

AGENDA ITEM REQUEST FORM

Hays County Commissioners Court

Tuesdays at 9:00 AM

Request forms are due in Microsoft Word Format via email by 2:00 p.m. on Wednesday.

AGENDA ITEM

Accept the delivery of the Internal Examination Reports for the Sheriff's Federal Discretionary Fund and Treasurer's Office.

| ITEM TYPE | MEETING DATE | AMOUNT REQUIRED |
|-----------|---------------|-----------------|
| CONSENT | July 30, 2013 | N/A |

LINE ITEM NUMBER

N/A

AUDITOR USE ONLY

AUDITOR COMMENTS:

PURCHASING GUIDELINES FOLLOWED: N/A

AUDITOR REVIEW: N/A

| REQUESTED BY | SPONSOR | CO-SPONSOR |
|--------------|---------|------------|
| Bill Herzog | COBB | N/A |

SUMMARY

See attached Internal Examination Reports



OFFICE OF THE COUNTY AUDITOR

712 South Stagecoach Trail, Ste.1071, San Marcos, Texas 78666

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June 1, 2013

Honorable Gary Cutler
Hays County Sheriff
1307 Old Uhland Road
San Marcos, TX 78666

Dear Sheriff Cutler:

In accordance with subsection 115.002 of the Texas Local Government Code, the Auditor's Office performed an internal examination of the Hays County Sheriff's Office Federal Discretionary Account for the period of October 1, 2011 to September 30, 2012. The internal examination consisted of reviewing disbursements, receipts, deposits, fixed assets, and other supporting documentation.

Based on the internal examination, except for the following finding and recommendation, cash receipts and disbursements appear to be adequately accounted for and related records appear to be accurately maintained in accordance with statutory requirements under subsection 112.001 of the Texas Local Government Code.

#1 Inadequate segregation of duties.

The previous Fiscal Year 2011 Federal Discretionary Fund internal examination noted that the Sheriff's Office did not maintain sufficient segregation of duties for this account. The same individual is currently still receiving all funds, preparing deposits, preparing monthly reports and still makes all disbursements for this account.

Recommendation

We continue to recommend that the Sheriff's Office perform an examination of existing roles and responsibilities in order to identify incompatible duties and ensure there is an adequate segregation of duties for this account. The duties performed by the individual should be separated as practical as possible to minimize errors and irregularities. Supervisory review should be increased to ensure the proper collection, reporting, and safeguarding of funds.

Management Response

Although the same individual is currently still receiving all funds, preparing deposits, preparing monthly reports and still makes all disbursements for this account; not one disbursement is made without the approval of a Captain, Chief or Sheriff. The account also requires a second signature on the check for additional approval; which in most cases is the individual who prepares the check and the second signature is always the Sheriff. The account balance is reported to command staff once a month if not twice a month. Again, we are currently working on cross training in this position.

D. C.

#2 Travel receipts were not reconciled in a timely manner.

An employee travel advance check totaling \$2,678.00 was issued by the Sheriff's Office from the Federal Discretionary fund on December 19, 2011. Receipts were not immediately reconciled by the Sheriff's Office when the employee returned from the National Academy on March 18, 2013. Seven and a half months after the employee had returned from the Academy, the Internal Auditor requested a reconciliation of the receipts for the employees training expenditures related to the \$2,678.00 advance. After reconciling to the advance, the Sheriff's Office noted that the employee owed Hays County \$998.61. The employee paid the full amount owed to Hays County on November 29, 2012.

Recommendation

We recommend that the Sheriff's Office reconcile employee travel advances to allowable expenses incurred within ten (10) days in accordance with the Hays County Travel Policy as stated:

"When the person receiving the travel advance returns to the county, it is the responsibility of the county official or department head to see that the Employee Travel Expense Form is properly completed and sent to the County Auditor within ten (10) days."

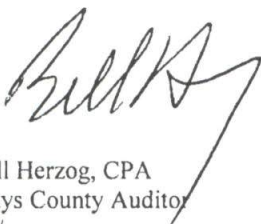
We also recommend that the Sheriff's Office implement supervisory review and timely reconciliations for travel expenses. Supervisory review and timely reconciliations will help deter inaccurate reporting and misappropriation of funds.

