



*Cobb County...Expect the Best!*

***INTERNAL AUDIT DEPARTMENT***

***Report Number 2017-001***

***FINAL REPORT– Review of Selected Activities of the  
Friendship Club for the Calendar Year Ending  
December 31, 2015***

***January 20, 2017***

***Latona Thomas, CPA, Director  
Andrea Clayton, Staff Auditor I  
Megan Pickens, Staff Auditor I***

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# COBB COUNTY INTERNAL AUDIT

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Director

January 20, 2017

## MEMORANDUM

TO: David Hankerson, County Manager

FROM: Latona Thomas, CPA, Director 

SUBJECT: **FINAL REPORT** – Review of Activities of the Friendship Club for the Calendar Year Ending December 31, 2015

Attached for your review and comments is the subject final report. The overall objective of this review was to determine if funds of the Cobb County Employees' Friendship Club (the Club) had been properly accounted for and disbursements were properly documented and in accordance with the established by-laws. In addition, we determined if procedural or policy changes were made in accordance to established by-laws and if prior year recommendations had been implemented.

### *Impact on the Governance of Cobb 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-hours required. This year's assessment of the controls over the Club's finances provides assurance to employees that their contributions are handled responsibly and make an impact in the lives of fellow employees and families in the community.

### *Executive Summary*

Our review determined disbursements were generally made in accordance with the mission of the Club and that the Center for Family Resources (CFR) administered the Employee Emergency Fund (EEF) in accordance with established guidelines; however, the prior years' audit recommendations to document operational procedures and to properly account for and maintain financial records were not implemented. As a result, financial records were not maintained properly, account reconciliations were not performed, CFR invoices were not paid in a timely manner, bank account contact information was not updated timely, proper segregation of duties practices had not been deployed, and the Club's board approval was not documented for EEF exceptions. In addition, our current review determined that meetings were not held on a consistent basis to document the discussions and decisions of the Club's Board of Trustees.

### ***Subsequent Event***

Subsequent to the issuance of the draft report, the 2016 Club President resigned. We were also made aware that members with expired terms were asked to extend their service term until the Club could address its leadership and other board member vacancies. The Club's Secretary has initiated the nomination process for board members, which will be followed by a formal election by the Club membership. The elections are expected to be held in January 2017, and a full board in place by February 28, 2017.

### ***Recommendations***

We recommended that the Club's Officers should ensure prior years' audit recommendations are fully implemented, all banking transaction supporting documentation is downloaded and maintained, and meetings are held in compliance with the established by-laws.

