



Cobb County...Expect the Best!

INTERNAL AUDIT DEPARTMENT

Report Number 2018-001

***FINAL REPORT– Review of Selected Activities of the
Friendship Club for Calendar Year Ending
December 31, 2016***

January 19, 2018

***Latona Thomas, CPA, Director
Michelle Swaby, CPA (inactive), PT Senior Auditor
Andrea Clayton, Internal Auditor II***

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COBB COUNTY INTERNAL AUDIT

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Director

January 19, 2018

MEMORANDUM

TO: Rob Hosack, County Manager

FROM: Latona Thomas, CPA, Director 

SUBJECT: **FINAL REPORT** – Review of Activities of the Friendship Club for the Calendar Year Ending December 31, 2016

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 that the Club's transactions were accounted for in its check register. Except as indicated, disbursements were generally made in accordance with the mission of the Club; the Center for Family Resources (CFR) administered the Employee Emergency Fund (EEF) in accordance with established guidelines; and disbursements to charitable organizations were validated. In addition, prior years' audit recommendations were not fully implemented; meetings were not held on a consistent basis to document the discussions and decisions of the Club's Board of Trustees; and documentation to support Club transactions was not readily available. As such, we were unable to substantiate or validate select Club activities. Additional oversight/monitoring controls are discussed on the accompanying pages.

Recommendations

We recommended that the Club's Officers should continue its efforts to implement the corrective actions and ensure prior years' audit recommendations are fully implemented. We also recommended that the Club's Officers evaluate its requirements and options regarding an annual review and the applicability of its by-laws regarding oversight/monitoring controls and activities.

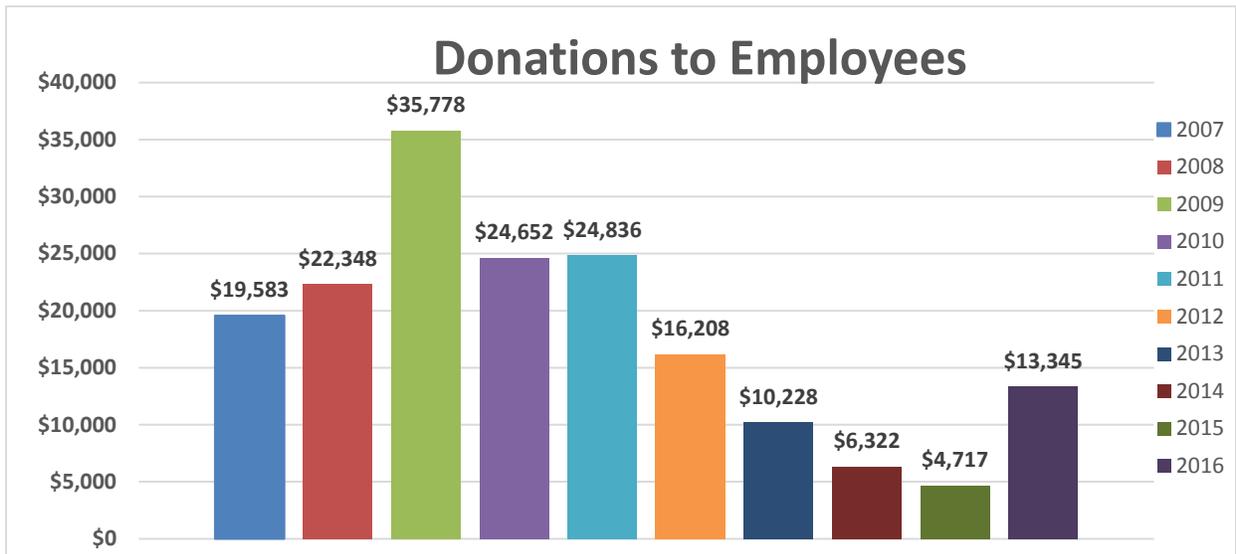
Response

The Friendship Club President provided a response to our draft report and concurred with both recommendations. The complete responses to the draft report are included in Appendix VI. We will perform a follow-up on the corrective actions in six months from the date of this report. A copy of this report will be distributed to those affected by the report recommendations, as reflected in the distribution list in Appendix IV. Please contact me at (770) 528-2559 if you have questions.