Management Response

In reference to the travel disbursement related to the National Academy it was later learned that the use of equitable sharing funds should also follow the local county travel policy. I assure you that future expenditures of these funds related to travel; will follow all necessary guidelines. J.E.

We appreciate the cooperation and assistance provided to the Auditor's Office during the examination.

Sincerely,



Bill Herzog, CPA
Hays County Auditor
bh/ca



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April 17, 2013

Michele Tuttle
Hays County Treasurer
712 South Stagecoach Trail, Suite 1094
San Marcos, Texas 78666

Dear Ms. Tuttle:

In accordance with subsection 115.002 of the Texas Local Government Code, the Auditor's Office performed an internal examination of the Hays County Treasurer's Office financial records for the period of March 1, 2011 to March 31, 2012. The internal examination consisted of reviewing disbursements, receipts, deposits, payroll records, unclaimed funds, investments, fixed assets, and other supporting documentation.

Our review disclosed several opportunities for improvement in areas such as accurate and timely reporting of county records and disbursements. Control weaknesses and findings disclosed during the internal examination and the related recommendations are noted below.

PAYROLL

We reviewed the policies and procedures used to administer the payroll operations and judgmentally selected a sample of 40 employee timesheets that covered a variety of employee positions and pay groups.

#1 Elected insurance premiums were not correctly deducted from two employee's paychecks.

Two employees did not have elected insurance premiums deducted correctly from their paychecks. One employee should have had Aflac premiums deducted from their paycheck beginning October 1, 2011. The Treasurer's Office recognized the error during the November 30, 2011 pay period and informed the employee. The employee decided to cancel the coverage.

Another employee's life insurance premium amounts were incorrectly withheld based on the age and coverage election for self and spouse. The incorrect premium amounts were withheld from January 2012 through August 15th, 2012. The Treasurer's office identified the error and collected the difference owed from the employee (\$56.26).

Recommendation

We recommend the Treasurer's office implement procedures to ensure that employee insurance premiums are correctly deducted in an effective and timely manner. All employee deductions should be reviewed and reconciled to source documents to verify that deductions are accurate. Failure to review elected deductions for all employees is an internal control weakness that could lead to inaccurate payroll disbursements, incorrect reporting, and incorrect insurance coverage.

#2 Timesheet compensation hours were inaccurately calculated and applied to the payroll system.

Our review of timesheets identified five errors in the calculation and application of hours of the submitted timesheets in the payroll system:

- Employee's timesheet noted 12 hours of admin time earned which were then entered into the payroll system. However, actual worked hours indicate that only 8 hours of admin time were earned.
- Employee was granted 3 hours more in compensation time as a result of a calculation error.
- Employee's work week hours were short .25 hours where compensation time of .25 hours should have been applied to the employee in order to equal the 40 hour work week requirement.
- Employee's calculation of hours worked should have been 7.25 and compensation time used should have been .75 hours.
- Employee's calculation of hours worked should have been 6.75 hours and the compensation time used for the week should have been 1 hour.

Recommendation

We recommend the Treasurer's office adjust the employee hours in the payroll system to remedy the calculation errors noted above. We also recommend that the Treasurer's office review procedures for calculating timesheet hours to ensure that earned and used compensation hours are calculated and applied correctly. Inaccuracies in the recording of employee's hours could result in a liability for the county in time and money.

#3 The County paid an employee \$348.26 for unearned overtime pay.

One employee was paid \$348.26 in unearned overtime. The error occurred when the incorrect overtime pay was manually entered into the payroll system.

Recommendation

We recommend the Treasurer's office collect the overpayment of \$348.26 from the employee and deposit the funds to the county general fund. We also recommend that the payroll procedures be evaluated to ensure that Hays County employee's actual time worked is reflected accurately in the payroll system and county funds are disbursed correctly. Internal control weaknesses in payroll procedures could result in erroneous payroll disbursements and inaccurate reporting.

DEPOSIT WARRANTS

#4 Some deposit warrant receipts were not voided properly.

