



Cobb County...Expect the Best!

INTERNAL AUDIT DIVISION

Report Number: 2013-007

***FINAL REPORT - Review of Selected Activities of
the Friendship Club
for the calendar year ended December 31, 2012***

August 2, 2013

***Latona Thomas, CPA, Manager
Steven Harper, Staff Auditor I
Barry Huff, Staff Auditor I***

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COBB COUNTY INTERNAL AUDIT

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Division Manager

August 2, 2013

MEMORANDUM TO COUNTY MANAGER

FROM: Latona Thomas, CPA, Manager

A handwritten signature in black ink, appearing to be "LT", written over a horizontal line.

SUBJECT: **FINAL REPORT** - Review of Selected Activities of the Friendship Club for the calendar year ended December 31, 2012

Attached for your review is the subject final report. The objective of our audit was to determine if funds of the Friendship Club (the Club) had been properly accounted for and disbursements from the Club were properly supported by adequate documentation and in accordance with established by-laws. In addition, we determined if procedural or policy changes were made in accordance with the established by-laws.

Impact on the Governance of the County

The Friendship Club was formed as a cost-saving measure to provide charitable giving for the employees of Cobb County without the annual charity campaigns that were costly in terms of employee man-hours required. This year's assessment of the controls over the Club's finances gives assurance to the employees that their contributions are handled responsibly and are making an impact in the lives of their fellow employees and families in the community.

Executive Summary

Our review showed disbursements were made in accordance with established by-laws and were approved by the Club's Board and Treasurer. Financial reports were submitted timely to the Board, and the Center for Family Resources (CFR) followed established guidelines for the distribution of funds to employees.

However, the lack of written procedures for managing the Club's finances impeded a smooth transition to a new Assistant Treasurer (AT) in December 2012. The incoming AT did not have written procedures available to help her manage the Club's finances. As a result, the financial records were not maintained up-to-date, reconciliations of the bank statement were not performed correctly, and payment of CFR invoices for disbursements from the EEF were not paid timely. In addition, although a by-law change was properly voted on by the Board, additional actions are necessary to ensure the new changes are implemented.

Recommendations

We recommended that written procedures be developed for all the Assistant Treasurer duties and responsibilities. We also recommended that additional steps be taken by the Board to ensure the by-law changes are implemented.

Response

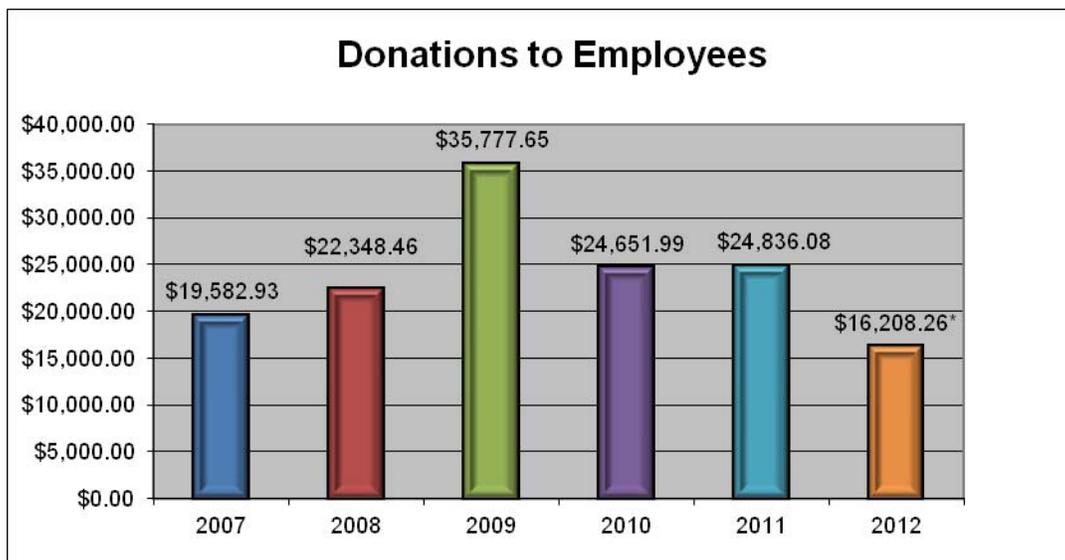
The President and Treasurer agreed with all our recommendations and will prepare written procedures for the Assistant Treasurer, initiate action to update the Club's by-laws and enrollment forms and publish them on the CobbWeb. HR will develop procedures to review applications for membership and contact the employee when they elect to contribute less than the minimum contribution. All corrective actions are anticipated to be completed by September 30, 2013. The complete responses to the draft report are included as Appendices V and VI.

