

Travis County Clerk Elections Division

2014 Inherent Risk Assessment

TRAVIS COUNTY AUDITOR'S OFFICE
Risk Evaluation & Consulting Division

January 13, 2015

TRAVIS COUNTY
AUDITOR'S OFFICE

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COUNTY AUDITOR



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To: Dana Debeauvoir
Travis County Clerk

From: Nicki Riley, CPA
Travis County Auditor

Date: January 13, 2015

Re: 2014 Risk Assessment – Elections Division

The Risk Evaluation & Consulting Division (REC) of the Travis County Auditor's Office has completed a risk assessment of the Travis County Clerk's Elections Division. The objective of the risk assessment was to assist the Elections Division in identifying potential risks or exposures associated with their business processes, allowing them to implement or adjust internal controls as they deemed necessary.

We began by performing an engagement-level inherent risk assessment focusing on the identification and rating of risks that are intrinsic to the Elections Division's activities and business processes. To a limited extent, we considered the impact of internal controls implemented by management to mitigate these risks. As such, the reported risks represent potential exposures. While we are not providing a judgment of how well management is addressing risk, we have noted some "areas of concern" that involve billing other governmental entities for election costs, handling cash receipts, and accessing County fuel pumps. The discussion of these items begins on page 21 of the report.

A summary of our methods and results comprises the first eight pages of the report. The organizational structure, mission and objectives, significant activities, and financial data for the Elections Division are provided on pages 9 through 11. The details of our risk assessment, including the identified business processes, inherent risks, controls implemented by management, and the inherent risk ratings are provided on pages 12 through 20.

BACKGROUND

The County Clerk's Elections Division conducts special, primary, and general elections for Travis County and governmental entities throughout the area. They contract with these entities through interlocal agreements and memos of understanding which cover the responsibilities of each party as required by the Texas Election Code. The Accounting Division works closely with the Elections Division to ensure election costs are properly billed to the participating entities in accordance with statute and applicable agreements.

SCOPE

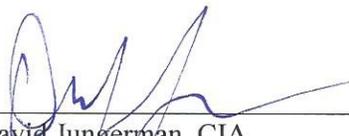
The risk assessment covered the financial operations for the Elections and Accounting Divisions, and was limited to the business processes that were in place during the time the risk assessment was being performed - the three months ending November 30, 2014. In addition, only the inherent risks were rated, meaning there were no tests of controls or transactions to assess control risk. All client meetings were held at the County Clerk's Office.

ENGAGEMENT TEAM

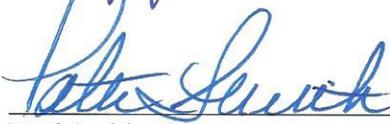
Joanne Englund, CPA, Senior Auditor
James Marlett, CPA, Staff Auditor

CLOSING

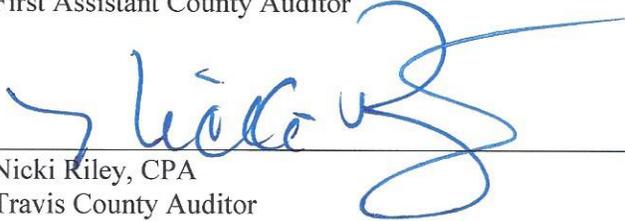
This report is intended solely for the information and use of the County Clerk's and Auditor's Office management. We greatly appreciate the cooperation and assistance received from management and staff during this risk assessment. Please contact our office if you have any concerns or questions regarding this report.



David Jungerman, CIA
Manager - Risk Evaluation & Consulting



Patti Smith, CPA
First Assistant County Auditor



Nicki Riley, CPA
Travis County Auditor

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Michael Winn, Elections Director, Travis County Clerk's Office
Michelle Parker, Elections Deputy Director, Travis County Clerk's Office
Cindy Bohanan, Financial Manager, Travis County Clerk's Office
Managers, Travis County Auditor's Office

INTRODUCTION TO THE RISK ASSESSMENT REPORT FORMAT

WHAT IS RISK ASSESSMENT?

Risk assessment is a systematic process of evaluating the potential negative outcomes, such as financial loss, that may occur in a business process.

HOW DOES THE RISK ASSESSMENT PROCESS WORK?

The risk assessment process includes three steps: data gathering; business process, risk and control identification; and risk rating. In data gathering, we collect information about the functional area under review to gain an understanding of its objectives, operations, and processes. We then identify what processes are in place, the inherent risks for each process, and the internal controls that have been implemented by management. The last step is to rate the risks identified for the business processes handled by the functional areas under review by evaluating them based on risk factors and assigning risk ratings.

HOW ARE THE RISK RATINGS ON THE RISK PROFILES CALCULATED?

The risks associated with each business process can be described and valued based on the risk factors of impact and likelihood. Impact evaluates the magnitude or effect resulting from a breakdown in the process and/or controls, whereas likelihood is used to evaluate the probability that the event will occur. The components of likelihood include geographic dispersion, complexity of operations, training and documentation, access to high-risk assets, state of automation, abuse of power potential, and management oversight. The components of impact include volume/dollar value/operational significance, media attention, government regulation, and damage to customers or third parties.

In order to obtain a risk rating for these business processes, we assign a numeric value to each of the above components. Likelihood is graded on a 1 to 5 scale from very remote to probable, while impact is graded on a 1 to 5 scale from very light to very severe. The values are then plotted on the Inherent Risk Matrix to determine the risk rating for the individual business process.

HOW IS THIS REPORT USED BY THE AUDITOR'S OFFICE?

We use risk assessments to allocate audit resources, prioritizing areas of greatest risk.

HOW CAN THIS REPORT BE USED BY COUNTY MANAGEMENT?

This report is intended to help management focus their efforts on mitigating the highest risk areas. This includes the distribution of personnel, implementation of internal controls, and allocation of budget resources.

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EXECUTIVE SUMMARY

PURPOSE

During fiscal year 2013, REC began the process of transitioning to the risk-based method of internal auditing. Under this approach, audit resources are directed toward the higher risk areas first. To determine which County offices/functional areas/business processes pose the greatest risk to the County, risk assessments are performed. The two levels of risk assessment are described below:

ENTERPRISE RISK ASSESSMENT (ERA)

This type of risk assessment is performed annually and involves identifying, rating and ranking risks at the enterprise or County level. The ERA is performed at a higher level both in terms of risk rating thresholds and level of detail. The results of this assessment are used to create the audit plan which is the schedule of internal audit engagements to be performed during the upcoming year. The audit plan is used to prioritize the utilization of audit resources.

