



Cobb County...Expect the Best!

INTERNAL AUDIT DIVISION

Report Number: 2010-001

***Review of Selected Activities of the
Friendship Club
for the calendar year ended December 31, 2009***

July 20, 2010

***Latona Thomas, CPA, Manager
Miranda Wang, CPA, Staff Auditor I
Barry Huff, Staff Auditor I***

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COBB COUNTY INTERNAL AUDIT

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Division Manager

July 20, 2010

MEMORANDUM TO COBB COUNTY MANAGER

FROM: Latona Thomas, CPA, Manager *LC*

SUBJECT: Final Audit Report - Review of Selected Activities of the Friendship Club for the calendar year ended December 31, 2009

Attached is the subject final audit report. The objective of our audit was to determine if funds of the Friendship Club were properly accounted for and disbursements from the fund were properly supported by adequate documentation and in accordance with established by-laws. In addition, we wanted to determine the implementation status of recommendations made in last year's report.

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. We believe the recommendations made in this report will ensure funds collected for charitable purposes are allocated properly to enhance the lives of the citizens of Cobb County and the Metro Atlanta community. The success of the Friendship Club's efforts supports the County's philosophy to deliver quality government services to the citizens of the County.

Executive Summary

Our review showed the funds of the Club were properly accounted for, and generally disbursements included adequate documentation. Disbursements were made in accordance with established by-laws and were approved by the Board. Duties for managing the Club's finances were adequately separated; bank reconciliations were conducted properly; financial reports were timely submitted to the Board; payroll deductions were timely deposited; and bank account balances were maintained at an optimal level to ensure the maximum return on interest and the avoidance of service charges.

There were 56 disbursements from the Employee Emergency Fund (EEF) totaling \$35,778. The Center for Family Resources (CFR), who administers the EEF for the County, properly assisted 39 employees who had financial hardships. However, we identified two erroneous disbursements totaling \$1,000, where a Cobb County School District employee was mistakenly recognized as a Cobb County Government employee. The \$1,000 given to the employee was refunded by the CFR.

We also noted that case workers at CFR did not strictly adhere to all the guidelines when making decisions to assist employees using the EEF. On a case-by-case basis, the case workers made judgment decisions to vary from the guidelines. We agreed with the rationale for each decision noted; however, the guidelines should be reviewed by the by-laws committee to determine if modifications are needed which would allow for the divert actions taken by the case workers.

We determined that 16 of the 20 recommendations from the previous year's report have been fully implemented. One recommendation was implemented with an acceptable alternative solution, two were partially implemented and one recommendation needs to be implemented. The Board plans to fully implement the remaining recommendations during calendar year 2010.

Recommendations

We recommended the President meet with officials at the CFR to determine actions taken to ensure that only Cobb County Government employees are assisted through the EEF. We also recommended that the by-laws committee discuss current guidelines for the EEF with officials at the Center for Family Resources and make recommendations to the Board to revise or eliminate requirements as needed.

Response

The President concurred with both recommendations and she, along with the members of the Board, will meet with CFR officials to discuss strengthening screening practices as well as changes to the EEF guidelines. The By-laws Committee will provide a draft of any changes to the guidelines to the Board. Any proposed amendments(s) will be publicized and active members will be given the opportunity to comment in writing before the proposed changes are voted on. They anticipate this process will be completed by the end of the calendar year. The complete response to the draft report is included as Appendix VI.

Copies of this report are also being sent to the managers and officers affected by the report recommendations. 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 purpose of the fund 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 fund and determines the disbursement of funds to the various charitable causes. The trustees are nominated and elected by members of the Club (employees who contribute to the fund). The 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, 2009, **\$1,340,603** has been disbursed to charitable organizations or causes¹.

In 1990, the Club expanded its mission and established the Employee Emergency Fund 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, 2009, the CFR has distributed **\$280,818** to employees in need.

Approximately 29 charitable organizations are supported by generous contributions of Friendship Club members. During our audit period, the Friendship Club distributed a total of \$121,278 -- **\$85,500** to charitable organizations, **\$35,778** to individuals through the Employee Emergency Fund (EEF). In recent years, the number of employees and amount of assistance has increased significantly. Since calendar year 2007, the number of employees seeking assistance increased 64% from 25 to 41 and the annual amount of assistance provided increased 83%.

