Recommendation:** 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 also consist of ensuring each transaction has complete supporting documentation (Funds Request form, club minutes, receipts, etc.) and that transactions in the accounting software were correct and reconciled to the bank accounts.

**Management Response:** We concur with the recommendations. Management designated the Administrative Assistant to perform this review process monthly.
**Observation #2: All requests for funds should include the proper and complete supporting documentation**

The Marion County 4-H Procedures states “Requests for reimbursement must include receipts or invoices for all amounts requested, and a copy of the club minutes showing the expenditure is approved. Requests for prepayment must include an itemized quote with exact amount and will be made out to the vendor.”

We observed the following:

- Club minutes were not attached to funds requests.
- Requests for reimbursements did not have all supporting documentation attached to verify expenditures had actually been paid in full.
- There were some invoices that showed the balance owed prior to payment being made; but an updated invoice showing the zero balance was not subsequently provided to the Department.
- The reimbursement and funds request forms were being used interchangeably.

Without proper supporting documentation to show that funds were properly approved by each club and all obligations to vendors have been met, the County may become liable for improper expenditures or unpaid balances to vendors. The County Extension Director is ultimately accountable for the administrative oversight of all funds associated with the County Extension Program.

**Recommendation:**
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.

**Management Response:** We concur with the recommendations. 4-H will start using a “Check/Reimbursement Request” form issued by UF 4-H in September 2016, which serves as a combined form and will replace the current reimbursement request form and fund request form.

*Update:* Auditor obtained the new UF 4-H “Check/Reimbursement” form from 4-H staff and concurred that the form was sufficient. The 4\textsuperscript{th} recommendation of Observation #2 has been implemented.

**Observation #3: Monthly bank reconciliations should be conducted efficiently**

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

This procedure was being achieved by manual bank reconciliations on the back of the bank statements. This manual process was compliant to the current procedures but repetitive and inefficient because the staff had already entered all transactions in the accounting software. Those transactions in the software also remained unreconciled because the accounting cycle (data entry
to reconciliation) was not followed through. It takes less time and is more efficient if the reconciliation process is completed within the software.

**Recommendation:** Utilize the software functions and reconcile monthly bank statements in the accounting software to gain more efficiency.

**Management Response:** We concur with the recommendation.

**Observation #4: The deposit process should be streamlined**
The Marion County 4-H Procedure states “A receipt must accompany all deposits made.”

We observed that when the 4-H program receives fund, a manual receipt is written, and a carbon copy of the receipt was maintained in a file. It was then entered in the accounting software as deposit. Then the same deposit information were manually written on two additional documents for preparation of bank deposit. This process was in compliance with the procedures but was repetitive and inefficient. The accounting software can generate a bank deposit report for the deposit transactions in the software.

**Recommendation:** 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.

**Management Response:** We concur with the recommendation.

We would like to extend our appreciation to the 4-H staff members, agents as well as the Department Director for their cooperation during the engagement.

Auditor-In-Charge was Tamecika Travolta, supervised and directed by Sachiko León.

C: Mounir Boyounes, County Administrator
   Mike Sims, Acting Assistant County Administrator-Public Works