

Secretary of State AUDIT REPORT

Report No. 2001-08 • February 26, 2001

Department of Justice— Division of Child Support: Receipting Unit Special Review



Bill Bradbury, Secretary of State
John Lattimer, Director, Audits Division

Summary

PURPOSE

The purpose of the audit was to evaluate the cash receipting practices of the Department of Justice, Division of Child Support Receipting Unit.

RESULTS IN BRIEF

The department's Receipting Unit should improve controls over cash receipting to better safeguard the assets in its custody.

RECOMMENDATIONS

We recommend that the Receipting Unit provide better security and accountability of cash receipts.

AGENCY RESPONSE

The Department of Justice generally agrees with the recommendations.

INTRODUCTION

In June 2000 the Secretary of State Audits Division received information through the Government Waste Hotline alleging cash receipting weaknesses at the Department of Justice, Division of Child Support, Receipting Unit (unit). The unit collects and distributes approximately \$225 million in child support payments annually on behalf of its clients. The majority of those payments are received in the form of checks mailed to the unit. As a result of the allegation, we conducted a limited review of the unit's cash receipting practices.

OBJECTIVES, SCOPE AND METHODOLOGY

We evaluated policies and procedures relating to cash receipting, interviewed various managers and employees involved in those processes and observed pertinent cash receipting operations.

AUDIT RESULTS

Department of Justice managers are responsible for ensuring appropriate policies and procedures are used.

The *Oregon Accounting Manual* provides basic guidance to state agencies regarding expected controls

to safeguard cash. This guidance directs agencies to physically secure cash, reconcile receipts to deposits, and separate cash receipting from cash recording functions. Additionally, the manual recommends that supervisors continuously review and approve the work of employees performing those tasks. Furthermore, it directs agencies to timely deposit cash receipts even if the proper disposition of receipts is uncertain.

During our review of the unit, we noted several internal control weaknesses relating to cash receipting and recording procedures, including the following:

- Checks were not adequately secured. The areas where unit employees opened and processed payments could be easily accessible to the public and to employees not performing those functions. Additionally, we observed that checks located in those areas were sometimes left unattended.
- Employees assigned to record transactions also had custody of, or easy access to, the associated checks. Furthermore, since unit managers assigned employees to cash receipting and recording duties on a rotating basis, employees could potentially perform both cash receipting and

cash recording functions for the same transactions.

- Unit records did not provide assurance that all cash receipts were properly recorded or deposited. Although employees reconciled receipt logs to system transaction totals, those reconciliations were incomplete because they did not track checks that were diverted for additional research or special handling. Additionally, the reconciliations were less effective because employees made adjustments to the logs and to transactions recorded without supervisory review or approval. Furthermore, some employees entered transactions using other employees' computer logins. As a result, in the event of a problem it would not be possible to verify who entered a given transaction.
- Cash receipting procedures did not support timely deposits of monies received by the unit. The unit generally has two or more days of undeposited cash receipts on hand. Although we performed our review two days after a holiday, the unit had an approximate three-day backlog of undeposited receipts.

As a result of these conditions, the risks are greater that cash receipts

could be lost or fraudulently diverted and go undetected.

RECOMMENDATIONS

We recommend that the division improve its cash receipting procedures by:

- Further limiting physical access to all areas where cash receipts are stored or processed. Access to these areas should be given only to employees assigned to handle cash and should be located to provide a low public profile.

Agency Response:

The division is in the process of implementing a plan to improve the physical security for cash receipting and recording functions.

- Ensuring that checks are not left unattended. At least two employees should be present when cash receipts are not secured in the safe.

Agency Response:

Trays of payments will be secured in a locked area if at least two employees are not present during work hours. Procedures will be modified to require employees to store batches in a locked drawer if they leave their desk for an extended period.

- Ensuring that employees recording transactions do not have access to cash. Work schedules and responsibilities should be arranged to minimize the opportunity for an employee to perform both cash receipting and recording functions for the same transactions.

Agency Response:

A plan has been developed to move the mail opening and batching functions of cash receipting to another unit. The employees will be located in the secured area designed for recording payments, but their duties will not include recording payments. Because we are currently hiring additional staff, we expect duties to be reassigned within 60 days. The deposit functions will be completed separate from the cash receipting and recording.

- Developing and implementing procedures to ensure all cash receipts are properly recorded and deposited. Those procedures should ensure that cash receipt logs track all checks received to allow for complete reconciliations. Furthermore, all changes made to logs or transactions should be independently reviewed and approved to ensure that corrections are appropriate.

Agency Response:

During the process of recording payments, some checks do not have sufficient information to process. In these cases, the checks must be researched, which is done by the leadworker or an employee from the accounting unit, depending on the situation. If the case cannot be identified quickly, the checks are removed from the batch to be researched. We are developing procedures to track these payments. This will include a log to track who took possession of the check and final disposition of the check. Employees have also been instructed on how to properly make corrections to logs and changes will be reviewed by a leadworker or manager.

- Depositing all cash receipts timely even if the proper disposition of the receipts is uncertain.

Agency Response:

As a long-term solution, the division intends to develop an imaging system which we expect to improve the time that it takes to deposit checks to consistently meet the two-day requirement. Until that system is implemented, we are increasing the number of employees that process payments. The additional employees are expected to be hired by the end of February. The imaging system will likely not be implemented for at least 12 months, since federal approval is needed before we can begin designing a system. The division also is working to expand our current EFT program to increase the number of large employers sending payments electronically.

- Ensuring employees do not allow others to use their computer login.

Agency Response:

The division currently is developing a plan to have additional computer log-ons for employees that temporarily work in the cash receipting area. Staff in the region that do not have the ability to disburse funds or do not handle cash receipts will be trained to record payments during peak periods. These employees will be given a temporary computer log-on, which will only allow them to record payments. We will maintain a log of employees that use these log-ons and access to these log-ons will be controlled by our Information System staff.

This report, which is a public record, is intended to promote the best possible management of public resources. Copies may be obtained by mail at Oregon Audits Division, Public Service Building, Salem, Oregon 97310, by phone at 503-986-2255 and 800-336-8218 (hotline), or internet at Audits.Hotline@state.or.us and <http://www.sos.state.or.us/audits/auditthp.htm>

AUDIT ADMINISTRATOR: Neal E. Weatherspoon, CPA, CISA • AUDIT STAFF: Kelly Olson, CPA • G. Robert Olson, CFE • Donna Ross

DEPUTY DIRECTOR: Sharron E. Walker, CPA, CFE

The courtesies and cooperation extended by the officials and staff of the Department of Justice were commendable and much appreciated.

Auditing to Protect the Public Interest and Improve Oregon Government