Our audit period covered Friendship Club activities during calendar year 2009. This review was performed at the Cobb County Office Building during the period April through May 2010. 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

Our audit tests showed that all the Club's funds were accounted for and generally, disbursements from the fund are properly supported by adequate documentation and in accordance with established by-laws. We determined that:

- \$35,452.42 was in the Club's bank account.
- Bank account activities are independently reconciled monthly and reviewed by a third party.
- Duties for managing the Club's finances were adequately separated.
- Financial reports were submitted monthly to the Board for review and approval.
- Payroll deductions were timely deposited.
- Monthly invoices were submitted for reimbursement of EEF distributions.
- Bank account balances were maintained at an optimal level to ensure maximum return on interest and the avoidance of service charges.

Case Workers at CFR Did Not Strictly Follow Established Guidelines for Disbursements to Employees

We randomly selected 10 of the 56 instances of assistance disbursed from the Employee Emergency Fund (EEF) for calendar year 2009. Our review showed that generally the guidelines for providing assistance were being followed. Case files were well documented and the case workers did a thorough job of analyzing the financial conditions of the clients to determine whether assistance should be provided. However, two disbursements were made to a person who was not a Cobb County Government employee; case workers made judgment calls to assist employees that did not fully meet all requirements in three cases; and in three other cases, signatures were not obtained from landlords/mortgage holders as required.

Assistance provided to an unqualified individual

From our sample, we identified a disbursement for \$825 to an individual who was an employee of the Cobb County School District. The guidelines require that a person must be an employee of the Cobb County Government in order to qualify for assistance from the EEF. We expanded our review to the remaining 46 disbursements and identified an additional disbursement to the same school district employee for \$175. The recipients in the remaining 54 disbursements were Cobb County Government employees.

The Chief Financial Officer (CFO) at the CFR informed us that a caseworker mistakenly assumed a Cobb County School District employee was a Cobb County Government employee. The CFO included a partial refund of \$825 on the April invoice and the remaining \$175 was included on the May invoice to the Assistant Treasurer. Assisting unqualified individuals diverts funds that could be given to qualified charities and individuals.

Recommendation

The President or Designee should:

Recommendation 1: Discuss the instance of the misappropriation with officials at the CFR and ensure they have taken actions to make sure only Cobb County Government employees receive assistance from the EEF in the future.

Auditee Response:

We **concur** with this recommendation. We appreciate the auditor's thorough review of records of the Center for Family Resources (CFR) which administers assistance to Cobb County employees. This review revealed two instances of assistance provided to an employee of the Cobb County School District in error. These funds have been refunded to the Friendship Club by CFR. Along with several members of the Board of Trustees, I will meet with CFR officials in the near future to discuss strengthening screening practices as well as changes to the Employee Emergency Fund Guidelines.

The Guideline requiring employees to show consistent ability to maintain current financial obligations was not always followed

There were three disbursements where the employee did not show a consistent ability to maintain current financial obligations as required by the provisions of the EEF Guidelines. The Manager of Direct Services indicated² that strictly adhering to this guideline would prevent them from assisting most people. They analyze the client's financial situation and on a case-by-case basis make a judgment call on whether to provide assistance. If the deficiency is too much they will not assist; however, they feel that in most instances, they are addressing an event that caused the financial hardship rather than a pattern of money mismanagement. In these three cases, we agreed with the reason and rationale of the case workers to provide assistance. However, the guidelines should be modified to authorize the case workers to deviate from the guidelines on a case-by-case basis, if necessary.

² In the previous audit we questioned why cases were approved that did not meet the evaluative criteria "the client demonstrated a consistent ability to meet current financial obligations." The Manager of Direct Services provided us with this explanation.

"We would not serve many people if having a positive cash flow status was a qualifying factor. We work with the client and advise them on budgeting techniques, setting goals and planning ways to overcome their need for assistance. If the deficit is too much, we will not assist. Every situation is judged on a case-by-case basis and most times, the assistance is addressing an event that caused the financial hardship not a pattern of mismanagement."

