Internal Audit Report

Cuyahoga County, Ohio

Department of Internal Auditing

Cuyahoga County Treasurer's Office
January 1, 2013 – April 30, 2013

Director of Internal Auditing: Valerie J. Harry, CPA

(Updated responses were received on May 4, 2016. This report reflects the updated responses as the original responses were replaced.)

CUYAHOGA COUNTY
DEPARTMENT OF INTERNAL AUDITING

INTERNAL AUDIT REPORT
Cuyahoga County Treasurer's Office
Cover Letter

December 16, 2014

To: Mr. William Sheehan, Interim Cuyahoga County Treasurer
and the current management of the Treasurer's Office

The Department of Internal Auditing (DIA) has conducted an audit over the financial operations and general accounting of the Cuyahoga County Treasurer's Office for the period of January 1, 2013 through April 30, 2013. The audit objectives were to determine whether controls in place are adequate to safeguard assets from abuse, errors, and loss; revenue transactions and department funds are properly supported, recorded and deposited in their entirety in a timely manner and in accordance with governing laws and regulations; furlough leave is properly accounted for in accordance with County policy; the operations of the Treasurer's Office are efficient and conducive to accomplish its mission; and that reporting information is timely accomplished, accurate and in accordance with governing laws and regulations.

To accomplish our objectives, we focused on the operational controls of the Treasurer's Office, the revenue cycle and furlough process, as well as specific compliance mandates. Interviews with management and staff along with general walk-throughs of the public monies receipting and deposit cycle were conducted in order to document the controls in place. In addition, substantive testing methods included analytical procedures, tests of detail using sampling methods, as well as confirmation of transactions.

Our audit procedures disclosed many internal control weaknesses relating to the Treasurer's Office organizational structure, cash collection process, revenue cycle, furlough program, asset safeguarding, recordkeeping, and reporting. Non-compliance with the Ohio Revised Code as well as Cuyahoga County and Office Policies were also identified. This report provides the details of our findings.

We conducted this 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.

The Department of Internal Auditing would like to express our appreciation to the staff at the Treasurer's Office and interrelated departments that assisted throughout the process for their courtesy and cooperation during this audit. A draft report was provided to the Interim Cuyahoga County Treasurer and current management for comment and their responses are included.

Respectfully,

Valerie J. Harry, CPA

Valerie J. Harry, CPA
Director of Internal Auditing

Cc: Audit Committee
Matt Carroll, Chief of Staff
Majeed G. Makhlouf, Law Director
Cuyahoga County Council

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BACKGROUND

The Department of Internal Auditing (DIA) was contacted in April 2013 by the then Treasurer, Mark A. Parks, Jr., CPA to discuss a potential audit over the cash collection processes at the Cuyahoga County Treasurer's Office. Mr. Parks expressed his interest at a meeting held on April 25, 2013, in having an internal audit conducted by the DIA. The scope and time frame of the audit were agreed upon and the DIA began the audit on May 13, 2013. In September 2013, Mr. Parks resigned from his position as County Treasurer and was appointed as Interim Fiscal Officer. Ms. Jeannet Wright was then named the Interim Cuyahoga County Treasurer to replace Mr. Parks. In July of 2014, County Council confirmed Mr. William Sheehan, III as Interim Cuyahoga County Treasurer through December 31, 2014.

The Treasurer's Office (herein referred to as "the Office") is responsible for collecting more than $2.0 billion in taxes each year, as well as child support payments, depositing and investing a portfolio of more than $500 million of County monies, disbursing tax revenue to its taxing authorities, enrolling delinquent taxpayers in payment plans, administering the monthly installment and automatic bill payment programs, and collecting delinquent taxes, including the selling of delinquent property tax liens. The Office is also responsible for assisting residents in searching the State of Ohio's unclaimed funds list and filing claims with the Ohio Department of Commerce for those funds. The Office has four departments: Investment/Cash Management, Finance, Tax, and Business Services.

Investment/Cash Management
This division is responsible for investing County monies, maintaining checking accounts, balancing bank accounts, and determining daily cash position. Bank accounts are reconciled on a daily basis by the Investment/Cash Management Department. All general fund monies and some grant monies are tracked and recognized by this department. Investments are closely monitored and reviewed on a daily basis by the Investment Cash Manager.

Finance
This department is responsible for cashiering and processing of all payments, real property, child support, EasyPay payments, and all over the counter checks and deposits made through the Lock Box. This department is also responsible for cashiering and processing all monies brought in to the County from the public relating to real property tax and child support. Other monies collected in this area relate to revenue receipts and monies from other County agencies.

Tax
This department is responsible for all real property tax services, customer service, payment plans, refunds, tax liens and delinquencies. Various processes that are performed by the Tax Department include sending out tax bills on a semi-annual basis, foreclosure or tax lien processing if a taxpayer defaulted on their payment plan, and assessing if any additional charges are necessary.

Business Services
This department is responsible for general Treasurer's Office operations. The Treasurer's Office contracts are overseen by this department which includes a contract with Manatron, Inc. for support and maintenance of the Manatron Visual Property Tax System (MVP). MVP is the County's property tax management system used to record and track real estate payments, refunds, penalties, and adjustments. The Business Services Department is also responsible for mail delivery to the respective departments and for processing all checks received through the mail or in person, on a daily basis.

Our audit procedures disclosed many internal control weaknesses relating to the Office's organizational structure, cash collection process, revenue cycle, furlough program, asset safeguarding, recordkeeping, and reporting. Non-compliance with the Ohio Revised Code as well as Cuyahoga County and Office Policies was also identified. This report provides the details of our findings. The findings are grouped into two categories: noncompliance findings beginning on this page and internal control findings beginning on page 17. If a finding fits into both categories, DIA labeled it as a noncompliance finding. **The most significant findings are: Dog License Credit Card Bank Account Monitoring (page 19); SkipJack Contract and Services (page 22); Bank Reconciliation (page 23); Issuing Refunds for Property Tax Overpayments (page 28); and Property Tax Refunds Issued to the Treasurer's Office (page 30).**

FINDINGS

NONCOMPLIANCE FINDINGS

NONCOMPLIANCE WITH OHIO REVISED CODE

Safekeeping of Bonds

Ohio Revised Code Sections 2303.02, 2101.03, 309.03, 325.17 states, in part, that all bonds shall be deposited with the county treasurer and kept in the Treasurer's Office. Specifically, bonds for the Clerk of the Court of Common Pleas, Judge of the Probate Division, Prosecuting Attorney, and deputies and clerks should be kept with the Treasurer's Office. Additionally, Cuyahoga County Code Section 107.02 clarifies which County employees are required to post bonds and also specifies that all bonds should be filed in the Treasurer's Office.

During our testing for compliance with the Ohio Revised Code and the Cuyahoga County Code section noted above, the Office does not store all bonds within the department. All older bonds are kept with the Office in the Finance Department's vault; however, newer bonds are kept in the Fiscal Office. These bonds are obtained by the Director of Special Projects and locked away in a fire proof safe in the general operations department but they are not held in the Treasurer's Office as these sections require.

The Office does not have procedures in place to assure bonds are stored within the department as required by law.

Failure to maintain bonds of specified employees in the Office has resulted in noncompliance with the Ohio Revised Code and Cuyahoga County Code, and could lead to the misplacement of bonds.

Recommendation:

All bonds should be deposited with the Treasurer and kept in the Office to be compliant with the applicable laws and policies.

Management's Response and Target Completion Date:

As of October 2013, bonds are received from Risk Management and stored in the Treasurer's vault.

Contracting with Financial Institutions to Process Payments

Ohio Revised Code Section 321.03 applies to Lock Box contracts between Counties and financial institutions. This section states, in part:

> *"a board of county commissioners may enter into a contract with any financial institution under which the financial institution, in accordance with the terms of the contract, receives at a post office box any type of payment or fee owed or payable to the county, opens the mail delivered to that box, processes the checks and other payments received in such mail and deposits them into the treasurer's account, and provides the county treasurer daily receipt information with respect to such payments."*

In accordance with part (A) of this Code Section, the contract may not be entered into unless there is "a certification by the Auditor of State that the financial institution and the treasurer have given assurances satisfactory to the Auditor of State that the records of the financial institution, to the extent that they relate to payments covered by the contract, shall be subject to examination by the Auditor of State to the same extent as if the services that the financial institution has agreed to perform were being performed by the treasurer."

