



COUNTY OF WINNEBAGO

Office of the County Auditor

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November 9th, 2017

To: Members of the Winnebago County Board

A handwritten signature in blue ink, appearing to be "WC", written over the "To:" line.

From: William D. Crowley, Winnebago County Auditor

RE: Decentralized Bank Account Internal Audit (State's Attorney's Office)

Attached is the final audit report of the decentralized bank accounts currently under the control of the Winnebago County State's Attorney. For the purposes of our audit, a decentralized bank account is one held outside the custody of the County Treasurer and the activity in the account is not subject to the County standard internal control or budget processes. The State's Attorney currently maintains three checking accounts. Our internal audit focused on the following three areas in management these accounts:

- Statutory authority or other guidance supporting custody of each account by the State's Attorney
- Internal financial controls associated with all accounts
- Evaluation of actual expenses in relation to allowable expenses

In summary we believe the State's Attorney's Office has been a good custodian of the resources flowing through the decentralized bank accounts. We noted the office has developed documented internal control procedures which based on our review appear to have been followed on a consistent basis. However, during our review we have noted opportunities for improvement as follows:

- We believe authoritative guidance indicates that the two drug forfeiture accounts currently under the control of State's Attorney should be in the custody of the County Treasurer and appropriated by the County Board. We believe the guidance is clear but concede that current practice across Illinois counties varies.
- Authoritative guidance permits the check offender account to remain under the control of the State's Attorney. If this account or any other account continues to be maintained by the State's Attorney's Office, changes can be made to existing departmental policy to segregate certain duties which will have the impact of strengthening the internal control structure associated with the accounts.

We wish to sincerely thank the Office of the Winnebago County State's Attorney for their cooperation and assistance in completing our internal audit.

Please let me know if you have any questions or comments at 815-319-4206 or bcrowley@wincoil.us.

CC: Joseph P. Bruscato, Winnebago County State's Attorney



COUNTY OF WINNEBAGO

WINNEBAGO COUNTY AUDITOR

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Decentralized Bank Account Internal Audit (State's Attorney's Office)

November 9th, 2017

The mission of the Winnebago County Auditor's Office is to safeguard Winnebago County assets and provide objective, accurate and meaningful information about County operations so that the County Board can make informed decisions to better serve County citizens.

AUDIT TEAM MEMBER(S):

Bryan M. Cutler, Chief Deputy Auditor

Winnebago County Auditor's reports are available at:
<http://wincoil.us/departments/auditor/>

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November 9th, 2017

Joseph P. Bruscato, Winnebago County State's Attorney
Members of the County Board
Frank Haney, County Board Chairman
Carla Paschal, Chief Financial and Budget Officer
Julia Halsted, Deputy County Administrator
Susan Goral, Treasurer

The Winnebago County Auditor's Office is required to perform several duties under Illinois Compiled Statute 55 ILCS 5/Div. 3.1. Sec. 3-1005. The Compiled Statute states that the County Auditor is required to "Maintain a continuous internal audit of the operations and financial records of the officers, agents or divisions of the County. The County Auditor shall have access to all records, documents, and resources necessary for the discharge of this responsibility".

Accordingly, the County Auditor's Office has recently completed an internal audit titled "Decentralized Bank Account Internal Audit (State's Attorney's Office)". A decentralized bank account is one held outside the custody of the County Treasurer's Office. Furthermore, the accounts are not reconciled by the Treasurer's Office, transactions are not processed through the County's general ledger accounting system in the Finance Office and the County Auditor is unable to perform monthly claim audits.

Decentralized bank accounts currently in custody of the State's Attorney are as follows:

Account Name	Bank	Balance as of 31-Jul-17	Receipts (10 Months) Oct 16-July 17	Prior Fiscal Year Receipts (2016)
Federal Drug Forfeiture	BMO Harris	13,872	13,642	12,444
State Drug Forfeiture	BMO Harris	15,431	59,222	46,052
Check Offender Program	BMO Harris	1,752	1,878	1,516
		<u>31,055</u>	<u>74,742</u>	<u>60,012</u>

In the absence of authoritative guidance or a legitimate business purpose which requires certain accounts to be decentralized, the Auditor's Office will generally always recommend that bank accounts be centralized with the County Treasurer. There are several benefits to centralizing bank accounts with the County Treasurer such as:

- Improved internal controls particularly in creating proper segregation of duties
- Improved operational efficiency
- Streamlined year-end audit process with less risk of omitting material transactions
- Decreased risk of mishandling of funds by employees
- Increased transparency with County Administration, the County Board and constituents.

