

Audit Report Highlights

Fiscal Office- Bank Reconciliation

July 2024

General Ledger Book Balance (Cash Accounts)¹ = ~\$1.2 billion

County Annual Budget² = \$1.6 billion

Why DIA Did This Audit



An audit was conducted to assess the adequacy, completeness, and accuracy of the Fiscal bank reconciliation process. The audit was approved as part of the 2023 Audit Plan. The bank reconciliation process had been an area of higher risk due to the historic issues associated with the bank reconciliation. Including bank reconciliations not being performed timely and having an unreconciled difference between bank and book of approximately \$2.2 million. The audit period under review was January 1, 2023 through December 31, 2023.

What DIA Found

The County has made great progress in improving the bank reconciliation process. However, DIA did note internal control weaknesses or areas of potential process improvement related to:

- Stale dating of a significant amount of Accounts Payable and Payroll checks outstanding from prior years.
- Obtaining and retaining documentation of review performed for the consolidated bank reconciliation.

In addition, there were four known reconciling items carried forward month to month that related to old cash code discrepancies in the legacy accounting system. These were being researched by Fiscal and DIA will follow-up on these items until fully resolved. The County has reconciled the books since implementation of Lawson

Recommendations have been rated by priority: High, Moderate, Low, or Business Process Improvement.

The report contains 3 recommendations:

0 High – 30 days to complete

1 Moderate – 90 days to complete

2 Low – 180 days to complete

0 Process Improvements- No action required

¹ Based on recorded 2023 GL 292 Book Value from Lawson.

² The County Annual Budget includes operating appropriations from all County funds.

Audit Report Highlights

Fiscal Office-Bank Reconciliation

July 2024

Background

The Fiscal Office is responsible for preparing a bank reconciliation between the balance appearing on bank statements (Bank) and the balance on the County's book of records (Book). There were repeated audit findings relating to the timeliness and accuracy of the Fiscal Office bank reconciliation. These audit findings have since been cleared.

The Fiscal Office has now created written procedures for how to perform the bank reconciliation. The bank reconciliations are being performed on a monthly basis and in a timely manner after the close of the month. There are dedicated Fiscal Office staff that have been trained on how to perform the bank reconciliation. There are also templates in use to ensure consistency of the preparation process. The Fiscal Office also segregated the Cash reconciliation account. Reconciliations now occur for approximately 50 different cash codes, so reconciling items can be more easily identified.



What DIA Recommended

DIA provided Fiscal Office management with recommendations for improving internal controls. We provided these recommendations during fieldwork to lessen potential risks related to the bank reconciliation. Doing so during the course of fieldwork rather than at audit completion allows the department a chance to remedy identified issues immediately and have no surprises when the report is received.

The Fiscal Office is working to address the issues noted in this report. Based on their responses, we believe corrective action will be taken to mitigate the risks identified. Management responses follow each recommendation in the report. Recommendations we made for management included:

- Following procedures over outstanding checks. This includes regularly running reports of outstanding checks, conducting research, with the originating agency, cleaning up data as needed, and making any necessary adjusting entries to move monies to unclaimed funds..
- Obtain and retain documentation of review performed for consolidated bank reconciliation by someone that did not participate in preparing the bank reconciliation.

Internal Audit would like to express our appreciation for the cooperation and assistance received from the Fiscal Office during this audit. The strides made help improve the County's efficiency and accountability.

Internal Audit Report

**Bank Reconciliation Audit
Fiscal Office
January 1, 2023 – December 31, 2023**

**Director of Internal Auditing: Monica Houston*, CPA,
CGMA, CFE, CIDA**

Audit Manager: Joshua Ault, CIA

Sr. Internal Auditor: Jeremy Hejnal, CIA, CFE

Staff Auditor: Joe Balbier, Esq., CPA



**Term expired on 6/30/2024. Report was finalized and released by incoming Director Cory Swaisgood, CPA.*

Release Date 07/23/2024



**CUYAHOGA COUNTY
DEPARTMENT OF INTERNAL AUDITING**

**INTERNAL AUDIT REPORT
Fiscal-Bank Reconciliation
Cover Letter**

July 16, 2024

To: Fiscal Officer Mike Chambers and current management of the Fiscal Office,

The Department of Internal Auditing (DIA) has conducted an audit of the Fiscal bank reconciliation for the period January 1, 2023 to December 31, 2023. Our main objective was to assess the adequacy, completeness, and accuracy of the bank reconciliation process. This included processes related to preparation, performance, and review of the bank reconciliation.