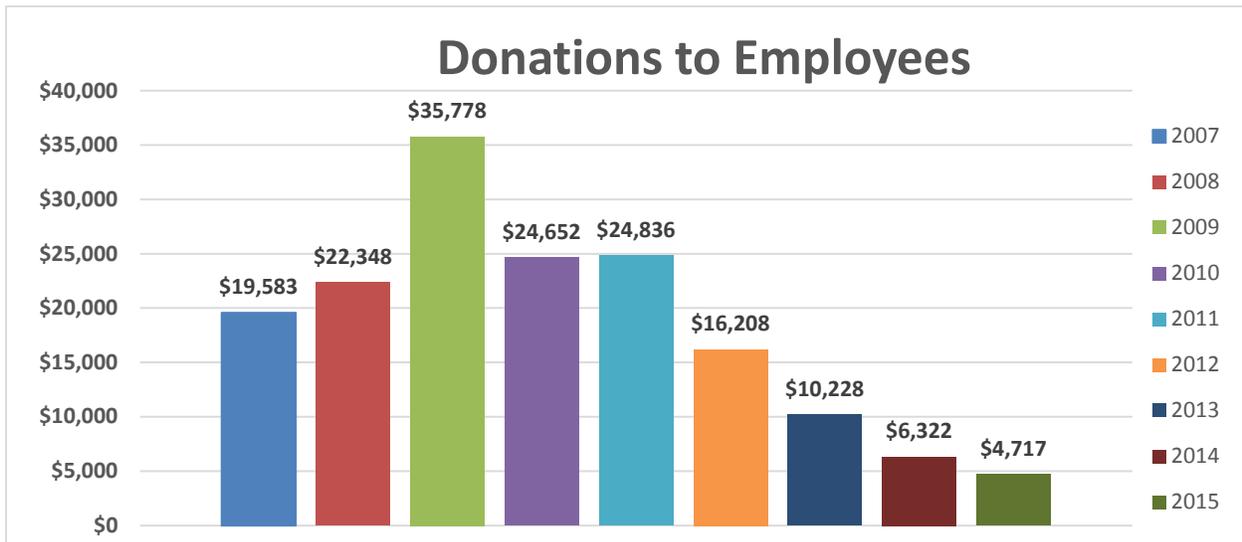
### ***Response***

The Friendship Club President provided a combined response to our draft report and concurred with each of the three recommendations. The complete responses to the draft report are included in Appendix VI. We will perform a follow-up on the corrective actions during our annual review of selected activities for the calendar year ending 2016. A copy of this report will be distributed to those affected by the. Please contact me at (770) 528-2559 if you have questions or Andrea Clayton, 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 employee-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 through December 31, 2015, the Club has disbursed **\$2,204,203**, respectively to charitable organizations, employees or other causes<sup>1</sup>.

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, 2015, the CFR has distributed **\$367,781**<sup>2</sup> respectively, to employees in need.



Source: Assistant Treasurer Financial Documents

<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 years' report, the by-laws were changed to disallow similar contributions in the future.

<sup>2</sup> Reflects a one dollar rounding from prior year.

Our audit period covered Friendship Club activities during calendar year 2015. 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.

## *Results of Review*

During 2015, the Club distributed a total of \$49,717 — **\$45,000** to 23 charitable organizations and **\$4,717** to seven individuals on ten occasions through the Employee Emergency Fund (EEF). We also determined that:

- As of December 31, 2015, \$74,504 was in the Club's bank account.
- 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.
- Prior years' audit recommendations were not fully implemented resulting in continued control weaknesses.

### ***Prior Audit Recommendations Need to be Fully Implemented***

Each year the Internal Audit Department reviews the Club's activities and if necessary, makes recommendations to improve or implement controls to better safeguard assets and improve efficiency. As such, we have incorporated a follow-up of the corrective actions taken to implement the prior years' audit recommendations. Corrective actions were implemented to accurately calculate the non-tax deductible percentage of employee contributions, fulfill the Club Secretary duties, and manage access to the online account. The remaining recommendations to document operational procedures and to properly account for and maintain financial records were not implemented. As a result, the control weaknesses discussed in the accompanying pages are continued from prior years with current outcomes.

#### ***The check register was not maintained properly***

The check register is kept in an Excel worksheet by the Assistant Treasurer (AT) to record all deposits, checks, and miscellaneous transactions to the Club's bank account. It should provide the balance of funds available for use by the Club's Board. We found that one \$500 check, dated June 30, 2015, has been outstanding in excess of one year. A replacement check was issued and subsequently cleared the bank in 2016, but there is no evidence to substantiate a stop payment on the initial check. As of the date of this report, the initial check remains outstanding and has not been located. Missing checks should be researched and a stop payment applied prior to a replacement check being issued.

In addition, it is our understanding that the missing check was lost subsequent to the Club's July 2015 allocation ceremony. We were unable to attest to the check's location or current custodianship. The AT should maintain all checks until presented to the respective charitable organizations.

If a charitable organization does not attend an allocation ceremony, the checks should be retained by the AT until alternative arrangements can be made to deliver or mail the check according to the Club's procedures. Proper safeguards will eliminate or reduce the risk of loss, theft, or misappropriation.

### **Bank reconciliations were not performed**

There was no evidence of reconciliations performed for the calendar year 2015, and documentation to substantiate all transactions was not readily available upon request. As indicated previously, a check register was created from bank statement transactions, but there was no evidence that someone other than the AT prepared, reviewed, and approved this information as provided. The cancelled checks for 2015 were also not maintained or readily available. During our review of the Club meeting minutes, we did note a treasurer's report as of May 31, 2015, that reflects the bank balance, but no bank reconciliation.