Copies of this report are also being sent to the Department managers and Club officers affected by the report recommendations, in addition to the Cobb County Audit Committee. Please contact me at (770) 528-2559 if you have questions or Barry G. Huff, Auditor-in-Charge, at (770) 528-2558.

Background

On March 28, 1972, the Board of Commissioners for Cobb County passed a resolution to establish a voluntary payroll deduction fund named the Cobb County Employee Friendship Club (the Club). The purpose of the Club is to reduce the number of direct solicitations to employees for contributions to charitable organizations and save on the associated cost of man-hours required to address them. Currently, a twelve-member board, representing employees of eight county agencies, administers the Club and determines the disbursement of awards to the various charitable causes. The trustees are nominated and elected by members of the Club (employees who contribute to the Club). The Club's Board has four subcommittees that oversee the elections of board trustees, changes to the by-laws, solicitation and maintenance of membership, and allocations to charitable organizations. Since its inception, as of December 31, 2012, **\$1,962,636** has been disbursed to charitable organizations, employees or other causes¹.

In 1990, the Club expanded its mission and established the Employee Emergency Fund (EEF) to provide financial assistance to Cobb County employees. The assistance is provided confidentially through an arrangement with the Center for Family Resources (CFR) who administers the program free-of-charge, governed by a set of guidelines that determine eligibility and monetary assistance limits. As of December 31, 2012, the CFR has distributed **\$346,514** to employees in need.



Source: Assistant Treasurer Financial Documents

*November & December CFR Invoices totaling \$2,726 were excluded, as they were not paid until April 2013

Our audit period covered Friendship Club activities during calendar year 2012. Detailed information on our audit objective(s), scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix III.

¹ Over the years, the Board has authorized miscellaneous donations directly to employees and causes that were not part of the allocations to charities or assistance provided through the Employee Emergency Fund. In response to recommendations made to the Board in our previous year's report, the by-laws were changed to disallow similar contributions in the future.

Results of Review

During our audit period, the Club distributed a total of \$101,208 — **\$85,000** to 35 charitable organizations and **\$16,208** to 26 individuals through the Employee Emergency Fund (EEF). We also determined that:

- As of December 31, 2012, \$22,561.45 was in the Club's bank account. Checks outstanding totaled \$13,800. Available funds were \$8,761.45.
- Financial reports were submitted monthly to the Club's Board for review and approval.
- Established guidelines for providing assistance to employees were followed. We confirmed no employee received more than the allocated \$1,000 per assistance, \$2,000 per year limit. Case files contained copies of documents solicited from employees to support their request for assistance, and the case managers analyzed the financial conditions to determine whether assistance should be provided.
- Checks to the Center for Family Resources (CFR) and charitable organizations were confirmed to be received and/or endorsed by the payee.
- Board members had input in the selection of charities given money.

Written Procedures are Necessary to Ensure Distributions from the Friendship Club are Properly Accounted For and In Accordance with Established Guidelines

In December 2012, a new Assistant Treasurer (AT) was appointed but she did not have written procedures necessary to properly record, reconcile and report the Club's financial transactions. As a result, the Club account transactions were not recorded completely, accurately or timely in the check register, the monthly reconciliation of the account was not properly performed and two invoices from CFR was not timely processed.

The Check Register was not up-to-date

The check register is an EXCEL worksheet used by the AT to record all deposits, checks and miscellaneous charges to the Club's bank account. It should provide a running balance of available funds for use by the Club's Board. The AT stated that items were posted to the register as they cleared the bank rather than when the transaction occurred. By posting transactions this way, the register did not reflect an accurate balance, transactions were not listed in sequential order and outstanding checks were not included on the register.