The Office currently has a contract with Key Bank for lockbox services in order to process its property taxes. The contract with Key Bank, however, did not have certification attached from the Auditor of State that records of the bank were subject to examination by the Auditor of State as noted in the above Revised Code Section.

Failure to attach such a certification results in the County not being in compliance with the Ohio Revised Code.

Recommendation:

DIA recommends that all Lock Box type contracts the Office enters into with financial institutions in accordance with Ohio Revised Code Section 321.03 include certification by the Auditor of State that records of the financial institution are subject to examination as it relates to the payments in the contract.

Management's Response and Target Completion Date:

The certification letter was completed by the Law Department and sent to the State Auditor for a signature on 5/21/15.

Tax Penalty Remissions

Having procedures in place for the tax penalty remission process is essential to the County. Continual communication between departments and a uniform process should be established between departments to assure all procedures are effective and efficient. Tax penalty remissions are adjustments to tax penalties charged to the taxpayer after the taxpayer failed to pay real estate property taxes on time. A decision is made in the Treasurer's Office, the Fiscal Office, and the Board of Revision at times, to leave or remove a tax penalty when the proper application is completed by the taxpayer.

In order to be compliant with Ohio Revised Code Section 5715.39 (B) and Tax Commissioner guidance, the County utilizes the Office, Fiscal Office, and Board of Revision to review remission applications. ORC Section 5715.39 states the county auditor, with the county treasurer's agreement, may remit a penalty for late payment of any real property taxes or manufactured home taxes when:

(1) The taxpayer could not make timely payment of the tax because of the negligence or error of the county auditor or county treasurer in the performance of statutory duty;
(2) The taxpayer failed to receive a tax bill, and the taxpayer made a good faith effort to obtain such bill within 30 days after the due date;
(3) The tax was not timely paid because of the death or serious injury of the taxpayer and the tax was subsequently paid within sixty days after the due date;
(4) The taxpayer demonstrates that full payment was properly deposited in the mail in sufficient time for the envelope to be postmarked by the U.S. postal service on or before the due date; or,
(5) The Board of Revision determines remittance of a penalty in cases other than those described above.

DIA inquired and performed a walkthrough with the Office, Fiscal Office, and Board of Revision relating to the tax penalty remissions process. We haphazardly selected 25 remission applications for the 2012 tax year and performed testing. During our testing, DIA noted the following:

- A policies and procedures manual does not exist on the remission process between the Office, Fiscal Office, and Board of Revision;
    - In 7 out of the 25 (28%) applications tested, the taxpayer's information from the application was not accurately entered in MVP. In all 7 instances, the explanation box did not state the taxpayers' reason for remission in MVP.
- In 22 out of the 25 (88%) applications tested, the Fiscal Office did not keep copies of letters sent to the taxpayer when a decision was made.
- In 1 out of the 25 (4%) applications tested, the taxpayer did not pay the principal amount before a decision was made by the Fiscal Office. The remission should have been denied, but was granted by the Office and the Fiscal Office.
- After review of the 25 remission applications, DIA noticed adequate support was not filed by the taxpayer for remission of a tax penalty. Most remissions were granted and a valid reason was noted by the taxpayer, but sufficient support for the reason was not always obtained.
- Multiple applications stated the taxpayer did not receive a bill or the bill was sent to the wrong address. This could indicate an issue with tax bill mailings and/or incorrect addresses may be in MVP.

The above instances occurred because the Office does not have policies and procedures in place on tax penalty remissions.

Lack of communication between departments over the tax penalty remission process could lead to non-compliance with the above noted Ohio Revised Code Section and the Tax Commissioner. Furthermore, failure to accurately update MVP with accurate information could lead to miscommunication within the Fiscal Office which could ultimately lead to an increase in unnecessary cases or inappropriate case results. Lastly, failure to have policies and procedures could result in remissions that are not in line with the intentions of management.

Recommendation:

To improve internal controls and efficiencies over the remission application process, we recommend the following be completed:

- A policies and procedures manual be established to assure the Office, Fiscal Office, and Board of Revision are knowledgeable of each departments' procedures and are compliant with the Ohio Revised Code and the Tax Commissioner guidance.
- MVP should be updated to accurately display information on the applications as well as the correct tax penalty in question.
- The Fiscal Office should keep all letters sent to the taxpayer as support the letter was sent. A copy of the letter should be time stamped on the date sent.
- The Tax Commissioner's guidance should be followed. Remissions should not be granted if the taxpayer fails to pay the principal amount due on the property.
- The Fiscal Office should review billing procedures to assure taxpayer addresses are correct and up-to-date. This should decrease remission applications as a majority of the applications state they did not receive a bill.

<u>Management's Response and Target Completion Date:</u>

The Treasury Department created written policies and procedures in December 2013 which included procedures for tax penalty remissions. The document will be reviewed annually and updates will be made as needed.

The Treasury is revising the "policies and procedures manual" to assure knowledge of each departments' remission processing procedure. All procedures have been reviewed and it has been determined that they are being conducted according to the guidelines set forth by the Tax Commissioner. The procedures are defined as follows:

Treasury
- Date stamp each remission application upon receipt
- Review the remission application for confirmation of payment posting prior to consideration
- Review all sections for proper completion by the taxpayer, per instructions
- Consider the taxpayer's preceding three years of payment history, explanation for late payment and all information/documentation provided to substantiate the taxpayer's request
- Make a recommendation to grant or deny the request; sign and date
- If the taxpayer has a late payment history, the "Payment History" screen is attached to identify the delinquent tax year(s)
- Manually enter the application data into the real property tax system database; an electronic version of the application is saved for future reference
- Forward the application and additional documents to the Fiscal/Auditor for completion of the "County Auditor" section

Fiscal
- Research and decide whether to grant or deny; sign and date

- Update the real property tax system with the decision

- Create a petition to abate or refund the penalty charge

- Send the application to the Board of Revisions if:

- *Treasury and Fiscal/Auditor do not agree*
- *Treasury denies and the taxpayer's reason is "reasonable cause"*
- *When "Reasonable cause" is not checked and other reasons are not applicable, the Fiscal/Auditor may submit the request to the Board of Revision for determination of "reasonable cause."*

- Notify the taxpayer of the decision by completing all "County Auditor" sections and returning a copy of the form to the taxpayer – a letter informing the taxpayer of the decision is, also, prepared and sent

- If denied, the taxpayer is informed of their right to appeal to the tax commissioner within 60 days.

Board of Revision
- Review the request to determine whether late payment was due to reasonable cause and not the willful neglect of the taxpayer

- Forward the completed request to the Fiscal Department for review, abatement of charges and/or refund

MVP is updated with each application entry and displays application information with the correct penalty. Fiscal Office requirements are not at the discretion of Treasury. Remission requests are reviewed when principal taxes are paid or the taxpayer enters into a delinquent payment agreement. Treasury updates mailing address changes as written requests are received. All recommendations pertinent to operations of the Fiscal Office and Board of Revisions will be formally communicated to each agency, by Treasury.

NONCOMPLIANCE WITH CUYAHOGA COUNTY POLICIES

Cash and Physical Security Controls

All public monies should be safeguarded until deposit by the individual agency. Cash safeguard controls may consist of a designated cashier, a daily supervised count and reconciliation with proper approvals, as well as physical safeguards such as a locked cash register and safe. The ***Cuyahoga County Treasurer's Cash Handling Procedures, Safeguarding of Cashier Funds, and Teller Operation Rules*** states, "cashier drawers are to be locked throughout the day when the cashier is away from cashier window. The cashier will have the key to their cashier drawer on their person when away from the cashier window."

DIA performed a walk-through of cash collections and physical security in the Finance Department of the Office and noted the following:

- There were instances observed, in which cashiers left their cashiering window without locking their drawer and taking the key with them.
- Checks received for real estate payments were kept outside the cash drawer and not locked away.
- During daily cash counts, a second person was not present to witness the count.
- Child support payments and receipts, containing money and personal information (social security numbers and addresses), was kept unlocked all day.
- Child support payments and receipts were accessible to any employee in the Finance Department.

The Treasurer's Office has policies and procedures in place for cash collections and physical security; however, they are not being adhered to.

Lack of effective cash collection controls hinders the reconciliation process and can lead to misappropriation of monies. Furthermore, without strong physical security, the opportunity for unauthorized access or theft of County-owned assets and personal information, is present.