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 and should include adequate segregation of duties. Supervisory review/approval is also a critical component of a reconciliation.

### **CFR invoices were not paid in a timely manner**

As found in the previous audit, CFR 2015 invoices were not paid in a timely manner, although CFR made disbursements from the EEF. January through July 2015 invoices were not paid until November 2015, and August through November 2015 invoices were not paid until January 2016. 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. We reviewed email correspondence acknowledging the untimely payments in some instances, but not in others. We also noted a change in the AT personnel during mid-2015, but we were unable to substantiate the untimely payments for the latter half of 2015.

The timely recording of transactions 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. A general email should be used that is accessible to designated and back-up AT personnel to ensure the invoices from CFR are received, processed and paid timely.

### **Bank account contacts were not updated in a timely manner**

Although the online access authority was updated to the current AT, the former AT name was still listed on the bank statement as a person who could perform financial transactions. In order to minimize the risk of fraudulent activity, access to the bank account should be limited to employees authorized to manage the Club's account. All changes in bank account authorization should be made in a timely manner anytime there is a change in staff. This information had not been updated since 2012, although several staffing changes occurred during that time. Effective January 2016, the bank account contact information was changed to reflect current personnel.

### **Oversight over the Club's activities is needed**

Additional controls are still needed to ensure the Club's leaders are performing their assigned responsibilities consistently and appropriately. Inadequate oversight, monitoring, and lack of segregation of duties of the Club's activities have contributed to the continuation of issues.

Club meetings were not held in accordance with the established by-laws. Article V, Section 4 states that the Club's Board of Trustees shall meet at least bi-monthly. During 2015, the Club's Board only held four meetings, one of which was a site visit. No meetings were held for the six-month period July-December 2015; therefore, we were unable to substantiate Club board approval of disbursements. Regular meetings are essential in ensuring the Club handle matters and/or issues as they arise and in a timely manner. In addition, we found that the meeting minutes were not readily available for review for all meetings. We subsequently received the respective minutes with one pending approval at the next Club board meeting. Timely meeting minutes are critical to ensure the official record of discussions, decisions, and approvals are properly documented to support Club activities.

Financial reports were not provided timely to the Club's board. Article VI, Section 4 states that the Club Treasurer shall render bi-monthly financial statements and at any allocation of funds meeting. For the four meetings in 2015, we only noted one financial report presented during the June 2015 Club board meeting. In addition, cancelled checks were not downloaded and maintained as recommended in prior years resulting in additional audit fieldwork, timing delays, and costs. We utilized alternative procedures to validate confirmations by allocation recipients which required additional staff hours not originally budgeted. We subsequently received the cancelled checks after the alternative procedures had been completed.

The by-laws also identify the duties of Club officers, with the Club President task with general supervision of overall Club affairs. Although some responsibilities may be delegated, the respective Club officers retain the oversight and fiduciary responsibility of the Club funds. As such, Club officers need to re-visit with the by-laws and develop written procedures to ensure their duties are being carried out as required. The Club President should also consider a periodic update be provided to the Club's Board of Trustees.

Management reviews and monitoring at a functional level is a basic internal control activity which compares actual performance to planned or expected results. Adequate documentation is necessary to provide evidence of execution of these activities. The review activities include approvals, authorizations, verifications, reconciliations, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation.

### **Board Approval for EEF Exceptions was not obtained**

As noted in prior years, we found an instance where the Club's Board did not ratify a decision of the Club President. The EEF was established to assist County employees who experience financial emergencies and are unable to pay bills such as rent, mortgage, utility, or medical bills. The program is administered by the CFR as their staff is trained to interview and make a determination of the need for financial help. The EEF guidelines provide general policies for the program and states, "Exceptions to these guidelines will be reviewed on a case-by-case basis by the CFR. Any exception recommended by the CFR will be presented to the Board of Trustees, and approval will require a majority vote of the quorum of the Board."

In December 2014, CFR staff contacted the President of the Club requesting approval for the EEF to provide payments for an exception to the guidelines. The President gave CFR the approval via email, which was within the guidelines but never obtained Club board ratification. The CFR acted appropriately in seeking approval; however, the Club President should have obtained subsequent ratification from the Club's board as required.