AUDIT/ENGAGEMENT RISK ASSESSMENT (ARA)

Risk assessments performed at the engagement level delve into greater detail than ERAs, as they address the risks associated with the processes and activities handled by the County office or functional area under review. This type of risk assessment requires the internal auditor to gain an understanding of the entity's business objectives, flow of operations, business processes, inherent risks, and the system of internal controls implemented by management. During an ARA, there are three types of risks identified, evaluated and rated as follows:

- **Inherent risk** – The risk to an organization in the absence of any actions management might take to alter either the risk's probability or impact. In other words, the risks intrinsic to the entity's objectives if no internal controls are implemented.
- **Control risk** – The risk that management controls are not efficiently designed or effectively implemented, preventing the organization from meeting its objectives and protecting its assets.
- **Residual risk** – The risk that remains after management has responded to the risk by implementing controls.

To properly implement risk-based auditing, REC will be performing engagement-level risk assessments of all the Travis County offices and departments. For the majority of these entities, we will only be rating the inherent risks during the initial risk assessment. The audit plan will then be tailored to address the higher risk areas first. Going forward, we will periodically update the ARAs and accordingly adjust the audit plan. This is the first risk assessment for the County Clerk's Elections Division.

METHODOLOGY

The risk assessment process was performed in three phases: data gathering; business process, risk and control identification; and risk rating. Brief overviews of the phases are provided below:

- **Data Gathering** - Collect sufficient information about the functional area under review to gain an understanding of its business objectives and flow of operations.
- **Identification of business processes, risks and controls** - Determine what business processes are in place, the inherent risks associated with the processes, and the internal controls implemented by management to mitigate the risks.

- **Rate inherent risks** - Evaluate the inherent risks and assign risk ratings to the business processes handled by the functional areas under review.

More information about the ARA process is provided in the detailed report section below.

HIGH RISK AREAS

We rated the risks inherent to the election business processes handled by the Accounting and Elections Divisions on a five-level scale from very low to very high. A summary of the risk ratings is presented in graph form on page 8 of this report. The top business processes in terms of inherent risk are provided below:

<u>Business Process</u>	<u>Risk Rating</u>
Contract Management-Revenue	High
Fixed Assets	High

The inherent risks, risk management techniques, and risk ratings for the election business processes are provided in detail within the Functional Area Risk Profile which begins on page 11 of this report.

DETAILED REPORT

RISK ASSESSMENT PROCESS

We performed an engagement-level risk assessment of the inherent risks associated with the Elections Division's financial operations in the following three phases:

DATA GATHERING

In order to perform an accurate and thorough risk assessment, the first step is becoming familiar with the nature of the entity's business activities. To begin this process, we requested the following documents from the Elections Division:

1. Organizational charts
2. Budget submission forms (PB-3s) which provide program goals, statutorily required/mandated services, discretionary services, funding sources, anticipated reductions in revenues and grant resources, performance measures, historical trends, program efficiencies/outcomes, and proposed reallocations of budget.
3. Grant listings
4. Contract listings (interlocal, professional services, and revenue)
5. Listing of programs
6. Fee schedules
7. Policies and procedures
8. Formally documented narratives and flowcharts

Before meeting with the Elections Division employees, we reviewed the above documentation, prior audit reports, various narratives, Commissioner's Court minutes, Travis County Code, and the CAFR.

At the entrance conference, we met with the Elections Division Director and Deputy Division Director, as well as the County Clerk's Accounting Manager at their office on Airport Boulevard. At this meeting, we provided an explanation of how our office performs risk assessments as well as the anticipated timeline. The Elections Division employees gave us a high-level overview of their operations, a tour of their facilities, and a quick look at their voting equipment.

We subsequently held meetings with these employees and others to discuss their operations and business processes in greater detail. During these meetings, the Elections employees described the various tasks they are required to perform in order to conduct an election in conformance with federal, state, and local laws. These responsibilities are captured on their "Election Preparation Timeline" which can be found on page 9 of the report. After the meetings, we documented their flow of operations and business processes, following up with staff as needed.

IDENTIFICATION OF BUSINESS PROCESSES, RISKS, AND CONTROLS

After completing the process flow documentation, we analyzed the information gathered for each functional area and identified the following: the auditable business processes, potential risks inherent to these processes, and the controls implemented by management to mitigate the risks. We documented the results of this analysis on the

Functional Area Risk Profile provided later in this report. Additional details about the information reported on the risk profile schedule are provided below.

BUSINESS PROCESSES

A business process can be defined as a group of interrelated activities or tasks that are initiated to accomplish a specific organizational goal. In the context of a risk assessment performed by REC, business processes include the basic activities used to support financial operations, for example: cash handling, accounts payable, contract management, etc. The following business processes were identified for the Elections Division:

- Accounts Payable
- Accounts Receivable
- Cash Handling
- Contract Management
- Elections Results & Reporting
- Fixed Assets
- Fleet Management
- General Ledger
- Grant Management
- Payroll - Temporary Workers
- Procurement
- Special Revenue Funds

POTENTIAL RISKS

To identify the potential risks that could prevent Elections from achieving their financial objectives, we reviewed the individual steps of their business processes with a focus on what could go wrong that would result in either the failure to meet objectives or in a loss of County funds. We consulted auditing standards for internal and governmental auditors, as well as industry-accepted technical guidance for risk assessment as needed.

Inherent risks are those risks that exist in the absence of any actions management might take to alter either the risk’s probability or impact. Because management control is not a factor in determining the level of inherent risk, a high degree of inherent risk does not indicate poor management or the absence of controls.

Although the stated objective of the engagement was to identify and report on the risks inherent to the Elections Division’s business processes, we would be remiss if we did not convey areas of concern we came across during the assignment. An explanation of our concerns begins on page 21 of the report.

REPORTED RISK MANAGEMENT TECHNIQUES/CONTROLS

Risk management techniques/controls were self-reported by Elections and Accounting management during the course of interviews and follow-up communications. Although we reviewed their controls for reasonableness, we have not audited or otherwise validated them through audit procedures. After risk management techniques were identified, they were mapped to the risks they were designed to mitigate.