Recommendation:

To improve internal controls over asset and personal information security, we recommend the Office adhere to current policies and procedures, and develop additional policies and procedures to include the following:

- Cashier drawers should be locked throughout the day when the cashier is not present at his or her drawer.
- Checks received at the counter for real estate payments should always be locked in the cash drawer along with cash.
- Two employees should be present during counts of the vault, cashier registers, banker's drawer, and child support monies.
- All monies and personal information should be secured and locked at all times during the day, specifically child support payments.
- The child support drawer should be assigned to one cashier, if possible, during a specified time period, i.e. daily or weekly.

For further information on best practices of cash handing, see Auditor of State Bulletin, Fall 2007, at http://www.auditor.state.oh.us/enews/bp/default.htm.

<u>Management's Response and Target Completion Date:</u>

The Treasury Department management has reiterated to staff that cash drawers are to be locked at all times when Cashiers are away from their respective stations. If a staff member is found out of compliance, progressive discipline could be warranted. The child support drawer has been balanced by a primary person as of October 2013. Management does not agree that checks held for real estate payments should be locked in cash drawers due to space constraints; however, unprocessed real estate checks are kept in the vault overnight for next day processing. Treasury Management agrees that two employees should be present during the count of cashiers' drawers, banker's drawer and child support monies; this procedure is being followed.

Cashier drawers are to be locked when cashiers are away from their stations; Treasury management verifies, throughout the day, at random.

During regular business hours, cashier's processed work is kept in order (both stub and check) within slotted compartments on the workstation. Checks are locked in the cash drawer when cashiers are away from their stations during lunch and breaks.

Two employees are always present during audit counts however daily balancing counts are performed according to industry banking standards which is completed by two people when an outage is identified. The Cashier Department is reviewing a daily dual cashier drawer balancing count for operational feasibility.

Child support information and monies are collected by more than one person and kept in a secured drawer until balanced by the primary (assigned) person.

Money Vault and Cash Drawer Audits

The Office's Finance Department keeps duplicate keys to cashier boxes and cash drawers in a safe in the vault room, known as the key box. The ***Cuyahoga County Treasurer's Office Cash Handling Procedures, Safeguarding of Cashier Funds and Teller Operation Rules*** states the following:

- "A key box should be secured within the vault room and will contain the following appropriate labeled keys: duplicate cashier box keys and duplicate cashier drawer keys."
- "A log should be kept with the key box recording any access to the [key] box. The log should record the names of the individuals accessing the box, the date, and the reason. The locked key box should be inventoried periodically by management under dual control, to ensure that all duplicate keys are in the box and appropriately labeled."
- "Each cashier's cash drawer is subject to an audit at any time at the request of the cashier supervisor, cash manager or Treasurer."
- "Cashier drawers are restricted to no more than "$4,000 in one hundred dollar bills, $4,000 in twenty dollar bills, $2,000 in ten dollar bills, $1,000 in five dollar bills, $200 in one dollar bills, and $25 in loose coins."

The Office does keep a key box secured within the vault according to policy; however, the Office does not keep an access log for their key box. Furthermore, it is not known when the last time the key box was inventoried by management. The regular safe in the vault, which holds the Finance Department's reserve of cash and coins, is audited approximately once every quarter, when the banker rotation occurs. DIA has been told that cashier's cash drawers are audited approximately once every three to four months. However, no logs are being kept on either of these processes. Lastly, DIA performed a count of select cashier drawers and noted the above cash and coin restrictions were exceeded.

The policy of the locked key box access and audit has never been enforced by management. In addition, there is no written policy on how often the vault safe's or cashier's cash drawers are to be audited or that a log should be kept with the results of these audits. Lastly, surprise audits by management do not include evaluating cash and coin restrictions that are set by policy.

Without a regular safe and key box audit, as well as a cashier's drawer cash and coin restriction review, there is an increased risk that money or keys could go missing without detection. Also, failure to keep an access log to the key box prevents accountability over key usage.

Recommendation:

DIA recommends the Finance Department follow their policies and procedures in the ***Cuyahoga County Treasurer's Office Cash Handling Procedures, Safeguarding of Cashier Funds and Teller Operations Rules*** manual. As stated in the manual, a log should be maintained with the key box in the safe that states who is accessing the box, the date, and their reason for doing so.

In addition, we recommend the Office's manual be reviewed and updated to improve accountability in the Office. We recommend the manual include the following:

- Management should conduct an audit of the cash and coin safe on a more regular basis, namely weekly or monthly as opposed to quarterly as stated in the Policy.
- The key box should be audited on a monthly or weekly basis.
- The cashier supervisor should also maintain a log of the audit of the vault safes and cashier drawers, which should include the date of the audit, who/what is being audited, who is performing the audit, and the results of the audit.
- Cashier drawer audits should include a cash and coin restriction review to determine compliance with the Office's policy manual. Any amounts in excess of the allowed cash and coin limits should be exchanged with change maintained in the vault. This process should be noted and well documented.

<u>Management's Response and Target Completion Date:</u>

The Treasury Department created written policies and procedures in December 2013 which incorporate the recommendations above. The document will be reviewed annually and updates will be made as needed. In April 2014, management instituted a requirement for random monthly audits. The cashier drawer cash and coin restrictions were removed in October 2014.

Random monthly audits are now required by management and the vault cash and coin safe is counted, verified and documented, with pertinent information daily.

Cashier drawer audits are generally conducted weekly and a documented record, identifying all pertinent information, is completed and filed with the Cashier manager.

Routine cashier drawer restrictions are no longer a requirement by management, however, cash currency restrictions are in effect during the last week of collection when excessive volumes of cash are received. This eliminates any potential overflow within cash drawers and ensures the high volume of money received is more promptly strapped and secured in the vault for later deposits.

A key box log will be maintained and audited on a monthly basis by the cashier manager and banker.

Void Approval

Per the ***Cuyahoga County Treasurer's Cash Handling Procedures, Safeguarding of Cashier Funds, and Teller Operation Rules***, Appendix I #8, "management must approve all voided transactions and ensure that adequate documentation and explanation for the void is provided" in the Treasurer's Finance

Department. The policy also states that "excessive voided receipts will be compared against the number of cashier transactions to determine whether or not the cashier is within an acceptable level of compliance." See the following table for a summary of voids in MVP for the four month period beginning January 1 through April 30, 2013.

MVP Voids

Month	# of Voids	$ of Voids	# of Receipts	$ of Receipts
January	258	$998,008	*	*
February	329	$706,428	*	*
March	62	$390,102	*	*
April	28	$51,888	*	*
Total	**677 (.001%)**	**$2,146,426 (.2%)**	**994,644**	**$1,042,744,314**

* - Due to the size and complexity of the MVP report (23,720 pages) and number of receipts, DIA was unable to determine the dollar amount and number of receipts by month.

DIA performed a test of controls on MVP (Real Estate) voids that occurred between January 1, 2013 and April 30, 2013 and noted the following:

MVP Voids – Summary of Control Weaknesses

Control Weakness	# of Instances	# Tested	%
No supporting documentation was maintained with a supervisor	9	20	45%
No explanation, indicating the reason for the void was noted	16	20	80%
Approval by a supervisor not noted	20	20	100%

DIA also performed a test of controls on child support voids. Child support receipts and voids are not recorded through MVP and a summary of voids are not kept by the Treasurer's Finance Department. Since the total population of child support voids for the audit period was undeterminable we selected 15 dates during the audit period and 20 voids were tested with the following instances noted:

Child Support Voids – Summary of Control Weaknesses

Control Weakness	# of Instances	# Tested	%
No explanation, indicating the reason for the void was noted	19	20	95%
Approval by a supervisor not noted	20	20	100%

In addition to the test of child support voids, we noted the Finance Department does not have effective controls in place on child support forms completed by the public. These forms are used as receipts when payment is made. Two copies are maintained for the Finance Department and the Child Support Enforcement Agency (CSEA) and one is given to the payer. The Finance Department maintains all child support forms in sequential order. CSEA collects all forms with monies on a daily basis. The Finance Department reviews all the forms by number to assure they are in sequential order and that no forms are missing before they are collected by CSEA. If a form appears to be missing, the Finance Department fills out a blank sheet of paper and labels it "Void" along with the missing form number(s). An explanation on why the form was voided was not noted. For example, on 1/9/2013 the Finance Department noted the sequence of child support forms collected were numbers 134488 to 134520. Form #134518 was not found in this batch so the form number was written on a blank sheet of paper and marked "Void" before all the forms and monies were collected by CSEA. DIA later determined these "Void" forms are given to the payer and returned to the Treasurer's Office at a later date with payment. The form (and money) is then collected by CSEA meaning the form was not really voided. Adding to the example above, one day later on 1/10/2013, a child support payment was made with form #134518.