To accomplish our objectives DIA conducted interviews with management regarding procedures that the Fiscal Office utilizes for bank reconciliations. DIA reviewed the adequacy of procedures relating to the performance and review of bank reconciliations. DIA also assessed the adequacy of spreadsheet controls utilized on the bank reconciliation. A test of transactions was performed to assess the completeness and accuracy of the bank reconciliation.

Our audit procedures disclosed internal control weaknesses and/or areas of potential process improvement related to:

- Management of Accounts Payable and Payroll checks outstanding for over one year.
- Documented review of consolidated bank reconciliation.

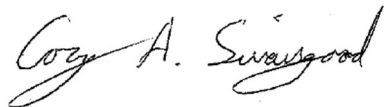
We are confident corrective action has been taken or will be taken to mitigate the risks identified in this audit report.

We conducted this audit in accordance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projection of any current evaluation of the internal control structure to future periods is subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may weaken.

DIA would like to express our appreciation to Fiscal Office staff and management, most notably Special Projects, for their courtesy and cooperation during this audit. A draft report was provided to Fiscal Office management for review. Management responses are included within the audit report.

Respectfully,

A handwritten signature in black ink that reads "Cory A. Swaisgood". The signature is written in a cursive, flowing style.

Cory A. Swaisgood, CPA
Director of Internal Auditing

Cc: Cuyahoga County Council
Erik Janas, Chief of Staff
Katie Gallagher, Chief of Operations and Innovation
Richard D. Manoloff, Law Director
Michael C. O'Malley, Cuyahoga County Prosecutor

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Glossary

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|------------------------------------|--|
| Cash Code | A 4-digit alphanumeric code that represents an individual bank account and related County book account. Every bank account, or cash code, is reconciled monthly. |
| Consolidated Reconciliation | Summary of each individual cash code reconciliation. It consolidates and totals all individual accounts reconciling items for the month. |
| Reconciling Item | A transaction that represents a difference between the general ledger balance and the bank balance. |
| Lawson | County financial system that records revenues and expenditures |

Report Details

Purpose

The purpose of this audit was to conduct a comprehensive examination of the Fiscal bank reconciliation processes.

The Audit Committee approved DIA's 2022 audit plan to include an audit of the bank reconciliation process; however, process revisions were not finalized and ready for audit until December 2022 and thus it was carried forward to the 2023 audit plan. The bank reconciliation process was considered an area of higher risk due to the historic issues associated with the bank reconciliation, including bank reconciliations not being performed timely and having an unreconciled difference between the bank balance and book balance of approximately \$2.2 million.

The audit included review and evaluation of procedures, practices and controls as deemed necessary.

Audit Objectives

The objective of this audit was to assess the adequacy, completeness, and accuracy of the bank reconciliation process.

Scope

To accomplish our objectives, we focused on processes related to the preparation, performance, and review of the bank reconciliation process for the audit period January 1, 2023 – December 31, 2023. Additionally, tests of transactions and controls were performed to determine if controls were operating effectively.

Methodology

DIA made inquiries to gain a general understanding of the processes and controls in place for the bank reconciliation.

DIA reviewed the design and controls associated with the spreadsheets utilized by the Fiscal Office to perform the bank reconciliation. DIA also reviewed the policies and procedures that are in place for the bank reconciliation.

DIA reviewed each account used in the bank reconciliation for a sample of months to determine whether:

- Written policies and procedures were followed,
- Reconciliations were accurate,
- Reconciliations were being performed in a timely and complete manner, and
- Reconciliations were noted as reviewed/approved.

