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**AUDIT OF MONETARY ASSETS HELD INDEPENDENT OF
TREASURER'S OFFICE COVERING FISCAL YEAR 2012
INTERIM REPORT
AUGUST 26, 2013**

AUDIT OBJECTIVES:

An internal audit of monetary assets held independent of the Kane County Treasurer's Office is being conducted covering fiscal year 2012. Audit objectives are: 1) identify all Kane County government deposit accounts held independent of the Kane County Treasurer's Office; 2) evaluate the financial and operational controls in place over these accounts; and 3) determine that these deposit accounts are appropriately accounted for on the financial records of Kane County.

BACKGROUND:

Important purposes of the Treasurer's Office of a county are to keep custody of monetary assets, to collect county revenues, to earn interest income as appropriate, and to disburse payments for valid claims made against county monetary assets. Internal controls are in place at the Kane County Treasurer's Office to track transactions and bank balances, and to assure the safekeeping of county monies.

An important structural control is the separation of monetary asset custody from the various Offices and Departments. In a perfect world, designed by auditors and accountants, each office and department utilizes the Treasurer's Office to hold its monetary assets. Each office and department makes disbursement decisions and initiates entries into the finance system. All revenues are collected by the Treasurer and are deposited to the credit of the appropriate areas and programs. The Finance Department provides reporting to all stakeholders directly, and/or through selected access to finance system information.

It is to the advantage of citizens and taxpayers to maximize the bank accounts and balances under the control of the Treasurer. To the extent that accounts and balances are not in the custody of the county Treasurer, the Auditor's Office seeks assurance that internal controls over these accounts and balances are adequate.

GENERAL EXPOSITION:

Audit is examining approximately 50 deposit accounts and 14 petty cash accounts. The deposit accounts are held in ten different banks. For each deposit account we requested bank statements and reconciliations and lists of transactions. We interviewed the staff responsible for each account. We asked about the purpose of the accounts, the sources for deposits, guidelines for withdrawals, who administers and oversees each account, and recordkeeping procedures. We obtained permission from account signers to obtain information directly from the banks. This will be used to gather account documentation and to verify account signers.

FINDINGS and RECOMMENDATIONS:

Finding #1:

For many of the subject accounts the documentation forms supplied by the banks were for corporations or voluntary associations. The forms call for the Secretary of the organization's Board to attest that the Board of Directors approves the opening of a deposit account and the conduct of organization business using this account and other bank services. The signature cards are a part of this form and particular individuals are authorized to sign checks, make transfers, and receive account information on a continuing basis.

In some cases reviewed so far, there was no Board of Directors authorization, and the Secretary role was assumed by a department staff member. In section 7k of the Kane County Financial Policies, it is stated, "Only the Kane County Treasurer is authorized to establish financial accounts for the office of Kane County Treasurer. All other offices must seek approval of the County Board, unless otherwise prescribed by law." Given that our elected officials each have an Internal Control statute that allows them to independently administer their offices, and that it can be said that all county departments report directly or indirectly to an elected official, it would appear that all the accounts subject to this audit are covered by the phrase "unless otherwise prescribed by law."

Recommendation #1:

The foregoing having been said, it is prudent business practice that there be an ongoing acknowledgement and authorization by our elected officials of the deposit accounts in use in their offices and departments that are held independent of the County Treasurer. To that end, Audit recommends that there be written authorization for each such account, approved by the appropriate elected official, and that specifies the bank, the particular account, and the signers on each account. For county departments, their elected official is the County Board Chairman. We would ask that a copy of this written authorization be forwarded to the Auditor's Office. Originals should be filed with the county Finance Director. The county Financial Policies should be updated to reflect this recommended practice. Account authorizations should be updated at least once per elected term, and whenever there is a change in the bank and/or signers on a particular account. Audit will draft a sample authorization and circulate it to the appropriate offices and departments for feedback. If necessary, we will ask for legal assistance from the State's Attorney Office.

Finding #2:

For many accounts there are no written procedures in place. Written procedures are an important control that helps assure the proper handling of transactions. For some accounts there is weak management oversight. Account activity and reconciliations are not reviewed by management. Such reviews provide strong assurance that transactions are being handled according to standards, and that such monetary assets are adequately safeguarded.

Recommendation #2a and 2b:

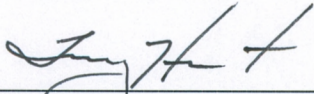
We recommend that written procedures be composed for each deposit account(2a). In many cases, the bank account is a tool associated with other activities that do have written procedures in place. If these procedures do not include instructions for bank account reconciliation, review and reporting, such procedures should be added.

We recommend that management oversee each account by reviewing the statement and reconciliation and transaction list(2b). This is made easier by banks today with digital copies of checks included in bank statements. This is important for all accounts, but especially for those with little activity. Having a second set of eyes on accounts is an effective internal control.

RESPONSES TO AUDIT REPORT

Since this is an Interim Audit Report, we ask that auditees hold off on preparing responses. No responses are required until we issue a Final Report.

Respectfully submitted,



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County Auditor



John F. X. Harahan
Deputy Auditor

Interim Report Issue Date: August 26, 2013

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- Mark Armstrong, Supervisor of Assessments
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- Hon. John Cunningham, KC Clerk
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cc: Hon. David Rickert, KC Treasurer
Joseph Onzick, Finance Director