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, 2016, the Club has disbursed **\$2,364,098**, respectively to charitable organizations, employees or other causes¹.

In 1990, the Club expanded its mission and established the Employee Emergency Fund (EEF) to provide financial assistance to Cobb County employees. The assistance is provided confidentially through an arrangement with the Center for Family Resources (CFR) who administers the program free-of-charge, governed by a set of guidelines that determine eligibility and monetary assistance limits. As of December 31, 2016, the CFR has distributed **\$381,126** respectively, to employees in need.



Source: Assistant Treasurer Financial Documents

Our audit period covered Friendship Club activities during calendar year 2016. 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 years' report, the by-laws were changed to disallow similar contributions in the future.

Results of Review

During 2016, the Friendship Club (Club) distributed a total of \$159,895 — **\$146,550** to 29 charitable organizations and **\$13,345** to 18 individuals on 19 occasions through the Employee Emergency Fund (EEF). We also determined that:

- As of December 31, 2016, \$44,541 was in the Club's bank account. Each of the Club's transactions was accounted for in the Club's check register.
- Established guidelines for providing assistance to employees were followed, except in three instances. We confirmed that 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.
- Club disbursements to charitable organizations were validated; however, we were unable to validate Club Board approval. We were also unable to substantiate the 501©3 designation of three organizations.
- Checks to the Center for Family Resources (CFR) and charitable organizations were confirmed to be received and/or endorsed by the payee, except in six instances.
- Proposed policy changes did not include evidence of Club Board approval.
- The percentage of non-deductible contributions was re-computed without exception².
- One prior year recommendation was fully implemented, and two had not been implemented resulting in continued control weaknesses.

Status of Prior Years' Audit Recommendations

We reviewed the status of proposed corrective actions to implement the three recommendations presented in Report #2017-001, dated January 20, 2017. We found that one recommendation to download and maintain banking transaction information was fully implemented. Two recommendations had not been implemented. One required the development of operational procedures to account for the Club's financial transactions and Club Board meetings, and the second, the frequency of Club meetings in compliance with the established by-laws. The Assistant Treasurer responsibilities changed during early 2016, and the Club Board experienced changes in its leadership and other board member positions. Per the Club's Assistant Secretary, all vacancies were filled in mid-2017, the corrective actions are being addressed accordingly. No revised completion date was noted. The Club's Board should continue its efforts to implement the corrective actions and assumes the risk if not completed.

This follow-up status should be read in conjunction with the original report and does not represent a complete reexamination of the activities. The auditor's role in follow-up reviews is to compile corrective actions taken by the auditee, assess whether those actions are adequate to correct the reported deficiencies, and relay those results to County management.

² Noted a \$.02% difference.

Additional Oversight/Monitoring Controls are Needed

We found recurring weaknesses in the Club's operational and financial activities resulting from inadequate oversight/monitoring and untimely implementation of prior years' recommendations and corrective actions. We were also unable to conclude on whether adequate segregation of duties existed or was operating properly. Below is a summary of issues identified during our review of the calendar year 2016 activities.

Board Meetings and Minutes

Club Board meetings were not held in accordance with the established by-laws and meeting minutes were incomplete or not approved. Article V, Section 4 of the Club's by-laws states that the Club's Board of Trustees shall meet at least bi-monthly. The by-laws also require that the Secretary keep and record minutes of all meetings of the Board of Trustees. During 2016, the Club's Board held three meetings, with no evidence of meetings during the nine-month period April-December. The January and February minutes were approved but not signed, and the March minutes had not been approved since no additional meetings were held. As such, we were unable to validate or substantiate whether the Club Board approved or ratified the following:

- Payment of CFR invoices;
- Allocation distributions to charitable organizations, including the sub-committee's recommendations;
- Timely financial reports; and
- Proposed changes to the Club's by-laws.

