



***Audit of the
Treasurer's Office
for the Period
January 1, 2010 to December 31, 2010***

Fieldwork Performed by:

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Objective and Scope:

The Luzerne County Controller's Office has audited the Luzerne County Treasurer's Office for the year ended December 31, 2010. The focus of our audit is limited to determining if the Treasurer's Office has designed and placed into operation controls and procedures to ensure compliance with laws and regulations related to its revenue, expenditures and account activity. The Treasurer is an independently elected row office within the County of Luzerne, Pennsylvania. The management of this office is responsible for recording, updating, maintaining and reconciling all bank accounts of the office and providing the Controller with access to applicable reports of such reconciliation. It is also managements' responsibility to institute controls effective at preventing and detecting fraud, errors or misappropriation of assets.

The Luzerne County Controller's office is required by the Pennsylvania State County Code (hereinafter referred to as the Code) section 1724.1, to perform an annual audit of the Treasurer's Office. This annual audit is an internal auditing function (hereinafter referred to as the audit) authorized under order of the Code, therefore the Controller is required to file this report with the Luzerne County Court of Common Pleas.

Internal auditing is an independent function established within an organization to examine and evaluate the activities of the office under audit. In planning and performing our audit, we considered auditing standards generally accepted within the Unites States of America and Government Auditing Standards, issued by the Comptroller General of The United States. When applicable, these standards were applied to the objective of our audit.

Auditors assigned to the engagement are employed by Luzerne County under the Controller's Office and report directly to the Controller. The audit staff is considered organizationally independent to conduct and report on the audit.

The audit included examining, on a test basis, internal controls and procedures used for documentation, collection, distribution and utilization of county property, licenses, collections, gun permit transactions, petty cash and cash drawer funds, small games of chance, bingo and expenses. The audit also included assessing the accounting principles used. The audit will be planned to obtain a reasonable assurance about whether the internal controls and procedures used adequately document the revenue and expenses reported. However, because of the concept of reasonable assurance and because we will not perform a detailed examination of all transactions, there is a risk that material errors, irregularities or illegal acts, including fraud and defalcations, may exist and not be detected by us. If any matters of that nature come to our attention, it will be reported directly to management and the County Commissioners.

Methodology:

Includes:

- 1) Interviewing personnel in the Treasurer's Office including the Operations Manager, Office Manager, Accountant, and various employees.
- 2) Identifying the applicable laws, policies, procedures and regulations.
- 3) Identifying and assessing controls.
- 4) Testing transactions for compliance with internal controls and regulations established above.
- 5) Examining on a test basis, revenue collected and deposited for all licenses acquired in the Treasurer's Office, as well as, those collected from various authorized selling agents.

- 6) Examining on a test basis, voided dog licenses in order to determine if each was recorded correctly in the county wide financial system and the Treasurer's Office license tracking software.
- 7) Sampling departmental disbursements to determine compliance with the current internal control policies and the purchasing policy of the county. In addition, reviewing disbursements for proper authorization.
- 8) Reviewing cash drawer and petty cash reconciliations.
- 9) Examining on a test basis, revenue collected for bingo licenses and the reconciling the same to the county wide financial system.
- 10) Examining on a test basis the amounts collected for limited small games licenses and reconciling to those listed on the county wide financial system.
- 11) Sampling licenses issued for small games of chance for compliance and proper recording within the county wide financial system.

Our procedures include planning and performing the audit to obtain reasonable assurance about whether the revenues and expenses of the Treasurer's Office are presented fairly, in accordance with the Code, and free of material misstatements. Our findings and conclusions are based on test work which includes sampling evidence supporting the amounts of revenues and expenses. We believe that the evidence obtained provides a reasonable basis for our opinion.

Description:

We conducted a management interview with the Operations Manager and Accountant to review the current control procedures within the Treasurer's Office. Transactions are generally initiated by the Accountant, Office Manager or Operations Manager. All sales of dog licenses by approved selling agents are recorded into the county wide financial system by the Bookkeeper. Dog licenses sold in the Treasurer's Office are entered by one of the two clerks assigned to the counter. All receipting into ACS and the deposits are recorded by the Accountant. The current taxes collected for the cities of Wilkes-Barre, Nanticoke, and Pittston are entered by the Office Manager or an employee assigned to the counter. Any adjustments to revenue line items are initiated by the Accountant and approved by the Operations Manager. All adjustments to expenses are initiated by the Office Manager and approved by the Operations Manager.

Cash is received by the Treasurer's Office for licenses and for current taxes. The cash for the licenses is receipted into various license fee revenue accounts and any commissions are receipted in the appropriate general fund revenue line item. Cash is deposited into the bank daily. Cash received for collection of current taxes is receipted into the appropriate general fund line item and deposited into the same bank daily. If cash is received after the bank deposit is made for that day it is kept in a locked safe overnight.

Bank reconciliations are done monthly by the Account Executive or a Data Entry Clerk. Copies of cancelled checks are included with each bank statement and reconciliation. The monthly bank statements are always received by the Treasurer's Office and remain unopened until the reconciliation is prepared. If there are aged deposits or stale dated checks, the bank may choose to call the Treasurer's office for acceptance of items.

