



COUNTY OF WINNEBAGO

Office of the County Auditor

County Administration Building
404 Elm Street, Room 201
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April 10, 2019

To: Ashley C. "Dave" Davis, Veterans Assistance Commission President
From: William D. Crowley, Winnebago County Auditor
RE: Veterans Assistance Commission Concerns and Internal Audit Matters

The Winnebago County Administrator has received written concerns from a third party regarding certain aspects of the Veterans Assistance Commission's operations. These concerns have been presented to my office. Similar concerns associated with a budget amendment were also raised during a recent meeting of the Winnebago County Board.

In accordance with State law, the Winnebago County Auditor's Office routinely performs internal audits of the departments of Winnebago County. The Veterans Assistance Commission is not a department of Winnebago County government and therefore there is no requirement or authority established for the Winnebago County Auditor to perform internal audits of the Commission.

At the request of the former Veterans Assistance Commission President, my office had previously performed an internal audit of the Veteran's Assistance Commission. A copy of the report which was dated 9-29-2015 is attached. This internal audit recommended that a variety of policies and procedures be drafted and implemented. These recommended policies and procedures correlate strongly with several of the aforementioned concerns my office has recently been presented.

I have never received an update from the Veterans Assistance Commission regarding the implementation of the recommendations in our report dated 9-29-2015. During this internal audit we noted that very few, if any, formalized policies and procedures had been adopted and implemented.

With your permission, I am willing to investigate and address the third party concerns, but a prerequisite for my office to effectively do so is that we understand what policies and procedures are in place. Therefore, I am asking that your office prepare a detailed status update on all recommendations presented in our 9-25-2015 before any additional action be taken by my office.

Please let me know what else we can do to assist you at 815-319-4206 or bcrowley@wincoil.us.



COUNTY OF WINNEBAGO

WINNEBAGO COUNTY AUDITOR

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Veterans' Assistance Commission of Winnebago County

Internal Audit Report

9/29/2015

The mission of the Winnebago County Auditor's Office is to safeguard Winnebago County assets and provide objective, accurate and meaningful information about County operations so that the County Board can make informed decisions to better serve County citizens.

AUDIT TEAM MEMBER(S):

Roman D. Gray, CIA, CFE, Internal Auditor

Copies of this report are available by request.
Please contact us at:

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E-mail your request to: bcrowley@co.winnebago.il.us

Executive Summary:

In December 2014, the County Auditor received a request for assistance from the Veterans Assistance Commission (VAC) of Winnebago County, Illinois. In a letter written from Jack Philbrick, president of the VAC, to Winnebago County Auditor Bill Crowley, the VAC requested that certain audit services be performed at the VAC. After meeting with Mr. Philbrick, and discussing the matter internally, it was determined that an audit would be performed by the Roman Gray, Internal Auditor. Audit procedures would focus on a review of internal controls and banking transactions.

After gaining an understanding of the department and conducting preliminary audit work in February 2015, the Internal Auditor reviewed all bank account activity between October 2013 and March 2015. All transactions were reviewed for all monthly bank statements, and 40 transactions were selected according to the Internal Auditor's judgment. These transactions were reviewed thoroughly, and there were no items that appeared inappropriate or unreasonable by common business principles.

During the planning phase, and through subsequent inquiries to the (now former¹) Superintendent of the VAC, it became apparent that the single most important issue at the VAC was the lack of written policies and procedures for their business processes. While there were no findings of fraud or inappropriate activity, the lack of a structured procedural approach to administrative duties significantly elevates the risk of undesirable activity, and of it going undetected.²

¹ Ray Hughes, former VAC Superintendent, resigned from his position in June 2015.

² It should also be noted that the VAC began using *QuickBooks* accounting software during the time that our audit was being conducted, and their decision to make this change was not due to any direct influence upon the department by this audit.

Audit results:

Disbursement testing: Of 40 tested disbursements, our results were as follows:

Number of transactions with authorized signature approvals: 0

None of the transactions included documentation indicating that the expenses were approved prior to signing of the check. The department does not have an auditable policy for approval of invoices prior to the signing of the check for payment. It is supposed that the signers of the check would be essentially approving the transaction by authorizing the disbursement, but that is only an assumption.

Number of transactions with missing documentation: 3

Our audit found that three of the 40 transactions tested had no documentation available for review (copy of invoice, paid receipt, written explanation for expense, etc.). These were not considered to be "high-risk" transactions. They appear to be appropriately charged and paid. But there should be a policy that requires appropriate documentation to be retained for all disbursements. This should consist of an original document generated by the vendor (payee) containing the vendor name (with address and contact information), date, a description of the product or service, and dollar amount.

Request for Documentation

We were not able to obtain the following documentation during our audit. When we requested the information, the former Superintendent informed us that the documents were not available or did not exist:

1. VAC Charter/Constitution/Articles of Organization
2. Employee Job descriptions

3. Purchasing authority guidelines
4. Policy for approving purchases, disbursements, vendors, etc.
5. Written policy outlining benefits and services for veterans, and the approval process
6. Budget creation and approval process
7. Policy for the management of cash and bank accounts
8. Policy for contract authority [Who can enter into contracts in the name of the VAC?]
9. Employee wage and benefits policy

Audit Recommendations:

In order to establish and maintain a strong and robust administrative and accounting structure, the Winnebago County Auditor's Office recommends that the VAC implement a number of general and specific internal controls. In general, a healthy system of internal controls includes the following:

- A "tone at the top" that promotes an organizational culture for high ethical standards
- Clearly-defined policies and procedures
- Segregation of duties: There should be no overlap with respect to the responsibility for 1) the custody of assets, 2) the authorization or approval of transactions with respect to those assets, and 3) the keeping of records for the aforementioned assets and transactions.

