



Auditing for a Better Oregon

September 5, 2003

The Honorable Hardy Myers, Attorney General
Department of Justice
1162 Court St. NE
Salem, Oregon 97301-4096

Dear Mr. Myers:

We have completed our audit of cash controls at the Department of Justice (department) and issued our report No. 2003-33. Our audit was limited to the department's Administrative Services section and the Portland branch office. The following are issues that we believe warrant your attention, but were not significant enough to be included in our audit report.

- State policy requires that management maintain controls over petty cash and change funds.¹ Those controls include, but are not limited to, physically secured cash at all times, periodic unannounced cash counts by an independent employee, daily deposits of amounts received, and the custodian of the cash must not be authorized to approve cash payments from the fund.

The Portland branch office could improve controls over the petty cash and change fund. The office is not performing reconciliations of the petty cash or change fund, receipts are not always given for money received, cash is not always deposited the next business day and postage stamps are purchased without proper approval or a check, as required by state policy. Without proper controls in place, cash receipts might not be recorded properly and could be misappropriated.

We recommend that the department ensure compliance with state policy regarding controls over the petty cash and change funds.

- State policy states that control activities should include segregation of duties for authorization, recordkeeping, and custody of the related assets to reduce the opportunities for any individual to be in the position to both perpetrate and conceal errors or fraud in the normal course of duties.² During our review at the Portland branch office, we noted that one person with check signing authority also has physical access to blank check stock.

¹ *Oregon Accounting Manual (OAM)* 10.20.00

² OAM 10.10.00.PR.111

We recommend that the department establish adequate segregation of duties over blank check stock.

During the audit, we reviewed the status of prior year audit recommendations noted in our report No. 97-29, issued March 13, 1997. We reviewed only those issues that related to our current audit objectives. With the exception of the prior audit recommendations included in the enclosed prior audit follow up accompanying this letter, all prior recommendations have been implemented.

We appreciated the courtesies and cooperation extended by department staff during our audit.

Should you have any questions, feel free to contact Debbie Ferguson or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Kelly L. Olson, CPA
Audit Administrator

KLO:brk

c: Frank Peccia, Director of Administrative Services
Gary Weeks, Director, Department of Administrative Services

**Follow Up of Prior Audit Recommendations
Audit Report No. 97-29, Issued March 13, 1997**

RECORDING OF CASH RECEIPTS

Recommendation

Per state policy, cash receipts should be recorded as soon as they come within the department's control.³ It is important to make a record of all cash receipts immediately after receipt to aid in the detection of subsequent loss or theft. In the previous finding, staff opening the mail did not use cash receipts logs to record checks received. We recommended that the department ensure original cash receipt logs were used by all units that receive cash receipts.

Status

The department has partially resolved this finding. The department has implemented a cash receipts log to record all checks. We noted, however, that the Portland branch office is not recording the cash receipts immediately in the log.

We recommend that the department ensure that units receiving cash are following state policy and recording receipts as soon as they come within the department's control.

NEED FOR SEGREGATION OF DUTIES

Recommendation

In the Charitable Trust and Solicitation unit, the registrar for professional fund-raisers records checks in a cash receipts log, prepares a deposit slip and takes the deposit to the bank. This employee also sends copies of the validated deposit slip and checks to Administrative Services where the deposit is recorded in the accounting records. We recommended that the department reassign duties among existing staff to obtain maximum possible separation of accounting duties.

Status

This finding has been partially resolved. The registrar is no longer preparing the reconciliation for the related account, but all other duties related to cash receipts for the Charitable Trust and Solicitation unit are still being performed by the registrar. We therefore recommend that the department review our prior recommendation and fully implement proper controls.

CONTROLS OVER SAFE CONTENTS

Recommendation

Good business practice requires controls be in place to protect assets or sensitive materials from loss, misappropriation, and theft. Access and monitoring controls ensure that valuables and sensitive materials are protected and accounted for, and that disposition of some items, such as the deposits of checks, occurs in a timely manner. A listing was not maintained of the safe's contents, and no regular monitoring was performed. We recommended that the

³ OAM 10.20.00.PR.116

department maintain a log of items placed in and removed from the safe. The department should also perform regular inventories of the safe's contents and compare the contents to the log.

Status

This finding is partially resolved. The department has developed a policy requiring an inventory log of safe contents to be kept and reviewed regularly. The log, however, has not yet been created and no inventory has been taken.

We recommend that the department prepare an inventory log of safe contents and have an independent employee perform periodic inventories of safe contents and compare it to the log.

CLIENT TRUST ACCOUNT INTEREST

Recommendation

The department receives restitution due to others, often as the result of mediating disputes between consumers and businesses through the Financial Fraud unit. Restitution is deposited into a client trust cash account where it remains until distributed. The department has a fiduciary responsibility to maintain the account. Interest accrued on funds held in the client trust cash account had not recently been recorded in the accounting records. We recommended that the department record interest in the accounting records monthly.

Status

Although the department has taken corrective action and is now posting interest to the account in a timely manner, we noted that interest totaling \$32,135 had not been properly distributed. We recommend that the department ensure that interest is allocated as required by statute.

USE OF RECONCILIATIONS AS A CONTROL

Recommendation

Monthly cash reconciliations are essential to demonstrate the department's accountability for cash. Properly prepared cash reconciliations aid in the detection of errors and misappropriations. To be effective, cash reconciliations should be prepared timely and reviewed by management. Reconciliations were not being prepared timely or reviewed by management. We recommended that the department require accounting staff to prepare reconciliations timely and require all reconciliations be reviewed and initialed by supervisory personnel.

Status

This finding has been partially resolved. Though the department is preparing reconciliations for all cash accounts, we were unable to determine whether they were being prepared in a timely manner. Further, we noted that none of the reconciliations were reviewed by a supervisor.

We recommend that the department ensure that reconciliations are prepared timely and reviewed by supervisory personnel.