The Requirement to obtain signatures from landlords/mortgage holders was not always followed

Five of the sampled disbursements assisted employees in the payment of rent or mortgage payments. In three of the five cases, the landlord/mortgage holder did not sign the invoice from the CFR as required by the guidelines. Acquiring the signature ensured the landlord/mortgage holder agreed to receive the payment from the employee. The CFR Chief Financial Officer stated that getting a signature from the mortgage holder is not practical when the company is out of town (which is usually the case) and landlords/mortgage holders are reluctant to sign the invoice for legal reasons. The Board needs to evaluate whether this provision of the guidelines should remain a requirement in light of its impracticality.

Recommendation

Members of the By-laws Committee should:

Recommendation 2: Discuss the validity and practicality of current employee assistance guidelines with officials at the CFR and propose revisions to the Board, if needed.

Auditee Response:

We concur with this recommendation. The audit revealed several criteria for receiving assistance that may need to be re-examined. Some modifications may be needed to allow caseworkers flexibility to provide assistance to employees. Members of the Board and By-laws Committee will meet with CFR officials and discuss the need for modifications to the guidelines. The By-laws Committee will provide a draft of any changes to the Employee Emergency Fund Guidelines to the Board of Trustees for their consideration. Any proposed amendment(s) will be publicized and active members will be given the opportunity to comment in writing before the proposed changes are voted on during a regular meeting following procedures established in Article VIII of the By-laws. Our expectation is that this process will be completed by the end of this calendar year.

Most Prior Year Audit Recommendations Have Been Implemented

We determined that 16 of the 20 recommendations from the previous year's report have been fully implemented. One recommendation was implemented with an acceptable alternative solution, two were partially implemented and one recommendation needs to be implemented. The Board plans to fully implement the remaining recommendations during calendar year 2010.

The remaining three recommendations yet to be fully implemented are:

Recommendation 5: **The President** should create operating procedures and include a requirement to hold an orientation at the first meeting of the year for current trustees informing them of the purpose and function of the Club and Board. In addition, the procedures should require the President to ensure the current trustees do not have a conflict of interest while serving.

Current Status: Partially Implemented. Operating procedures for the office of the President have not been documented; however, an orientation session was conducted and conflict of interest statements were signed by Board members. They plan to complete the operating procedures this year.

Auditee Response:

An orientation session was conducted during the first meeting of the year which included a discussion of the mission of the Friendship Club, responsibilities of the standing committees and officers, and a review of the By-laws and annual activities. Conflict of interest statements have been signed by Board members. Operating procedures already existed for the Membership Committee and the Nominations and Elections Committee along with a time-line of activities to prepare for the two allocation ceremonies each year. These procedures need to be updated. We could find no record of any other written procedures from prior years. Therefore, I will work with the Immediate Past President and President-Elect to document operating procedures to ensure a smooth transition of duties from one term to the next. When the new President takes over in 2011, he will be given a Procedures Manual that documents every aspect of the Friendship Club along with a CD with the files so that future Board members will be able to update the procedures as needed.

Recommendation 14: **The Allocation Committee** should solicit from the membership any charities they would like to see supported through the Club's donations. This will help ensure the members have a say in what charities receive funding from the Club.

Current Status: Partially Implemented. New Hires have been informed to submit names of charities they want supported, but an effort to solicit charities from all County employees has not been initiated. They plan to implement this year.

Auditee Response:

Through word of mouth, charities hear about the Friendship Club and contact members of the Board of Trustees throughout the year. Because of changes made in the supporting documentation needed to submit an application, some organizations cannot meet all the requirements. We continue to look for opportunities to let people know about the Friendship Club. A representative of the Membership Committee attends each New Hire Orientation, and new employees are informed they can submit names of charities they want supported. However, an effort to solicit charities from all County employees, or specifically Friendship Club members, has not been initiated. An email list of current members needs to be compiled so that messages can be shared with the entire membership. We will continue to use weekly News & Alerts to keep employees informed about activities of the Friendship Club, and we can solicit input about adding new charities at least once annually.