The Treasurer's Office has a petty cash fund of _____ which is counted nightly by the Account Executive. In addition, there is _____ in drawer money on hand. The employees in charge of authorizing the use of the petty cash fund are the Accountant and Office Manager. The uses of the petty cash fund are generally to make change for the registers and to cash checks.

A majority of the Treasurer's Office employees are effectively cross trained. When there are non-routine entries to be done, such as expenditures, or refunds, they are approved by either the Office Manager or the Operations Manager.

When the Treasurer's Office has a position available for a new employee, the interview and hiring of all new employees is initiated by the Operations Manager and the Office Manager. The Treasurer's Office does not use the Luzerne County Human Resources Department to conduct interviews. Newly hired employees paperwork is processed by the Office Manager and forwarded to Human Resources. Upon hiring, the Treasurer's Office adheres to the County Personnel Policy. The Treasurer's Office does not currently perform background checks on their newly hired employees.

All pay rates are established by the salary board. Pay raises for union employees are determined by contractual agreement between the union and the County Commissioners. Pay raises for management employees are approved by the Commissioners and the Salary Board. The Treasurer's Office does not allow overtime pay, in lieu of this, compensatory time off is approved by both the Office Manager and the Operations Manager. The Office Manager is in charge of maintaining a schedule of the accrued time off utilizing the office employee sign in sheet. The Office Manager and the Operations Manager approve employees' requests for time off.

The inventory of fixed assets of the Treasurer's Office is maintained by the Office Manager and kept in a safe location. It is updated annually and reviewed for accuracy. When replacing inventoried items, the Treasurer's Office follows the purchasing policy of Luzerne County. In the event that a fixed asset is damaged, the Treasurer's Office contacts Building and Grounds in order to repair or dispose of the item.

The majority of Luzerne County's revenue is tracked in the County-wide financial system with the exception of a few bond funds. The Treasurer's Office is striving to include all revenues. The bond and revenue line items that are not initiated or receipted by the Treasurer's Office are not part of this audit and are not addressed in this report.

Opinion and Conclusion:

In our opinion, the Luzerne County Treasurer's Office received, recorded, reported and reconciled all material transactions related to their office in accordance with the Code and established County Policies. The testing performed in this audit revealed no material financial findings, misstatements or other material non-compliance activities.

We have addressed previous audit findings as follows:

1. It was recommended that the Treasurer's Office implement the cash register system on the County-wide financial system to enable them to automatically post revenue to the appropriate line item. The cash register system has since been implemented in the Treasurer's Office.
2. It was recommended that the Treasurer's Office make deposits more often than once a month for receipts of bingo/small games of chance licenses. With the adoption of the County-wide financial system cash register application the deposits are now made daily.
3. It was recommended that the Treasurer's office reduce their petty cash fund from to With the elimination of cash payments to Jurors, the Treasurer's Office was able to lower the petty cash to our recommendations.

4. In a previous audit, it was recommended that the cash drawers be reconciled by someone other than the clerk who operated the register for the day. This finding has been addressed by assigning the Bookkeeper to recount the cash drawers and perform daily drawer reconciliations prior to deposit the following business day.

Findings:

1. While testing the small games of chance limited licenses, it was found that on three licenses the dates indicated for use were weeks or months apart, therefore making them invalid according to the instructions printed on page 4 of the State issued application. As defined by the application, a limited games of chance license is one which allows conduct of described games on three occasions over a span of no more than 7 days during the license term.
2. During the period under audit, the state allowed for an increase of \$0.45 for dog licenses in all categories. There was a period of approximately two weeks in December that the employees at the counter could manually adjust the fee to either include or exclude the \$0.45. The fees within ACS were not adjusted to reflect the increase and the applications were not changed in a timely manner.
3. The Treasurer's office staff must utilize two systems in order to process dog license. The entries must be made in the system to create the license and another entry must be made to record the transaction in the ACS financial system.
4. We noted in our testing that on December 28, 2010 there were 37 dog licenses processed through the registers, but only 36 commissions were recorded. On license # 404613 the \$0.45 charge was not collected.
5. We noted in our testing that there are inconsistencies in the way the dog license information is entered into the County wide financial system. Clerks are not consistently listing a name or license number from the application in printable fields on the financial system reports. The "S" which shows up on senior licenses has also been omitted on several entries tested in the financial system so the report appears to show duplicate licenses being sold.
6. Clerks at the front desk can void transactions without authorization from a manager. The cash register system is not set up to only allow voids with manager approval.
7. In testing the gun license applications, we found that 66% of the sample could not be identified by a purchaser's name on the county wide financial system. The licenses were also not issued in numerical order.
8. Six bingo licenses were issued at a reduced rate of \$10.00 each instead of the appropriate \$50.00. Another license was issued to a senior group which conducts bingo for its members only and was charged the \$100.00 instead of the reduced rate of \$50.00.
9. Entities requiring Bingo licenses and small games of chance are required to obtain a license prior to hosting the event, but due to the various activities within the County, the Treasurer's Office does not have procedures to ensure compliance with the act.
10. The balancing report provided to us by the Treasurer's Office showed numerous transactions as void, but only as a single sided entry in the county wide financial system.