An accurate balance is necessary for the Board to make decisions about disbursements from the Club's account. All transactions should be completely, accurately, and promptly recorded as they occur to maintain their relevance and value to the Club's Board in controlling operations and making decisions. The absence of accurate balances could also lead to unnecessary fees such as insufficient funds.

Monthly reconciliations were not done properly

Monthly reconciliations of the bank account are a fundamental control that helps to ensure the Club's funds are accounted for and facilitates the monitoring of revenue and disbursements of the Club. Reconciliation is a process that explains the difference between the bank balance and the corresponding amount shown in an organization's accounting records at a particular point in time. Differences may occur from one of three scenarios: (1) a check or list of checks issued has not been processed by the bank, (2) a credit received or a charge made by the bank has not yet been recorded in the organizations books, or (3) the bank or organization has made an error. The reconciliation process is essential in ensuring the check register balance accurately reflects the Club's available funds.

In the reconciliation process, any overdue revenue or long term outstanding checks can also be identified and researched. For instance, three checks issued in the December 2012 charity allocation had not cleared the Club's bank account as of our fieldwork on May 28, 2013 and had not been identified as outstanding during the monthly reconciliations. Our reconstruction of the monthly reconciliation for December identified these checks and the AT was able to coordinate with the Club's President and determine what actions needed to be taken. It was discovered that the nonprofit payees had misplaced two checks and another was in the Club account financial binder because it had not been picked up. Each check was cancelled and re-issued.

CFR Invoices were not paid timely

The AT is responsible for receiving and initiating the payment of CFR invoices for the reimbursement of EEF funds. When CFR makes a disbursement, an invoice should be submitted monthly for Club Board approval. No invoices were paid from November 27, 2012 to April 5, 2013, although CFR made disbursements from the EEF. Emailed invoice notifications from CFR were not identified, and the AT did not know to question whether invoices were pending. As a result, November and December 2012 disbursements from the EEF were not reimbursed until April 2013.

The timely recording of transactions, reconciling of the bank account, and payment of invoices by the AT are essential to the accountability of the Club's funds. It also helps to ensure complete and accurate financial information is available for the Club's Board to make operational decisions. Detailed guidelines for these and other expectations of the AT function should be documented and clearly communicated in policies and procedures.

Recommendation

The Friendship Club Treasurer should:

Recommendation 1: Develop written operational procedures for the Assistant Treasurer to account for the financial transactions of the Friendship Club. The procedures should include, but not be limited to:

- Maintenance of the account register.
 - Post all transactions accurately and timely as they occur.
 - Post revenue (employee contributions) to the register using the Electronic Funds Transfer date provided by payroll department.

- Reconciliation of the checking account.
 - Stipulate that another person (reconciler) will receive the unopened bank statement or access the account online and perform the reconciliation.
 - Include a confirmation that the payee received checks written.
 - Establish a reasonable time for checks to remain outstanding before they are canceled.
- The Treasurer will approve, with supporting documentation, the semi-annual allocation to the charities.
- All CFR invoices should be approved by the Club's Board prior to payment or by the President and subsequently ratified by the Board in cases of emergencies.
 - All other miscellaneous expenditures (e.g. checks, stop payment fees) can be made on approval of the President and subsequently ratified by the Club's Board.
- Provide the Club Board with timely, informative reports.
 - Include information on received and pending CFR invoices during every financial report presentation or indicate that no disbursements require payment.
 - Send the report to the Board member prior to the meeting.
 - Ensure all disbursements are recorded in the minutes.

Auditee's Response: The Treasurer concurs with this recommendation. Procedures will be drafted by no later than September 30, 2013 for all Assistant Treasurer duties that will assist in facilitating a smooth transition from Assistant Treasurer to a newly designated Assistant Treasurer.

Additional Actions are Needed to Implement By-Law Changes

The Board proposed a by-law change to raise the minimum contribution per pay period for new members² from \$2 to \$3. The membership was notified of the change using the CobbWeb³ and given opportunity to comment. The Club Board approved the change in their December 2012 meeting and updated the Club application given during orientation; however, additional actions are needed to ensure the change is implemented. The by-laws need to be updated and published; the enrollment form on the CobbWeb needs be modified showing the \$3 minimum and Human Resources (HR) and other appropriate departments need to be notified so that procedures can be modified to ensure the change is implemented.

