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INTRODUCTION

The Office of Internal Audit performed an audit of Charlevoix/Emmet County FIA for the period October 1, 1999 through May 9, 2000. The objective of our audit was to determine if internal controls in place at the local offices provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Charlevoix/Emmet County FIA had 49 full time equated positions (FTE's) at the time of our review. Charlevoix/Emmet County FIA provided assistance to an average 1,950 recipients per month in FY 1999, with total assistance payments of \$2,050,639 for the fiscal year.

SCOPE

Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at Charlevoix/Emmet County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. Our audit included the following:

Cash Receipts	Cash Disbursements
General Ledger	Modified Accrual Basis Balance Sheet
Safe and Controlled Documents	Food Stamp Inventory and Issuance
Medical Transportation	State Emergency Relief (SER)
Employment Support Services	Client Processing
CIS/ASSIST	IRS Information Security
Payroll and Timekeeping	Procurement Card
Telephone Usage	Child Well Being

EXECUTIVE SUMMARY

Based on our audit, we conclude that the Charlevoix/Emmet County FIA internal controls are generally adequate to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. However, CIS/Input/Output and Payroll and Timekeeping controls need improvement to strengthen controls.

LOCAL OFFICE RESPONSE

The management of Charlevoix/Emmet County FIA has reviewed all findings and recommendations included in this report. They indicated in a memorandum dated June 15, 2000 that they are in general agreement with the report.

CHARLEVOIX/EMMET COUNTY FIA

COMMON RECOMMENDATIONS FOR IMPROVED INTERNAL CONTROLS

The following are areas where we have identified a common control weakness at Charlevoix/Emmet County FIA, and we are recommending a change in procedure to reduce the risk associated with the control weakness.

Employment Support Services

Vehicle Repairs

1. Charlevoix/Emmet County FIA did not always document proof of vehicle ownership prior to authorizing vehicle repairs through the Employment Support Services (ESS) Program. Only one of seven ESS expenditures examined had a copy of the vehicle title in the case record to document the vehicle being repaired was owned by an eligible group member. The vehicle description on the vendor invoice for six of the repairs did agree with the description of a vehicle declared as owned on the Assistance Application (FIA-1171) prepared by the customer. For one payment the vehicle description on the vendor invoice did not agree with the description on the FIA-1171.

Obtaining proof of ownership for the vehicle to be repaired will improve internal controls over the Employment Support Services disbursement process.

WE RECOMMEND Charlevoix/Emmet County FIA obtain proof of vehicle ownership for the case record prior to authorizing vehicle repairs.

CIS/ASSIST

Client Information System (CIS) Status Codes

2. Charlevoix/Emmet County FIA had assigned Client Information System (CIS) status codes that were inconsistent with staff job responsibilities.

In Charlevoix and Emmet County the Family Independence Managers had been assigned “FIS” status and the reception staff had been assigned either “FLM” or “CRS” on CIS. The fiscal staff at Charlevoix County had been assigned “CRS” status.

Internal Control criteria established by the Family Independence Agency states that Family Independence Managers should be assigned “INQ” or “REG” status on CIS. Staff with ASSIST registration capability should not have CIS file maintenance capability and fiscal staff should be assigned “INQ” or “REG” status.

Assigning or customizing CIS status codes to allow staff access to transactions that are inconsistent with their job functions or responsibility increases the risk of unauthorized transactions being processed that would not be detected in a reasonable period of time.

WE RECOMMEND Charlevoix/Emmet County FIA change the CIS status codes of Family Independence Managers, the reception staff and fiscal staff to Inquiry (INQ) or “IRG” status on CIS.

CHARLEVOIX COUNTY FIA

FINDINGS AND RECOMMENDATIONS

The following are areas where we found that Charlevoix County FIA had a control weakness or was not operating in accordance with FIA policies and procedures that are described in manuals or instructional letters.

Cash Receipts

Verification of Deposits

3. Charlevoix County FIA did not follow established procedures for verifying funds to be deposited with the Official Cashiers Receipts (OCR). Entries on the Charlevoix County FIA mail logs are reconciled with the OCRs recorded on the accounting records. However there is no reconciliation of the funds to deposited with the “cash” (non-memo) OCRs.

Verification of the cash (non-memo) OCRs to the funds being deposited in addition to the verification process currently being performed improves internal controls over the cash receipting process.

WE RECOMMEND Charlevoix County FIA verify the amount of cash to be deposited is equal to the total amount of cash (i. e., non-memo) receipts as required by Accounting Manual Item 433, page 4.

Local Office Checks Returned Through the Mail

4. Charlevoix County FIA did not follow established procedures for controlling returned Local Office checks that were received through the mail. Returned local office checks

were recorded on the FIA-4729 (Daily Mail Record of Cash Receipts for Deposit) with receipts that were to be deposited in the Social Welfare Fund.

Accounting Manual Item 431, page 1 requires the FIA-61 (Record and Disposition of Checks/Warrants) to be used to record warrants and locally issued checks that are sent/returned to the Local Office for disposition.

WE RECOMMEND Charlevoix County FIA record locally issued checks that are returned to the Local Office through the mail on the FIA-61 (Record and Disposition of Checks/Warrants) as required by Accounting Manual Item 431.

Disposition of Returned Local Office Checks

5. Charlevoix County FIA did not control the disposition of local office checks returned to the office. The disposition of the checks was based on verbal instructions from the worker. Documenting the disposition of the checks with written instructions from the worker strengthens controls over the returned checks.