RATE INHERENT RISKS

PROCESS RISK RATING

We evaluated the business processes and the associated risks for each functional area, rating the risks based on the risk factors of impact and likelihood. Impact evaluates the magnitude or effect resulting from a breakdown in the process and/or controls, whereas likelihood is used to evaluate the probability that the event will occur. We used the following risk factors to evaluate impact and likelihood:

IMPACT

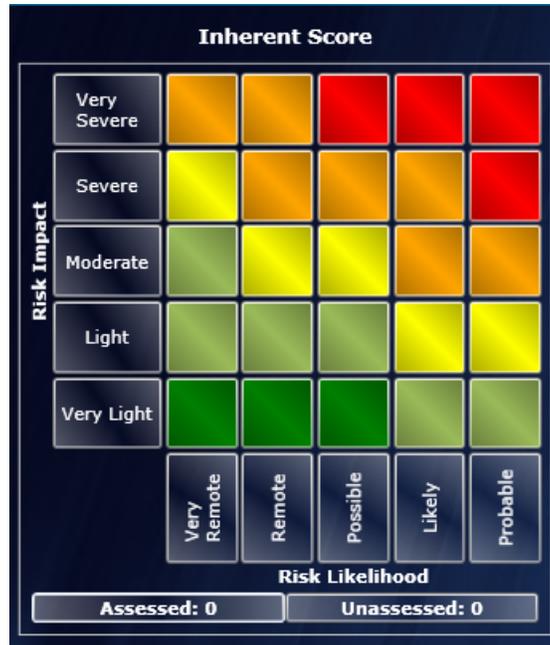
- Volume/dollar value/operational significance
- Media attention
- Government regulation
- Damage to customers or third parties

LIKELIHOOD

- Geographic dispersion
- Complexity of operations
- Training and documentation
- Access to high-risk assets
- State of automation
- Abuse of power potential
- Management oversight

Adjustments were made based on auditor judgment and other factors as was deemed appropriate.

We rated impact risk on a five-level scale from very light to very severe and likelihood risk from very remote to probable. The resulting scores were then used to determine the overall inherent risk ratings for each business process using our risk matrix, an example of which is provided below:



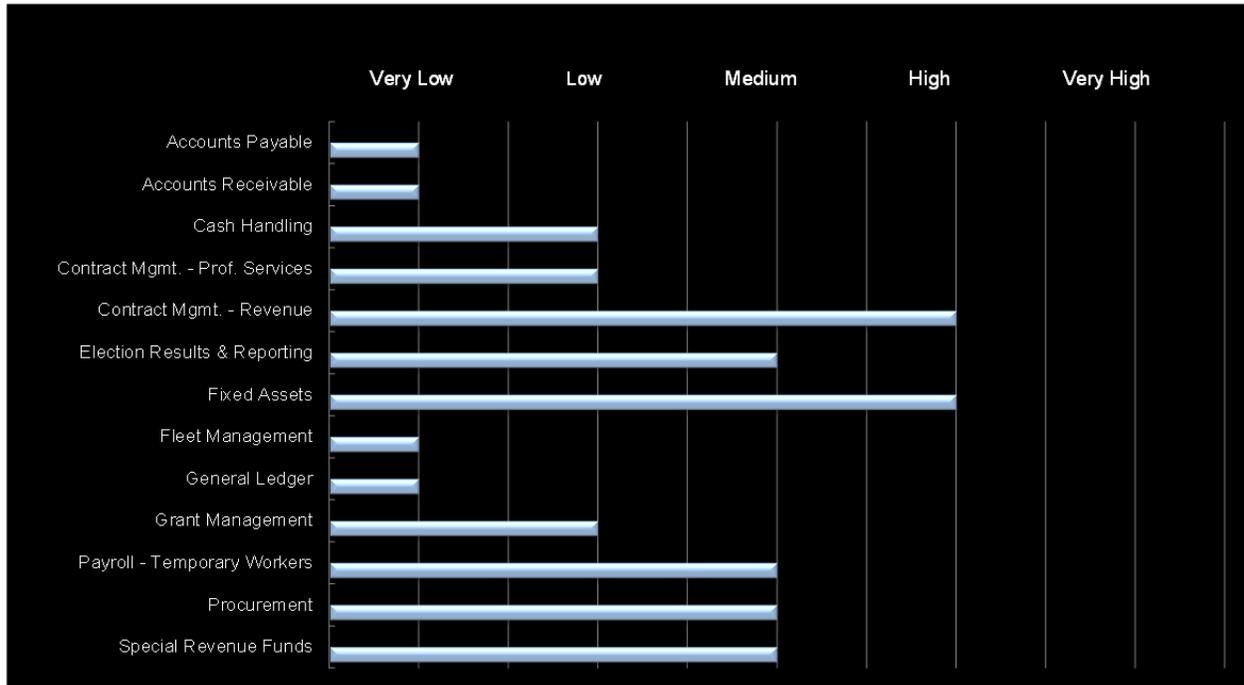
Using this matrix, the inherent risk for each business process was rated on a five-level scale as follows:

Color	Risk Rating	Description
Dark green	Very low	The risk of loss is remote, or if a loss were to occur, it would have no material impact.
Light Green	Low	The risk of loss is small, and even if a loss were to occur, it would have little material negative impact.
Yellow	Medium	There is an average risk of loss, and if a loss were to occur, it would likely have a moderate impact on the County.
Orange	High	The activity could potentially result in a significant loss to the County; however, the resulting loss, while significant, would not threaten the County in the long term.
Red	Very high	The activity could lead to significant and harmful loss to the County.

SUMMARY OF RESULTS

GRAPH - RISK PROFILE BY BUSINESS PROCESS

To provide visibility into the business processes which pose the greatest risk to the Elections Division, we present the results in graph form below:



ELECTIONS DIVISION ORGANIZATIONAL CHART

Dana DeBeauvoir
Travis County Clerk

Susan Bell
Chief Deputy

Michael Winn
Elections Division Manager

Michelle Parker
Elections Division Asst. Manager

Dan Roman
Operations Manager

Julian Montoya
Computer Resources

Alexa Buxkemper
Training Manager

Davia Prosser
Personnel Manager

Peter Velasquez
Sites/BBM/CC Manager

Ginny Ballard
Public Info Coordinator

Katonya Williams
Operations Coordinator

Adam Alvarez
Computer Resources Coordinator

VACANT
Training Coordinator

Mishon Davis
Personnel Coordinator

Yvette Laukaitis
Call Center Coordinator

Jessica Martin
Public Info Coordinator

Erik Buntin
Tech Support Coordinator

Dan Pfeiffer
Recruiting Coordinator

Kyle Rush
Ballot By Mail Coordinator

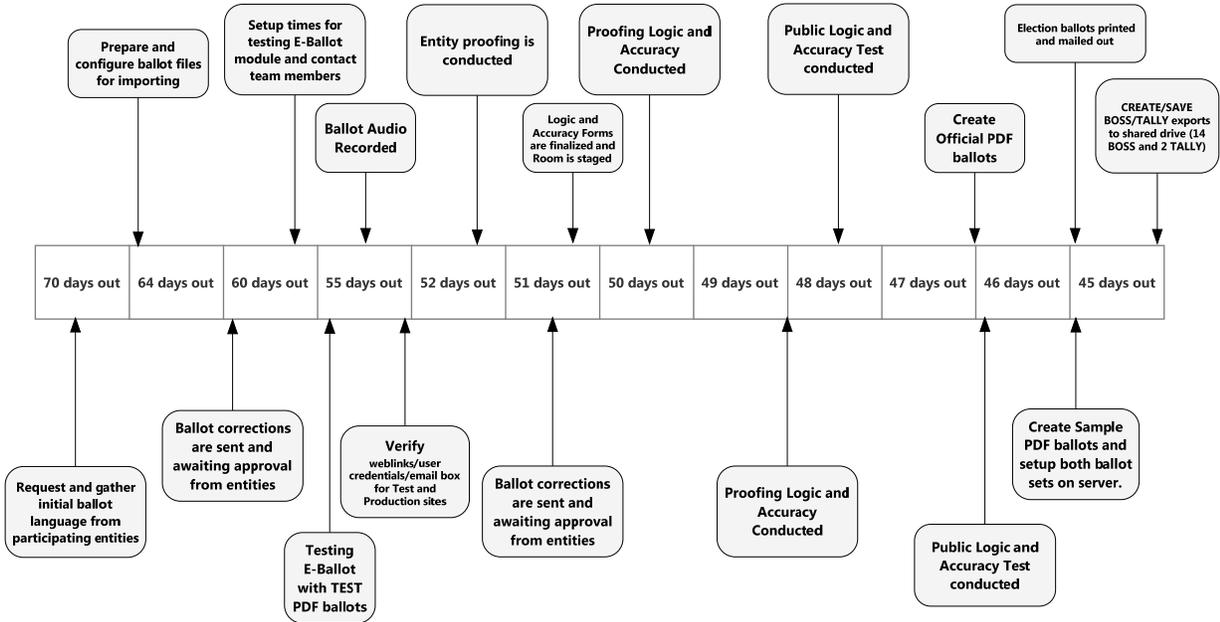
County Clerk IT Division
Elections Support Dedicated Staff Members:

Jennifer Francis
Business Analyst II

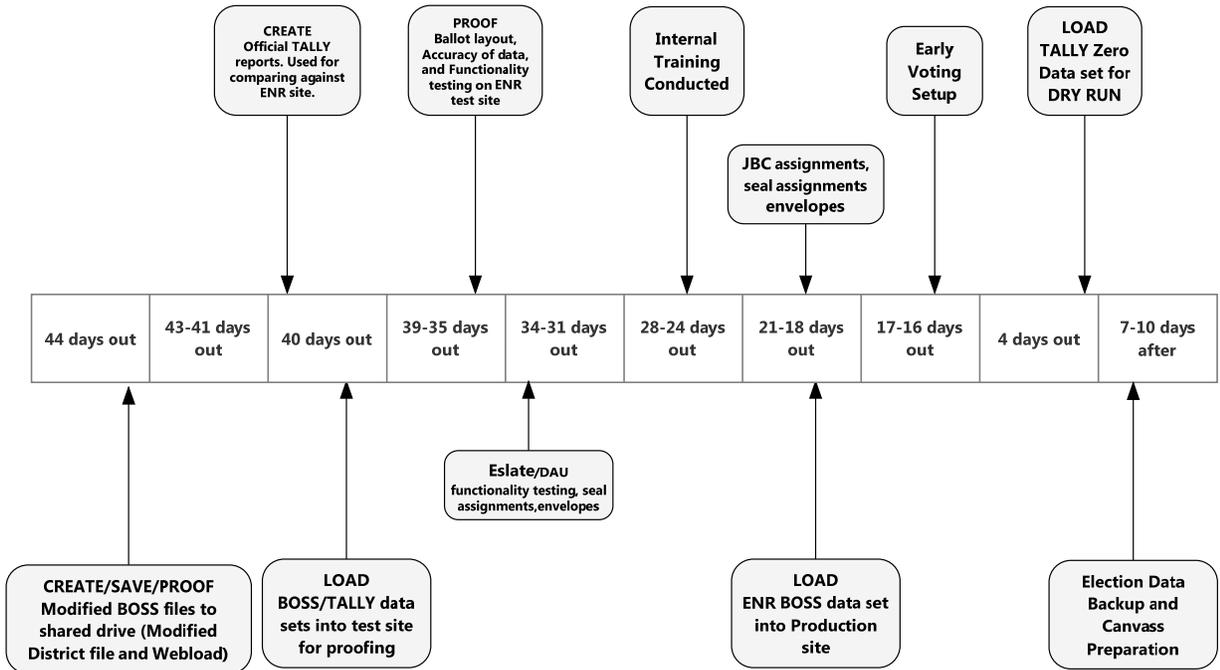
Robin Smith
Computer Resources Coordinator