Recommendation 20: The By-Laws Committee and Board should develop standard operating procedures for the By-Laws Committee so future committee members will have guidelines to accomplish their mission. These procedures should include a systematic way of making proposed changes to the by-laws; including, how the membership will be informed of proposed changes, how comments will be gathered and analyzed and how the proposal will be presented to the Board for approval.

Current Status: Not implemented. Scheduled for completion in 2010.

Auditee Response:

This response goes hand-in-hand with Recommendation 5 above. The By-laws Committee and Board will develop operating procedures which will be completed by the end of this year so that future committee members will have written guidelines.

Detailed Objective(s), 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 for the Friendship Club for calendar year 2009. During this period, the Friendship Club distributed \$121,278 to charitable organizations and fellow employees.

The objective of our audit was to determine if funds of the Friendship Club were properly accounted for and disbursements from the fund were properly supported by adequate documentation and in accordance with established by-laws. In addition, we followed up on the status of recommendations made in last year's report.

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

- I. Verified that the checking account had been adequately reconciled each month by an independent person.
- II. Determined if there was an adequate separation of duties in the management of the Club's finances.
- III. Verified that all distributions from the fund were properly documented and authorized by the Board.
 - A. Determined whether the Center for Family Resources was following established guidelines for the distribution of funds to employees.
 1. Reviewed 10 of the 56 employee assistance case files at the Center for Family Resources.
 2. Reviewed the remaining 46 case files to confirm the distribution was made to a Cobb County Government employee.
 - B. Verified that there was adequate documentation to support the two allocation distributions to charitable organizations.
- IV. Determined if all funds were currently accounted for.
- V. Determined if the Acting Treasurer provided timely financial reports to the Club's Board.
- VI. Determined if the Board implemented all recommendations from the last Internal Audit Report.
- VII. Determined if contributions were deposited timely.
- VIII. Verified the checking account balance was maintained at a minimum level to avoid service charges and maximize interest paid on deposits to the savings account.

Abbreviations and Glossary

CFR	Center for Family Resources
EEF	Employee Emergency Fund

Appendix III

Major Contributors to the Report

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

Final Report Distribution List

Judy Sheppard, Administrative Division Manager, Information Services & Friendship Club President

Jim Pehrson, CPA, Finance Director/Comptroller & Friendship Club Treasurer

Laurie Ferguson, Accountant II & Friendship Club Acting Treasurer

Tony Hagler, Human Resources Director & Friendship Club Secretary

Rebecca Whiten, Human Resources Coordinator & Friendship Club Acting Secretary

Virgil Moon, CPA, Support Services Agency Director & Friendship Club Advisor
Internal Audit Division File

Outcome Measure

This appendix presents detailed information on the measurable impact that our recommended corrective action(s) will have on County governance. This benefit(s) will be incorporated into our annual report to the County Manager and Board of Commissioners.

Type and Value of Outcome Measure:

- Increased Revenue – Actual: Recovered \$1,000 in money given to an unqualified individual (see page 2).

Methodology Used to Measure the Reported Benefit:

We performed a 100% review of all distributions from the Employee Emergency Fund to identify unqualified recipients of assistance. We identified two distributions (\$825 and \$175) to one unqualified individual.

Auditee's Response to the Draft Report



TO: Latona Thomas, Manager, Internal Audit Division

FROM: Judy Sheppard, President, Friendship Club 

DATE: June 29, 2010

SUBJECT: Audit Report - Review of Selected Activities of the Friendship Club for the calendar year ended December 31, 2009

Thank you for the opportunity to meet with you and Barry to discuss the final report, "Review of Selected Activities of the Friendship Club for the calendar year ended December 31, 2009." I appreciate the in-depth review of financial records as well as follow-up to the recommendations made in last year's audit report.

On behalf of the Board of Trustees, I am pleased that the review showed funds of the Club were properly accounted for and disbursements made in accordance with established by-laws. We recognize there is room for improvement in the Club's operations and control, and we will take actions as outlined below as we continue to support charitable causes and assist employees of Cobb County.

This memo is intended as the Friendship Club's written response to this year's report dated June 24, 2010. Our responses to the recommendations made in the report are as follows:

Recommendation 1: The President or Designee should discuss the instance of the misappropriation with officials at the CFR and ensure they have taken actions to make sure only Cobb County Government employees receive assistance from the EEF in the future.