The following are internal controls that are recommended for the VAC:

1. PURCHASING AND ACCOUNTS PAYABLE

- Contract authority: The VAC board should establish a policy for the delegation of the authority to enter the VAC into binding agreements.
- A policy should be created that sets purchase approval authority and dollar-amount limits.
- Invoices should be reviewed, and an approval signature (or clearly defined initials) should be written with ink on all invoices to be paid, without exception.
- Corporate credit/debit card usage policy: Authorized users, limitations, required approvals, signatures, and reviews.
- Only original invoices should be paid. Copies, faxes, and other duplicates should not be submitted for payment.
- Each invoice to be paid should contain a unique invoice number, which, upon entry into *QuickBooks*, will be used to flag and disallow the payment of any invoices that have already been paid.³
- The use of a controlled "Vendor Listing". When a payment is entered into the *QuickBooks* software, the payee is selected from a listing of vendors whose business information has been entered in the vendor listing. This list should be tightly controlled, and should only contain vendors that have been approved by a pre-determined authority other than the individual who processes payments. Proper segregation of duties also requires that the individual who processes payments should not have access to modify the vendor listing without the involvement of a supervisor.

³ This is known as "duplicate payment".

- Receipt of goods: A process should be developed whereby someone (other than the individual in charge of processing payments or approving invoices) verifies that items have been received (or services performed) before invoices are approved for payment.

2. BANK ACCOUNT AND CASH MANAGEMENT

- Signers on all bank accounts should be limited to individuals who do not have access to modify the accounting records
- All bank accounts should be reconciled with the accounting records on a monthly basis. This reconciliation should be closely reviewed each month, and the initials or signature of the reviewer should be written on the reconciliation upon review, without exception. Care should be taken to ensure that there is no opportunity for one individual to covertly access funds and also modify accounting records, the bank reconciliation, or bank records to conceal their activity.
- Blank checks (or check stock) should be safeguarded and closely monitored. Checks should be used in sequence, in numerical order. Care should be taken that the blank checks (or check stock) are not exposed to the risk of being misused by an individual who can conceal their activity in banking or accounting records.

3. BUDGET CREATION AND REVIEW

- A budget policy should be established. The policy should outline the protocol for adjustments, transfers, and deviations within budgetary line items.
- Budget figures should be closely reviewed, understood, and approved by the VAC board.

- All spending that exceeds budgeted amounts should be approved prior to obligation.

4. PAYROLL AND BENEFITS MANAGEMENT

- All employee benefits should be clearly defined in a board-approved policy, and should cover the following:
 - Work schedules
 - Sick leave, comp time, vacation pay, personal days, holidays, etc.
 - Health and insurance benefits
 - Retirement benefits
- An employee file should be maintained, documenting the following:
 - A record of all wage rates (and dates applicable) since the employee's hire date
 - Employee's approval for all elective deductions from gross pay, and W-4 form
- All changes to an employee's pay rate should be specifically documented in the employee's payroll file, and documentation should include the signature (or initials) of the person authorizing the wage change, without exception.
- The calculation and disbursement of payroll:
 - A record of hours worked (time card or sheet) should be maintained, signed by both employee and supervisor.
 - The addition of employees to the listing in *QuickBooks* should be approved by an individual that does not have the ability to generate payroll checks.

5. VETERAN BENEFITS

- A clearly-defined written policy should be created, outlining all benefits that the VAC provides to veterans.
- The approval process

- The type, frequency, and limitations of any benefits.
- The delivery of benefits to qualified persons. (Payment, vouchers, etc.)

6. DISBURSEMENT REVIEW

- The VAC board should review, on a regular basis (recommended monthly) a listing of all disbursements from the VAC bank accounts.
 - Regular invoice payments
 - Payroll disbursements
 - Debit card transactions
 - Corporate credit card bill payments

7. ASSET LISTING

- A listing should be compiled of all assets that are the property and responsibility of the VAC. A policy should be developed to control this listing.
 - Access to make changes to the asset listing should be segregated from the responsibility for custody of the assets.
 - Items that should be added to the listing, based on type, value or life-expectancy.
 - Disposal of items and removal from listing.
 - Qualified items should be added to the listing at the point that the invoice is approved for payment for the items. A (signature or initials) should appear on the invoice to indicate that the item was properly added to the listing.
 - Asset listing should contain the following information for each item listed:
 - Date acquired
 - Name of contact person who can give further information about item
 - Primary location of item
 - Useful life
 - Upon disposal, the disposal date and how it was disposed of.

8. INFORMATION TECHNOLOGY

An IT policy should be developed to address the issues of computer access, disaster recovery, physical security, and acceptable computer usage.