ELECTION PREPARATION TIMELINE

70 to 45 Days Before an Election



44 Days Before to 10 Days After an Election



ELECTIONS DIVISION RISK PROFILE

MISSION AND OBJECTIVES

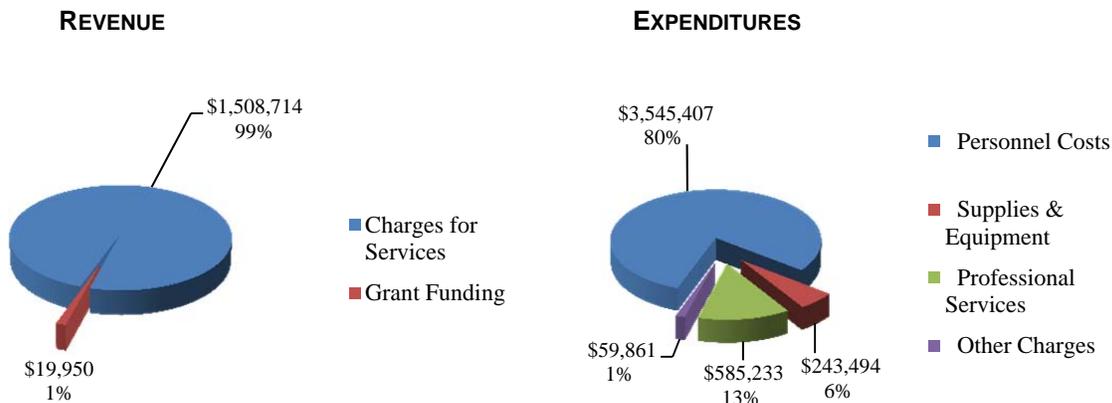
The mission of the Travis County Clerk Elections Division is to conduct free and fair elections; provide for accurate and timely election results; execute procedures according to Federal, State and Local laws; and adhere to the policies of the Travis County Clerk. They pledge to treat each voter with respect and dignity; make voting convenient for the voter; create a “safe haven” for voters to exercise their right to vote in a non-intimidating, supportive environment; provide fully accessible polling places and their pathways; and ensure each voter can cast their ballot independently and in secret.

SIGNIFICANT ACTIVITIES

- This division focuses on planning, developing, implementing, and coordinating the conduct of elections for a 247-precinct urban county with over 190 contracting local entities. The division includes six departments with a permanent staff of six managers, 14 coordinators, and a seasonal workforce of up to 2,000 temporary employees.
- Responsibilities include intensive project management; policy and procedure development; management, testing, and operation of secure computer programming operations and electronic equipment; budget development and expense tracking; site coordination; human resource planning, hiring, and training; public outreach; and inventory control.
- Specific programs within the Division include Inventory and Operations, Early Voting, Election Day, Election Night, Ballot By Mail, Call Center, Training, Site Management, Personnel Management, Campaign Finance Filings, Public Information, and Legislative Tracking.
- The division oversees the development of all ballot programming, testing, tabulation, and ballot security. They also ensure that all Division programs operate in accordance with Federal, State, and Local laws, as well as County policies and procedures.

FISCAL YEAR 2014 FINANCIAL DATA

During fiscal year 2014, the Elections Division received \$1,508,714 for providing election services to other governmental agencies as well as \$19,950 in grant funds to be used for improvements to the mail-in ballot program. Personnel costs represented approximately 80% of expenditures which totaled \$4,433,995. The details for their revenue and expenditures are provided below in graph form.



Business Process	Potential Risks	Reported Risk Management Techniques	Process Risk Rating
<p>Accounts Payable & Disbursements</p>	<p>Disbursements are incorrectly made, resulting in a loss of County funds.</p>	<p>1. The accounts payable software will not allow payments to a vendor for more than their accounts payable balance due without management approval. 2. Employees responsible for approving disbursements do not have the ability to print checks, sign checks, or access checks. 3. Documented management authorization is required for the disbursement of funds.</p>	<p>Very Low</p>
	<p>Lost, misplaced, or stolen checks may prevent a complete reconciliation of disbursements from being performed or lead to a loss of County funds as a result of misappropriation.</p>	<p>Checks are protected with physical safeguards by either being kept in a locked location or in an area with secured access points.</p>	
	<p>Either: 1. Invalid accounts payable are fraudulently created for unauthorized or nonexistent payables; or 2. The payment directions on valid accounts are amended to misdirect funds.</p>	<p>The accounts payable software limits the ability to make master file changes to authorized employees and tracks changes by employee, making it possible to identify the person responsible for fraudulent transactions.</p>	
<p>Accounts Receivable</p>	<p>Receipts are not completely recorded on the ledger.</p>	<p>Receipts are numerically ordered to allow for the identification of missing receipts in the accounting ledgers.</p>	<p>Very Low</p>
	<p>Receipts are incorrectly recorded in the accounts receivable software.</p>	<p>An accounts receivable aging report lists all open accounts and is used to bill customers and track balances.</p>	
	<p>The amount due is not properly stated on the billing, resulting in a loss of County funds and/or issues with the invoiced entity.</p>	<p>A review process is in place to ensure all information on the billing is accurate, complete, and valid.</p>	
	<p>Either: 1. Invalid accounts receivable are fraudulently created for unauthorized or nonexistent receivables; or 2. The payment directions on valid accounts are amended to misdirect funds.</p>	<p>1. The accounts receivable software limits the ability to make master file changes to authorized employees. 2. The accounts receivable software tracks master file changes by employee, making it possible to identify the person responsible for fraudulent transactions.</p>	

Business Process	Potential Risks	Reported Risk Management Techniques	Process Risk Rating
Accounts Receivable (Cont'd)	Incompatible duties may increase the likelihood of loss or misappropriation of funds on hand.	There is an informal policy preventing the employee who prepared the billing in the accounts receivable software from processing the deposit.	Very Low
Cash Handling	The receipt process for funds collected is not sufficient to properly safeguard these funds. Misappropriation or loss of funds can occur when an employee fails to issue a receipt.	A policy is in place requiring the issuance of a receipt for each payment received. Note: See the "Areas of Concern" section of the report regarding cash handling.	Low
	Funds received in the mail are vulnerable to theft or misappropriation.	1. All payments received in the mail are recorded on a mail log. There are always two employees present when the incoming mail is opened. 2. The employee who opens the mail and completes the mail log does not have access to the receipting software.	
	Improper use of the void receipt function may lead to loss or misappropriation of funds collected.	1. When manual receipts are voided, all copies of the receipt are retained. 2. When manual receipts are voided, all copies of the receipt are defaced with either the word "void" or other mark to clearly indicate it is voided. Note: See the "Areas of Concern" section of the report regarding cash handling.	
	Incompatible duties may increase the likelihood of loss or misappropriation of funds on hand.	1. Deposits are reviewed by a manager. 2. The employee who prepares the deposit is not responsible for issuing the manual receipt. Note: See the "Areas of Concern" section of the report regarding cash handling.	
	Funds on hand are susceptible to loss or misappropriation due to insufficient barriers to physical access.	1. A video camera is positioned to record everyone who enters and leaves the Accounting office. 2. Policy requires employees to lock the office door when no Accounting employees are present. Note: See the "Areas of Concern" section of the report regarding cash handling.	