The Auditor's office reviewed forty-four voided deposit warrant receipts. Four of the forty-four voided deposit warrant receipts were voided without indicating an explanation or reason for the void on the receipt or in the receipt system.

Recommendation

We recommend that every voided deposit warrant receipt include an explanation for the void in order to minimize risks and errors and to create an accurate audit trail. Management should review voids to determine the reasons and to create procedures to ensure an explanation is given for each void. Management should implement procedures to reduce voided receipts and to reduce internal control weaknesses that could lead to inaccurate revenue reporting.

STATE AND AGENCY DISBURSEMENTS

#5 Three instances of incorrect reporting of State Civil Fees were identified.

The Auditor's Office identified three instances of incorrect reporting of civil fees to the State as noted below:

- The Oct-Dec 2011 State Civil Fees quarterly report contained the incorrect number of "Declaration of Informal Marriages" and fees collected. The amount reported for "Marriage License Fees" was also incorrect. The number of declaration of informal marriages should have been 6 and the fees should have totaled \$75.00. Only 5 were reported and \$62.50 paid. Marriage license fees reported was \$5,802.50 instead of the correct amount of \$5,790.00. It was noted that the total amount of fees submitted to the state for these two categories combined was correct but the allocation was incorrect.
- The amount of "Juror Donations" reported in the Oct-Dec 2011 State Civil Fees quarterly report and paid on the same report was short by \$9.00.
- The fees reported on the Apr-June 2011 State Civil Fees report included minor clerical errors ("District Court Other than Divorced/ Family Law" and the "District Court Indigent Services" fees). The errors were due to an adjustment made to a case after the reports were prepared.

Recommendation

We recommend that an amended report be filed with the State to correct the identified errors. The Treasurer's office should review reporting procedures to ensure that reports and payments submitted to the State and other Agencies are accurate and include any necessary adjustments. The Treasurer's Office should implement internal control procedures that will account for adjustments made to cases that affect prior reporting periods. Failure to administer the appropriate reporting procedures is an internal control weakness that could lead to inaccurate reporting of State fees collected by Hays County and reported on the State Civil Fees report.

ESCHEATED PROPERTY/UNCLAIMED FUNDS

#6 The Treasurer's office submitted unclaimed funds totaling \$200.00 to the State in error.

The Treasurer's office erroneously submitted unclaimed funds totaling \$200.00 to the State. Payments of \$100.00 each of unclaimed property for two separate property owners should have been retained in the general fund. Texas Statue Property Code 76.001 and 76.602 states that presumed abandoned property valued at \$100.00 or less shall transfer to the general fund of the holder. These funds should have been retained in the County's general fund.

Recommendation

We recommend that the Treasurer's office attempt to reclaim these funds from the State to be deposited into the Hays County general fund. We also recommend that the Treasurer's Office review the Texas Statute Property Code and Unclaimed fund statutes to ensure that funds eligible for retention by Hays County are accurately retained.

#7 The Treasurer's office did not publish a notice of unclaimed funds.

A notice for Hays County unclaimed funds was not published in the local newspaper or any other form of media outlet during the internal examination period.

Recommendation

The Treasurer's office should comply with Texas Statue Property Code 76.0201 and annually publish a notice of unclaimed funds accessible to the public.

According to Texas Statue Property Code 76.201(a), *"the treasurer of a holder shall publish a notice in a newspaper in the calendar year immediately following the year in which the property report is filed."*

An annual publication of Hays County unclaimed funds will ensure that Hays County is in compliance with Texas Statue Property Code 76.201 and make certain that all Hays County unclaimed funds are publicized to the public prior to remitting to the State.

INVESTMENTS

#8 The Hays County Investment Committee failed to issue a written statement of policy review.

Although the Hays County Investment Committee did meet to review the investment policy, the committee did not issue a written statement that it had reviewed the policy and chose not to make any changes. It is noted there have not been any changes to the policy since 2005.

Recommendation

We recommend the Hays County Investment Committee annually issue a written statement that states the Hays County investment policy has been reviewed in accordance to Government Code 2256.005, in the event changes occur or do not occur to the policy.