HR was not informed of the by-law change and was not screening the election forms for participation in the Club to see if the minimum amount is elected. We reviewed records of the 60 new hires for 2013 that elected to participate in the Club and determined that seven (12%) elected to contribute less than \$3. HR management stated they do not believe it is their place to question the amount employees select; they will process what is on the form.

² Effective for new members on or after January 1, 2013.

³ The CobbWeb is the internal computer network site for Cobb County Employees.

Recommendations

The Friendship Club President should:

Recommendation 2: Require the by-law committee to update and publish the revised by-laws on the CobbWeb and modify the enrollment form to show the minimum contribution amount.

Auditee's Response: The Friendship Club (FC) concur with this recommendation. The following will be included in the Club's by-law committee procedures no later than August 19, 2013:

The by-laws committee will send the revised by-laws and any modification of the enrollment form to the Director of Human Resources within five (5) business days of approval of revisions to the by-laws and request that the changes are posted for all employees to view on the CobbWeb within an additional five (5) business days. The by-laws committee will confirm, by viewing CobbWeb that the revised by-laws and any changes to the enrollment form have been posted within ten (10) business days of the approval.

Recommendation 3: Coordinate with HR to ensure the minimum amount on enrollment forms are verified prior to processing. Any form containing an amount less than the minimum should be held, the employee contacted, and the employee given the option to amend or elect not to participate. Written procedures should also be developed and maintained.

Auditee's Response: HR and FC concur with this recommendation. The following will be included in the Club's Membership Committee procedures:

The Membership Committee will contact the Director of Human Resources to notify of any changes to the enrollment form. HR will ensure the minimum amount on enrollment forms are verified prior to processing. Any forms containing less than the minimum amount will be held, the employee contacted, and the employee given the option to amend or elect not to participate.

Detailed Objectives, Scope, and Methodology

We conducted this review as part of our annual audit plan. Our audit period covered an analysis of financial transactions and business operations of the Friendship Club for calendar year 2012.

The objective of our audit was to determine if funds of the Friendship Club had been properly accounted for and disbursements from the Club were properly supported by adequate documentation and in accordance with established by-laws. In addition, we determined if procedural or policy changes were made in accordance with the established by-laws.

In order to accomplish our objectives, we performed the following sub-objectives:

- I. Verified that the checking account had been adequately reconciled each month by an independent person.
 - A. Reviewed the monthly bank statements and verified that someone other than the Acting Treasurer reconciled the account.
 - B. Determined if a third party reviewed the reconciliations.
 - C. Verified whether checks issued out of sequence or missing were questioned.
 - D. Examined the bank reconciliation and looked for evidence that the reconciler documented the scope of the reconciliation and whether the bank statement contained any disbursement other than the checks issued and whether all outstanding checks were supported by documentation.
- II. Determined if there is an adequate separation of duties in the managing of the Club's finances. Verified if someone other than the Acting Treasurer:
 - A. Reconciled the account. (See I.B.)
 - B. Received the unopened or electronic version of account statements independently of the Acting Treasurer.
 - C. Reviewed the semi-annual allocation checks prior to issuance, including the review of supporting documentation and approval by the Board.
 - D. Approved other disbursements from the Club.
- III. Determined if the Acting Treasurer provided timely financial reports to the Club's Board.
 - A. Evaluated whether the Board adequately reviewed financial reports to determine if:
 1. CFR invoices had been timely processed.
 2. Disbursements since the prior report were approved and supported.
 3. Revenue was accounted for.

IV. Verified that all distributions from the Club were properly documented and authorized by the Board.

A. Determined whether the Center for Family Resources is following established guidelines for distribution of funds to employees.

1. Judgmentally selected a sample of 10 of the 26 employees assisted in 2012. Reviewed the 11 opportunities of assistance to these 10 employees.
2. Determined if assistance exceeded the “two-instance, \$1,000 limit” guideline.
3. Reviewed the Acting Treasurer’s disbursement records to determine if the invoice amounts agree with the disbursement to the CFR.
4. Reviewed the cancelled checks written to the CFR to determine whether the checks were endorsed.

B. Verified that there is adequate documentation to support the two allocation distributions to charitable organizations.

