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**EMPLOYEE EVENTS FUND (599)
AUDIT REPORT
June 1, 2007**

BACKGROUND:

The Employee Events Committee (EEC) was established in 1989 for the purpose of overseeing the Christmas Party and Picnic. Minutes of the Human Services Committee do not indicate the Employee Events Committee formation was approved by board vote.

By-Laws of the EEC were established but the creation date of the By-Laws could not be determined. Article VII - Funds states the committee receives commissions from vending service, telephone and feminine products machines throughout the County buildings and other donations. Currently no funds are received from telephone machines. The Administrative Committee minutes dated September 16, 1998 recorded the approval of a motion for the renewal of the Pay Phone Service Agreement. No evidence could be found discontinuing the telephone service.

A document was discovered that appears to be a copied page from the Kane County Code Section 2-173 Recreational Events acknowledging the events committee and its funding. This section is not included in the current code.

The Human Services Committee minutes dated May 12, 2006 stated that the Human Services Committee asked that the amendments (referring to Amendments to the Personnel Policy Handbook) be sent to the full Board for input. Resolution 06-288 dated July 11, 2006 approved the amendments to the policy handbook but Recreational Events was not included.

Resolution 07-21 dated January 9, 2007 approved the following changes to the policy handbook:

1. Deleted "Christmas party."
2. Added "an employee recognition luncheon."
3. Added "and audited by the County Auditor."
4. Deleted "Employee Events Committee."
5. Added "Department of Human Resources Management."

The purpose of the fund changed from a Christmas Party and Picnic for employees regardless of performance, to a County (acting as an employer) sanctioned luncheon to

recognize employee performance that is, in essence, funded by the employees themselves.

The Employee Events Committee is currently dissolved. A flyer dated 5-14-07 was distributed to the Auditor's Office announcing the formation of a volunteer committee to work on a 2007 Employee Christmas Party.

At April 30, 2007 the fund balance totaled \$37,151.29 with \$6,151.29 held in a checking account and \$31,000 held in an investment account. Current accounting records are not maintained by the Department of Human Resources. Revenues representing commission are received by the Executive Director of Human Resources Management, who then submits the checks to the Treasurer's Office for deposit.

COMPLIANCE WITH VENDING MACHINE CONTRACTS:

Resolution 05-402 authorized the County Board to enter into contracts with Park Vending of Aurora and Coca-Cola of St. Charles for the food/hot beverage and soda pop machines, respectively. Resolution 06-034 authorized the County Board to replace Park Vending with Local Vending which was subsequently replaced by its successor Vorant Vending.

We performed observations of the vending machines located on the Main Campus at random times between April 4, 2007 and May 22, 2007. Vorant Vending is the vendor for snack, cold food and hot beverage machines. Their contract will expire in December 2007. The Coca-Cola contract will expire at the end of October 2007.

The vending machines located in Building B and Building C are in compliance with the vending contract. Following is our findings for the vending machines located in Building A:

Snack, Cold Food and Hot Beverage Machines:

- The price charged for snack items exceeded the limits set forth in the contract. The contract specifies a price range of \$.50 up to \$1.00 for snack items. Two of the 32 spots in the snack machine are priced at \$1.25. The Cold Food, Hot Beverage machine are priced in accordance with the terms of the contract.
- The contract stipulates that Vorant is to perform "Daily cleaning of all vending machine surfaces, microwave machines surfaces (inside and out), counter areas, table tops, fixtures, and floor areas from spills;." Our observation and testing for cleanliness indicated that Vorant does not make daily stops to clean. The glass panel on the snack item machine had hand smudges and spill streaks that had not been cleaned as of June 1, 2007. The cold food machine plastic access panels are very dirty and should be completely cleaned or replaced. One of two test areas on the cold food machine did show signs of cleaning but not completely. The other test area was not cleaned at all.

A request for sanitary guidelines for vending machines was made to the county Health Department. The response received stated that they do not regulate or inspect food vending machines at this time, however they plan to evaluate this issue this summer for future licensure.

We noted the following observations that are not included in the Vorant Vending contract:

- The snack item machine in Building A had price inconsistencies between chip bag sizes. Larger or similar sized bags by weight cost less than smaller or similar sized bags. In our respective observation May 14th and 17th, 2007 we noticed a \$.30 difference between comparable products (eg. 1 oz bag of Ruffles and Dorito's) and a \$.30 greater price for a small quantity (eg. 1 oz bag of Ruffles and 2 oz bag of Fritos).
- The Hot Beverage machine located in Building A does not have the \$.40 price posted on the machine. Use by the Auditor's Office confirmed that \$.40 is correctly charged. The Hot Beverage machine located in Building C does have the \$.40 price posted.
- During our observation period, Vorant Vending did not maintain machines in a timely manner. We noted that three spots had stuck chip bags. It took several days before the machine was serviced and the problem resolved.
- Shortly after Vorant Vending restocked the cold food machine we noted 26 out of 72 spaces or 36.1% were not restocked. The snack machine was completely filled.