The Office does not keep documentation on every void that is performed nor is secondary approval of voids required. The act of making the void is viewed as the supervisor's approval for real estate voids. Furthermore, it has never been required to obtain a supervisor's approval for child support payment voids. Although information is available to determine whether a "cashier is within an acceptable level of compliance," no one was reviewing this information as required by policy.

The lack of effective monitoring on voided receipts may result in undefined procedures that can lead to inconsistency in the operations of the Office. Furthermore, without review and approval of voids, actual transactions could be compromised, leading to a misappropriation of funds.

Recommendation:

DIA recommends the Office follow their policies and procedures noted above. This includes maintaining documentation and explanation for all voids. Their policies and procedures should also be reviewed (See Policy and Procedure Manual Review comment page 17) to include, but not be limited to the following:

- Voids should be regularly reviewed for appropriateness and for any indication of fraud or abuse.
- Voids should be approved by the cash/investment management officer, evident by initials and date on the supporting documentation.
- A summary of all voids should be maintained by the Finance Department indicating the cashier, amount, and date of each void.
- Child support forms should be accurately accounted for. A log should be maintained if the Finance Department allows the payer to take a form home and return with payment on a later date. If forms are reported to CSEA in sequential order, the Finance Department should not document a form as "void" if payment is expected to be made with the "voided" form on a later date. Alternatively, the Finance Department should strongly consider not allowing the public to take the forms home.

Management's Response and Target Completion Date:

Cashier voids require an override by the Cashier Supervisor (or designated personnel) and the indication of such approval can be found in the real estate tax system (MVP) notes. The reversals of nonsufficient fund items are recorded in the MVP system as a void, when applicable. Reversal of the attempted payment is the responsibility of one staff member and voids are initiated by a report received from the bank. Effective October 2014, the Cashier Department does not accept Child Support forms that are out of sequence. Treasury Management will create a form to record all voids. In summary:

Voids should be approved by the cashier supervisor or designated personnel familiar with the process.

An MVP void is reviewed prior to any void action taken and physical supporting documentation is maintained with all pertinent information. In addition, a summary report is generated within MVP, identifying the item and who performed the void.

A log, indicating the reason for the void, has been created for child support to investigate and track missing forms; and, to prevent customers from using the voided forms at a later time. Child support forms are not given out with an expectation of receiving it at a later date. The public is advised that forms are to be completed in the office and returned on the same day.

Out of Balance Reporting

The ***Cuyahoga County Treasurer's Office Cash Handling Procedures, Safeguarding of Cashier Funds and Teller Operation Rules*** states, "an *Accumulative Cashier Activity Report* will be maintained for out of balance conditions." This report is to serve as documentation to track employee cashier outages over time and to support the need for *Loss Counseling Notice* and/or *Counseling and Action Plans*. The policy also requires all out of balance conditions be documented by completing an *Out of Balance Incident Report Form*.

Two out of seven cashier outages documented on the *Accumulative Cashier Activity Report* did not have *Out of Balance Incident Report Forms* filled out and maintained by the cashier supervisor. In addition, there was an *Out of Balance Incident Report Form* and accompanying research checklist that was not posted to the *Accumulative Cashier Activity Report*. There is a lack of consistency in updating the *Accumulative Cashier Activity Report*s and filling out and maintaining copies of *Out of Balance Report Forms* when a shortage or overage in cashier activity has occurred. Improper updating of these forms may result in employees not being progressively disciplined for out of balance conditions as required by policy.

Recommendation:

DIA recommends the cashier supervisor follow the Office's policies and procedures in regards to documenting cashier out of balance conditions. Documentation should be kept on each shortage, including an *Out of Balance Incident Report Form, Loss Counseling Notice,* and, if necessary, *Outage Research Checklist* and *Counseling and Action Plan Form*. The *Accumulative Cashier Activity Repor*t should also be updated and be in agreement with actual shortages and overages so monthly standards for balancing can be tracked.

Management's Response and Target Completion Date:

Applicable procedures regarding outages are being followed per the Outage Research Checklist, which will be updated to reflect current practices in April 2016.

The "Progressive Discipline" defined on the Loss Counseling Notice has been incorporated in the Cashier Policy and Procedure Manual and is no longer being used as an existing cashier document. Human Resources provides documentation for verbal/written reprimands and suspensions.

The Counseling and Action Plan form is no longer being utilized. Performance areas and/or behaviors that must be improved are addressed using a Performance Improvement Plan (PIP) per Human Resources.

The Out of Balance Incident form is consistently being used to document outages, per occurrence.

The Accumulative Cashier Activity Report is updated on a monthly basis for purposes of balancing.

Out of Balance Incident forms have been made more accessible to designated staff, in the absence of the Cashier Supervisor, to help maintain control of timely documentation of the incident.

Investment Policy

The County's ***Investment Policy*** governs how the Office is to operate with regards to investing the County's money in financial instruments and their reporting standards to the Investment Advisory Committee. The policy states the following:

- "The County shall select a depository bank and a custodial bank after issuing a request for proposals and evaluating the ability of proposing banks to provide necessary services, adequacy of capital or net worth of the financial institutions as well as pricing for individual services."
- "All brokers, dealers and other financial institutions conducting investment business, initiating transactions, or executing transactions initiated by the County, having read this policy shall sign the ***Investment Policy*** thereby acknowledging their comprehension and receipt."
- "Current financial statements of eligible banks and broker/dealers shall be kept on file at the County."
- "All financial institutions interested in transacting securities trades with the County are required to complete a *Broker/Dealer Request for Information (RFI).*"
- "As part of the annual audit of County government, the County Treasurer shall have the investment program reviewed by the Auditor of the State of Ohio or other qualified auditing firm. This audit will be designed to establish asset and liability valuations and measure compliance with the County investment policies and procedures. The results of each audit will be disclosed to the County Executive."
- "The County Treasurer shall maintain accurate, complete, and timely records of all investment activities. Within ten business days of the end of the month, the County Treasurer shall submit an investment report to the Investment Advisory Committee and the Working Group of the Investment Advisory Committee each month. This report shall include: (i) a listing of the existing portfolio in terms of investment securities, amortized book value, maturity date, return, market value and other features deemed relevant and (ii) a listing of all transactions executed during the month."
- "Those responsible for the day-to-day management of the County portfolio will routinely monitor the contents of the portfolio, as detailed in the ***Cuyahoga County Treasurer's Cash Management Procedures Manual.***"

DIA noted the following instances in which the Office did not follow the County's ***Investment Policy***:

- The County's ***Investment Policy*** was not signed by all brokers, dealers, and other financial institutions that conduct investment business and initiate, or execute transactions.
- Current financial statements of eligible banks and broker/dealers were not on file with the Office.
- Financial institutions have not been required to complete a *Broker/Dealer Request for Information.*
- The Office has not requested an investment program review as part of the County's annual audit.
- There were three out of the four months in our audit period (February, March, and April 2013) in which the *Monthly Investment Report* was not filed within ten business days following the end of the month. The number of days it took to file the *Monthly Investment Report* ranged from 11 to 17 days.
- The ***Cuyahoga County Treasurer's Cash Management Procedures Manual*** does not exist or is unknown to employees of the Investment Department.

Without proper adherence to the County's ***Investment Policy***, the Office may be performing or failing to perform duties that are not in line with the intentions of the Investment Advisory Committee. Furthermore, failure to evaluate banking institutions/brokers, having the parties sign the ***Investment Policy***, maintaining their financial statements and completing the required forms may result in unauthorized activities between the County and its financial partners or relationships with financial partners that are not as effective as they could be with other qualified institutions. In addition, failure to provide audit results and the *Monthly Investment Reports* in a timely manner can result in financial decisions that are based on incomplete or outdated information. Lastly, without clear and accurate language being used to describe how the employees are to monitor and adjust the County portfolio, inconsistent application of procedures could occur.