Local Government Code 2256.005 states (e) *“The governing body of an investing entity shall review its investment policy and investment strategies not less than annually. The governing body shall adopt a written instrument by rule, order, ordinance, or resolution stating that it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall record any changes made to either the investment policy or investment strategies.”*

A written statement by the investment committee will ensure that the Hays County Investment Committee is in compliance with Government Code 2256.005 and confirm that the Hays County Investment Committee has reviewed the Investment policy.

MONTHLY TREASURER AND INVESTMENT REPORTS

#9 The Treasurer and Investment Reports were not submitted to the Commissioners’ Court in a timely manner on a monthly basis.

The Treasurer and Investment Reports were not submitted on a monthly basis to Commissioner’s Court in accordance with Local Government Code 114.026 and Hays County Investment Policy stipulations. The following chart shows when the reports were submitted for each month for the time period reviewed.

| Monthly Report Date | Date Report Submitted to Court |
|----------------------------|---------------------------------------|
| March 2011 | 6/28/11 |
| April 2011 | 7/12/11 |
| May 2011 | 7/12/11 |
| June 2011 | 8/9/11 |
| July 2011 | 9/13/11 |
| August 2011 | 3/13/12 |
| September 2011 | 3/13/12 |
| October 2011 | 3/13/12 |
| November 2011 | 3/13/12 |
| December 2011 | 3/13/12 |
| January 2012 | 3/13/12 |
| February 2012 | 5/22/12 |
| March 2012 | 5/22/12 |

Recommendation

We recommend the Treasurer’s Office comply with Local Government Code 114.026 and deliver the Treasurer and Investment Reports to the Commissioner’s Court in a timely manner. We also recommend the Treasurer’s Office implement procedures to make certain these reports are to be submitted to Commissioner’s Court for review and acceptance in a timely manner.

Local Government Code 114.026 states (a) *“At least once a month at a regular term of the commissioner’s court, the county treasurer shall make a detailed report of (1) money received and disbursed...”*

Timely submittal of Treasury and Investment reports will certify that the Commissioners’ Court has the opportunity to review and accept the reports on a monthly basis.

#10 Treasurer and Investment Reports submitted to the Commissioner’s Court contained errors.

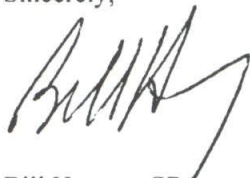
There were various errors on the Treasurer and Investment Reports submitted to the Commissioner’s Court. The date listed for both reports for March 2011 shows March 2010. On November 2011, the Treasurer Report total fund balance for the Juvenile Detention Center was understated by \$20.00. The May 2011 Investment Report had a calculation error on the totals listed for the total par value and total market value balances for 5/31/11 for the Treasury Bills and Notes. The par value was understated by \$100,000.00 and the market value was understated by \$99,988.53. The beginning totals listed for the total par values, book values, and market values for all the Linked Deposit Program Certificates of Deposits are overstated each by \$19,348.79 for December 2011, January 2012, February 2012, and March 2012 reports.

Recommendation

We recommend the Treasurer’s Office review all official reports and documents submitted to the Commissioner’s Court for accuracy and submit the reports in a timely manner. Management can assist by preventing inaccuracies and oversights by implementing procedures for supervisory review on a monthly basis. Internal control weaknesses in reporting can lead to inaccurate reporting and misrepresentation of county funds.

We appreciate the cooperation and assistance provided to the Auditor’s office during the examination.

Sincerely,



Bill Herzog, CPA
Hays County Auditor



County Of Hays

MICHELE TUTTLE

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San Marcos, Tx 78666
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www.co.hays.tx.us

July 22, 2013

Bill Herzog
712 S Stagecoach Trl
San Marcos, TX 78666

Dear Mr. Herzog,

This is in response to a recent audit handled by Shana Windham, Hays County internal auditor. Mrs. Windham was very thorough and professional as she reviewed our records and made good detailed recommendations.

#1 Elected insurance premiums were not correctly deducted from two employee's paychecks.

