



# Environmental Protection Agency District Office Check Handling Audit

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**Audit Period: January through September 2013**

## Results Summary:

Objective	Conclusion
Check Receipting Process	Improvement Needed
Implementation and Compliance with Agency Policy	Well-Controlled with Improvement Needed

**Report number: 2014-EPA-01**

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## **Executive Summary**

### **Background**

The Ohio Environmental Protection Agency's (OEPA) goal is to protect the environment and public health by ensuring compliance with environmental laws. OEPA is responsible for establishing and enforcing standards for air, water, waste management and cleanup of sites contaminated with hazardous substances. OEPA has five district offices in Bowling Green, Twinsburg, Columbus, Dayton, and Logan which manage the Agency's programs throughout the state. The district offices collect, record, and process fees for OEPA environmental laws and administered programs. Fees are usually paid by check, but are occasionally paid by cash.

During the audit, OIA identified opportunities for Environmental Protection Agency to strengthen internal controls and improve business operations. OIA conforms to the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank Environmental Protection Agency staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

### **Scope and Objectives**

OIA staff was engaged to perform assurance work related to the OEPA district offices. This work was completed between July and November 2013. The scope of this review included the key processes surrounding the check handling procedures at district offices for the period January through September 2013. The audit objectives included the following:

- Evaluate the design and effectiveness of controls over the check and cash receipting processes at the district offices.
- Evaluate the districts' implementation and compliance with OEPA policies.

### **Detailed Observations and Recommendations**

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report. However, the low risk observations were considered as part of the audit objective conclusions.



## Observation 1 – Inconsistent Documentation of Checks Received

A sound internal control framework should include procedures to verify the accuracy and completeness of revenue. Essential to these control procedures is the creation of a record documenting the initial receipt of checks to assist district and fiscal personnel in processing, monitoring, and validating complete deposits of all funds made available to OEPA.

OIA noted inconsistencies in the methods used by the five OEPA district offices to document receipt of checks. Although all district offices have procedures for recording checks into the Revenues system, only four of the five districts record checks immediately upon receipt, either on hand-written check logs or electronic spreadsheets. However, these source documents are not utilized as a reconciliation tool by the districts to ensure completeness of revenue recorded in Revenues. Additionally, although a monthly report is generated out of Revenues by OEPA Central Fiscal and reviewed to ensure all checks recorded in the system are posted, this report does not capture any checks that may have been received by a district but not recorded in Revenues. This was evidenced during the audit when OEPA management disclosed to OIA a check that was received and recorded in a hand-written check log, but was subsequently lost without being recorded in Revenues. Management had not located the missing the check at the time the audit concluded, but had notified the payee of the issue.

Furthermore, two of twenty (10%) revenue transactions tested revealed variances in the received date recorded in Revenues and the received date recorded on the documentation at the initial point of receipt. For the exceptions noted, the Revenues dates deviated from check logs by one and two business days, respectively.

Failure to document payments at the initial point of receipt increases the risk of checks being misplaced, lost, or stolen. Additionally, recording receipt dates inaccurately increases the risk of noncompliance with OAC depositing requirements and creates conflicting documentation of receipts.

### Recommendation

For consistency among the districts, expand on the current policy to include guidelines surrounding the recording of revenue at the initial point of receipt. Evaluate whether the Revenues system or external check log should be utilized as the initial documentation source.

If an external check log is utilized, district offices (with OEPA's assistance) should develop procedures to reconcile the external check log to the Revenues system. This reconciliation should be performed on a regular basis and documented to evidence the reconciliation is complete. Any discrepancies noted should be documented and communicated to district



management and/or Central Office management, if appropriate.

In the absence of an external check log, consider adjusting current procedures and training front desk personnel or others who are the initial point of receipt to immediately log checks into the Revenues system prior to handing off to other personnel for processing.

**Management Response**

To verify completeness of revenue received and deposited, OEPA will implement procedures to reconcile the records for logging checks initially upon receipt, to those received in the Office of Fiscal Administration for deposit. To this end, OEPA will also update the current procedures to reflect the necessity for all OEPA locations receiving checks to log all checks immediately upon receipt. In those locations where manual check logs are maintained they will be reconciled to the Check Log Audit Report from the Agency Revenues System to verify that all checks received were logged into Revenues. In those locations where manual check logs are eliminated, OEPA will work to provide the appropriate central and district office staff the necessary training and access to the Revenues system, in order to establish the system as the original record for which all checks are to be logged into the system immediately upon receipt.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Chief Financial Officer	March 2014

**Observation 2 – Timeliness of Deposits**

Ohio Administrative Code section 113-1-02(A) requires state agencies to deposit all monies collected, within three business days of receipt by a state entity, into the state treasury.

For eleven of twenty (55%) revenue transactions tested, OIA found checks were not deposited into the state treasury within three days of receipt at the district offices. The exceptions ranged from one to twenty-seven days late, with an average of nine days late. Seven of the eleven exceptions occurred at district offices that do not make their own bank deposits. These district offices must physically transfer checks to the Office of Fiscal Administration for deposit, increasing the time it takes to deposit receipts and making compliance with this requirement difficult.

Non-compliance with the timely deposit rule reduces potential interest income to the state.

**Recommendation**



Review OAC requirements with all district staff to emphasize OEPA’s legal requirement and commitment to depositing receipts within three business days of receipt. As OEPA moves forward in implementing an online payment system for grantees/vendors, untimely deposits should decrease in occurrence. However, until the online payment system is fully implemented, management should consider making appropriate changes to procedures for the current processes which are at risk for not meeting the three-day deposit rule. For example, consider implementing management oversight to periodically review receipt processing durations and require corrective action when necessary.

**Management Response**

OEPA will update current policies and procedures to reflect current OAC rule regarding deposits to the state treasury. OEPA will instruct District Office staff to promptly deposit or transfer checks to the Office of Fiscal Administration. OEPA will also continue with implementation of the online payment system and explore alternative electronic deposit options to reduce the deposit timeframes. OEPA will also implement procedures at the Central Office level to monitor the timeliness of deposits, including a regular review of Revenues for checks that have been logged but not posted/received in the Office of Fiscal Administration.

Risk*	Remediation Owner	Estimated Completion Date
<b>Moderate</b>	Chief Financial Officer	March 2014

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

\* Refer to Appendix A for classification of audit observations.



## Appendix A – Classification of Conclusions and Observations

### Classification of Audit Objective Conclusions

Conclusion	Description of Factors
<b>Well-Controlled</b>	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
<b>Well-Controlled with Improvement Needed</b>	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
<b>Improvement Needed</b>	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
<b>Major Improvement Needed</b>	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

### Classification of Audit Observations

Rating	Description of Factors	Reporting Level
<b>Low</b>	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
<b>Moderate</b>	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Agency Management and State Audit Committee
<b>High</b>	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee