



County of Yolo

www.yolocounty.org

CHAD RINDE, CPA
Chief Financial Officer

TOM HAYNES
Interim Chief Financial Officer

DEPARTMENT OF FINANCIAL SERVICES

625 Court Street, Room 102

PO BOX 1268

WOODLAND, CA 95776

PHONE: (530) 666-8190

FAX: (530) 666-8215

DFS @ yolocounty.org

- *Financial Strategy Leadership*
- *Budget & Financial Planning*
- *Treasury & Finance*
- *Tax & Revenue Collection*

- *Financial Systems Oversight*
- *Accounting & Financial Reporting*
- *Internal Audit*
- *Procurement*

Transmittal Letter

March 1, 2023

Sou Xiong, Accounting Manager
Department of Financial Services
Treasury & Revenue Division
Yolo County
625 Court Street, Room 102
Woodland, CA 95695

Re: Internal Control Cash Audit for the Department of Financial Services – Revenue Unit

Dear Mr. Xiong:

The Division of Internal Audit performed an internal control cash audit of the Department of Financial Services (DFS) – Revenue Unit for the period of October 1, 2021 to September 30, 2022 to determine whether adequate internal control exists to provide reasonable assurance to county management that there is an acceptable level of operational accountability over cash.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain sufficient, reliable, relevant and useful information to provide reasonable assurance that our objective as described above is achieved. An internal audit includes the systematic analysis of information to evaluate and improve the effectiveness of internal controls. We believe this audit provides a reasonable basis for our conclusion.

Internal controls are processes designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial and non-financial information. Management is responsible for establishing and maintaining adequate internal controls. Our responsibility is to evaluate the internal controls.

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to cash handling, system access, and documentation of procedures.

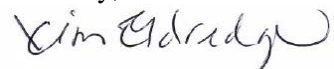
As required, in accordance with auditing standards and the County Audit Follow-up Policy, county management has responded to each finding and recommendation contained in our report. We will follow-up to verify that management implemented the corrective actions.

Yolo County Division of Internal Audit
Transmittal Letter

In regard to auditor's independence, the Internal Audit Division reports administratively to the Chief Financial Officer, but functionally to the Board of Supervisors.

We thank the Revenue Unit management and staff for their cooperation; their assistance contributed significantly to the successful completion of this audit.

Sincerely,



Kim Eldredge, CGAP
Audit Manager

Distribution

Chad Rinde, Chief Financial Officer
Gerardo Pinedo, Yolo County Administrator
Lee Gerney, Chief Technology Officer
Yolo County Audit Subcommittee
Internal Audit Website
Audit File Project No. 2023-30

Yolo County Division of Internal Audit
Table of Contents

Internal Control Cash Audit – Revenue Unit
Audit No: 2023-30

For the Period: October 1, 2021 to September 30, 2022

Transmittal Letter.....	1
Detailed Findings and Recommendations.....	4
I. Revolving Cash Fund Accounts.....	5
II. Cash Receipts.....	6
<i>Finding #1: Segregation of duties.....</i>	<i>6</i>
<i>Finding #2: Daily reconciliation of payments over the counter.....</i>	<i>7</i>
<i>Finding #3: Control log for payments received in the mail.....</i>	<i>8</i>
<i>Finding #4: Cash overages and shortages.....</i>	<i>9</i>
III. System Controls.....	10
<i>Finding #5: Access to the Megabyte and RevQ systems.....</i>	<i>10</i>
IV. County Policy and Procedures.....	12
<i>Finding #6: Written procedures.....</i>	<i>12</i>
V. Priority Ranking Definitions.....	13

Yolo County Division of Internal Audit
Internal Auditor's Report

Detailed Findings and Recommendations

Background

The Revenue Unit is within the Department of Financial Services Tax & Revenue division. The Revenue Unit is responsible for collecting countywide revenues and serves as the centralized collection service providing professional resolution of debts owed to the County of Yolo for payments from various sources such as property tax, transient occupancy tax, cannabis tax, court fines and fees, victim restitution, and other obligations.