The by-laws and guidelines are in place to ensure no one is acting autonomously and misappropriating the intent or assets of the Club. The Club President is authorized to approve exceptions but his actions must be ratified by the Board as a safeguard against abuse. The Club President should seek the Club's board approval and maintain documentation therein for all exceptions and in order to perform these duties, regular meetings are held.

### **Recommendations**

The Friendship Club Officers should:

**Recommendation 1:** Ensure prior years' audit recommendations are implemented, to include at a minimum the following:

- Develop written operational procedures for the Assistant Treasurer to account for the financial transactions of the Friendship Club, including:
  - Maintenance of the check register;
  - Regular reconciliation of the Friendship Club account;
  - Treasurer approval of the semi-annual allocation amounts;
  - Proper segregation of duties controls;
  - Approval of all CFR invoices by the Friendship Club's Board prior to payment or by the President, with subsequent ratification by the Friendship Club's Board in cases of emergencies;
  - Presentation of timely, informative financial report to the Friendship Club's Board; and
  - Ensure account updates are made when staff changes occur.
- Ensure Friendship Club meetings are documented and maintained as required in the by-laws.

**Auditee Response:** **Concur.** We have written operational procedures for the Assistant Treasurer that includes maintenance of the check register and reconciliation of the account. That is why a running check log is kept when checks are written and then when checks have cleared that information is placed in there as well as making sure the fund total on the reconciliation sheet matches the total of the statement, accounting for any outstanding checks. We have segregation of duties such as the Assistant Treasurer does not sign checks unless it is an absolute emergency. One of the other accountant holders signs the checks after reviewing the necessary back up. All CFR payments are voted on and approved before any check is written out by the Treasurer. But we will review these procedures and determine if any changes should be made.

Position Responsible: Treasurer

Expected Completion Date: June 30, 2017

**Recommendation 2:** Ensure that all banking transaction information is downloaded and maintained to ensure supporting documentation is readily available upon request.

**Auditee Response:** **Concur.** In past audits it was never a problem for internal audit to view the necessary check copies that were needed for the audit. Unfortunately, when we changed bank account types they did not inform us that we would lose all account history. We have already downloaded all checks that have cleared the account for 2016 so that this will not be an issue again.

Position Responsible: Treasurer

Expected Completion Date: January 31, 2017

**Recommendation 3:** Ensure meetings are held at least bi-monthly in compliance with the established by-laws.

**Auditee Response:** **Concur.** Beginning in the first month of 2016 an annual monthly meeting was posted to all members of the Friendship Club. Much effort has been placed on the importance of the meetings so that voting or ratifications of previous votes for items such as payments to CFR. Current meetings are being held to comply with club by-laws.

Position Responsible: Club President

Expected Completion Date: March 1, 2017

### *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 2015.

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 and if prior year recommendations have been implemented.

We conducted this audit in conformance with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

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

- I. Verified 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 segregation 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. Using the Assistant Treasurer's disbursement detail, reviewed the instances of assistance for all employees.

a) Examined the case file and instance of assistance for all employees to determine if employee assistance guidelines were followed to qualify and determine the amount of assistance to the employee.

2. Determined if assistance exceeded the "two-instance, \$1,000 limit" guideline.

a) Scheduled all the assistances and identify the employees who received multiple assistance.

b) Determined if the amount of assistance exceeded \$1,000 per instance and \$2,000 per year.

c) Looked for board approval for all exceptions

3. Reviewed the Acting Treasurer's disbursement records to determine if the invoice amounts agree with the disbursement to the CFR.

a) Obtained a list of the 2015 invoices from the CFR to validate the Club's documentation.

b) Obtained a list of assistance provided through the Employee Emergency Fund directly from 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*

CLUB	Cobb County Friendship Club
BOARD	Friendship Club Board of Trustees
AT	Assistant Treasurer
CFR	Center for Family Resources
EEF	Employee Emergency Fund

