



*Cobb County...Expect the Best!*

***INTERNAL AUDIT DIVISION***

***Report Number: 2011-016***

***FINAL REPORT - Review of Selected Activities of  
the Friendship Club  
for the calendar year ended December 31, 2010***

***September 1, 2011***

***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*

September 1, 2011

### MEMORANDUM TO COUNTY MANAGER

FROM: Latona Thomas, CPA, Manager *LT*  
SUBJECT: **FINAL REPORT** - Review of Selected Activities of the  
Friendship Club for the calendar year ended December 31, 2010

Attached for your review and comments is the subject draft report. The objective of our audit was to determine if funds of the Friendship Club (the Club) were properly accounted for and disbursements from the fund were properly supported by adequate documentation and in accordance with 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. We believe the recommendations made in this report will ensure funds collected for charitable purposes are accounted for adequately.

#### *Executive Summary*

Our review showed the funds of the Club were properly accounted for, and disbursements included adequate documentation. Disbursements were made in accordance with established by-laws and were approved by the Club's Board and Treasurer, except in one instance. 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 avoidance of service charges.

Although the duties for the administration of the fund are disbursed among different functions and personnel, we believe the controls over the fund could be strengthened if someone other than the Assistant Treasurer received the monthly bank statements and reconciled the account. Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud.

In addition, a case manager at the Center for Family Resources (CFR) exceeded the \$1,000 per incident, per employee, limit on assistance. Although the reason for the variation seems justified, guidelines require that the case manager request permission from the Board to deviate from the \$1,000 limitation. Representatives from the Board and the Assistant Treasurer met with CFR officials in July 2010 and agreed upon modifications to the Employee Emergency Fund Guidelines including written instructions for deviating from the guidelines. This over-the-limit assistance occurred prior to the July meeting. Two other exceptions noted during 2010 were properly approved by the Club's Board subsequent to the July meeting. We consider the Board's actions in July 2010 adequate and no additional actions are recommended.

Each year a non-deductible portion of the contribution to the Club is calculated by determining the percentage of contributions distributed to employees. Although the percentage used to determine the non-deductible portion was correct for 2010, the percentage was calculated using the amount of contributions received. Additional controls are needed to ensure the proper figures are used in the calculation.

### *Recommendations*

We recommended the Treasurer assign an independent person to receive and reconcile the Club's bank account monthly and submit the results to the Finance Division Manager for review and validation. The President should include the process for calculating the non-deductible percentage in existing Club procedures and provide them to Human Resources. Also, require that the Assistant Treasurer calculate and provide the results to Human Resources annually.

### *Response*

The President and Treasurer concurred with both recommendations and will assign another General Accounting employee to receive the bank statements and reconcile them monthly. The requirement to calculate the non-deductible percentage will be included in the Club's procedures. The complete response to the draft report is included as Appendix V.

Copies of this report will be sent to 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 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, 2010, **\$1,743,573** has been disbursed to charitable organizations, employees or other causes<sup>1</sup>.

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, 2010, the CFR has distributed **\$305,470** to employees in need.

Approximately 29 charitable organizations are supported by the generous contributions of Friendship Club members. During our audit period, the Friendship Club distributed a total of \$122,152 — **\$97,500** to charitable organizations, **\$24,652** to individuals through the Employee Emergency Fund.

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

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<sup>1</sup> 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:

- \$13,199.67 was in the Club's bank account as of December 31, 2010.
- Most duties for managing the Club's finances were adequately separated.
- Financial reports were submitted monthly to the Club's Board for review and approval.
- Payroll deductions were timely deposited.
- Monthly invoices were submitted for reimbursement of employee emergency fund distributions.
- Generally, established guidelines for providing assistance to employees were followed.
- Bank account balances were maintained at an optimal level to ensure maximum return on interest and the avoidance of service charges.

### ***Controls Over the Administration of the Friendship Fund Could Be Strengthened***

#### **Monthly Reconciliations**

Although the duties relating to the administration of the Club's finances have been disbursed among different functions and personnel, the task of reconciling the bank account is not performed by someone other than the Assistant Treasurer. Although the Finance Division Manager reviews the reconciliation that the Assistant Treasurer performs, the controls over the fund would be strengthened if someone else received the bank statement and reconciled the account monthly.

Prior to this year, an independent person reconciled the Club's bank account and the Accounting Supervisor reviewed their reconciliation. When the former Assistant Treasurer retired, the person who performed the reconciliations in the past took over as Assistant Treasurer and continues to reconcile the account.

Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and the handling any related assets. No one individual should control all key aspects of a transaction or event.

## ***Recommendation***

The Treasurer should:

**Recommendation 1:** Designate someone other than the Assistant Treasurer to receive and reconcile the Club's bank account monthly and give the results to the Finance Division Manager for review and validation.

### **Auditee Response:**

We have been following the same procedure as with the prior Assistant Treasurer by having another employee in General Accounting review the monthly bank statement reconciliation performed by the Assistant Treasurer. This process will be changed and a General Accounting employee other than the Assistant Treasurer will receive the bank statements and reconcile them monthly starting with the August 2011 statement.

### **Distributions from the Employee Emergency Fund**

We reviewed 10 of the 39 instances of assistance disbursed from the Employee Emergency Fund (EEF) for calendar year 2010. Our review showed that generally the guidelines for providing assistance were being adhered to. Case files contained copies of documents solicited from the client to support their request for assistance, and the case managers analyzed the financial conditions of the clients to determine whether assistance should be provided.