11. Petty cash funds were utilized to advance payroll payments to another department's employee by direction of the County Chief of Budget and Finance. Petty cash funds are in excess of funds needed for making change.

Recommendations:


1. The Controller's Office recommends that the Treasurer's Office place a copy of ACT 156 in a place visible to the public. It is also recommended that all ACTS be visibly posted in the office for the public.
2. It is recommended that the Treasurer's Office complies with ACT 156 of 1988, and ACT 67 of 1981, and follow the pricing structure when issuing the appropriate class of licenses. It is also recommended that all fees and prices be visibly posted at the front counter for customer reference.
3. The County should investigate the possibility of eliminating duplicate entry of the dog licensing process. This would consolidate the issuance and archiving of dog census information with the revenue processing in one system.
 - a. A one system solution could make it easier to charge the correct dog license fee.
 - b. It could be easier to track of a dog, the owner, and the revenue with a solitary system.
4. License fee changes should be updated in the system immediately. Employees should not be allowed access to revenue line items or changes to revenue line item amounts. In cases where the fee increased and a timely change was not instituted, each transaction not in compliance with the change in fee should have been approved by a manager prior to acceptance and entry into the system.
5. It is recommended that all voids be authorized by management only.
6. To enhance county wide compliance with the license requirements for bingo and small games of chance, it is recommended that the Treasurer's Office advertise at least twice a year the requirements in three County-wide newspapers. The timing of which should coincide with the majority of license requests.
7. Gun licenses should be issued in numerical order and entered into ACS by licensee's name. This would allow for improved tracking of current year licenses in ACS.
8. Voided transactions within ACS should be updated on the system as negative amounts instead of being listed only with a description of void. The Treasurer's Office should contact the administrators of the County-wide financial system, and have the company modify the cash register report to show voids appropriately.
9. Petty cash funds should never be utilized for any functions associated with payroll. In addition, petty cash should not be utilized to cash checks. If the funds are strictly limited to making change, then a policy should be implemented to ensure the funds are not utilized for other purposes. Petty cash should be reduced from _____ to _____. The _____ in drawer money remains unchanged.

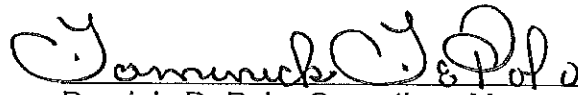
Responses:

1. In response to finding number 1 (the small games of chance licenses issued for a period of 7 days over several months), the application instructions as supplied by the State of Pennsylvania are not written with the same wording as the applicable State Act. The Act states "a limited occasion license to conduct small games of chance on not more than three occasions covering a total of seven days" but the application REV-1752 instructions state "A limited occasion license authorizes the licensee to conduct games of chance on a limited basis (on no more than 3 occasions over a period of no more than 7 days during the license term.)". The Treasurer's Office follows Acts as written and has never had an issue with the Act or instructions contradicting each other. It is agreed by the Treasurer's Office and the Controller's Office that the Act would supersede all instructions. The Act is posted on the County's website.
2. The dog license Act states that the treasurer "may collect and retain a sum equal to the cost of one postage stamp". The Treasurer's Office does not feel this is an issue of significance due to the limited amount of licenses applied for in the two week period and the immaterial amount of money. The issue did continue into the year 2011 and has been addressed and corrected prior to issuance of this report.
3. The Treasurer's Office is working with the County and ACS to correct reporting issues within the system including the improper void identification and the lack of line item detail. If the voided transaction issue cannot be corrected within the county's current accounting system, the treasurer's office is interested in reviewing new accounting systems that can track and maintain the much needed information on licenses and revenue line items. In addition, the Treasurer's Office is working with the license counter staff to ensure all entries into the general accounting system are identified by name or number.
4. The Treasurer's Office will work with the County and ACS to investigate the ability of the system to make all voids subject to manager approval.
5. All Sportsmen's Firearms Permits will be kept within the safe and issued in numerical order.
6. The Treasurer's Office will educate the staff to review the bingo license applications more thoroughly and assist the public with properly completing the applications.
7. The Treasurer's Office and the Controller's Office agree that enforcing license compliance within the County is necessary but limited mainly to public honesty and education. The Treasurer's Office currently does not have funds to budget for advertising. The County website, various proposals and legislative initiatives that are covered in the news media and occasional prosecutions that occur both in Luzerne County and surrounding counties all serve to educate the public on the necessity of compliance with the Small Games of Chance and Bingo Acts.
8. The Treasurer's Office complied with a request to issue petty cash funds for payroll on several occasions and did not feel it was an issue of significant concern. The Controller's Office has agreed to contact payroll regarding the issue.

Controller's Office:

Treasurer's Office:


Walter L. Griffith, Jr., Controller


Dominic DePolo, Operations Manager


Marilyn A. Derolf, CPA, Deputy Controller


Jason M. Parrish, Auditor


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