1. Reviewed minutes of meetings and the Allocation Committee’s documentation and looked for evidence that the Board voted and had input on all charities selected and amounts awarded.
2. Confirmed that all disbursements from the two allocations were received by the organizations.

V. Determined whether proper procedures were followed to implement any proposed procedural changes.

Abbreviations and Glossary

AT	Assistant Treasurer
CFR	Center for Family Resources
EEF	Employee Emergency Fund
CLUB	Friendship Club

Major Contributors to the Report

Latona Thomas, CPA, Internal Audit Division Manager
Barry G. Huff, Auditor-in-Charge

Final Report Distribution List

Wendy Collins, Recreation Program Coordinator & Friendship Club President
Valerie Davis, Public Safety Services Coordinator & Past Friendship Club President
Jim Pehrson, CPA, Finance Director/Comptroller & Friendship Club Treasurer
Kevin Sullivan, Accountant I & Friendship Club Acting Treasurer
Tony Hagler, Human Resources Director & Friendship Club Secretary
Jami Mack, Learning and Development Specialist & Friendship Club Assistant Secretary
Cobb County Audit Committee
Internal Audit Division File

Finance Department's Response to the Draft Report



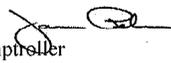
COBB COUNTY FINANCE DEPARTMENT

100 Cherokee Street, Suite 400
Marietta, Georgia 30090-9610
Phone: (770) 528-1503 Fax: (770) 528-1501 TDD/TTY: (678) 581-5429

James Pehrson, CPA
Director/Comptroller

MEMORANDUM

TO: Ms. Latona Thomas, Internal Audit Director

FROM: James Pehrson, CPA 
Finance Director/Comptroller

DATE: July 16, 2013

RE: Finance Department Response to Recommendation Number 1

Recommendation 1:

We recommended that written procedures be developed for all the Assistant Treasurer duties and responsibilities. We also recommended that additional steps be taken by the Board to ensure the by-law changes are implemented.

Finance Response:

Finance concurs with this recommendation. Procedures will be drafted by no later than September 30, 2013 to for all Assistant Treasurer duties that will assist in facilitating a smooth transition from Assistant Treasurer to a newly designated Assistant Treasurer. These procedures will include but not be limited to the following:

- Maintenance of the account register.
 - Post all transactions accurately and timely as they occur.
 - Post revenue (employee contributions) to the register using the Electronic Funds Transfer date provided by payroll department.
- Reconciliation of the checking account.
 - Stipulate that another person (reconciler) will receive the unopened bank statement or access the account online and perform the reconciliation.
 - Include a confirmation that the payee received checks written.
 - Establish a reasonable time for checks to remain outstanding before they are canceled.
- The Treasurer will approve, with supporting documentation, the semi-annual allocation to the charities.
- All CFR invoices should be approved by the Club's Board prior to payment or by the President and subsequently ratified by the Board in cases of emergencies.
 - All other miscellaneous expenditures (e.g. checks, stop payment fees) can be made on approval of the President and subsequently ratified by the Club's Board.
- Provide the Club Board with timely, informative reports.
 - Include information on received and pending CFR invoices during every financial report presentation or indicate that no disbursements require payment.
 - Send the report to the Board member prior to the meeting.
 - Ensure all disbursements are recorded in the minutes.

cc: Wendy Collins, PRCA
Valerie Davis, Public Safety
Diana Belanger, Finance
Tony Hagler, HR Director

Friendship Club's Response to the Draft Report



Cobb County...Expect the Best!

Friendship Club

MEMORANDUM

TO: Latona Thomas, CPA, Internal Audit Manager

FROM: Wendy A. Collins, PRCAD Recreation Coordinator, 2013 Friendship Club
President

DATE: July 18, 2013 *Wendy A. Collins*

SUBJECT: Response to Internal Audit Division's Draft Report-Review of Selected Activities of The Friendship Club for the calendar year ending December 31, 2012

The following is our written response to the *Draft Report-Review of Selected Activities of The Friendship Club for the calendar year ended December 31, 2012*. We are pleased to know your audit determined that disbursements were made in accordance with established by-laws and were approved by the Club's Board and Treasurer. Financial reports were submitted timely to the Board and The Center for Family Resources (CFR) followed established guidelines for the distribution of funds to employees. However, the lack of written procedures for managing the Club's finances impeded a smooth transition to a new Assistant Treasurer (AT) in December 2012. In addition, although a by-law change was properly voted on by the Board, additional actions are necessary to ensure the new changes are implemented.