While we strive for 100% accuracy, sometimes a change is overlooked or not clear what the intent should be. Once the insurance billings are reconciled to payroll deductions and the differences are given to the Treasurer's office, corrections are made immediately. Effective January 1, 2013, The Treasurer's office is now assisting the Human Resources office by reconciling the Medical, Dental and MetLife insurance billings. By doing this, we hope to make any corrections the following month.

#2 Timesheet compensation hours were inaccurately calculated and applied to the payroll system.

The hours have been adjusted on the mentioned employees.

Each month, approximately 825 timesheets are hand-calculated and entered in a short 4 day window which can lead to human error. To reduce errors, Hays County is going to an electronic timekeeping system that will calculate hours used, comp time earned, pay cycles that are short, etc. This system will also automatically update leave thus reducing erroneous entries.

#3 The County paid an employee \$348.26 for unearned overtime pay.

The \$348.26 has been paid back. This issue occurred to an employee with a similar name that earned the overtime pay. There are now 2 steps in the verification stage; verifying each name on the overtime list PLUS running a payroll report to match the paid overtime list with employee ID numbers.

#4 Some deposit warrant receipts were not voided properly.

Staff members have been notified that documentation should be noted on all voids as to the reason why it has been voided.

#5 Three instances of incorrect reporting of State Civil Fees were identified.

- a. Adjustments have been filed with the State Comptroller's office to correct the number of marriages (added 1 to Informal Marriage and subtracted 1 from Marriage License Fee.).
- b. An adjustment of \$9.00 was added for juror donations to the Crime Victims Compensation Program.
- c. Quarterly State reports are processed using information derived from daily, monthly and quarterly reports processed on the Odyssey Judicial System. If adjustments to a prior period are made by another office after the reports have been processed and mailed to the State, the Treasurer's office will not discover the adjustment. My recommendation would be to have the Auditor's office ask departments to not backdate changes with the exception of NSF checks and direct deposits.

#6 The Treasurer's office submitted unclaimed funds totaling \$200.00 to the State in error.

These funds have been claimed through the State by the rightful owner. Future items of exactly \$100.00 will not be submitted to the State. \$100.01 and more will be submitted to the State.

#7 The Treasurer's office did not publish a notice of unclaimed funds.

The compilation of an Unclaimed Funds Master Data List from all County offices was a major undertaking that was a long process taking over a year to complete. Over 4000 entries were reviewed and researched to create an accurate list that was published on the Hays County website in June 2012. This published list is now updated annually.

#8 The Hays County Investment Committee failed to issue a written statement of policy review.

On September 26, 2011, the investment policy was reviewed by the investment committee appointed by Commissioners' Court. It was reviewed again by this same committee on September 28, 2012. In the future, the Treasurer's office will issue a written statement that states the Hays County investment policy has been reviewed in accordance to the Texas Local Government Code 2256.005, this update will be submitted to Commissioners' Court regardless of whether changes occur or do not occur to the policy.

#9 The Treasurer and Investment Reports were not submitted to the Commissioners' Court in a timely manner on a monthly basis.

The Treasurer's report should be sent to the Commissioners' Court monthly. We will make every effort to do so.

#10 Treasurer and Investment Reports submitted to the Commissioners' Court contained errors.

- a. The typo for the March 2011 report showing the date of March 2010 has been corrected.
- b. The typo for the Juvenile Center balance resulting in a \$20.00 understated balance for November 2011 has been corrected.
- c. The total formula for the May 2011 treasury bills has been corrected to reflect all items listed. The items were listed correctly; the formula missed the bottom line in the total resulting in the last Treasury bill not being included in the total.
- d. The maturity of a 5 year Certificate of Deposit in the Linked Deposit Program was missed and has been corrected.

We appreciate the time it took to complete such and in depth audit of the Treasurer's office. We recognize that audits are a good approach to assist in determining better practices to manage procedures. It is also important to note that there was no sign of fraudulent activity or intent to falsify records. While the Treasurer's office has strong internal controls in place to insure the safety of County funds, we always appreciate further recommendations to improve.

Sincerely,



Michele Tuttle

Hays County Treasurer