Property tax is the largest source of local revenues for the county, its cities, special districts, and school districts. The Revenue Unit bills and collects the taxes and reports the amounts collected to the Chief Financial Officer who then allocates and distributes (apportions) the tax collections to the appropriate jurisdictions in the county. The Revenue Unit also takes all actions afforded by law to collect property taxes from the property owners.

As the collection specialist for Yolo County, the Revenue Unit provides professional and specialized collection services, including:

- Billing, cashing and general collection
- Assessing ability to pay and collectability of debts
- Obtaining and enforcing judgments on delinquent accounts
- Processing accounts to the county auditor for discharge of accountability
- Consulting with county departments and other county agencies on ways to improve collections
- Maintaining accountability for debts owed the county

The Revenue Unit also provides guidance through the cannabis taxation process and collects quarterly cannabis tax returns and tax payments from cannabis businesses located in Yolo County unincorporated areas.

Our review tested the Revenue Unit's cash operations to determine that controls are operating in accordance with the Yolo County Cash Accounting Manual, Government Code, and best practice.

Objective, Scope, and Methodology:

The objective of the review was to determine whether adequate internal control exists to provide reasonable assurance to county management that there is an acceptable level of operational accountability over the handling of cash within the Revenue Unit. Operational accountability is achieved when the cash operations operate effectively and efficiently, transactions are executed in accordance with laws, regulations and board policies and reliable information is generated and reported.

The scope of our audit included the review of the revolving cash fund for the period of October 1, 2021 to September 30, 2022. This report does not include a full system review of the Megabyte System (property tax system) and RevQ (collections system).

Yolo County Division of Internal Audit
Internal Auditor's Report

I. Revolving Cash Fund Accounts

Revolving funds are established by the Department of Financial Services for specific operational needs to facilitate certain expenditure and cash transactions throughout the county departments. The most common types of revolving funds are change funds, petty cash funds and special purpose funds.

The Revenue Unit has an authorized revolving cash fund totaling \$900 to be used as change fund to make change for property tax payments, cannabis payments, restitution payments and franchise fees. The change fund is broken into four (4) sub-funds of \$200 and an additional fund in the amount of \$100.

Audit Objective/Methodology

To determine whether the revolving fund accounts agreed to the authorized accountable balance.

To accomplish our objective, the auditors reviewed cash on-hand and agreed to the authorized accountable revolving cash fund balance on file with the Department of Financial Services

Based on the procedures performed, the change fund agreed to the accountable balance with the Department of Financial Services.

No exceptions noted.

Yolo County Division of Internal Audit
Internal Auditor's Report

II. Cash Receipts

Cash refers to U.S. currency and coins, checks drawn on U.S. banks and written in U.S. dollar values including travelers, cashiers, and certified checks, money orders, credit card sales drafts, Automated Clearing House (ACH) payments, and wire transfers. All of these forms of payment are acceptable by the county. The Chief Financial Officer must grant approval to a department to collect cash on behalf of the county. Departments must follow general cash receipt procedures and recording of transactions in handling of all cash receipts as stated below:

- A cash receipt must be provided for all cash transactions received over the counter.
- Cash collections shall be summarized daily on a cash receipt journal showing date received, amount received, and revenue or other accounts to be credited.
- Cash receipts must be deposited in the County Treasury or other authorized depository bank daily or when the amount on-hand exceeds a safe and reasonable threshold but no less frequently than weekly.
- A deposit transmittal form must accompany all cash receipts.
- Cash receipts that are transported from branch locations to headquarters for deposit must be maintained using a transmittal log or slip.
- Cash overages shall not be netted against cash shortages. Overages shall be deposited into the general ledger account and any shortages be listed on a log showing all relevant information including the date, amount, cashier, and an explanation for the shortage.
- Recording cash receipt transactions (cash register transactions, mail receipts, and credit cards) must be maintained and reconciled to the deposit.