Regular meetings are essential in ensuring the Club handle matters and/or issues as they arise and in a timely manner. Timely meeting minutes are critical to ensure the official record of discussions, decisions, and approvals are properly documented to support Club activities. In addition, without approved minutes and adequate documentation regarding the application, recommendation, and approved distribution amounts, we are unable to determine if adequate segregation of duties existed or operated properly.

Club Disbursements – Employee Emergency Fund

We noted three employee files maintained by CFR that lacked evidence of required documentation. One file did not include a social security card for each member of the household, and two files did not include evidence of an in-person interview. The EEF Guidelines require 'a confidential, in-person interview at the CFR office' and require employees to provide required documents, inclusive of a 'social security card for each person in the household'. Article V, Section 1 of the Club's by-laws also require an in-person interview. No explanation was provided regarding the missing documentation and no alternative documentation was provided, but the EEF Guidelines does allow for exceptions on a case-by-case basis as determined by CFR. Exceptions require Club Board approval or subsequent ratification, but none was noted due to the lack of meetings and/or minutes. The Club's President should discuss the exceptions with CFR staff to ensure the required documentation is documented and maintained as required.

Club Disbursements – Allocations

We were unable to substantiate the 501©3 designation for three organizations that received a total of \$4000 from the Club’s charitable allocation distributions during 2016. Employee contributions are only deductible when donations are distributed to a qualified organization³. Qualified organizations are confirmed by evidence of an IRS 501©3 designation letter or via the online search tool at www.irs.gov/eoselectcheck. The Club conducted three allocations and distributed funds to 29 organizations for a total of \$146,550. We were unable to substantiate the appropriate designation for neither of the three organizations. Documentation to support the allocation process was not readily available. Disbursing money to non-qualified organizations could impact an employee’s tax liability. For most members, this impact will be minimal, but additional monitoring is needed to ensure that Club distributions are made to only qualified organizations.

We were also unable to confirm that allocation distributions were received by two charitable organizations that collectively received six disbursements totaling \$7,500. Two of the checks related to these disbursements were outstanding more than 100 days with no evidence of follow-up. Cancelled checks were available but the endorsement was unclear. As such, we were unable to substantiate that the intended recipients received the funds. Proper safeguards will eliminate or reduce the risk of loss, theft, or misappropriation. The Club’s Treasurer should include outstanding, stale-dated checks in its operational procedures to ensure the Club’s financial transactions are monitored and unexpected results are addressed and corrected in a timely manner.

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 the execution of these activities. This documentation includes approvals, authorizations, verifications, reconciliations, and the creation and maintenance of related records.

Annual Review of Selected Transactions

Article VI, Section 4 of the Club’s by-laws indicates that ‘the books and accounts of the Friendship Club shall be audited on an annual basis by the Internal Audit Department and be made available at the request of the Board of Trustees’. During its November 2017 meeting, the Audit Committee evaluated the Internal Audit Department’s available resources to address countywide risks, emerging priorities, and desired coverage. Due to other priorities, a review of the Club’s activities was suspended from the Internal Audit Department’s list of potential projects. As such, the Club’s Officers should evaluate its options regarding an annual review and revise its by-laws accordingly.

Recommendations

The Friendship Club Officers should:

Recommendation 1: Evaluate its requirements and options regarding an annual review of the completeness and accuracy of its financial transactions and implement accordingly. Based on the outcome, the Club’s by-laws should be revised.

Auditee Response: **Concur.** This is a priority for the beginning of 2018 and the by-laws committee should have these changes completed by July 2018.

³ Per the Internal Revenue Service (IRS) Publication 526 (2016) and www.irs.gov.