Business Process	Potential Risks	Reported Risk Management Techniques	Process Risk Rating
<p>Contract Management - Professional Services</p>	<p>The County contracts with a professional services vendor that is not the best fit in terms of price and/or performance.</p>	<p>1. Informal procedures are in place for selecting new professional services contractors. 2. Informal procedures are in place for evaluating contractors before renewing their contracts.</p>	<p>Low</p>
	<p>1. Grant or budget funds may not be readily available for the contracted services. 2. Fraudulent requests for contracted services could lead to a loss of County funds.</p>	<p>Formal, documented procedures exist for authorizing services prior to the request.</p>	
	<p>The County pays for professional services that are incomplete or do not meet contract requirements, resulting in a loss of funds.</p>	<p>County operational employees verify the sufficiency of the services received, and provide documented approval to initiate the invoice payment process.</p>	
	<p>A professional services contractor's poor performance goes uncorrected due to inadequate monitoring.</p>	<p>The contract is reviewed to verify the specific contract requirements before initiating a conversation with the contractor about non-conformance. All conversations with the contractor are documented and placed in the file.</p>	
<p>Contract Management - Revenue</p>	<p>Fees are incorrectly billed due to errors in pricing or math, resulting in a loss of County funds.</p>	<p>Revenue contract billings cannot be distributed without management review and approval.</p>	<p>High</p>
	<p>Fees to which the County is entitled are not billed, resulting in a loss of County funds.</p>	<p>1. Revenue contract billings are supported by detailed calculations of the costs to be billed, as well as supporting documentation for the individual costs included in the calculations. 2. The number and dates of revenue contract service hours provided are tracked. Billings are reconciled to tracked hours to ensure all amounts are billed. 3. Revenue contract billings are reconciled to SAP or other system reports to verify billing accuracy. Note: See the "Areas of Concern" section of the report regarding election cost true-up.</p>	
	<p>Collection of past due amounts is not timely pursued, resulting in a loss of County funds.</p>	<p>Policies and procedures for the collection of past due billings are in place.</p>	

Business Process	Potential Risks	Reported Risk Management Techniques	Process Risk Rating
<p>Contract Management - Revenue (Cont'd)</p>	<p>Revenue contract collections are refunded in error due to one or more of the following: a. A refund is not due. b. The refund is for the wrong amount. c. The refund is disbursed to the wrong contractor.</p>	<p>Independent management review and approval is required for all refunds.</p>	<p>High</p>
	<p>Collected funds are not timely remitted to the Treasurer by the statutory deadline: Sec. 113.022 LGC and/or Art. 103.004(a) CCP, depending on the nature of the receipt.</p>	<p>Policy requires the remittance of collections by the next business day after receipt. Note: See the "Areas of Concern" section of the report regarding cash handling.</p>	
	<p>Funds are not posted to the correct SAP account or in the proper amount.</p>	<p>Supervisory and Treasurer review of cash journals posted in SAP is performed regularly to verify accuracy and ensure agreement with supporting documentation.</p>	
<p>Election Results & Reporting</p>	<p>Corruption or a third party intrusion within the voting system could occur, resulting in negative media attention and difficulties with contracting entities.</p>	<ol style="list-style-type: none"> 1. Access to voting equipment is physically restricted by both law enforcement and security systems. 2. The exposed ports, memory card access areas, and case seams on the electronic ballot boxes are protected from tampering with three layers of tamper-evident security seals with numeric encryption. 3. Computers used to key and reset voting equipment require a special login and are not connected to a network. 4. The voting count is stored in three places for triple redundancy, so there are two backups in case voting results are tampered with or destroyed. 5. A hash code test is performed to ensure corruption of the voting system has not occurred. 6. To detect ballot stuffing, the number of signatures on the polling sign-in sheets is compared to the number of ballots cast on the voting machines. 	<p>Medium</p>

Business Process	Potential Risks	Reported Risk Management Techniques	Process Risk Rating
<p>Election Results & Reporting (Cont'd)</p>	<p>Voting results are incorrectly calculated, resulting in negative media attention, and difficulties with contracting entities.</p>	<ol style="list-style-type: none"> 1. Logic and accuracy tests are executed prior to the election to verify the accuracy of the ballots and the voting counts provided by the system. 2. A "run zero" report is performed to verify all votes have been captured from the voting system. 3. Prior to reporting voting results to Central Count, managers at each of the four regional receiving substations are required to reconcile and explain discrepancies in the vote count. 4. Elections staff review audits performed by the receiving substations, and reconcile voting system reports and paperwork. 5. The final count is simultaneously reviewed and signed-off by the Elections Division Director and Deputy Division Director, as well as the County Clerk, and the Accounting Manager. 	<p>Medium</p>
	<p>Voting results are incorrectly reported, resulting in negative media attention, and difficulties with contracting and other governmental entities.</p>	<ol style="list-style-type: none"> 1. Both the Elections Division Director and Deputy Division Director review the final canvass reports prior to submitting them to the political subdivisions. 2. Commissioners' Court and the Secretary of State's Office are required to validate counts on the canvass report for Travis County ballot elections. 	

Business Process	Potential Risks	Reported Risk Management Techniques	Process Risk Rating
<p>Fixed Assets</p>	<p>Fixed assets located on County premises are stolen, misplaced, or damaged, resulting in a loss of funds.</p>	<p>County policy requires the following:</p> <ol style="list-style-type: none"> 1. All assets must be tagged with an identification plate before they are placed into commission. The plate contains the asset's tag/tracking number and declares the asset to be the property of Travis County. 2. Each office must appoint a liaison to assist the Purchasing Office with the annual physical verification of assets. They are responsible for locating assets, and resolving any discrepancies. 3. Every office must notify the Purchasing Office when assets are assigned to employees; assets are transferred from one employee or location to another; and employees with assigned assets terminate. 	<p>High</p>
	<p>Loaner computer equipment is stolen, misplaced, or damaged resulting in a loss of funds.</p>	<ol style="list-style-type: none"> 1. Employees with an inventory of loaner computer hardware, laptops, and/or computer accessories must maintain a log to track the movement of the assets. 2. Access to the inventory of loaner computer equipment is restricted. 	
	<p>Fixed assets placed in locations off of County premises are stolen, misplaced, or damaged, resulting in a loss of funds.</p>	<p>When a fixed asset leaves County premises for use in County business, the following tools are used to safeguard the asset:</p> <ol style="list-style-type: none"> 1. A chain of custody form is used to track asset location and responsible party. 2. Asset location is tracked with a log or database. 3. There is segregation of duties between access to the assets and the asset tracking records. 4. Physical safety measures are employed at the offsite location to restrict access to the fixed assets. 	