Recommendation:

DIA recommends the Office develop internal controls to assure compliance with all aspects of the County's ***Investment Policy***, specifically the requirements noted above. DIA also recommends that the County ***Investment Policy*** be reviewed by the Investment Advisory Committee to update or delete obsolete language.

<u>Management's Response and Target Completion Date:</u>

The Investment Policy was updated in October 2013, which removed the obsolete language identified in this Audit. A Broker/Dealer Request for information was initiated in October 2013. The Monthly Investment Report is being submitted in a timely fashion as of July 2013.

The County initiated an annual broker/dealer RFI review in which all approved brokers must sign confirming reading and comprehension of Investment Policy, as stated in ORC. This started in 2013 for 2014 calendar year.

Financial statements of approved brokers are supplied via the RFI, either as attachments or URL links to web addresses. This started in 2013 for 2014 calendar year.

The three-month delay of the Monthly Investment Report was due to the staff consisting of one person. this was remedied and since April 2013 the monthly reports have been posted within the appropriate time frame

Procedural Manuals were updated and supplied to management for an office-wide manual.

The Treasury has not requested an investment program review as part of the County's annual audit.

Investment Procedures

Having effective policies and procedures involving investments ensures consistency in the operations of the Investment/Cash Management Department. It is essential for the department to periodically review and enforce investment procedures.

During our review of the ***Cuyahoga County Investment Procedures*** document, we noted inefficiencies in the process, procedures being done that were not part of the document, and also procedures that were part of the document but were not being followed. The following instances were noted:

- The ***Investment Procedures*** state a formal list of employees who can make investments should be approved and provided to each broker. There is no formal list of those employees who are authorized to make investment transactions nor are they provided to each broker.
- Even though the Treasurer approves all long-term investments, this approval is not stated in the ***Investment Procedures***. We noted two out of 31 tested investments, #13CCT001 and #13CCT002, that did not have "Approved" or "Disapproved" marked next to the Treasurer's signature.
- Three different trade tickets were completed during the investment buying process. All three trade tickets include the same information. One trade ticket is completed by hand while the other two are printed off Bloomberg.
- The Investment Officer/Cash Manager makes the investment and has his subordinates compare their records to his records. The Treasurer also reviews and approves investments. These procedures are not noted in the ***Investment Procedure*** policy.
- A $150 million cash balance threshold was established by the Investment/Cash Management Department. This threshold was not approved by the Investment Advisory Committee.

The investment procedures have not been reviewed or enforced within the Office to ensure that procedures are followed and operating efficiently.

Failure to follow investment procedures may result in efficiencies but more seriously may result in investments being made which are not in compliance with management's intentions.

Recommendation:

DIA recommends the Office update their ***Investment Procedure***s document to include current practices and eliminate inefficiencies. The policy should include, but not be limited to, the following:

- A formal list of individuals who can make investments should be drafted and approved by the Investment Advisory Committee and provided to all brokers and dealers.
- Procedures on approvals for long-term investments should be noted in the ***Investment Procedures*** policy. Approval should be limited to the Treasurer and/or the Business Administrator 4, rather than subordinates to the Investment Officer/Cash Manager.
- The number of trade tickets used in the investment buying process should be reviewed and reconsidered to eliminate inefficiencies.

- The amount to keep liquid in the County's treasury should be reviewed and approved by the Investment Advisory Committee on a regular basis.

Once drafted, the policy should be approved by the Investment Advisory Committee.

<u>Management's Response and Target Completion Date:</u>

The Investment and Cash Management Procedures (formerly Investment Procedures) were updated in October 2013 and the issues listed in this Audit were addressed and corrected. Management does not agree that the Investment Advisory Committee should approve this document, as it is an internal working document specific to the needs of the Treasury.

Trade tickets were overhauled to an automated process in 2015, streamlining an inefficient process.

The "amount to keep liquid" is approved by the IAC as the IAC approves the Investment Policy. As long as the "amount liquid" is within the parameters of the investment policy, then the IAC has approved it. The daily operational liquidity amount is the decision of the Treasurer/Investment Officer.

The list of individuals who can make investments are the Treasurer, Investment Officer, and Asst. Investment Officers. The IAC does not need to approve as it is part of the job duties outlined in the job classification. The list was emailed to brokers in 2015 (on 7/23/15). New brokers are provided this list as needed.

Furlough Leave

Cuyahoga County offered a furlough leave program in which employees may take unpaid days off of work at times of their choice with approval by their supervisor. This optional program was available in 2012 and the second half of 2011. During the first half of 2011, there were mandatory furloughs for all full-time employees. In order to minimize the financial hardships on the employees, the mandatory furlough deductions were spread across 12 pay periods during the first half of 2011. A small deduction from each pay check was taken rather than on the actual furlough day. A memorandum from County Administration, dated November 22, 2010, states that, "employees who separate from County service prior to June 30, 2011 shall have adjustments made to their final checks for furlough days that have been used."

We noted five employees who left service from the Office in 2011 and used more furlough time prior to resignation than he or she was entitled to. As a result, the employees received more compensation than he or she was entitled to because their final pay did not reflect a deduction for furlough time taken that had not yet been earned nor did the County invoice the employees. The total owed by these five employees is $240. Conversely, there was one employee who left service from the Office in 2011 and used more furlough time prior to resignation; however, the County took out more furlough from his final pay than was needed. As a result, the County owes the employee $349. Lastly, the former County Treasurer who left service in 2011 did not have any payroll records available for DIA to determine whether or not his furlough time and compensation was handled correctly by the County.

There is no standard procedure for recovery or compensation of monies lost to employees who take furlough time and leave time prior to the completion of the furlough cycle.

Without having a standard procedure for the furlough program, the Office may continue to lose or owe money as employees leave service with the County before their furlough cycle is complete.

Recommendation:

If a future furlough leave program is offered, DIA recommends the Office create a recoup policy, in accordance with the above noted memorandum, as part of the furlough program for employees who have used their furlough days and leave service prior to the completion of the furlough cycle. On the contrary, the policy should also include the procedures that should be taken if an enrolled employee were to leave service prior to using their pro-rated amount of furlough days.

Management's Response and Target Completion Date:

Effective May 2012, Human Resource functions are no longer handled at the department level.

INTERNAL CONTROL FINDINGS

Policy and Procedure Manual Review

Written policies and procedures ensure consistency in the operations of an agency. Having controls in place to ensure employees are aware and knowledgeable of the agency's policies and procedures is critical to day-to-day operations. Furthermore, employee recognition of the policies and procedures manual reinforces management's expectations for the agency.

All newly hired employees are required to review and recognize the County's policies and procedures manual with a signature. However, during our review of policies and procedures developed throughout all departments in the Office, we noted employees were not required to sign-off on department specific policies. Furthermore, much of the information in the policy and procedure manuals available for DIA review appeared to be outdated or processes have evolved into undocumented operating procedures. For instance, if the legal line on a check is blank and an amount is written in the courtesy box, current procedure allows the cashier's staff to fill in the legal line but does not address filling in the courtesy box if left blank. During our walkthrough, cashiers in the Department stated they fill in the courtesy box or legal line if one or the other is not completed and accept the check.

The Office does not have controls in place to assure policies and procedures for each department are current and reviewed by each employee because it was not in their practice to develop such a system of controls.

Failure to have current policies and procedures acknowledged by employees may result in undefined procedures that can lead to inconsistency in the operations of the Office as well as actions and discipline that are inconsistent with the intentions of management.

Recommendation:

DIA recommends all of the Office policy and procedure manuals be updated and if current procedures are permitted, reflect actual procedures being followed. Serious consideration should be given specifically to the current procedure of allowing cashiers to alter checks. All checks should be sent to the bank or preferably returned to the issuer if information is missing.

Furthermore, we recommend the Office put controls in place to assure all Office employees are aware and knowledgeable of current Office policies and procedures. In addition to having employees sign-off on the County's policies and procedures manual, we recommend employees also sign the department's policies, specific to employment within the Office (i.e. Taxpayer Services, Finance, etc.).