Recommendation 2: Evaluate the applicability of its by-laws to ensure that adequate oversight/monitoring controls and activities from previous and current reviews are properly addressed. Revisions should be documented, approved, and incorporated in accordance with the established by-laws.

Auditee Response: **Concur.** The Board will evaluate this as we update the bylaws in 2018 and the by-laws committee should have these changes completed by July 2018.

Detailed Objectives, Scope, and Methodology

We conducted this review as part of our annual audit plan. Our review period covered an analysis of financial transactions and business operations of the Friendship Club for calendar year 2016. Our objective 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 review 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. Determined if there is an adequate separation of duties in the managing of the Club's finances. Verified if someone other than the Assistant Treasurer:
 - A. Received the unopened or electronic version of account statements independently of the Assistant Treasurer.
 - B. Reviewed the semi-annual allocation checks prior to issuance, including the review of supporting documentation and approval by the Board.
 - C. Approved other disbursements from the Club.
- II. Determined if the Assistant 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.
- III. Verified that all distributions from the Club were properly documented and authorized by the Board.
 - A. Determined whether the CFR 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 identified 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 Assistant Treasurer’s disbursement records to determine if the invoice amounts agree with the disbursement to the CFR.
 - a) Obtained a list of the 2016 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 was adequate documentation to support the three allocation distributions to charitable organizations.
1. Reviewed the minutes of meetings and the Allocation Committee’s documentation and looked for the following:
 - a) The Board voted and had input on all charities selected and amounts awarded.
 - b) For new recipients, confirmed that a valid 501©3 designation exists.
 2. Confirmed that all disbursements from the three allocations were received by the organizations.
 - a) Reviewed the Assistant Treasurer’s records and verified that there was a confirmation letter from each recipient or a cancelled check endorsed by the organization.
 - b) Confirmed with the designated recipient any contribution that does not have an endorsed check or confirmation letter.

IV. 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
Megan Pickens, Auditor-in-Charge (*previous employee*)

FINAL Report Distribution List

Angela Cunningham, Friendship Club President (*effective 2017*), [Assistant County Clerk]

Bill Volckmann, Friendship Club Treasurer, [Finance Director/Comptroller]

Tony Hagler, Friendship Club Secretary, [Human Resources Director]

Jocelyn Roper, Friendship Club Assistant Treasurer, [Accountant II]

Kristen Loughman, Friendship Club Assistant Secretary, [Employee Communication Specialist]

Internal Audit Department File

Outcome Measure

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 – 5).

Methodology Used to Measure the Reported Benefit:

Total employee contributions and distributions for 2016 was \$107,406 and \$159,895, 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

The Cobb County Employee's Friendship Club

DATE: January 2, 2018
TO: Latona Thomas, CPA, Director, Internal Audit
FROM: Angela Cunningham, Friendship Club President
SUBJECT: Response to the Internal Audit Draft Report – Review of Selected Activities of the Friendship Club for Calendar Year Ending December 31, 2016

This memo is in response to the subject report dated December 11, 2017. You identified opportunities to improve the Friendship Club operations, financial transactions, and board activities. In addition to the status of prior years' recommendations, you made two additional recommendations. Our response to those recommendations are below

Recommendations

The Friendship Club Officers should:

Recommendation 1: Evaluate its requirements and options regarding an annual review of the completeness and accuracy of its financial transactions and implement accordingly. Based on the outcome, the Club's by-laws should be revised.

Response:

We concur, this is a priority for the beginning of 2018 and the by-laws committee should have these changes completed by July 2018.

Recommendation 2: Evaluate the applicability of its by-laws to ensure that adequate oversight/monitoring controls and activities from previous and current reviews are properly addressed. Revisions should be documented, approved, and incorporated in accordance with the established by-laws.

Response:

We concur. The Board will evaluate this as we update the bylaws in 2018 and the by-laws committee should have these changes completed by July 2018.


President, Friendship Club
2018