The Revenue Unit has three (3) cash drawers at the public counter that are assigned to each cashier. Each cashier reconciles their own collections and transfers the reconciliation sheets to another cashier for the processing of the deposit. The Revenue Unit also uses lockbox services through the RT Lawrence Corporation for the processing of tax payments. The corporation also provides an electronic check processing software (RTL system) that is used for remote check processing. The cashiers scan and remotely deposit check payments to the bank.

Audit Objective/Methodology:

To determine that handling of cash receipts comply with county policy, funds are adequately safeguarded, and there is a separation of duties among employees handling and reconciling cash.

To accomplish our objective, the following procedures were performed:

- Reviewed the internal control questionnaire prepared by the department and evaluated that the internal controls were adequate
- Observed that the funds were properly safeguarded
- Reviewed any pending deposit records and agreed to the general ledger

Finding #1: Segregation of duties

Segregation of duties is “key duties and responsibilities that need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.”

To minimize the potential for mistakes in cash operations and/or misappropriation of cash, cash duties should be segregated among different individuals so that in all instances one person (preferably a supervisor) will check the work performed by another.

Yolo County Division of Internal Audit
Internal Auditor's Report

The auditors found that duties were not properly segregated at the Revenue Unit as stated below:

- Cash collections are reconciled by each cashier at the end of the day and not reviewed by an employee independent of the receipting function.
- One employee compiles all of the daily reconciliation sheets and prepares the deposit. The same employee is also an assigned cashier at the public counter, records payments into the Megabyte and RevQ systems and adjusts for the payments.

Duties that involve one person with control of all aspects of a transaction may cause errors to go unnoticed and provide an opportunity for misappropriation of funds.

Recommendation 1:

We recommend that Revenue Unit review their procedures for handling payments at the public counter and ensure that an independent person verifies the daily reconciliation sheets and deposit permit prior to deposit with the county treasurer. In addition, that any adjustments for payment in the Megabyte and RevQ systems be approved by a supervisor. (Priority 1 Issue – 60 days required corrective action)

Management Response 1:

Currently, each cashier balance their respective drawers at the end of their shift. Daily collections from all cashiers are consolidated into one deposit that is entered into the County's financial system (Infor). The Infor deposits are reviewed and approved within the financial system by the Revenue Supervisor or Treasury & Revenue Manager prior to deposit with the County Treasury.

Megabyte and RevQ do not have delivered approval workflows to facilitate an approval process before a change and or adjustment is made. Certain adjustments such as penalty waivers are approved by the supervisor or manager prior to making adjustments in the respective systems.

The Revenue Unit will review procedures and incorporate processes that will include independent verification and sign off on daily reconciliations and adjustments made in Megabyte or RevQ. (Anticipated Date of Completion - April 30,2023)

Finding #2: Daily reconciliation of payments over the counter

In the case of change funds, if a receipting location has more than one cashier, the change fund shall be broken down into sub-funds and each sub-fund assigned to a cashier in order to establish accountability. Funds shall be secured in separate bags or lock-boxes. Cash funds shall never be commingled and monies from one fund shall not be loaned to or used by another fund. Cashiers shall reconcile cash on-hand to the receipts and the accountable balance of the fund daily. The reconciliation shall be reviewed by an employee independent of the receipting function.

The auditors reviewed the cash on-hand at the Revenue Unit on November 16, 2022 and agreed the pending deposit records to the general ledger. The following was noted:

- End of day closeout sheets completed by each cashier do not include the starting drawer balance and adjustments made in the Megabyte and RevQ systems. In addition, the sheets are not signed by the preparer or a reviewer.
- The change fund is kept separately in a locked cash bag during the day and not placed in the cash drawer to facilitate the cash tendering process.
- Cash collections (currency & coins) are placed into a cash bag by each cashier at the end of the day and sent unopened to the county's treasury without an independent verification of the deposit amount.
- Overall collections are not summarized onto a deposit permit reconciliation sheet that includes the

Yolo County Division of Internal Audit
Internal Auditor's Report

amount collected by each cashier, register summaries from the Megabyte and RevQ systems, check batches received through the lockbox, adjusting entries, account coding information, and preparer/reviewer signatures.

