



Deschutes County,
Oregon

Recommendations
4

Facilities and Property Management Departments– Cash Handling

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Joe Healy - Public member
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Lee Randall, Facilities Director

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Table of Contents:

1. Introduction 1
 Background on the Departments 1

2. Findings and Observations 4
 Facilities Fiscal Observations 4
 Property Management Fiscal Observations 5

3. Management Response 10
 Facilities Department 10
 Property Management Department 11
 Human Resources 13

Appendix A: Objective, Scope, and Methodology 14
 Objectives and Scope 15
 Methodology 16

HIGHLIGHTS

Why this audit was performed:

A periodic review of internal controls over cash handling of receipts.

What was recommended:

Facilities should complete documentation of its accounting procedures.

Property Management should update its accounting procedures and document the process for charging certain fees.

Human Resources should update its policy on conflict of interests and the disclosure procedure.

Facilities and Property Management Cash Handling

The focus of the review was on fiscal controls over handling of external customer payments and collections.

What was found

Overall, the Facilities and Property Management departments performed well in providing fiscal controls over receipts given the limited volume of payments coming into departments. Recommendations were developed to help both departments comply with County policy and follow prudent business practices for cash handling.

The following areas were identified for further improvement, including:

- Additional controls within the Facilities department accounting procedures could improve oversight over receipts.
- The Property Management department’s accounting procedures are outdated.
- The Property Management department does not have a process for when to charge filing and recording fees.

Additionally, a routine disclosure of a potential conflict of interest in a land sale prompted a review of the County’s conflict of interest policy. This policy, in contrast to Oregon State law, restricts the organization's flexibility and its ability to openly acknowledge such conflicts when they arise.

1. Introduction

Audit Authority:

The Deschutes County Audit Committee authorized the review of cash handling practices for the Facilities and Property Management Departments in the Internal Audit Program Work Plan for 2022-2023. Internal audits of fiscal controls are routinely performed for identified County departments or functions. Audit objectives, scope, and methodology can be found in **Appendix A**.

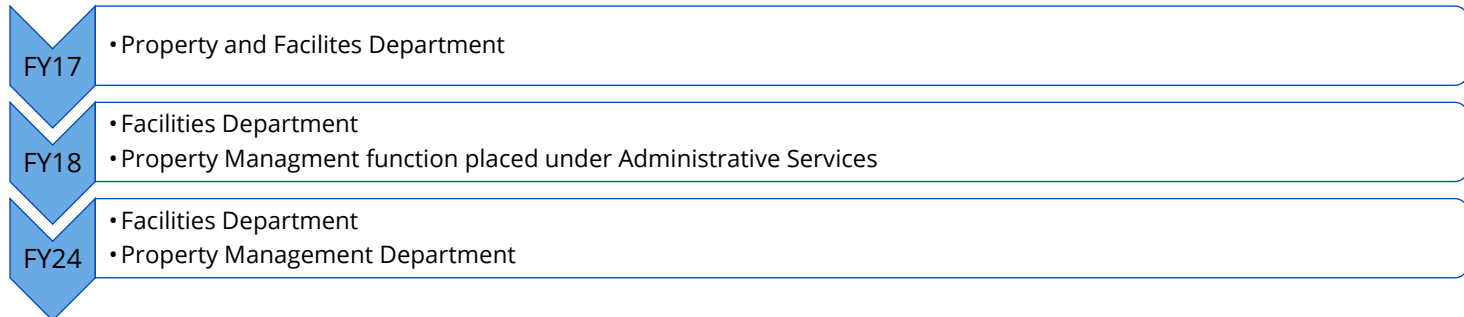
Background on the Departments

Before 2017, there was a single Property and Facilities Department that included both Facilities and Property Management functions. In July 2017, the Property Management function was separated from the Facilities Department and placed under the Administrative Services Department. Now, Property Management stands as its own independent department. The Property Management manager reports to the County Administrator, while the Facilities Department director reports to the Deputy County Administrator.

Diagram I

Timeline of administrative separation of the two departments

Source: County Budget Information



Facilities Department

The Facilities Department (Facilities) oversees County-owned buildings and facilities. Facilities programs include¹:

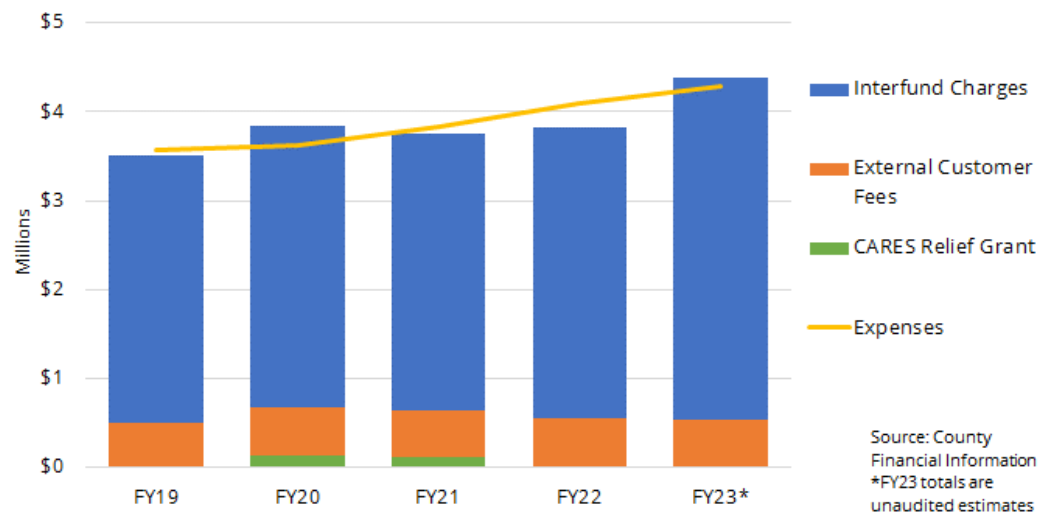
¹ FY2024 Deschutes County Proposed Budget Book Pg. 159-163

- Facility management**
 Long-term planning and project management of capital asset replacement; development and execution of new construction and remodel projects (coordinated with Property Management); facilities-related services and procurement; and annual testing of life safety systems.
- Building and grounds maintenance**
 Maintenance and repair of all building management systems, interior and exterior finishes, building entry systems, as well as the grounds and hardscapes.
- Custodial services**
 Daily and deep cleaning, hard floor maintenance, and carpet cleaning.

Facilities primarily funds its operations through internal service charges to other County departments and functions. It also gathers fees from external customers for maintenance and utility reimbursements. The department received funds in Fiscal Years (FY) 2020 and 2021 through the Coronavirus Aid, Relief, and Economic Security (CARES) Grant to support essential services. Additionally, Facilities manages funds for capital construction projects and significant renovations, which are not included in **Graph I**.

Graph I

Trend of Facilities revenues and expenses (Budget Actual FY19-23)



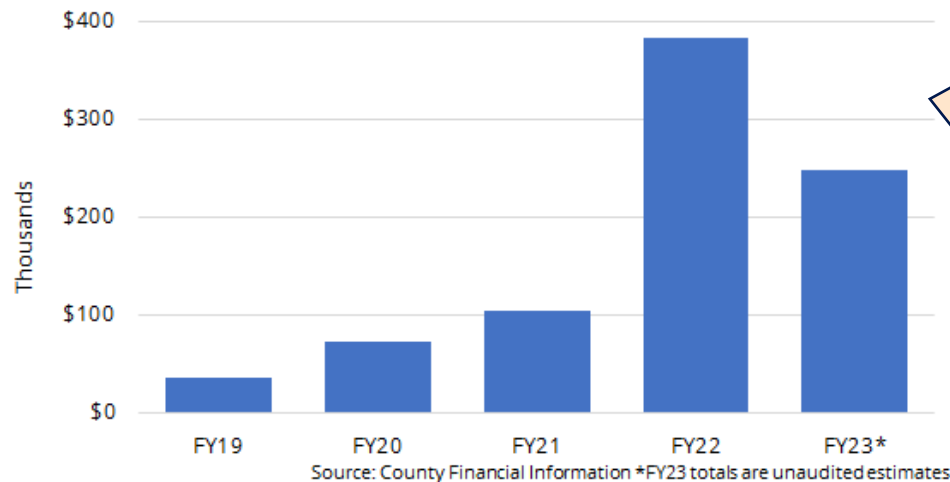
Staffing for Facilities has remained consistent at around 25 full time employees, growing slightly for Fiscal Year 2024 to 26.75. From a cash handling perspective, administrative staff assigned to those duties include a management analyst and administrative support specialist, with oversight coming from the Facilities Director.

Property Management Department

The Property Management Department (Property Management) consists of three staff: a county property specialist, management analyst, and the County Property Manager. They manage County-owned real estate, including the acquisition and disposition of holdings, leasing activity, and project management. Funding comes from County land sale earnings, project development funds, and the General Fund. Property Management also collects lease payments for properties the County rents to external entities, shown in **Graph II**. For example, Property management collected rent from tenants at the Kingwood Avenue properties which had existing lease agreements when the County purchased them in 2021. Compared to the previous fiscal year, this acquisition more than tripled lease revenues. As the leases expire and the County utilizes the buildings for its own purposes, revenues are gradually returning to their previous levels.

Graph II

Trend of lease revenues (Budget Actual FY19-23)



Lease revenues increase sharply in FY22 due to the acquisition of the Kingwood Ave. properties.

2. Findings and Observations

Overall, both departments performed well in providing fiscal controls over collected revenues. The following observations are tailored to each department with consideration to staffing levels, business demands, and operational challenges. They are intended to further improve the procedures put into place.

Facilities Fiscal Observations

Additional controls could improve oversight over Facilities revenues.

When reviewing the cash handling procedures in Facilities, it was evident that the staff had a good grasp of the process, but there were insufficient written instructions to support the implementation of internal controls. The department did not have written procedures for reconciling receipts recorded in the accounting system and managing accounts receivable. Additionally, the documented procedures directed the movement of funds between staff without any tracking.

The County Cash Handling Policy (F-11) mandates directors to design, implement, and monitor effective cash handling controls while also promoting an effective internal control environment. Communication is an essential component of internal controls. Accurately written policies and procedures are necessary for effective financial and accounting controls. For example, an effective fiscal control involves jointly recounting monies as they move from one staff person to another. Billed customers have additional risks that should be explicitly addressed in procedures. Customer risk areas include: creating new customers; making billing adjustments; and providing segregation of duties for staff performing accounting and collections.

Without comprehensive written accounting procedures, Facilities risks having inadequately planned controls and inadequate oversight. There is also a risk that staff may not adhere to stated control procedures.

Facilities experiences a limited number of transactions with external customers, reducing the perception of the need for extensive written procedures. Departmental policies and procedures should be at least sufficient to address a minimum level of internal controls over revenue and deposit handling, monitoring, oversight, and segregation of duties. These policies and procedures should detail the responsibilities of each employee.

Recommendation

The Facilities Department should complete documentation of their accounting policies and procedures to address identified concerns.

Property Management Fiscal Observations

Property Management’s written accounting policies and procedures are outdated.

Similar to Facilities, Property Management did not have written procedures for the reconciliation process or managing accounts receivable. Additionally, existing written policies and procedures for control over monies no longer reflect the organizational structure. Finally, due to the limited size of the Property Management department, it is challenging to establish a clear segregation of duties when there are only two individuals. For example, currently the property specialist position is vacant, so the management analyst has the responsibility of receiving and posting receivable payments, managing customer accounts, and accounting for all transactions.

The County Cash Handling Policy (F-11) assists departments in addressing their cash handling practices and procedures. According to the policy, staff duties should be sufficiently segregated so no one person is responsible for receiving, reconciling, depositing money, and posting payments. An employee’s responsibility for more than two of the following functions is considered mutually incompatible: record keeping, authorization, and custody. One way to ensure the proper

segregation of duties between two individuals is by implementing dual controls. For instance, both individuals could be present and actively engaged in the process of counting and verifying cash before recording it. Given the department's size and the potential need for dual controls (such as when one person is on vacation), written procedures should incorporate them as a backup plan.

Without clear written procedures, staff are left to their own devices to perform their assigned duties. Sufficient controls may not be in place to safeguard all assets from fraudulent activity and such activity is easier to conceal in the absence of written procedures. This risk is amplified by insufficient segregation of duties, which increases the chance of theft. When too many duties are concentrated with any one person it may be difficult to sufficiently safeguard assets and ensure proper accounting. No evidence of theft or fraud was present in examined transactions.