In regards to the aforementioned accounts we have examined the following:

- The description and purpose of the decentralized account
- Authoritative guidance authorizing establishment of account
- Authoritative guidance on use of funds and compared to actual use
- Internal control policy and timeliness of reconciliations

Our comments, findings and recommendations are below:

General Findings and Recommendations:

General Finding 1: Incompatible duties lacking proper segregation of duties

There are four general categories or responsibilities which are examined when segregation of duties are discussed: authorization, custody, record keeping and reconciliation. In reviewing the controls associated with the checking accounts under the control of the State's Attorney, we noted that the Office Manager position is involved in tasks within all four categories. We also noted that the accounting for all accounts is maintained in an excel workbook rather than an accounting software package. A primary disadvantage of using an excel workbook is that it can easily be modified without a permanent record of the modifications.

General Recommendation 1:

The State's Attorney's Office has implemented certain compensating controls to combat the weaknesses described above primarily by involving the State's Attorney in authorizing disbursements and reviewing the bank reconciliation and also requiring two signatures on all disbursement checks. However, we recommend segregating the Office Manager position, who is the primary record keeper, from the authorization and custody related processes such as typing and mailing checks, depositing checks from the State of Illinois, signing disbursement checks and maintaining a debit or credit card tied to the drug forfeiture account and instead delegate these responsibilities to another employee if possible.

Furthermore, if the accounts currently under the control of the State's Attorney were to be centralized with the County Treasurer, then proper segregation of duties would be achieved, a proper accounting system would be utilized and the State's Attorney's Office would save staff time. Therefore, we recommend the State's Attorney's Office consider centralizing all bank accounts under the County Treasurer.

General Finding 2: Bank Fees

The State's Attorney's Office is currently paying approximately \$600 in annual bank fees.

General Recommendation 2:

Centralizing all bank accounts currently in the custody of the State's Attorney will save approximately \$600 annually in bank fees. We recommend the State's Attorney's Office consider this potential cost savings in addition to the aforementioned advantages of centralizing all bank accounts under the County Treasurer.

General Finding 3: Illinois Escheatment Laws

Two check appear to be outstanding for greater than 7 years.

General Recommendation 3:

We recommend the State's Attorney's Office review the outstanding check list and report any items older than 7 years as unclaimed property with the State of Illinois.

End of General Findings and Recommendations

Account Specific Comments:

Federal Drug Forfeiture (Bal. \$12,444):

The Federal Drug Forfeiture account was established to hold the proceeds from the Department of Justice Equitable Sharing Program which is shared with state and local law enforcement agencies which includes the Winnebago County State's Attorney's Office. Among other items, the Guide to Equitable Sharing for State and Local Law Enforcement Agencies manual provides guidance on a wide range of expenditures, such as general law enforcement operations and equipment purchases, for which the shared funds can be used and the associated required bookkeeping procedures. We have noted that all expenses paid within our testing period appear to be appropriate.

Finding 1: (Federal Drug Forfeiture account)

- Accounting for the Federal Drug Forfeiture account is being completed by the State's Attorney's Office and not the Winnebago County Finance Department as required by the Guide to Equitable Sharing for State and Local Law Enforcement Agencies.
- Appropriations for expenditures are not being granted by the County Board prior to the expenditure of funds. The Guide to Equitable Sharing for State and Local Law Enforcement Agencies manual states that the department must "obtain approval for expenditures from the governing body, such as the town council or city manager's

office, if appropriate”. In our opinion, this indicates a requirement for the expenditure of funds to be approved and appropriated by the County Board similar to other County resources.

Recommendation 1: (Federal Drug Forfeiture account)

- We recommend that resources contained in the Federal Drug Forfeiture checking be turned over to the County Treasurer’s pooled cash account and a separate accounting fund be initiated by the Finance Department in the County’s general ledger system to account for the revenues and disbursements of the activity.
- We recommend that the planned expenditures of resources in the Federal Drug Forfeiture account be appropriated by the County Board. However, the Guide to Equitable Sharing for State and Local Law Enforcement Agencies manual recommends that anticipated shared property revenue should not be budgeted due to uncertainty and unpredictability of future receipts.