Not properly reconciling cash collections may result in cash differences not identified on a timely basis and the loss of control to determine if payments were deposited into the county treasury.

Recommendation 2:

We recommend that the Revenue Unit review the register summary reports from the Megabyte and RevQ system and make the necessary adjustments to the end of day close out sheets to ensure all transactions agree to the actual collections, remote deposits, and the cash on-hand. It is also recommended that the Revenue Unit develop a deposit permit reconciliation sheet to summarize the overall collections, adjustments, electronic payments, and account coding information. Furthermore, the end of day closeout sheet and deposit permit reconciliation sheet should be signed by the preparer and the reviewer. (Priority 1 Issue – 60 days required corrective action)

Management Response 2:

The Revenue unit will make improvements to the daily reconciliation worksheet to ensure all collections are accounted for and agrees to the Megabyte and RevQ generated reports. Daily reconciliations will be reviewed and signed by someone other than the person preparing the reconciliation. The reconciliation worksheet will be accompanied by the system generated reports and other appropriate supporting documentation such as receipts from the cash counting machine to provide a breakdown of currency by denomination (excluding coins). A supervisor or manager will perform surprise cash counts and document findings to ensure change funds are accounted for.

The Revenue Unit currently uses a deposit permit reconciliation sheet that summarizes collection for all cashiers, however, it's not current practice to include this sheet with the deposit as supporting documentation. Staff will refine the reconciliation sheet to capture all collections, adjustments, electronic payments, and account coding and will include the sheet as supporting documentation to the deposit permit moving forward. (Anticipated Date of Completion - April 30, 2023)

Finding #3: Control log for payments received in the mail

Payments received in the mail should be listed immediately on a mail log (showing the date, check number, payee's name, amount, and description of payment) or scanned and kept on file to establish a record. All checks shall be immediately endorsed. A copy of the log or scanned documents must be maintained by the department for audit purposes and should be reconciled to the deposit.

The Revenue Unit does not maintain a control log for payments received in the mail. Payments are processed by staff and recorded into the Megabyte or RevQ systems the same day or within two days. Not recording checks on a control log may result in checks being misplaced and or misappropriated without timely detection.

Recommendation 3:

We recommend that the Revenue Unit record checks received in the mail onto a control log. It is also recommended that the control log be maintained by an employee independent of the collection process and that the log be reconciled at least weekly to the deposits to ensure that all monies received in the mail have been deposited in the bank or county treasury. (Priority 1 Issue – 60 days required corrective action)

Management Response 3:

Mail tasks and responsibilities may be re-evaluated with the hiring of a new Office Support Specialist. Currently, mail collection in the Department of Financial Services is a shared task across multiple divisions including the Revenue Unit and a mail log is not utilized.

Yolo County Division of Internal Audit
Internal Auditor's Report

The Revenue Unit will log all checks received, whether retrieved directly from the mail carrier or from other divisions, and ensure that the staff logging the checks will not be the same to process the check. (Anticipated Date of Completion - April 30, 2023)

Finding #4: Cash overages and shortages

According to the Yolo County Cash Accounting Manual, cash overages and shortages shall be deposited into the general ledger's cash overage and shortage accounts. Shortages shall be listed on a log showing all relevant information including the date, amount, cashier, and an explanation for the shortage. The log shall be reviewed by the supervisor on a regular basis. Overages and shortages are reported on the annual report to the Department of Financial Services.

The Department of Financial Services reported a cash shortage of \$401 on the annual revolving fund report for fiscal year 2021-22. The amount included department cash shortages totaling \$1,266 for counterfeit payments and a fraudulent check that were netted with the overages for tax overpayments totaling \$865. The overages for tax overpayments are amounts less than \$20 that are accepted under the Revenue & Taxation Code 2611.5 and are not due to cash handling errors. These items are non-reportable items on the annual revolving fund report.