We **concur** with this recommendation. We appreciate the auditor's thorough review of records of the Center for Family Resources (CFR) which administers assistance to Cobb County employees. This review revealed two instances of assistance provided to an employee of the Cobb County School District in error. These funds have been refunded to the Friendship Club by CFR. Along with several members of the Board of Trustees, I will meet with CFR officials in the near future to discuss strengthening screening practices as well as changes to the Employee Emergency Fund Guidelines.

Recommendation 2: Members of the By-laws Committee should discuss the validity and practicality of current employee assistance guidelines with officials at the CFR and propose revisions to the Board, if needed.

We **concur** with this recommendation. The audit revealed several criteria for receiving assistance that may need to be re-examined. Some modifications may be needed to allow caseworkers flexibility to provide assistance to employees. Members of the Board and By-laws Committee will meet with CFR officials and discuss the need for modifications to the guidelines. The By-laws Committee will provide a draft of any changes to the Employee Emergency Fund Guidelines to the Board of Trustees for their consideration. Any proposed amendment(s) will be publicized and active members will be given the opportunity to comment in writing before the proposed changes are voted on during a regular meeting following procedures established in Article VIII of the By-laws. Our expectation is that this process will be completed by the end of this calendar year.

Progress Made on Prior Year Audit Recommendations

Recommendation 5: The President should create operating procedures and include a requirement to hold an orientation at the first meeting of the year for current trustees informing them of the purpose and function of the Club and Board. In addition, the procedures should require the President to ensure the current trustees do not have a conflict of interest while serving.

Current Status: Partially Implemented. An orientation session was conducted during the first meeting of the year which included a discussion of the mission of the Friendship Club, responsibilities of the standing committees and officers, and a review of the By-laws and annual activities. Conflict of interest statements have been signed by Board members. Operating procedures already existed for the Membership Committee and the Nominations and Elections Committee along with a time-line of activities to prepare for the two allocation ceremonies each year. These procedures need to be updated. We could find no record of any other written procedures from prior years. Therefore, I will work with the Immediate Past President and President-Elect to document operating procedures to ensure a smooth transition of duties from one term to the next. When the new President takes over in 2011, he will be given a Procedures Manual that documents every aspect of the Friendship Club along with a CD with the files so that future Board members will be able to update the procedures as needed.

Recommendation 14: The Allocation Committee should solicit from the membership any charities they would like to see supported through the Club's donations. This will help ensure the members have a say in what charities receive funding from the Club.

Current Status: Partially Implemented. Through word of mouth, charities hear about the Friendship Club and contact members of the Board of Trustees throughout the year. Because of changes made in the supporting documentation needed to submit an application, some organizations cannot meet all the requirements. We continue to look for opportunities to let people know about the Friendship Club. A representative of the Membership Committee attends each New Hire Orientation, and new employees are informed they can submit names of charities they want supported. However, an effort to solicit charities from all County employees, or specifically Friendship Club members, has not been initiated. An email list of current members needs to be compiled so that messages can be shared with the entire membership. We will continue to use weekly

News & Alerts to keep employees informed about activities of the Friendship Club, and we can solicit input about adding new charities at least once annually.

Recommendation 20: The By-Laws Committee and Board should develop standard operating procedures for the By-Laws Committee so future committee members will have guidelines to accomplish their mission. These procedures should include a systematic way of making proposed changes to the by-laws; including, how the membership will be informed of proposed changes, how comments will be gathered and analyzed and how the proposal will be presented to the Board for approval.

Current Status: Not implemented. This response goes hand-in-hand with Recommendation 5 above. The By-laws Committee and Board will develop operating procedures which will be completed by the end of this year so that future committee members will have written guidelines.

The changes made to the Friendship Club as a result of the 2008 audit have been positive in every respect. I look forward to even more positive results in response to recommendations contained in the 2009 audit.

If any further information is needed, please let me know.

cc: Barry Huff, Internal Auditor
Tony Hagler, Director of Human Resources
Jim Pehrson, Director of Finance
Friendship Club Board of Trustees