Business Process	Potential Risks	Reported Risk Management Techniques	Process Risk Rating
Fixed Assets (Cont'd)	Fixed assets may be prematurely removed from service and/or written off, resulting in the loss of County funds required to replace the assets.	<ol style="list-style-type: none"> 1. All fixed asset disposals must be approved by a manager prior to warehousing. 2. County policy requires the disposal of assets be coordinated with the Purchasing Office. The user department can request pickup or drop off disposals at the Purchasing warehouse when employees are present. 3. Warehouse personnel verify the receipt and subsequent disposal of fixed assets, ensuring complete records are maintained. 	High
Fleet Management	Access to County fuel pumps is not sufficiently safeguarded, resulting in the loss or misappropriation of County funds.	<ol style="list-style-type: none"> 1. Requests for fuel access codes will not be granted without management approval from the operational area requesting the code. 2. Policy requires management to timely request deactivation of fuel access codes when the need no longer exists (employees terminate or the project reaches completion). 	Very Low
	The County experiences a loss of funds as a result of not pursuing reimbursement from outside entities when the opportunity exists.	Note: See the "Areas of Concern" section of the report regarding fuel cost reimbursement, and access to County Fuel Pumps.	
General Ledger	<ol style="list-style-type: none"> 1. Entries are recorded without accounting management's knowledge to hide mistakes or wrong-doing. 2. Erroneous journal entries are recorded, resulting in misstatements 	<ol style="list-style-type: none"> 1. Journal entries are reviewed after they are recorded in the office's financial software (not SAP which is managed by the Auditor's Office). 2. There is County policy regarding computer use, as follows: <ul style="list-style-type: none"> • Employees are not allowed to share computer log-in details. • Passwords must be changed at least once every three months. • Passwords must meet stringent requirements. • Computer workstations must be locked during absences from the desk. 	Very Low

Business Process	Potential Risks	Reported Risk Management Techniques	Process Risk Rating
<p>General Ledger</p>	<p>One or more of the following: 1. The cash account is materially misstated in the general ledger and financial reports. 2. The county experiences a loss of funds as the result of failing to resolve reconciling bank items in a timely manner. 3. The loss or misappropriation of funds may remain undisclosed.</p>	<p>There are policies and procedures requiring the following: 1. Bank accounts are timely reconciled on a monthly basis. 2. Bank errors are timely resolved and correctly reported in the general ledger. 3. Bank reconciliations are signed by the preparer and the reviewer.</p>	<p>Very Low</p>
	<p>1. Checks outstanding for more than six months are not reclassified, causing the asset and corresponding payable balance on the financial statements to be understated. 2. Unclaimed property held for more than three years is not remitted to the Treasurer (item totals \$100 or less) or the State (item totals over \$100) in violation of statutory requirements.</p>	<p>A documented process is in place detailing how to properly handle unclaimed property.</p>	
<p>Grant Management</p>	<p>The County disburses funds for goods or services that will not be reimbursed by the grant.</p>	<p>Authorization for grant disbursements must be provided a person who is knowledgeable of the requirements for determining activities allowed and allowable costs.</p>	<p>Low</p>
	<p>Properly obligated grant funds are not disbursed by the end of the period of availability.</p>	<p>Variances between expected and actual program expenditures are analyzed.</p>	
	<p>Performance reporting is not accurate and/or in agreement with supporting documentation, resulting in difficulties with the grantor.</p>	<p>1. Independent review of performance reports to verify report accuracy and conformance to reporting requirements is required. 2. Independent audit of program data is provided by program coordinators to ensure accuracy and compliance with grant requirements.</p>	
	<p>Performance reports are not timely submitted to the grantor, resulting in the County not receiving reimbursement for grant expenditures.</p>	<p>Grant reporting deadlines are tracked. Reminder emails are sent to program coordinators, finance employees, and other users.</p>	
<p>Payroll - Temporary Workers</p>	<p>Temporary employees are paid for hours they did not work, resulting in a loss of County funds.</p>	<p>Temporary workers are not paid until the service requestor or designee provides documented verification that the services have been received.</p>	<p>Medium</p>

Business Process	Potential Risks	Reported Risk Management Techniques	Process Risk Rating
Payroll - Temporary Workers (Cont'd)	The amounts paid to temporary workers are incorrectly calculated and paid.	Payroll personnel are required to verify the accuracy of the pay rate and timesheet calculations for temporary worker payments.	Medium
	Temporary workers are used for non-County purposes, resulting in a loss of funds.	Upper management authorization is required before temporary workers can be hired.	
	Live payroll checks are stolen, misplaced, or misappropriated, resulting in a loss of County funds.	1. Live payroll checks are kept in a safe/vault until they are picked up by the employee, and 2. Payroll checks are timely mailed to employees via the USPS.	
Procurement	1. Grant or budget funds are not readily available for required goods/services. 2. Invalid purchase requests lead to a loss or misappropriation of County funds.	The employee identifies the required goods/services and completes a request form. A manager reviews the request to verify appropriateness and budget availability, and signs off.	Medium
	The vendor either does not provide the goods/services within the necessary time frame or does not provide goods/services that meet specifications.	Vendor requests and relevant communications are documented and retained in the files.	
Special Revenue Funds	Funds are not collected and deposited as allowed by law, which puts the County in violation of the applicable statutes.	Fee tables, fee schedules, and accounting systems are updated with the correct fee assessment information and amounts.	Medium
	Special revenue funds are inappropriately disbursed, resulting in a violation of statute and/or contractual requirements.	Potential disbursements of special revenue funds require documented manager review and approval from both program and finance employees.	
	As a result of noncompliance with statutory requirements, the financial statements are misstated.	Management stays up-to-date on statutory requirements, making changes as appropriate.	

AREAS OF CONCERN

The County Clerk's Elections Division conducts special, primary, and general elections for Travis County, as well as for other governmental entities throughout the area. They enter into election services contracts with these entities, and receive reimbursement of the costs they incur to run the elections. Through these agreements, they are also entitled to receive administration and equipment rental fees.

During the course of documenting the election business processes and performing the risk assessment, we noted that certain reimbursable fuel costs were not being billed out, resulting in a loss of County funds. In addition, anticipated election expenses that have not yet been paid are being billed to the contracted entities without performing a true-up in a subsequent period to verify the County actually disbursed the funds. Finally, several internal control weaknesses that could lead to financial losses for the County came to our attention. Our concerns about these areas are explained in greater detail below.