*Major Contributors to the Report*

Latona Thomas, CPA, Internal Audit Director  
Andrea Clayton, Auditor-in-Charge

*FINAL Report Distribution List*

Michael Watts, Customer Service Manager, 2016 Friendship Club President  
Bill Volckmann, Interim Finance Director/Comptroller, Interim Friendship Club Treasurer  
Tony Hagler, Human Resources Director, Friendship Club Secretary  
Jocelyn Roper, Accountant II, Friendship Club Assistant Treasurer  
Kristen Loughman, Employee Communications Specialist, Friendship Club Assistant Secretary  
Kristy Hartzell, 2015 Friendship Club President  
Cobb County Audit Committee  
Internal Audit Department File

## *Outcome Measures*

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

### **Type and Value of Outcome Measure:**

- Reliability of Information – Recommendations, when implemented, will provide assurance of the completeness and accuracy of the Friendship Club activities and financial transactions. (See pages 3 – 7).

### **Methodology Used to Measure the Reported Benefit:**

Total employee contributions and distributions for 2015 was \$105,935 and \$49,717, respectively. In addition, the check register was not maintained properly or in a timely manner, and the Friendship Club board meetings were not held on a consistent basis to reflect decisions made.

## Auditee's Response

### Internal Audit Friendship Club Response



Cobb County Friendship Club

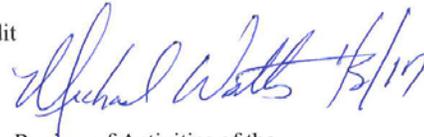
Michael Watts/President

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DATE: December 12, 2016/Revised January 4, 2017

TO: Latona Thomas, CPA, Director, Internal Audit

FROM: Michael Watts, Friendship Club President



SUBJECT: Response to the Internal Audit Draft Report – Review of Activities of the Friendship Club for the Calendar Year Ending December 31, 2015

This memo is in response to the subject report dated December 5, 2016. You identified opportunities to improve the overall activities of the Friendship Club. Several recommendations were made and our response to those recommendations is below.

### ***Recommendations***

The Friendship Club Officers should:

***Recommendation 1:*** Ensure prior years' audit recommendations are implemented, to include at a minimum the following:

- Develop written operational procedures for the Assistant Treasurer to account for the financial transactions of the Friendship Club, including:
  - Maintenance of the check register;
  - Regular reconciliation of the Friendship Club account;
  - Treasurer approval of the semi-annual allocation amounts;
  - Proper segregation of duties controls;
  - Approval of all CFR invoices by the Friendship Club's Board prior to payment or by the President, with subsequent ratification by the Friendship Club's Board in cases of emergencies;
  - Presentation of timely, informative financial report to the Friendship Club's Board; and
  - Ensure account updates are made when staff changes occur.
- Ensure Friendship Club meetings are documented and maintained as required in the by-laws.

***Response:*** *We concur.*

*We have written operational procedures for the Assistant Treasurer that includes maintenance of the check register and reconciliation of the account. That is why a running check log is kept when checks are written and then when checks have cleared that information is placed in there as well as making sure the fund total on the reconciliation sheet matches the total of the statement, accounting for any outstanding checks. We have segregation of duties such as the Assistant Treasurer does not sign checks unless it is an absolute emergency. One of the other accountant holders signs the checks after reviewing the necessary back up. All CFR payments are voted on and approved before any check is written out by the Treasurer. But we will review these procedures and determine if any changes should be made.*

**Treasurer: June 30, 2017**

**Recommendation 2:** Ensure that all banking transaction information is downloaded and maintained to ensure supporting documentation is readily available upon request.

**Response:** *We concur.*

*In past audits it was never a problem for internal audit to view the necessary check copies that were needed for the audit. Unfortunately, when we changed bank account types they did not inform us that we would lose all account history. We have already downloaded all checks that have cleared the account for 2016 so that this will not be an issue again.*

**Treasurer: January 31, 2017**

**Recommendation 3:** Ensure meetings are held at least bi-monthly in compliance with the established by-laws.

**Response:** *We concur.*

*Beginning in the first month of 2016 an annual monthly meeting was posted to all members of the Friendship Club. Much effort has been placed on the importance of the meetings so that voting or ratifications of previous votes for items such as payments to CFR. Current meetings are being held to comply with club by-laws.*

**Club President: March 1, 2017**