Management's Response and Target Completion Date:

The Treasury Department created written policies and procedures in December 2013. The Treasury Department will include an employee sign-off sheet specific to the Treasury manual and this will be included in the revised manual to be completed after ratification of the bargaining agreement. Cashiers are not allowed to alter checks and this policy will be reiterated in the manual and progressive discipline will be administered if required. The sign off sheet is as follows:

ACKNOWLEDGMENT OF RECEIPT OF POLICY AND PROCEDURES MANUAL

The Policy and Procedures Manual contains important information about the operations for the Cuyahoga County Department of the Treasury.

Since the information, policies, and procedures described herein are subject to change at any time, I acknowledge that revisions to the manual may occur. All such changes will generally be communicated through official notices, and I understand that revised information may supersede, modify, or eliminate existing policies.

I understand that it is my responsibility to comply with the policies and procedures contained in this manual, and any revisions made to it. I further agree that if I remain with the Cuyahoga County Department of the Treasury following any modifications to the manual, I thereby accept and agree to such changes.

I have received a copy of the Cuyahoga County Department of the Treasury's Policy and Procedures Manual on the date listed below. I understand that I am expected to read the entire manual, familiarizing myself with its contents, and adhering to all of the policies and procedures of the Cuyahoga County Department of the Treasury, whether set forth in this manual or elsewhere.

______________________________________ ____________________

Signature of Employee *Date*

____

Employee's Name – Printed

Dog License Credit Card Bank Account Monitoring

The Office is responsible for monitoring the County's cash balance and bank transactions. All County bank accounts should be monitored on a regular basis to assure County funds are accurately accounted for and presented. Having controls in place for bank account review is essential in reducing the County's risk of fraud and loss of public monies.

The County utilizes two PNC bank accounts for online dog license credit card receipts. One account is used to deposit dog license receipts and the other is used to deposit credit card fees charged to the customer. The credit card processor, Bank of America (BoA), makes two withdraws out of the credit card fee bank account every month. During our testing of the dog license credit card fee account, we noted the following:

- The County did not maintain a current contract or agreement with BoA; therefore, DIA could not determine whether the credit card fee being charged by the vendors for dog license credit card transactions was in compliance with the contract. During the audit, National City Bank, now PNC, and BoA sent a three year contract that originated in 2001. Fees and rates have not remained the same since the contract expired in 2004. This contract has not yet been renewed as of July 2014.
- There is no proof the credit card fee bank account is monitored to assure credit card fees are accurately charged, nor are the deposits and withdrawals to BoA reviewed. Since there is no current contract, DIA noted fees are not charged at an agreed upon rate and may vary from month to month. We performed an analytic review on credit card fees withdrawn by BoA in 2012 and noted there was not a consistent rate charged per month. See the following table.

Analytical Review of 2012 Bank Fees

Month	Dog License Receipts	Fees Withdrawn by BoA	Estimated Rate Charged by BoA
January	$171,780	$11,829	7%
February	$18,872	$3,794	20%
March	$10,196	$637	6%
April	$5,552	$389	7%
May	$5,600	$418	7%
June	$5,496	$412	7%
July	$5,248	$379	7%
August	$4,886	$362	7%
September	$3,246	$262	8%
October	$80	$74	92%
November	$460	$62	13%
December	$126,220	$8,742	7%
Total	**$357,636**	**$27,360**	**8%**

- The dog license credit card fee bank account is not included on the daily reconciliations done by the Office (see "Bank Reconciliation" finding page 23).
- Credit card fees charged to customers purchasing dog licenses online is not sufficient to cover the BoA fee withdrawals every month. DIA noted the General Services[1] Department has to draw a

[1] All references in this document to the General Services Department refer to a department in the Fiscal Office and not the Treasurer's Office.

check against the County's main Key Bank account and the Investment/Cash Management Department deposits the check into the PNC credit card fee account. We reviewed ACH deposits for credit card fees charged for online payments of dog license and compared them with the bank fees charged by BoA. The following table illustrates our findings.

2011 – 2013 Credit Card Fee Bank Account Deposits

Year	ACH Deposits (Dog License Payer Fees)	Bank Fees (Withdrawn by BoA)	Variance (ACH Deposits Less Bank Fees)	Bank Deposits* (Check Issued From Dog Kennel Funds)
2011	$17,272	$26,061	($8,789)	$20,531^
2012	$19,861	$26,290	($6,429)	$6,000
2013	$16,766	$26,167	($9,401)	$5,000
Total	**$53,899**	**$78,518**	**$24,619**	**$31,513**

^ - 2011 Beginning Balance of $8,331 + Bank Deposits of $12,200 = $20,531
* - To cover bank fees due to the bank fees exceeding credit card fees charged by the County

- An office voucher is completed for checks deposited into the PNC credit card fee account. The check is charged to bank fees for PNC in the animal shelter's index code. This voucher is completed by General Services but does not have a supervisor approval or documentation supporting the amount of the voucher. A voucher is not completed for credit card fees paid to BoA through electronic transfer.
- Online dog license credit card receipts are deposited into a PNC account separate from the County's main Key Bank account.
- A 1099-K from BoA is sent to the County on an annual basis. This statement lists monthly dog license credit card receipts that are transferred from BoA to the County's PNC account. There was no proof the 1099-K was reconciled or reviewed to the dog license accounts.
- Monthly statements from BoA are sent to the Treasurer's Office who gives the statements to the General Services Department. There was no proof the statements were reconciled or reviewed by the Treasurer's Office or General Services Department.
-

In addition, DIA was provided with August and September 2013 BoA statements and performed a review to reconcile the statements to the County's PNC dog license accounts. The following was noted:

- The County does not reconcile monthly statements from BoA to the County's PNC dog license bank accounts.
- There were two instances where dog license receipt and fee deposits into the County's bank accounts from BoA were more than the amounts noted on BoA's monthly statements, totaling a $410 variance. This variance could be due to a delay in the movement of funds from one account to the other; however, DIA could not ascertain this was the case since monthly statements were not maintained.
- Two charges from the County's PNC dog license credit card fee account, totaling $47, were withdrawn by BoA without supporting documentation to verify withdrawal. These charges could not be reconciled to BoA's monthly statements.

The above items occurred due to lack of internal controls established over the reconciliation process, specifically the credit card dog license accounts.

Lack of effective internal controls over the dog license credit card fee bank account can lead to unauthorized deposits and withdrawals that could result in theft or unnecessary spending of County funds. Furthermore, inefficiencies in the Office could lead to procedures being performed that are not consistent with management's intentions.

Recommendation:

To improve internal controls and efficiencies over the online credit card dog license bank accounts, we recommend the Office address these issues and develop policies and procedures to include the following:

- A contract or agreement regarding the dog license credit card process and the services provided by the County's banking institutions should be negotiated and maintained by the County. Included in the contract/agreement should be the credit card fees and rates charged to the County.
- Credit card fee transactions should be monitored to assure fees are accurately charged and withdrawn from the PNC credit card fee account. The County should be aware of what merchants are withdrawing monies from the account. In addition, the credit card fee account should be included in the daily cash worksheet since County monies are deposited in the account.
- Office vouchers should be completed when vendors withdraw credit card fees from the dog license credit card fee account rather than when deposited into the PNC bank account;
- The dog license credit card fees, 1099-K, and monthly statements should be maintained and reconciled by the Office or General Services Department. The address on the 1099-K statement should be changed to be sent to the Office or General Services Department. An employee in one of the departments should review the accuracy of all monies transferred from BoA to the PNC dog license accounts. As of the audit, the General Services Department is responsible for review and maintaining these statements.
- The Office and General Services should review and consider raising the credit card fee charged to customers from online credit card transactions for dog licenses. The process of depositing checks from the main KeyBank account into the credit card fee account to cover bank fees should be eliminated. Deposits into the account from credit card fees paid by customers should be at or more than the fee withdrawn by the merchant. If a balance exits at the end of the month, money should be transferred to the dog license receipts account.
- The Office should review the dog license receipt bank account and consider directly depositing receipts into the main Key bank account instead of a PNC bank account.

<u>Management's Response and Target Completion Date:</u>

The Dog License process has been completely overhauled as of October 2014. The findings identified in the Audit have been corrected. The account is maintained at Key Bank. The policies and procedures will be added to the aforementioned Treasury Department Policy and Procedure manual.

Treasury only receives the bank statements. All maintenance of the dog license account is the responsibility of the Fiscal Office - General Services Division.