A prior audit recommendation from the 2012 audit report, [Property & Facilities – Cash handling over revenues](#), led to the establishment of a procedure noted in the 2013 [follow up report](#). Since then, the Facilities Department director no longer oversees the Property Management Department, and procedures have not been revised to address the new structure. Staff are currently in the process of recruiting a property specialist, which will ease segregation of duties difficulties.

Recommendation

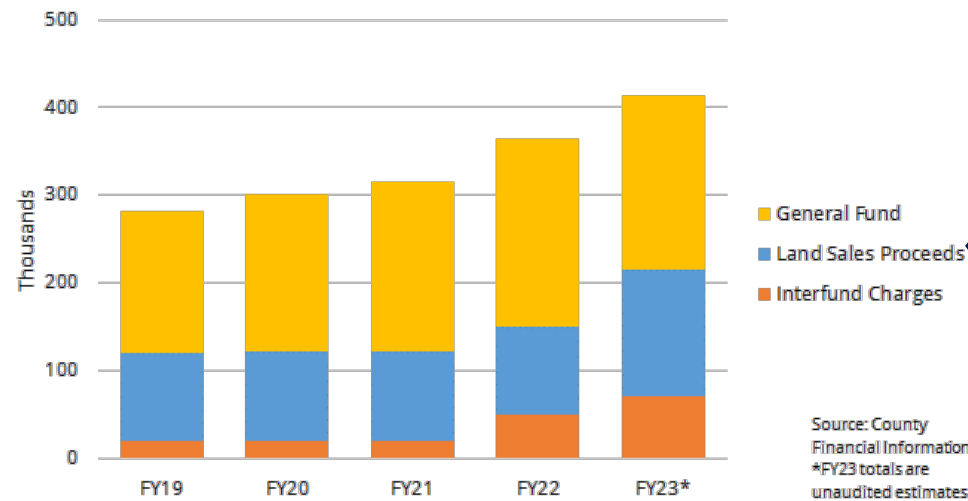
The Property Management Department should revise its written accounting policies and procedures for monies collected. This includes recognition of the current organizational structure, documentation of the reconciliation and accounts receivable processes, and establishing sufficient segregation of staff duties.

Property Management does not have a written procedure for charging filing and recording fees.

Property Management relies on funds from County foreclosed land sales to cover a portion of its administrative costs. Over the last two fiscal years, it refrained from calculating or directly charging filing and recording fees. Instead, Property Management relied on lump sum transfers from the proceeds of each sale for reimbursements. A recent Supreme Court ruling may impact how the County is allowed to recoup administrative costs for foreclosed land sales in the future.² In one possible scenario, the County might be allowed to charge for expenses but would also need to provide an opportunity for returning the remainder of profits to former property owners. The County has not yet made any determinations regarding the administration of foreclosed property sales.

Graph III

Trend of Property Management resources (Budget Actual FY19-23)



Reimbursements from land sales accounted for 34% of Property Management resources in FY23.

County financial policy (F-14) offers guidance on how to establish and periodically review fees for services. These user fees enable County departments to financially sustain the services they offer. Notably, filing and recording fees have been part of the approved fee schedule since Fiscal Year 2016.

As the County navigates the impacts of the Supreme Court ruling, it underscores the significance of

² [Tyler vs. Hennepin County, Minnesota](#)

fee collections in compensating for the resources that may be lost from land sale proceeds. Failing to charge these fees would necessitate a greater reliance on the General Fund to sustain operations at their current level.

The department has seen turnover in the manager position since the last fee schedule adjustment. Due to insufficient documentation regarding the creation of the current fee schedule, the current staff faces a lack of clarity in charging the approved fees within the schedule. Fees have not been adjusted for the last seven years to reflect the growth in the department and the rising indirect costs.

Recommendation

The Property Management Department should document the process and criteria for charging filing and recording fees. This could also include recalculation of the fees during the annual review to ensure the rate is still accurate.

The County did not have a process in place for recording conflicts of interest disclosures in official records.