Other Considerations:

The Office of the Inspector General (U.S Department of Justice) recently issued an audit titled “Audit of the Cook County State’s Attorney’s Office’s Equitable Sharing Program Activities Chicago, Illinois.” In reviewing this audit report, it appears that the Cook County State’s Attorney is currently managing and accounting for resources derived from the equitable sharing program similar to the Winnebago County State’s Attorney. The audit report states “We believe that the Guide is clear on the requirement to have equitable sharing funds managed within the agency’s accounting system. Therefore, we recommend that the Criminal Division ensure that the CCSAO complies with the Equitable Sharing Guide to include DOJ equitable sharing funds in the Cook County financial system and ensure that equitable sharing funds are covered by countywide internal controls for procurement.” The Cook County State’s Attorney’s Office, in their audit response, has agreed to act on the recommendation. We believe this further supports the Winnebago County Auditor’s Office recommendation to centralize the Federal Drug Forfeiture checking under the County Treasurer.

State Drug Forfeiture (Bal. \$15,431):

The State Drug Forfeiture account was established to hold the proceeds from a portion of the value of property seized by the State of Illinois which is distributed to the State’s Attorney’s Office. Currently, there are numerous laws throughout the Illinois Compiled Statutes that pertain to property forfeitures. Guidance pertaining to the distribution and use of the proceeds is contained in the Illinois Controlled Substances Act.

Finding 1: (State Drug Forfeiture account)

There appears to be no authoritative guidance or business purpose which requires this account to be decentralized under the State’s Attorney as is the current practice. The

Illinois Controlled Substances Act states that resources should be “deposited in a special fund in the county treasury and appropriated to the State’s Attorney.”

Recommendation 1: (State Drug Forfeiture account)

- We recommend that the resources contained in the State Drug Forfeiture account be turned over to the County Treasurer’s pooled cash account and a separate accounting fund be initiated in the County’s general ledger system to account for the revenues and disbursements of the activity.
- We recommend that the resources contained in the State Drug Forfeiture account be appropriated by the County Board. Similar to the Federal Drug Forfeiture account, only resources currently available should be appropriated.

Finding 2: (State Drug Forfeiture account)

720 ILCS 570/505(g) states that “12.5% shall be distributed to the Office of the State's Attorney of the county in which the prosecution resulting in the forfeiture was instituted, deposited in a special fund in the county treasury and appropriated to the State's Attorney for use in the enforcement of laws governing cannabis and controlled substances; for public education in the community or schools in the prevention or detection of the abuse of drugs or alcohol; or at the discretion of the State's Attorney, in addition to other authorized purposes, to make grants to local substance abuse treatment facilities and half-way houses.” (Emphasis added). We noted several minor expenditures that, depending on one’s interpretation of the statute, could potentially be somewhat outside the statutes allowable uses.

Recommendation 2: (State Drug Forfeiture account)

We recommend that the State’s Attorney’s Office review the Illinois Controlled Substances Act and ensure that all future expenditures of State Drug Forfeiture funds strictly comply with the allowable uses as defined by the statute.

Check Offender Program (Bal. \$1,752):

Check Offender funds are received through the Bad Check Restitution Program. Merchants who received bad checks from customers contact the Bad Check Restitution Program and file a formal complaint. Individuals who qualify can be recommended to attend a class regarding writing bad checks, pay the value of the check along with a transaction fee in lieu of being charged with a crime. A portion of the transaction fee is deposited into the State’s Attorney Check Offender checking account.

The State’s Attorney has authority to maintain the Check Offender checking account as decentralized. The statute allowing the creation of the account is 720 ILCS 5/17-1b. Section (f) states, “The State’s Attorney, or private entity under contract with the State’s Attorney, may collect a fee from an offender diverted to the State’s Attorney’s bad check diversion program. This fee may be deposited in a bank account maintained by the State’s

Attorney for the purpose of depositing fees and paying the expenses of the program or for use in the enforcement and prosecution of criminal laws.”

Findings: (Check Offender Program account)

None

Recommendations: (Check Offender Program account)

While the State’s Attorney has clear authority to maintain the Check Offender account, we recommend that the State’s Attorney consider depositing these funds with the County Treasurer. The primary benefits of doing so include reduced staff time, reduced bank fees and improved internal controls.