SODA POP MACHINE:

All machines observed on the Main Campus were very clean and had the contracted sale price and size clearly indicated. The soda pop machines are owned by Coca-Cola and contain their products only.

REVENUE:

Both vendors use the honor system to report revenues. The honor system is typical for the vending industry but the vendor usually keeps 100% of the profit. There are no written procedures or internal controls to verify commission earned is received and compliance with other contractual obligations.

Commission checks are received by the Executive Director of Human Resource Management and submitted to the Treasurer for deposit. A copy of the check and supporting documents are retained by the Executive Director. No accounting record is maintained by the Executive Director.

The Treasurer's Office deposited the revenues in a timely manner and bank account reconciliation to the county's finance system resulted in no discrepancies.

No records were discovered to determine the reason for removal of all public telephones from county buildings, thus eliminating the revenue.

Upon occasion, the Auditor's Office will receive from Building Management staff the coins taken from the feminine products machines. Auditor's Office staff promptly submits the coins to the Treasurer for counting and deposit. No other accounting for this revenue is maintained. The amounts are immaterial.

PETTY CASH:

A memo dated January 26, 2006 from the Executive Director of Human Resource Management to Treasurer's Office staff John Schmitz, Director of Financial Operations instructed the Treasurer's Office to establish a \$17.00 petty cash fund for each location totaling \$272.00, for 16 locations. The list of 16 locations provided by the Executive Director for this audit indicated that 3 locations do not participate.

We verbally confirmed the balance amount for 11 of the 16 petty cash fund locations totaling \$191.44. We did not verify the three "do not participate" locations and two locations did not respond.

We noted that one fund balance increased to \$22.00, one fund custodian did not know the opening balance and one fund balance decreased to \$15.00. The petty cash fund with the custodian not knowing the opening balance was counted by the auditor and totaled \$18.44. 10 of the 11 confirmed petty cash funds custodians responded that they keep a detailed log. Replenishment of the petty cash fund was made either through the vendor direct or withdrawal from the Employee Events Fund.

Written procedures for administering the petty cash fund do not exist. All petty cash funds confirmed were properly safeguarded and secured.

DISBURSEMENTS:

On February 07, 2007 promotional items were purchased by the Executive Director totaling \$7,366.25. These items are to be distributed at the employee recognition luncheon on July 10, 2007. The promotional items are properly safeguarded and secure.

RECOMMENDATIONS:


- Vendor remittances shall be sent directly to Treasurer's Office for deposit. Copy of deposit shall be distributed to the Executive Director of Human Resource Management and the Auditor's Office.
- Disbursement requests shall be made by Executive Director of Human Resource Management to the Auditor's Office for approval and forwarding to the Treasurer for issuance of the disbursement check.
- Building and Management shall appoint administrators of the vending machines to ensure the vendor is in compliance with the contract, including, cleanliness of

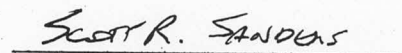
machines, items stocked, custodian of petty cash, and obtain sales receipts at time of service. The administrators shall provide the Auditor's Office with the sales receipts to confirm commission earned is received.

- Auditor's Office shall work with the Purchasing Department to ensure that critical contract compliance measures are included in the bid proposal.
- Purchasing Director shall negotiate with the vendor to fund the petty cash fund, so that all current petty cash funds can be returned to the Employee Events Fund.
- Human Services Committee shall seek a legal opinion from County counsel to determine if this fund is appropriate and falls within the guidelines and/or policies set forth for County business, to ensure the original dissolution of Committee is appropriate and to clarify the authority, duties and responsibilities of the Department of Human Resources with respect to this fund.
- Executive Director of Human Resources shall provide oversight of employee events and report all activities of the Fund to the Human Services Committee on a quarterly basis.

In accordance with KCC Sec. 2-192 (c) (2) "within thirty (30) days of receipt of the internal audit report, each county officer, agent or division shall submit a written response to the county auditor, outlining the action that has been taken in response to the recommendations made by the auditor."

Respectively Submitted,


William F. Keck, C.P.A.
County Auditor


Scott R. Sanders
Deputy Auditor

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