Not properly reporting cash overages and shortages may result in misinformation in the financial reports.

Recommendation 4:

We recommend that Revenue Unit consider updating the account coding for cash overages related to tax overpayments to ensure that the amounts are easily identified and not netted against cash handling shortages on the Department of Financial Services Annual Revolving Fund Report. (Priority 3 Issue – 180 days required corrective action)

Management Response 4:

Current fiscal year overpayments accepted under RTC 2611.5 have been re-classed to a separate general ledger account to comply with this recommendation. The change has been communicated with staff to ensure the proper general ledger account is used moving forward. (Anticipated Date of Completion - February 24, 2023)

Yolo County Division of Internal Audit
Internal Auditor's Report

III. System Controls

According to Best Practice and the COSO framework of strong systems of control, departments are responsible for using appropriate systems to record and maintain detail of their accounts, including account activity, history of payments made, and outstanding balances. All documentation and records should be properly managed, maintained, and readily available for examination.

The Revenue Unit uses Megabyte as the property tax system. Megabyte is a database and web-based application that supports the property tax function at the Assessor's branch and the Department of Financial Services. It allows departments and taxpayers to accurately, efficiently, and securely access relative county property tax information. The system has the capability of generating predetermined or ad-hoc queries (reports) in real time. The Megabyte system is the leading property tax system in California and used by 36 other counties.

The Revenue Unit is also responsible for collecting court ordered fees for county services, environmental fees, victim restitutions, and cannabis taxes. The Revenue Unit uses the RevQ system to manage their day-to-day operations. The RevQ system is owned by Finvi (formerly Ontario Systems), a premier provider of enterprise technologies that streamlines and accelerates revenue recovery for clients across healthcare, government, accounts receivable management, and financial institutions. The system interfaces with the Probation Department System (LawSuite) and the Public Defender Records Management System (PDRMS).

Audit Objective/Methodology

To review the system accounts associated with the cash handling process to ensure that Revenue Unit has adequate segregation of duties given the user's role and responsibilities.

To accomplish our objective, the following procedures were performed:

- Obtained a list of system administrators and users
- Compared the list of system administrators and users against the list of employees handling cash
- Obtained a general understanding of the user profile accounts

Finding #5: Access to the Megabyte and RevQ systems

Access controls provide reasonable assurance that access to computer resources (data, equipment, and facilities) is reasonable and restricted to authorized individuals, including effective, protection of information system boundaries, identification and authentication mechanisms, authorization controls, protection of sensitive system resources, audit and monitoring capability, including incident handling, and physical security controls.

The auditors obtained a list of system administrators and users from the Megabyte and RevQ systems. Access to the systems is not restricted to authorized users thus potentially posing a segregation of duties issue as stated below:

- Three employees with user access to the Megabyte and RevQ systems have the ability to record, modify, and delete transactions without supervisory approval.
- The Chief Financial Officer has administrative access to the Megabyte system but is not involved in cash handling process.

Improper user access rights and permissions may result in information that is added, deleted, or changed without approval or authorization.

Yolo County Division of Internal Audit
Internal Auditor's Report

Recommendation 5:

We recommend that the Revenue Unit review the list of system administrators and users for the Megabyte and RevQ systems to ensure that each access permission is assigned appropriately for the job being performed. Further, that the security and change control reports be available, actively monitored, logged, and reported accordingly. (Priority 1 Issue – 60 days required corrective action)

Management Response 5:

The Revenue Supervisor and Treasury & Revenue Manager will review both systems to ensure users are assigned the appropriate level of access to perform their job duties. A new process will be implemented where user access are reviewed annually at the beginning of each fiscal year. Annual reviews will be signed off by the supervisor or manager. (Anticipated Date of Completion - April 30, 2023)

Yolo County Division of Internal Audit
Internal Auditor's Report

IV. County Policy and Procedures

The Yolo County Cash Accounting Manual prescribes uniform accounting procedures for county departments pertaining to cash collections, cash revolving funds, other cash funds, cash equivalents and cash losses in accordance with generally accepted accounting principles, laws & regulations and county policies. County employees with cash handling functions are required to read the manual and become familiar with its contents. Individual departments may have more detailed procedures for each cash handling position.