In 2023, a County staffer verbally informed the Board of County Commissioners, County Administration, and the County Legal Department about a conflict-of-interest in a potential land sale, but there was no written documentation. ORS 244.120 mandates that appointed public officials, whether facing actual or potential conflicts of interest, must provide a written description of the conflict to the appointing authority.³ However, Section 8.020 of the County Human Resources Personnel Rules did not specify how to make disclosures. Instead, it required employees to avoid any employment, business, activity, practice, or action that could conflict with their County duties or

³ Public officials are defined as a person elected or appointed to an office or position within government or special district; an employee of government or special district; a volunteer for a government agency or special district; or an agent of the State of Oregon. [Oregon Government Ethics Law, A guide for public officials, Pg. 6](#)

the County's interests, whether actual or potential.

From an internal control perspective, there are legitimate concerns with conflicts-of-interest. Without sufficient oversight, conflicts-of-interest can provide an avenue for employees to circumvent normal fiscal controls and potentially disburse funds to themselves through a related business. Though no fraud was identified with this audit and the staffer acted ethically by disclosing the potential conflict, there are routinely frauds perpetrated elsewhere in the United States where employees have used bogus companies to divert monies. Despite these problems with conflicts-of-interest, they are unavoidable in some cases. For example, conflicts are more common in small communities and when special expertise is required. In these cases, disclosure and mitigation can limit the potential for fraud.

The County policy did not provide useful guidance for employees about what to do when conflicts-of-interest arose. In one part, the County policy seemed to simply forbid any conflict-of-interest. In another part, it required disclosures, but the requirement was confusingly located in a section titled prohibited activities. State law allowed more flexibility than the County policy by allowing staff to proceed with their duties if they documented the conflict and mitigating factors were put in place. Human Resources staff said that County policy afforded individual departments the autonomy to independently address conflicts-of-interest. While this approach permits each department to tailor a process to its unique needs and challenges, it also elevates the risk of not adhering to State law.

Recommendation

The Human Resources Department should align Section 8.020 with State conflict-of-interest laws and establish a standardized disclosure procedure. This could include a template for written notifications.

3. Management Response

Facilities
Department,
Lee Randall,
Director



FACILITIES DEPARTMENT

Facilities Department Response
October 13, 2023

Recommendation

The Facilities Department should complete documentation of their accounting policies and procedures to address identified concerns.

Response:

Written cash handling policies and procedures have been completed in response to the audit recommendation.

**Property
Management
Department,**
Kristie Bollinger,
County Property
Manager



PROPERTY MANAGEMENT

To: Elizabeth Pape, County Internal Auditor
Aaron Kay, Performance Auditor

From: Kristie Bollinger, Property Manager

Date: October 10, 2023

Subject: Management's response to Audit report

Recommendation

The Property Management Department should revise its written accounting policies and procedures for monies collected. *This includes recognition of the current organizational structure, documentation of the reconciliation and accounts receivable processes, and establishing sufficient segregation of staff duties.*

- a) Management position concerning recommendation: Concurs
- b) Comments: Up until October 2, 2023, Property Management has been limited to two staff and one of those staff has been assigned to accounts receivable as well as accounts payable. With the addition of a third member of staff, Property Management is segregating accounts receivable and accounts payable between two staff, and those two staff will be fully cross trained in each area. As part of training new staff on current receivable procedures, Property

**Property
Management
Department**
continued

Management will document processes and procures.

c) Estimated date of corrective action or date completed: Property Management is in the process of segregating accounts receivable and accounts payable. This will be completed over the next 6 months. Documented processes and procedures will be developed in approximately the next 12 months.

d) Estimated cost to implement recommendation, if significant: Nominal

Recommendation

The Property Management Department should document the process and criteria for charging filing and recording fees. This could also include recalculation of the fees during the annual review to ensure the rate is still accurate.

a) Management position concerning recommendation: Concur

b) Comments: Recording fees associated with properties sold at auction are included in the property sales price. Recording fees associated with one-off sales are generally collected from the buyer or may be split between the County and buyer as determined during negotiations. Recording fees associated with property sales in La Pine Industrial are negotiated and generally split between the buyer and the City of La Pine in accordance with the IGA. Further, Property Management is committed to reviewing and implementing a comprehensive fee schedule with the goal to implement during the next fiscal year.

c) Estimated date of corrective action or date completed: Property Management aims to document processes and procedures within approximately the next 12 months.

d) Estimated cost to implement recommendation, if significant: Nominal

Property
Management
Department
continued

Recommendation

The Human Resources Department should align Section 8.020 with State conflict-of-interest laws and establish a standardized disclosure procedure. This could include a template for written notifications.