ELECTION CONTRACT BILLINGS

FUEL COST REIMBURSEMENT

County employees have a fiduciary responsibility to safeguard County funds. This extends to the duty to pursue the collection of all monies to which the County is entitled. Although the County is statutorily and contractually entitled to receive reimbursement for election fuel costs, they are not being fully reimbursed.

Employee mileage reimbursements for election work are billed to the contracted entities; however, gasoline/diesel obtained from the County fuel pumps is not. Unlike the mileage reimbursements, fuel pump usage is not being charged to the Elections Division. Because the election billings are based on the expenditures charged to the division, these costs are not being billed.

In order to satisfy their fiduciary responsibilities, the Elections Division should review their operations to determine if there are any reimbursable charges that are not being billed out, and implement procedures to remedy the situation. For example, they should coordinate with the Transportation and Natural Resources Department (TNR) to have their reimbursable County fuel pump usage charged to their division, and the Accounting Division should bill these charges to the contracted entities.

ACTION TAKEN

The Accounting Division promptly contacted TNR to initiate procedures for billing the contracted entities for County fuel pump usage. They will begin billing these costs for the November 2014 election.

ELECTION COST TRUE-UP

The contractual deadline for distributing the final billings to the participating entities of the joint non-primary elections is 90 days after Election Day, including runoff election days. Due to the timing of payroll processing and the delay in receiving invoices, the Accounting Division waits until six weeks after an election to prepare the final billings.

Unfortunately, there may still be invoices outstanding by the time the final billing is due. In an effort to ensure the County receives all of the reimbursements to which it is entitled, the Accounting Division reviews open shopping carts and purchase orders for potential (unpaid) election expenses, and includes them in the final billing.

In light of the 90-day contractual deadline for issuing the election billings, it is understandable why the anticipated, although unpaid, election costs are being billed to the contracted entities. However, there is a risk the County has not been invoiced because the ordered goods or services have not been received by the County.¹ It is necessary to address this uncertainty to ensure the contracted entities are not being over-billed.

We support the Accounting Division's efforts to fulfill their fiduciary duty to pursue all of the reimbursements to which the County is entitled; however, we believe a true-up of the billings to the actual disbursements should be performed after sufficient time has passed for all of the invoices to be received and paid. If any overpayments are discovered, the contracted entities should be promptly refunded.

In regard to the need to provide refunds to the contracted entities, Section 31.100 of the Election Code, "Disposition of Contract Money; Payment of Contracting Officer's Expenses," states the following:

(c) An election services contract must include an itemized list of estimated election expenses. If the estimated expenses, not including the fee charged under Subsection (d), exceed the actual expenses, the amount of the difference shall be refunded to the contracting authority.

INTERNAL CONTROLS

It is important to have strong internal controls in place in order to reduce the risk of loss or theft of County assets, including funds on hand. When we were documenting the election business processes, we noted the following internal controls were either not in place or were not consistently used:

PHYSICAL ACCESS TO CASH RECEIPTS

A strong system of internal controls requires proper physical safeguarding of funds on hand. Examples of this type of control include implementing a policy requiring the deposit of funds within one business day of receipt, as well as placing the funds in a locked location/safe and only giving the key/lock combination to a limited number of employees. The physical access controls provided by the Accounting Division are described below:

- A video camera has been positioned to record everyone who enters and leaves the Accounting Division's office. In addition, it is their policy to require the office door be locked when there will be no Accounting employees present. Although these controls provide strong deterrents to theft, they do not actually prevent outsiders from gaining access to funds during the business day. This is of particular concern because funds on hand are kept in the work area until they are deposited. The risk of misappropriation of these funds could be mitigated by requiring employees to place the funds on hand in a lockbox or safe until it is time to prepare the deposit.
- Although the Accounting Division has a policy requiring the deposit of collections into the Elections bank account within one business day of receipt, it is not consistently followed. Exceptions are allowed during busy times such as the month end close. As a result, unsecured funds on hand are vulnerable to loss or theft for an extended period of time.

¹ It is also possible that the final invoices will never be received or will contain different amounts than those listed on the shopping carts or purchase orders.

MANUAL RECEIPTS

In a business environment with a well-developed system of internal controls, access to manual receipt books is restricted, and manual receipt books are tracked and accounted for. It is important to safeguard manual receipts because they can be used to misappropriate funds without leaving evidence of the theft. When multiple-copy manual receipts are properly used, an audit trail of the cash receipts is created and can be used to verify that all amounts collected are deposited. The unused manual receipt booklets in the possession of the Accounting Division are kept in the work area rather than in a locked area or safe.

DEPOSITS

A strong system of internal controls requires proper segregation of duties. Employees with cash receipt duties should not be responsible for preparing the deposit. If an employee is responsible for both receipting and depositing cash receipts, they can conceal the theft of funds by adjusting the receipt and/or other cash receipt records so they are in agreement with the dollar amount of funds deposited. When we started the risk assessment, the same Accounting Division employee who issued the manual receipts was also responsible for depositing the check through the IDD (electronic image direct deposit) machine.

ACTION TAKEN

During the engagement, the Accounting Division transferred the manual receipting function to the Elections Division to provide better segregation of duties.

VOIDS

Another method of removing or adjusting the audit trail in order to misappropriate funds without detection is to void a receipt. When an employee seeks to misappropriate funds in this manner, they issue a receipt to the customer in exchange for the payment, pocket the money, and void the receipt. To avoid this scenario, managers should be instructed to verify that all copies of the receipt have been retained before providing approval of the void. The risk of this occurring can be mitigated by implementing a policy requiring documented management approval before receipts can be voided.

When we began the risk assessment, the Accounting Division was responsible for issuing the manual receipts for the Elections Division. At that time, they did not have a policy requiring documented management approval of voided receipts.

ACTION TAKEN

As previously mentioned, the Accounting Division transferred the manual receipting function to the Elections Division. They have also directed the Elections employees to get documented management approval for voided receipts from the Accounting Manager.

ACCESS TO COUNTY FUEL PUMPS

The Elections Division hires a large number of temporary workers who are responsible for transporting voting equipment during elections. To perform this task, the temporary workers require access to the County fuel pumps. When fuel access codes are issued, there is a risk the fuel could be used for purposes other than County objectives. The Elections Division could strengthen their controls to mitigate this risk by requiring monthly review and documented approval of fuel usage reports.