WE RECOMMEND Charlevoix County FIA require the workers to notify the fiscal unit in writing of the disposition of returned local office checks

Recording Warrants on the FIA-61

6. Charlevoix County FIA did not follow established procedures for controlling warrants returned in person to the Local Office. The Cashier prepared an Official Cashiers Receipt; however the warrant was not recorded on the Record and Disposition of Checks/Warrants (FIA-61).

Accounting Manual Item 462, page 2 requires the Record and Disposition of Checks/Warrants (FIA-61) to be used to record warrants and locally issued checks that are sent/returned to the Local Office for disposition.

WE RECOMMEND Charlevoix County FIA record warrants that are returned in person to the Local Office on the Record and Disposition of Checks/Warrants (FIA-61), as required by Accounting Manual Item 462, page 2.

Cash Disbursements

Reconciliation of the Check Signing Log with the Check Register

7. Charlevoix County FIA did not reconcile the check-signing log with the check register in accordance with established procedures. The beginning and ending check numbers of the checks recorded in the Check Register were not used in this reconciliation process.

Accounting Manual Item 410.1, page 2, requires that the beginning and ending numbers of the checks reported on the check register be used to reconcile the number of checks recorded in the accounting records to the number of checks signed and recorded on the check signing log. In order for this control procedure to be effective, the check numbers must be obtained from the check register.

WE RECOMMEND Charlevoix County FIA use the beginning and ending check numbers of the checks reported on the Check Register to reconcile the check signing log with the check register.

General Ledger

No findings in this area.

Modified Accrual Basis Balance Sheet

Unidentified Accounts Payable Balance

8. Charlevoix County FIA had a balance of \$752.75 in Accounts Payable Due to Clients /State for Change that could not be identified. Failure to identify the entries to this account could mean that a customer or the state has not been reimbursed for funds due them.

WE RECOMMEND Charlevoix County FIA review the accounting records to determine what the balance in the Accounts Payable Due to Clients/State for Change represents and take the necessary action to clear this account.

Safe and Controlled Documents

Voucher Checks (FIA-1802) for the Local Office Automated Accounting System

9. Charlevoix County FIA had 348 Voucher Checks (FIA-1802) in inventory that were used with the Local Office Automated Accounting System (LOAAS). With the implementation of the Local Accounting System Replacement (LASR) these checks are obsolete.

Accounting Manual Item 403 pages 10-12 describes the procedures that are to be followed to destroy controlled documents. L-Letter L-00-065, dated March 15, 2000, describes the procedures for obtaining approval for the destruction of controlled documents

WE RECOMMEND Charlevoix County FIA destroy the Blank Voucher checks (FIA-1802) according to the procedures detailed in Accounting Manual Item 403 and L Letter L-00-065.

Food Stamp Inventory and Issuance

No findings in this area.

Medical Transportation

No findings in this area.

State Emergency Relief

No findings in this area.

Employment Support Services

See Common Recommendation #1, page 2 & 3.

Client Processing

No findings in this area.

CIS/ASSIST

See Common Recommendation #2, page 3 & 4.

IRS Information Security

No findings in this area.

Payroll and Timekeeping

Payroll Certification

10. Charlevoix County FIA had not established adequate control over the payroll process. The timekeeper at Charlevoix County FIA certified the payroll on the Data Collection and Distribution System (DCDS) before the payroll was reviewed and approved by staff responsible for certifying the payroll.

The Internal Control Criteria established by the Family Independence Agency requires that the payroll be certified on DCDS after the authorized certifier reviews and approves the HR-332A.

WE RECOMMEND Charlevoix County FIA certify the payroll on the Data Collection Distribution System (DCDS) after the authorized certifier has reviewed and approved the payroll.

Payroll Reconciliation

11. Charlevoix County FIA reconciled the PR-180 (Bi-Weekly Hours Entered Report) with the HR-332A (Time and Attendance Summary Report) rather than the FIA-4299 (Employee Time and Attendance Report). The Primary Internal Control Criteria for Local/District Office Operations states that the completed payroll is to be reconciled with the individual employee FIA-4299s.

WE RECOMMEND Charlevoix County FIA reconcile the PR-180 (Bi-Weekly Hours Entered Report) with the FIA-4299 (Individual Employee Time and Attendance Report).

Procurement Card

No findings in this area.

Telephone Usage

No findings in this area.

Child Well Being

No findings in this area.

EMMET COUNTY FIA

FINDINGS AND RECOMMENDATIONS

The following are areas where we found that Emmet County FIA had a control weakness or was not operating in accordance with FIA policies and procedures that are described in manuals or instructional letters. The scope of our review at Emmet County FIA was limited to the areas listed.

Cash Receipts

No findings in this area.

Cash Disbursements

No findings in this area.

Safe and Controlled Documents

No findings in this area.

Food Stamp Inventory and Issuance

No findings in this area.

Employment Support Services

See Common Recommendation #1, page 2 & 3.

Client Processing

No findings in this area.

CIS/ASSIST

ASSIST Security Agreements (FIA-3721)

12. Emmet County FIA did not obtain the employee's signature on the ASSIST Security Agreements (FIA-3721) that were on file for 10 employees.

The employee signature on the ASSIST Security Agreement (FIA-3721) documents that the employee is cognizant of, and agrees to comply with, the State of Michigan Computer Crime Law and Computer Resource Use and Security Policy.

WE RECOMMEND Emmet County FIA obtain the signature of the appropriate staff on the ASSIST Security Agreements (FIA-3721).

See also Common Recommendation #2, page 3 & 4.

IRS Information Security

No findings in this area.

Telephone Usage

No findings in this area.

Child Well Being

No findings in this area.