SkipJack Contract and Services

SkipJack Financial Services is a payment solutions company used by the County's Fiscal Office for dog license payments to provide online credit card processing and create reports. Every day, the Fiscal Office's General Services Department logs into SkipJack and prints a detailed report of all the online dog license credit card payments. As mentioned in the "Dog License Credit Card Bank Account Monitoring" comment on page 19, the Treasurer's Investment/Cash Management Department is responsible for monitoring the two bank accounts associated with online credit card dog license payments. Having effective controls in place to assure credit card receipts and fees for dog licenses are accurately and timely deposited is essential to the County's operations.

During our review and reconciliation testing of the online credit card dog license bank accounts, we noted the following issues related to SkipJack:

- The County did not maintain a current contract or agreement with SkipJack, nor was there evidence a contract ever existed with SkipJack. Per discussion with the Treasurer's Office, Fiscal Office, Office of Procurement & Diversity, and the Clerk of Council, no contract or agreement was located.
- Fees are withdrawn by BoA for bank fees on a monthly basis; however, the Fiscal Office and the Treasurer's Office were unable to determine if SkipJack received any compensation for their services.
- After a review of SkipJack's website, DIA noted SkipJack offers their services to be resold and a commission could be realized on every SkipJack account sold. Since the County could not provide a contract or agreement, DIA was unable to determine if a person or business received or receives commission for SkipJack's services.

DIA gained access to the County's SkipJack account to review reports and test daily transactions. DIA noted detailed transactions could not be reviewed prior to February 2013 even though daily receipts in total were available on the site. Detailed transaction were only available to be reviewed from February 1, 2013 to October 1, 2014, when the Fiscal Office stopped using SkipJack.

The County does not have policies and procedures in place to detect or prevent the instances mentioned above. Failure to have these policies and procedures in place may result in unauthorized agreements with outside vendors on services provided to the County. Furthermore, a conflict of interest could result in an employee of the County selling services or product to the County, like SkipJack's services.

Recommendation:

The Treasurer's Office and Fiscal Office should improve communication and controls associated with the online credit card dog license receipts and fees. SkipJack's services should be re-evaluated by the Offices and a contract with SkipJack should be written and formally approved, if the services are deemed necessary going forward. The Offices should also inquire with SkipJack on how, or if, Skipjack or an associate is compensated for their services. In addition, all detailed transactions in SkipJack, or any system utilized going forward should be available to the County for review.

An alternate recommendation would be to re-evaluate the services provided by SkipJack altogether in order to determine if it is more effective to eliminate this third-party service and instead either manage the process within the Office or search for a different vendor and/or option of service provided directly with a banking institution(s). For further information on how this could be done, we recommend speaking with Auto Title to learn about their credit card processing without a third-vendor such as SkipJack.

Management's Response and Target Completion Date:

The SkipJack account was closed on October 14, 2014. Operational procedures to reconcile dog license receipts and fees are as follows:

- *Fiscal Office – General Services Division downloads a payment file from Key Bank. The file is balanced and a revenue receipt for the total is created and submitted to Treasury – Investments and Cash Management Division.*
- *Treasury reconciles the revenue receipt total to the bank deposit.*

Bank Reconciliation

The Investment/Cash Management Department performs monthly and daily bank reconciliations. Having procedures and adequate documentation in place when performing bank reconciliations is essential to improving the accuracy and timeliness of financial reporting. The Department completes a cash worksheet to reflect bank activity. The cash worksheet is given to the Finance Department to reconcile Treasurer's World (book) to the bank on a monthly basis. DIA requested bank reconciliations from the Investment/Cash Management and Finance Departments. We selected April 2013 for testing and noted the following:

- A daily ledger, daily cash worksheet, and a monthly bank activity worksheet are completed by the Investment/Cash Management Department. The daily ledger is used to reconcile the bank to the daily cash worksheet. The monthly worksheet is used to show bank activity and balances by month. We noted the following instances during our testing of these documents:

    - The daily ledger and daily cash worksheet are prepared by the Accountant 2 or Assistant Investment Officer/Cash Manager. During our review of daily bank reconciliations, we noted the Delinquent Portfolio Manager, not an immediate supervisor of the preparer, reviewed and signed the daily ledger. The Delinquent Portfolio Manager was an employee of the Treasurer's Tax Department who temporarily performed Investment/Cash Management Department duties during the audit period. During his time in that capacity, the Delinquent Portfolio Manager was identified as an Accountant 2.
    - DIA did not note any indication of review/approval of an immediate supervisor on the daily cash worksheet or monthly bank activity worksheet.
    - Bank transactions noted on the daily ledger and worksheet are not timely recorded. DIA noted transactions on the bank reconciliations cleared the bank prior to being posted to the daily cash worksheet. For example, Huntington Parking Garage receipts were not recognized on the daily cash worksheet on the same day the receipts hit the bank. Also, grant monies received were not recognized on the daily cash worksheet until the day the funds were transferred to the main account from the electronic funds transfer (EFT) account.
    - DIA noted transactions on the book side of the bank reconciliations were recorded based on bank account activity and not when the transaction occurred. No outstanding checks

or deposits in transit were noted on the bank reconciliations to show a true monthly/daily cash balance.
  - The Delinquent Portfolio Manager/Accountant 2 completes the spreadsheet on monthly bank activity for each bank account under the Office. He also maintains the monthly bank statements. These spreadsheets are not reviewed nor do they serve a purpose to the reconciliation process.
  - Not all of the bank accounts that are in the Treasurer's name are included on the worksheet, which is used to show daily cash activity and the daily cash balance;
  - The ending balance on the daily ledger for the dog license bank account did not agree to the daily cash worksheet. The variance was $280 at April 30, 2013, and has since been resolved by the Investment/Cash Management Department.
  - The Investment/Cash Management Department did not receive support for every deposit, disbursement, and transfer in the Treasurer's bank accounts. During our testing of the April 30, 2013 reconciliation, we noted support on Huntington Parking Garage deposits, the Casino Tax EFT, and the Internal Revenue Service EFT were not obtained by the Office. The Office can only note the deposit in the bank statement and complete a revenue receipt based on the bank deposit amount.
  - The Office uses one bank account to track large EFT payments (i.e. grants and large municipal real estate payments). These funds are not recognized in the daily cash worksheet, nor are they transferred to the main account until the receiving agency is identified (see "Grant Coordinator" finding).
- The Finance Department completes a daily spreadsheet to reconcile real estate tax receipts from MVP to the Investment/Cash Management Department's daily cash worksheet. This daily spreadsheet is also used to note other daily activity in the bank statements and is used to complete a monthly spreadsheet in reconciling Treasurer's World to the bank. During our testing of the reconciliations in the Finance Department, we noted the following:

  - The controlled disbursement bank account was reconciled from Treasurer's World to the bank by the Administrative Assistant 1 in the Finance Department and not by an employee in the Investment/Cash Management Department. The Investment/Cash Management Department reconciles all other bank accounts except the controlled disbursement account.
  - No immediate supervisor approval is performed on any of the reconciliations performed by the Finance Department, including the controlled disbursement account reconciliation.
  - Monthly spreadsheets are completed based on activity from the bank statements instead of reflecting when the activity occurred. No outstanding checks or deposits in transit are noted on the bank reconciliations to show a true monthly cash balance.

- Monthly bank activity spreadsheets were completed by the Delinquent Portfolio Manager/Accountant 2 for escrow accounts. All documentation on the escrow accounts was kept by the Delinquent Portfolio Manager/Accountant 2 along with monthly bank statements; however, these monthly spreadsheets were not approved by an immediate supervisor in the Investment/Cash Management Department.
- The Investment/Cash Management Department does not review or approve reconciliations performed by the Finance Department.