DIA tested the reasonableness of noted reconciling items for the sampled months. Reasonableness included if the transaction was for legitimate County business and how long the item remained a reconciling item. Further inquiry and review occurred for reconciling items that did not reconcile after one month. Inquiry was made as to when reconciliation occurred, the reason for the time needed to reconcile, and supporting documentation for the reconciling item. DIA also reviewed outstanding checks that were outstanding for over one year and verified transactions noted as outstanding checks on sampled monthly bank reconciliations were legitimate checks.

Audit Procedures

Although every audit conducted by the DIA is unique, the audit process for most engagements consists of the following three phases:

- Planning
- Fieldwork
- Reporting

The planning phase of an engagement entails gathering sufficient understanding of the area being audited to identify and reduce key audit risks to an appropriate level. The DIA must document and develop a plan for each audit engagement, including the engagement's objectives, scope, timing, and resource allocation.

The fieldwork phase of an engagement entails executing the audit steps. This usually includes testing, reviewing, and analyzing data along with interviewing the appropriate personnel. Each audit has unique aspects and therefore the audit fieldwork and analysis performed on each audit segment should be customized for that assignment. See Methodology for a summary of fieldwork performed.

The DIA prepares written reports to communicate the results of each engagement. The format and nature of the report can vary depending on user needs and the type of engagement. Additionally, the DIA requires all engagements to receive an appropriate level of supervisory review and quality control as required by professional standards. At the time of report release, DIA resources required to complete the audit were as follows:

| Stages | Actual Hours |
|---------------|--------------|
| Planning | 268 |
| Fieldwork | 388 |
| Reporting: | 72 |
| Totals | 728 |

Background

A bank reconciliation is a necessary step in internal control over financial reporting to determine the accuracy of both the balance of the bank and the balance of cash, cash equivalents, and investments in the accounting records. As part of the bank reconciliation, all differences between the balance per the bank statements and the balance of cash per the County’s book of records should be accounted for.



There had been repeated audit findings noted in the annual Financial Statement Audit of Cuyahoga County including an unreconciled bank to book balance of approximately \$2.2 million. The County wrote off the approximately \$2.2 million unreconciled balance in August 2022 following the conversion from the County’s legacy system, FAMIS, to the new financial system, Lawson. The recurring audit finding was noted as corrected in the 2022 annual Financial Statement Audit. There

was no unidentified reconciling items between the bank and book at the time of this audit. The County has reconciled the books since implementation of Lawson. However, the Fiscal Office identified cash and general ledger differences from the FAMIS system that are being cleaned up. This created recurring reconciling items that

will be adjusted from legacy system (FAMIS) cash codes to Lawson cash codes. Fiscal believes these adjustments are part of the \$2.2 million write-off and will continue to research these adjustments, separately. As of May 2024, the adjustments total \$1.2 million which would reduce the \$2.2 million write-off to approximately \$1 million. DIA will continue to follow up on these items until fully completed.

The bank reconciliation is being performed by staff from the Fiscal Office, mostly from Special Projects and Financial Reporting. Individual reconciliations are performed monthly for each County bank account. The individual reconciliations are then combined into a consolidated bank reconciliation.

The following table illustrates the approximate totals noted for the 12/31/23 bank reconciliation:

| Bank Balance | Book Balance | Bank Less Book | Outstanding Checks | # Reconciling Items* | \$ Reconciling Items |
|-----------------|-----------------|----------------|--------------------|----------------------|----------------------|
| \$1,296,065,061 | \$1,284,666,371 | \$11,398,689 | \$15,330,041 | 127 | \$3,931,351 |

* Out of 127 reconciling items, 123 reconciling items are timing differences specific to outstanding checks, deposits in transit, and recording errors corrected in the following month(s). There are 4 separate known reconciling items the County carries forward from month to month that relate to old cash code discrepancies in the legacy system, FAMIS. These are being researched by Fiscal and will be part of DIA’s issue tracker remediation monitoring.