- a) Management position concerning recommendation: Concur
- b) Comments: At the time a potential conflict of interest was recognized, Property Management notified the seller's representative and the City of La Pine's city manager* via email on March 24, 2023 (* due to the transaction associated with the sale of property in La Pine Industrial). It was communicated at that time that a title company would be utilized for the transaction (vs the option of closing the transaction internally with Property Management). Further, when Property Management presented the offer received to purchase property in La Pine Industrial at executive session on March 29, 2023, Property management briefed the Board of County Commissioners, Administration and County Counsel of the potential conflict of interest.
- c) Estimated date of corrective action or date completed: All directed otherwise, future potential conflicts of interest will be communicated in writing to County Administration.
- d) Estimated cost to implement recommendation, if significant: Nominal

Human
Resources
Kathleen
Hinman, HR
Director



HUMAN RESOURCES

**Human
Resources**
continued

Date: October 17, 2023
 To: Elizabeth Pape, County Internal Auditor
 Aaron Kay, Performance Auditor
 From: Kathleen Hinman, HR Director
 Re: Facilities and Property Management Departments – Cash Handling Audit 2223-2

Thank you for the opportunity to review and comment on your report, *Facilities and Property Management Departments Cash Handling Audit Report #2223-2* (the Audit). Human Resources values your review and the perspective it provides management as we work to evaluate and refine our practices and systems now and into the future.

HR appreciates the attention the Audit brings in case study review of the application of HR-Personnel Rules Section 8.020 Conflict of Interest. This will help in providing perspective when we review County Personnel and Rules.

Below is the response to the Audit recommendation for Human Resources.

Recommendation

The Human Resources Department should align Section 8.020 with State conflict-of-interest laws and establish a standardized disclosure procedure. This could include a template for written notifications.

Human Resources agrees with the auditors' comments and recommendation and will work on updating HR-Personnel Rules to better establish expectations and procedures.

Appendix A: Objective, Scope, and Methodology

The County Internal Auditor was created by the Deschutes County Code as an independent office

conducting performance audits to provide information and recommendations for improvement.

The audit included limited procedures to understand the systems of internal control around revenues. No significant deficiencies were found in this audit. A significant deficiency is defined as an internal control deficiency that could adversely affect the entity's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The findings noted were primarily compliance and efficiency matters.

Audit findings result from incidents of non-compliance with stated procedures and/or departures from prudent operation. The findings are, by nature, subjective. The audit disclosed certain policies, procedures and practices that could be improved. The audit was neither designed nor intended to be a detailed study of every relevant system, procedure, or transaction. Accordingly, the opportunities for improvement presented in the report may not be all-inclusive of areas where improvement may be needed and does not replace efforts needed to design an effective system of internal control.

Management has responsibility for the system of internal controls, including monitoring internal controls on an ongoing basis to ensure that any weaknesses or non-compliance are promptly identified and corrected. Internal controls provide reasonable but not absolute assurance that an organization's goals and objectives will be achieved.



"Audit objectives" define the goals of the audit.

Objectives and Scope

Objectives included:

1. Review of internal controls for cash handling with Property Management and Facilities as outlined in County Finance policy for cash handling (F-11). Identify areas to improve efficiency and effectiveness. Additionally, review management of any change cash, petty cash, receipts, credit cards, judgements, collections, and billings, as applicable.

2. Be aware of any issues with compliance with federal and state regulations and requirements, as may be applicable.

Scope and timing:

The audit occurred in August and September 2023. Included in the review of cash handling of Property Management are accounting funds primarily handled in Fund 001-25 and Facilities primarily handled in Fund 620. No petty cash or checking account are present in either department. The focus of the review was on internal controls over handling of third-party customer payments. The scope of the audit did not include all aspects of the internal controls employed.

Methodology

Audit procedures included:

- Interviewing staff related to cash handling, receipting, and billing procedures (staff reviewed and answered the County's cash handling checklist provided in the Cash Handling Policy F-11);
- Reviewing written procedures and documents provided;
- Reviewing and analyzing receipt transaction data for the identified funds; and
- Reviewing and analyzing revenue data for the identified funds.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

(2018 Revision of Government Auditing Standards, issued by the Comptroller General of the United States.)



"Audit procedures are created to address the audit objectives."

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<https://forms.office.com/g/PUnL44BEW8>



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