Office of the County Auditor
Shelly A. Banks, C.P.A.
Cook County Auditor
69 West Washington, Suite 2200 ● Chicago, Illinois 60602 ● (312) 603-1500

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August 22, 2014

The Honorable Toni Preckwinkle, President
And Board of Cook County Commissioners
118 N. Clark Street, Room 537
Chicago, Illinois 60602

Dear President Preckwinkle and Board of Commissioners:

We have conducted a Cash Reconciliation Audit in accordance with the Cook County Auditor Ordinance.

Our objectives were designed to evaluate the internal controls over the bank reconciliation process in twenty five (25) departments.

Please refer to the following audit report for the results of the audit. The specific audit findings were provided to the relevant departments. An overview of the six (6) main findings, recommendations and management responses is provided in the Findings Section. The specific audit findings were provided to the relevant departments. The Executive Summary provides an overview of the audit with the main finding areas.

We express our appreciation for the assistance of all department staff extended to Damon Howell during the course of our audit. We have discussed our findings with all management staff and would be pleased to discuss our recommendations in greater detail in order to assist management with their implementation of our recommendations.

Respectfully Submitted,

Shelly Banks

Shelly A. Banks, CPA
Cook County Auditor

cc: Ivan Samstein, Chief Financial Officer
Lawrence Wilson, Comptroller

COOK COUNTY GOVERNMENT

OFFICE OF THE COUNTY AUDITOR

Cash Reconciliation Project

Internal Audit Report

Report Date: August 2014

Issued By:
Shelly A. Banks, County Auditor

Audit Conducted By:
Damon Howell, Field Auditor V
William Carroll, Audit Supervisor

EXECUTIVE SUMMARY

We have completed a review of the bank reconciliation process in twenty five (25) departments for the period ended November 30, 2013. Our review was comprised of departments under the Office of the President as well as departments under various Elected Officials.

The scope and objectives of our review were designed to evaluate the internal controls over the bank reconciliation process in the twenty five (25) departments sampled.

The results of our review indicated internal control weaknesses in the bank reconciliation process in ten (10) of the departments reviewed. Some of the weaknesses noted included:

- Accounts not in compliance with the Cook County Taxpayer Interest Assurance Ordinance.
- No evidence of management's review and approval of the completed bank reconciliations.
- Authorized signatories on certain accounts could not be verified.
- No written policies and procedures documenting the bank reconciliation process.
- Lack of segregation of duties over several key processes within certain departments.
- Bank reconciliations not completed correctly.

All internal control weaknesses noted were communicated to the management of the respective departments. Written responses to the recommendations were received from each department with their corrective action plans and estimated completion dates.

BACKGROUND

Cook County maintains bank accounts at the departmental level for both Offices under the President as well as Elected Officials. These bank accounts are used in connection with the collection of fees and the holding of funds in a fiduciary capacity. Management of each department is responsible for developing their own policies and procedures and establishing and maintaining a system of internal control to protect the County's assets. A system of internal controls should be designed to preventive a misappropriation of funds from occurring and going undetected.

AUDIT SCOPE AND OBJECTIVES

Our objectives were designed to evaluate the internal controls over the bank reconciliation process in twenty five departments. Our objectives included determining that:

- Written policies and procedures for the bank reconciliation process have been developed.
- Proper segregation of duties exists over the bank reconciliation process
- Bank reconciliations are performed and completed on a timely basis.
- Completed bank reconciliations are reviewed and approved by management and all reconciling items are supported.
- Fiduciary funds are supported and reconciled to subsidiary accounts.
- Subsidiary account reconciliations are completed on a timely basis, are reviewed and approved by management and all reconciling items are supported.
- Authorized signers on the bank accounts are current.
- The Cook County Taxpayer Interest Assurance Ordinance requirements are being complied with.

FINDINGS SUMMARY

The results of our review indicated internal controls weaknesses in the bank reconciliation process in ten (10) of the departments reviewed. An overview of the main findings, recommendations and management responses is provided in this Section. The Office of County Auditor will continue to work with the individual departments/offices until all the proper internal controls are implemented.

Finding #1

Our review of the sampled bank statements revealed that the daily balance was in excess of the Federal Deposit Insurance Corporation (FDIC) limit. Per the Cook County Taxpayer Interest Assurance Ordinance, departments must obtain collateralization of 102% for deposited funds that exceed the FDIC limit. We were not provided any evidence that certain departments had secured additional pledged collateral for the amount above the FDIC limit.

Recommendation

We recommend that the department monitor its account balance on a daily basis. If the balance is constantly above the FDIC limit, we recommend increasing the frequency in which funds are disbursed from these accounts. The other option is the department should obtain adequate levels of pledged collateral to safeguard funds deposited in excess of the FDIC limit to ensure compliance with the Cook County Taxpayer Interest Assurance Ordinance.

Management Responses

Management of the departments involved agreed and will implement corrective action.

Finding #2

During our review of the bank reconciliation process, we were informed that the bank reconciliations are reviewed and approved by management; however, we did not see evidence that this process is being performed.

Recommendation

We recommend that management sign/initial and date the bank reconciliations upon completion of their review, which will provide verification of management's role in the internal control process over bank reconciliations. We also recommend that management question any reconciling items that are not supported to ensure that potential errors or misappropriations are discovered and resolved in a timely manner.

Management Responses

Management of the departments involved agreed and will implement corrective action.

Finding #3:

The authorized signatories on certain accounts could not be verified. A copy of the authorized signature card on file with the banks was requested from staff but was not provided.

Recommendation

We recommend that a copy of the current signature card on file with the bank accounts be maintained within the office file. Maintaining a copy of the current signature card that is on file with the bank will help ensure that the list of authorized signers is current to prevent individuals that are no longer authorized by the office from fraudulently signing on the account and to ensure the bank's list of authorized signers is in agreement with the personnel designated by the office as authorized signers.

Management Responses
Management of the departments involved agreed and will implement corrective action.

Finding #4:
There are no written policies and procedures documenting the bank reconciliation process for certain departments. Written policies and procedures are essential to maintaining a strong system of internal controls over the bank reconciliation process.

Recommendation
We recommend that written policies and procedures be developed that outline the bank reconciliation processes and responsibilities. The policies and procedures should be updated as necessary and provided to staff to inform of the controls and responsibilities.

Management Responses
Management of the departments involved agreed and will implement corrective action.

Finding #5
There is a lack of segregation of duties over several key processes within certain departments. Without proper segregation of duties, internal controls can be compromised and the possibility for undetected errors or misappropriations increases significantly.

Recommendation
We recommend that management segregate as many duties as possible in the cash receipt, cash disbursement and bank reconciliation process. If adequate segregation of duties cannot be achieved given current staffing levels, management must document this rationalization and closely monitor these functions to ensure that the internal controls are not being compromised.

Management Responses
Management of the departments involved agreed and will implement corrective action.

Finding #6
Bank reconciliations were not always completed accurately with the proper support for variances. Without a thorough reconciliation process, the risk of undetected errors and/or misappropriations increases.

Recommendation
We recommend a more comprehensive bank reconciliation process to verify all appropriate accounts. If any differences exist, the differences should be immediately investigated and resolved with proper support.

Management Responses
Management of the departments involved agreed and will implement corrective action.