Commendable Practices

We commend and thank the Fiscal Office for their cooperation during the audit. DIA especially thanks the Special Projects employees for their time and effort. Based upon the results of our audit, we believe Fiscal bank reconciliation processes are well managed. Specific commendable practices that DIA noted during the audit include:

- The Fiscal Office has split monies into separate accounts (cash codes) to make reconciliations easier to perform by being able to isolate discrepancies.
- Bank reconciliations were being completed monthly in a timely fashion.
- The bank reconciliation process is documented within procedures including how to perform the reconciliations and how to review them.
- There were adequate spreadsheet controls utilized for the bank reconciliation.

Priority Level Criteria for Recommendations

| | |
|--|--|
| High (P1) | Highest-Ranking Officer's immediate attention is required. Corrective action is strongly recommended (<u>30 days</u>). |
| | <ul style="list-style-type: none"> • Financially material loss or potential loss • Lack of or failure of internal controls requiring considerable time and resources to correct • Non-compliance with laws, regulations, and policies resulting in significant loss of funds, fines, or restrictions • Significantly negative effect on the County's reputation or public perception |
| | Senior Management's attention is required. Corrective action is recommended (<u>90 days</u>). |
| | <ul style="list-style-type: none"> • Financial loss or potential loss • Internal controls exist but they are not effective, or they are not consistently applied • Non-compliance with laws, regulations, and policies resulting in loss of funds, fines, or restrictions • Negative effect on the County's reputation or public perception |
| Low (P3) | Management's attention is required. Corrective action is recommended (<u>180 days</u>). |
| | <ul style="list-style-type: none"> • Financial loss or potential loss is minimal • Internal controls exist, but could be improved • Non-compliance with laws, regulations, and policies is a minimal risk • No effect on the County's reputation or public perception |
| Business Process Improvement (P4) | Management or supervisory attention recommended but not required |
| | <ul style="list-style-type: none"> • Process improvement recommendation • Financial loss or potential loss is minimal or not applicable • Non-compliance with laws, regulations, and policies is a minimal risk or not applicable • No effect on County's reputation or public perception |

In an effort to assist the auditee in making the best use of their resources, we have prioritized the recommendations according to the table above.

Findings and Recommendations

Fiscal-Bank Reconciliation Findings

FINDING Outstanding Checks in Excess of One Year

Outstanding checks from prior years that could be classified as stale dated were noted in the year end 2023 bank reconciliation. DIA further noted that some of the checks outstanding may meet the criteria for unclaimed funds.

The following tables show the number of outstanding checks, over one year old, noted at year end for the Payroll and Accounts Payable controlled disbursement accounts:

CDA Payroll

| Year | \$ Value Outstanding Checks | Number Outstanding Checks |
|--------------|-----------------------------|---------------------------|
| 2018 | \$ 30,075.48 | 66 |
| 2019 | \$ 47,494.92 | 63 |
| 2020 | \$ 79,572.73 | 76 |
| 2021 | \$ 59,815.29 | 54 |
| 2022 | \$ 85,178.59 | 253 |
| Total | \$ 302,137.01 | 512 |

CDA- Accounts Payable

| Year | \$ Value Outstanding Checks | Number Outstanding Checks |
|--------------|-----------------------------|---------------------------|
| 2021 | \$ 628,065.16 | 1556 |
| 2022 | \$ 814,267.24 | 2242 |
| Total | \$1,442,332.40 | 3798 |

The Fiscal Office is responsible for performing monthly bank reconciliations. This includes obtaining a listing of and monitoring outstanding checks, as they have already been recorded on the books as a cash disbursement. A check is considered stale if it's at least 180 days old, or six months. The Uniform Commercial Code (UCC) states that banks aren't required to accept checks that are older than 180 days. The identification and appropriate handling of stale dated checks is critical to maintaining accurate financial records. Additionally, the Government Finance Officers Association (GFOA) Best Practice, "Payments Made by Officers" directs governments to timely reconcile check payments. Keeping the number of outstanding checks to a minimum is an important control to reduce the risk of inaccurate account balances or fraud.

The Fiscal Office has written procedures relating to outstanding checks which include steps to run reports for stale dated checks (outstanding for over 180 days) monthly, notify the originating

agency, and moving money to unclaimed funds. This is also to be done for unclaimed wages older than five years.