Audit Objective/Methodology

To determine if procedures for cash handling confer with standards of internal control, best practice, and the Yolo County Cash Accounting Manual.

To accomplish our objective, the following procedures were performed:

- Reviewed the policy manuals and procedures for recommended essential components within a cash handling policy
- Verified that the cash handling processes are documented

Finding #6: Written procedures

The Revenue Unit uses the Yolo County Cash Accounting Manual as a guideline on how to handle, record and reconcile cash receipts. However, detailed procedures for processing payments in the Megabyte and RevQ systems, reconciling collections, and processing remote deposits are not available.

Not providing staff with the necessary steps to process a transaction may result in procedures not being followed as intended and may allow errors to go undetected.

Recommendation 6:

We recommend that the Revenue Unit develop step-by-step procedures to ensure compliance with county policy and recommended best practice:

- Handling payments received at the counter and through the mail
- Handling credit card payments
- Recording payments into the cash handling systems
- Reconciling and depositing daily collections

The procedures should be disseminated to all staff involved in the cash handling process. (Priority 3 Issue – 180 days required corrective action)

Management Response 6:

The Revenue Unit will develop step-by-step procedures and disseminate them to staff. (Anticipated Date of Completion - August 31, 2023)

Yolo County Division of Internal Audit
Internal Auditor's Report

V. Priority Ranking Definitions

Auditors use their professional judgment to assign rankings to recommendations using the criteria and definitions listed below. The purpose of the rankings is to highlight the relative importance of some recommendations over others based on the likelihood of adverse impacts if a corrective action is not taken and the seriousness of the adverse impact that may result. Adverse impacts are situations that have or could potentially undermine or hinder the following:

- a. The quality of services department provides to the community;
- b. The accuracy and completeness of county books, records, or report;
- c. The safeguarding of county asset;
- d. The county's compliance with pertinent rules, regulations, or laws;
- e. The achievement of critical programmatic objectives or program outcomes; and/or,
- f. The cost-effective and efficient use of resources.

Priority 1 Issues

Priority 1 issues are control weaknesses or compliance lapses that are significant enough to warrant immediate corrective action. Priority 1 recommendations may result from weaknesses in the design or absence of an essential procedure or control, or when personnel fail to adhere to the procedure or control. These may be reoccurring or one-time lapses. Issues in this category may be situations that create actual or potential hindrances to the department's ability to provide quality services to the community, and/or present significant financial, reputational, business, compliance, or safety exposures. Priority 1 recommendations require management's immediate attention and corrective action within 60 days of report issuance.

Priority 2 Issues

Priority 2 issues are control weaknesses or compliance lapses that are of a serious nature and warrant prompt corrective action. Priority 2 recommendations may result from weaknesses in the design or absence of an essential procedure or control, or when personnel fail to adhere to the procedure or control. These may be reoccurring or one-time lapses. Issues in this category, if not corrected, typically present increasing exposure to financial losses and missed business objectives. Priority 2 recommendations require management's prompt attention and corrective action within 120 days of report issuance.

Priority 3 Issues

Priority 3 issues are the more common and routine control weaknesses or compliance lapses that warrant timely corrective action. Priority 3 recommendations may result from weaknesses in the design or absence of a procedure or control, or when personnel fail to adhere to the procedure or control. The issues, while less serious than a higher-level category, are nevertheless important to the integrity of the department's operations and must be corrected or more serious exposures could result. Departments must implement Priority 3 recommendations within 180 days of report issuance.