You made three recommendations and our response to those recommendations are provided below.

Recommendation 1:

Develop written operational procedures for the Assistant Treasurer to account for the financial transactions of the Friendship Club. The procedures should include, but not limited to:

- Maintenance of the account register.
 - Post all transactions accurately and timely as they occur.
 - Post revenue (employee contributions) to the register using the Electronic Funds Transfer date provided by payroll department.

- Reconciliation of the checking account.
 - Stipulate that another person (reconciler) will receive the unopened bank statement or access the account online and perform the reconciliation.
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- The Treasurer will approve, with supporting documentation, the semi-annual allocation to the charities.
- All CFR invoices should be approved by the Club's Board prior to payment or by the President and subsequently ratified by the Board in cases of emergencies.
 - All other miscellaneous expenditures (e.g. checks, stop payment fees) can be made on approval of the President and subsequently ratified by the Club's Board
- Provide the Club Board with timely, informative reports.
 - Include information on received and pending CFR invoices during every financial report presentation or indicate that no disbursements require payment.
 - Send the report to the Board member prior to the meeting.
 - Ensure all disbursements are recorded in the minutes.

We recommend that written operational procedures be developed for the Assistant Treasurer to account for the financial transactions of the Friendship Club.

Response 1:

Finance and FC concur with this recommendation. Procedures will be drafted no later than September 30, 2013 for all Assistant Treasurer duties that will assist in facilitating a smooth transition from Assistant Treasurer to a newly designated Assistant Treasurer. These procedures will include, but not be limited to the following:

- Maintenance of the account register.
 - Post all transactions accurately and timely as they occur.
 - Post revenue (employee contributions) to the register using the Electronic Funds Transfer date provided by payroll department.
- Reconciliation of the checking account.
 - Stipulate that another person (reconciler) will receive the unopened bank statement or access the account online and perform the reconciliation.
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- The Treasurer will approve, with supporting documentation, the semi-annual allocation to the charities.
- All CFR invoices should be approved by the Club's Board prior to payment or by the President and subsequently ratified by the Board in cases of emergencies.
 - All other miscellaneous expenditures (e.g. checks, stop payment fees) can be made on approval of the President and subsequently ratified by the Club's Board.

- Provide the Club Board with timely, informative reports.
 - Include information on received and pending CFR invoices during every financial report presentation or indicate that no disbursements require payment.
 - Send the report to the Board member prior to the meeting.
 - Ensure all disbursements are recorded in the minutes.

Recommendation 2:

Require the by-laws committee to update and publish the revised by-laws on the CobbWeb and modify the enrollment form to show the minimum contribution amount.

Response 2:

We (FC) concur with this recommendation. The following will be included in the Club's by-law committee procedures no later than August 19th, 2013:

The by-laws committee will send the revised by-laws and any modification of the enrollment form to the Director of Human Resources within five (5) business days of approval of revisions to the by-laws and request that the changes are posted for all employees to view on the CobbWeb within an additional five (5) business days. The by-laws committee will confirm, by viewing CobbWeb that the revised by-laws and any changes to the enrollment form have been posted within ten (10) business days of the approval.

Recommendation 3:

Coordinate with HR to ensure the minimum amount on enrollment forms are verified prior to processing. Any form containing the amount less than the minimum should be held, the employee contacted, and the employee given the option to amend or elect not to participate. Written procedures should also be developed and maintained.

Response 3:

HR and FC concur with this recommendation. The following will be included in the Club's Membership Committee procedures no later than August 19th, 2013.

The Membership Committee will contact the Director of Human Resources to notify of any changes to the enrollment form. HR will ensure the minimum amount on enrollment forms are verified prior to processing. Any forms containing less than the minimum amount will be held, the employee contacted, and the employee given the option to amend or elect not to participate.

Cc: Barry Huff, Internal Audit
James Pehrson, CPA
Tony Hagler, HR Director
Valerie Davis, Public Safety