The Fiscal Office follows Ohio Revised Code (ORC) 9.39 for all County issued checks that are not claimed. ORC 9.39 states in part:

“All money received or collected by a public official under color of office and not otherwise paid out according to law shall be paid into the treasury of the public office with which the public official is connected to the credit of a trust fund and shall be retained there until claimed by its lawful owner. If not claimed within a period of five years, the money shall revert to the general fund of the public office.”

The Fiscal Office has written procedures for identifying and moving funds to unclaimed funds. The Fiscal Office made some efforts to identify and address outstanding checks historically and during the audit period. However, this was not consistently performed on a regular basis for all checks outstanding for over six months.

Risk to the County if Not Corrected

Without following written policies and the consistent practice of stale dating and removing older outstanding checks, the number of checks needed to be tracked and monitored will continue to increase. Also, the longer that checks remain outstanding, the greater the risk that errors may occur and negatively impact the accuracy of County financial statements. Further, failure to regularly monitor and take action on outstanding checks may result in non-compliance with Ohio law regarding unclaimed funds.

Recommendations

1. (P2) The Fiscal Office should follow their written policy over outstanding Accounts Payable and Payroll checks. This includes regularly running reports of outstanding checks, conducting any needed research with the originating agency as to the reason for the check being outstanding, possible cleanup of data, and making needed adjusting entries to transfer funds to unclaimed funds.

Management's Response:

The Accounts Payable and Payroll Managers will regularly run reports of outstanding checks and their teams will perform research to determine if the checks should be reissued, voided, and/or moved to unclaimed funds.

The outstanding check research/follow-up and will occur no less than twice a year, at mid-year and at year end.

Target Date of Completion: The mid-year research for checks issued in 2023 will begin in July 2024. For the checks issued prior to 2023, the Special Projects team will continue to assist the Accounts Payable and Payroll team with researching and following up with agencies to determine the required action to clear the checks from the outstanding check list.

FINDING Lack of Documented Review of Consolidated Bank Reconciliation

The consolidated bank reconciliation is not formally signed off on or acknowledged as reviewed by an appropriate party that is not preparing the consolidated reconciliation.

The consolidated bank reconciliation is a summary of all the individual bank reconciliations that are performed for each cash code and presents the bank reconciliation in its entirety. The consolidated bank reconciliation is either compiled by the Fiscal Office Special Projects Manager or a Fiscal Office Accountant 3. It is then sent to the Assistant Fiscal Officer, who will review the bank reconciliation. However, this review is not formally documented or acknowledged.

DIA did not note any issues regarding the consolidated reconciliation during testing.

The Government Finance Officers Association Best Practice, "Internal Control Environment," provides that governments should establish departmental and individual workflow approvals that will enhance internal controls. Having a documented acknowledgement of review performed is a good business practice to ensure that a review has taken place, and it was performed by someone who was not involved in preparing the bank reconciliation.

Fiscal Office Policies and Procedures note review procedures for the individual cash code bank reconciliations. However, there are no written procedures that address review of the consolidated reconciliation by someone that does not work on the bank reconciliation or documenting their review.

Risk to the County if Not Corrected

Without a documented acknowledgement of review by someone that did not prepare the consolidated bank reconciliation or a procedure for doing so, there is an increased risk of errors or irregularities going unnoticed. In addition, there may be questions as to who reviewed the bank reconciliation or at what level the review took place.

Recommendations

1. (P3) There should be a documented review of the consolidated reconciliation by someone that did not participate in preparation of the reconciliation.
2. (P3) The procedures for the review of the consolidated reconciliation should be stated in Fiscal's Policies and Procedures.

Management's Response:

The individual bank reconciliations including the consolidated reconciliation will be compiled/completed by the designated member of the Fiscal Services team. The Special Projects Manager will be responsible for the review and approval of the completed monthly reconciliations.

Once the review of the monthly bank reconciliation has been approved by the Special Projects Manager, the date of review/approval will be documented on a monthly reporting task list which will be kept in a central location on the shared drive.

Review and approval of the consolidated reconciliation will be incorporated within applicable policy and procedures.

Target Date of Completion: May 31, 2024