There was one case where the case manager gave the client the maximum '\$2,000 per 12-month period' assistance rather than limiting the assistance to the '\$1,000 per incident' limit. The case manager provided the client with two months rent (December 2009<sup>2</sup> and January 2010) totaling \$1,600 and assistance with utilities totaling \$400. The case manager stated that she was providing enough assistance so the client would not get behind in rent during the period they expected to be out of work. She was unable to explain why she did not solicit approval from the Club's Board to deviate from the guidelines.

Granting the assistance in this manner appears reasonable, because the client, who initially requested help in December 2009, could have requested assistance in January 2010 on the same basis as the initial request. Although the disbursement appears reasonable, it is clearly a deviation from the guidelines. The case manager should have requested approval from the Club's Board to deviate from the established guidelines and retained documentation of their approval in her case file. When CFR fails to follow guidelines, the Club's Board cannot be assured that the funds from the EEF are spent fairly and responsibly.

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<sup>2</sup> This 2009 CFR disbursement was included in our audit scope because the reimbursement from the Club's account was in January 2010.

Although the \$1,000 per incident limit was in the guidelines, there were no written instructions for CFR to obtain approval from the Club's Board prior to any deviation from the guidelines. Representatives from the Club's Board and the Assistant Treasurer met with CFR officials in July 2010 and agreed upon modification to the Employee Emergency Fund Guidelines including documenting the requirement to ask for deviation in exception cases. The \$2,000 instance discussed above occurred prior to the July meeting. Subsequent to the July meeting, two other exceptions were properly approved by the Club's Board, in accordance with the guidelines. We consider the Board's actions in July 2010 adequate and no additional actions are recommended.

### **Calculating The Percentage Of Non-Deductible Employee Contributions**

Every year the Human Resources (HR) department sends a statement, for income tax purposes, to all members of the Club showing their total contributions, the percentage of their contribution that was used to assist employees through the EEF and a remaining amount that is tax deductible.

The taxable percentage for 2010 was calculated by dividing the amount of donations to employees by **the total amount of contributions received** rather than the total contributions distributed. Although the figures used to calculate the percentage were different, the percentage calculated (20%) was correct. Additional controls are needed to ensure that the proper amounts are used in the future. The Treasurer should calculate the percentage of non-deductible contributions by dividing the amount of donations to employees by the total amount of contributions distributed<sup>3</sup> for the year and notify the HR department of the results.

### **Recommendation**

The President should:

**Recommendation 2:** Include the process for calculating the non-deductible percentage in existing Club procedures and provide them to Human Resources. Require that the Assistant Treasurer calculate and provide the results to Human Resources annually.

### **Auditee Response:**

We concur with this recommendation. The requirement to calculate the non-deductible percentage will be included in the Club's procedures.

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<sup>3</sup> Minus any miscellaneous items like purchases of checks or service charges.

### *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 2010. During this period, the Friendship Club distributed \$122,152 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 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 39 employee assistance case files at the Center for Family Resources.
    2. Reviewed all assistance provided to employees to determine if assistance exceeded the 'two instance, \$1000 limit' guidance.
  - B. Verified that there was adequate documentation to support the two allocation distributions to charitable organizations.
- IV. Determined if the Acting Treasurer provided timely financial reports to the Club's Board.
- V. Determined if contributions were deposited timely.
- VI. Verified that the checking account balance was maintained at a minimum level to avoid service charges and maximize interest paid on deposits to the savings account.

## Appendix II

### *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*

Bill Shelton, Road Maintenance Division Manager, DOT & Friendship Club President  
Jim Pehrson, CPA, Finance Director/Comptroller & Friendship Club Treasurer  
Laurie Ferguson, Accountant III & 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

*Auditee's Response to the Draft Report*



DEPARTMENT OF TRANSPORTATION

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MEMORANDUM

TO: Latona Thomas, CPA, Internal Audit Manager

FROM: Bill Shelton, President, Cobb County Employees Friendship Club 

DATE: August 24, 2011

SUBJECT: Response to DRAFT REPORT – Review of Selected Activities of the Friendship Club for the Calendar Year Ended December 31, 2010

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, 2010*. We are pleased to know your audit showed that all the Club's funds were accounted for and disbursements from the fund were generally properly supported by adequate documentation and in accordance with established by-laws.

Below is our response to the two recommendations made in the report.

**Recommendation 1**

The Treasurer should designate someone other than the Assistant Treasurer to receive and reconcile the Club's bank account monthly and give the results to the Finance Division Manager for review and validation.

**Response:** We have been following the same procedure as with the prior Assistant Treasurer by having another employee in General Accounting review the monthly bank statement reconciliation performed by the Assistant Treasurer. This process will be changed and a General Accounting employee other than the Assistant Treasurer will receive the bank statements and reconcile them monthly starting with the August 2011 statement.

**Recommendation 2**

The President should include the process for calculating the non-deductible percentage in existing Club procedures and provide them to Human Resources. Require that the Assistant Treasurer calculate and provide the results to Human Resources annually.

**Response:** We concur with this recommendation. The requirement to calculate the non-deductible percentage will be included in the Club's procedures.