- The monthly reconciliation from Treasurer's World to the bank was performed by the Finance Department. This reconciliation did not note the actual bank balance for the month and no reconciling items (outstanding checks, deposit in transit, etc.) were noted. In April 2013, DIA calculated the Treasurer's Office actual bank balance as $11,454,758 higher than what was presented in the Finance Department's bank to book reconciliation (See table below). This variance was due to the exclusion of eight out of the 13 bank accounts managed by the Office and by the timing of recognizing deposits and disbursements on the daily cash worksheet.
- During our review of the Finance Department's reconciliation from the bank to Treasurer's World, we noted the beginning balance of Treasurer's World was the beginning balance for the bank as well. The Department did not use a beginning cash balance for Treasurer's World; therefore, there was no beginning book balance. Since there was no beginning book balance, DIA was unable to assure Treasurer's World was reconciled to the bank.
- Many transactions were not included in Treasurer's World and need to be added onto the Treasurer's World balance at month's end. Treasurer's World does not include transactions like payroll and advances to other agencies. These are recorded in FAMIS (County's financial reporting system) by the Fiscal Office. Investments are also not included in Treasurer's World. **DIA did not audit the reconciliation between Treasurer's World and FAMIS.**

Bank to Treasurer's Reconciliation

	Treasurer's Balance	DIA Recalculated Balance	Difference
Investments	$744,491,571	$744,491,571	$0
Depository	$88,845,294	$100,300,052	($11,454,758)
Total	**833,336,865**	**$844,791,623**	**($11,454,758)**

Lack of effective and efficient procedures for daily and monthly reconciliations can lead to errors in the Treasurer's records and difficulties in balancing with the County's accounting system (FAMIS). Lack of a proper bank to book reconciliation could ultimately lead to misappropriation of monies and/or unbalanced County accounts.

Recommendation:

To improve internal controls and efficiencies over bank reconciliations, we recommend the Treasurer's Office address these issues and develop policies and procedures to include the following:

- All daily and monthly cash worksheets and reconciliations should be approved, with a signature, by an immediate supervisor, including the Investment Officer/Cash Manager in the Investment/Cash Management Department and the cashier supervisor in the Finance Department. All spreadsheets and reports completed by the Delinquent Portfolio Manager/Accountant 2 should be approved by the Investment Officer/Cash Manager.
- If the Delinquent Portfolio Manager/Accountant 2 continues to perform Investment/Cash Management Department duties, the Treasurer should consider transferring the employee to the Investment/Cash Management Department, if qualified.

- Financial activity should be timely recorded in the daily ledger and worksheet based on the daily accounting of the receipts and expenditures and not from the deposits and withdrawals from the bank. Grant funds should be recognized on the daily cash worksheet on the day the funds clear the bank, not when they are transferred to the main account). In addition book activity should also be timely recorded. The daily and monthly bank reconciliations should show outstanding checks and deposits in transit.
- The Investment/Cash Management Department should utilize the daily cash worksheet to include all bank accounts in the Treasurer's name. One account is not considered County funds, but should still be monitored since the funds are in the Treasurer's name. Also, to gain efficiencies in the reconciliation process, management should re-evaluate all of the other reconciling reports, such as the daily ledger as well as the excel spreadsheets prepared by the cashier supervisor and the Administrative Assistant (e.g. taxes sheet, real estate sheet, daily front, etc.) and determine if they are a necessary component of the reconciliation process.
- Escrow account activity should be monitored and approved by the Investment/Cash Management Department.
- Supporting documentation should be obtained by the Investment/Cash Management Department for every deposit, disbursement, and transfer in or out of each bank account under the Office. The following procedures should be addressed and improved on Treasurer's World's reconciliation to the bank:

    - All bank reconciliations to Treasurer's World should be performed and/or approved by the Investment/Cash Management Department, specifically the controlled disbursement bank account reconciliation performed by the Administrative Assistant 1 in the Finance Department.
    - The Office should review their bank reconciliation processes to minimize inefficiencies so cash activity can be accurately reported. The Treasurer's World beginning balance should reflect book activity, not the bank's beginning balance.
    - All bank balances should be reported on the reconciliation from the bank to Treasurer's World.
    - Treasurer's World should be updated with all activity to help reconcile bank to book, including payroll, advances to other agencies, and investments.

DIA further recommends the Treasurer consider combining the Finance and Investment/Cash Management Departments due to both departments performing bank reconciliations and handling receipts.

Management's Response and Target Completion Date:

During the time of the Audit, the Treasury had not identified a permanent Investment and Cash Management Officer. The position has been filled since June 2013. A Policy and Procedures manual was developed in December 2013 which addresses the daily cash management recommendations made in the Audit. Reconciliation to Treasurer's World is an ongoing process and with the procurement of a new ERP system, the findings identified should be corrected with its implementation. Treasury management does not currently agree to combine the Investment and Cash Management Area. There are processes in place that support a tandem working relationship.

As of January 2014, the Investment Officer has been signing off on the daily cash worksheet and reconciliations.

The Delinquent Portfolio Manager position no longer exists.

The Finance Department tracks/records financial activity when disbursements are completed or revenues are deposited with Treasury, as referenced on the daily cash worksheet. Both are reflected on the daily statement. The Finance Department also records daily investment and depository balances that are reflected on the daily cash worksheet. The new ERP system will address outstanding checks and (in transit) deposits, as it relates to the Treasurer's World reconciliation process.

The cashier monthly report balances entries made in Treasurer's World to the Investment and depository month-end total balances. Once balanced, these amounts equal the totals reflected on the Treasury ledger month-end spreadsheet. The beginning balance for the following month in Treasury should reflect the same as the Investment and Depository total balance.

The cashier's monthly report for Treasurer's World balances to the Investments "Cash Worksheet – Total all banks."

As of April 2014, all Treasurer bank accounts are listed on the daily cash worksheet.

Escrow account activity has been monitored for activity and included in the daily cash worksheet since November 2015.

If initiated by the Cashier Department, all information regarding deposits, disbursements and adjustments to bank accounts is provided to the Investments department.

Reconciliations completed in the cashier department are approved and signed by the Cashier Supervisor while the controlled disbursement account is monitored by the Investments department. The Cashier Department provides a proof of "cash" instrument to verify that the total daily checks cleared are equal to the check disbursement items, per Treasurer's World, and the reconciled comparison is approved by the Cashier Supervisor.

Excel spreadsheets are to be reviewed and revised for clarity and necessity. The documented support that identifies individual elements of specific daily activity will continue to be utilized as a required component for the reconciliation process.

The overall reconciliation process in Treasurer's World will be addressed with the implementation of the new ERP system.

The working relationship between the Cashier and Investments department are clearly defined and support the segregation of duties, one of the key concepts of effective internal controls. Management believes the current Treasury Office structure supports the tandem working relationship that contributes to the office's system of checks and balances. Analysis will be ongoing to ensure the optimal control procedures required and/or a potential need for changes in the Treasury's operating and financial environment.

Issuing Refunds for Property Tax Overpayments

The Treasurer's Office is responsible for collecting payments on property taxes for the County. There are instances where overpayments can be made. In these cases a refund request form is completed by the payer and submitted to the Treasurer's Office. The refund division is responsible for reviewing these forms and issuing refunds. Having controls in place for refunds is essential to the Treasurer's daily operations in order to assure all receipts are being properly recorded and kept on deposit.

During the audit period of January 1, 2013 through April 30, 2013 the Treasurer's Office issued approximately 1,100 refunds for $846,177. Some checks were issued back to the Treasurer's Office (See "Property Tax Refunds Issued to the Treasurer's Office" finding page 30). DIA selected 34 refunds from a report generated from MVP and reviewed all available supporting documentation. During our testing, we noted the following discrepancies:

- 23 out of 34 refunds did not have a detailed note in MVP on why the refund was made. Even though a note was included in MVP for all 34 refunds tested, DIA was unable to determine why the refund was made based on the note. All 23 notes stated a refund was issued for a specific amount.
- 1 out of 34 refunds failed to include all documentation to support the refund. The copy of the check and the document number was not maintained with support since the Accounts Payable Department sent the check. We also noted refund checks are sent back to the Treasurer's Office before they are mailed resulting in a segregation of duties issue.
- 25 out of 34 refunds did not have evidence of supervisor approval. All support was maintained for the 25 refunds, but DIA did not see any sign of approval from an immediate supervisor. The supervisor submits a file to Accounts Payable of refunds issued. This procedure is not proof the refunds were reviewed by the supervisor for accuracy.
- Supporting documentation from 4 out of 34 refunds did not agree to information in FAMIS. All 4 refunds were charged to a different index code (ND502260) than the index code noted on support (ND502252). Accounts Payable does not see the supporting documentation that is maintained in the Treasurer's Office. Index codes are sent electronically with the refund request list to Accounts Payable.
- 1 of the 34 refunds tested was inaccurately refunded. The taxpayer made a payment of $1,515.28 in which $665.21 was applied to the second half taxes and $665.21 was refunded to the taxpayer resulting in a surplus of $184.86. The surplus was never refunded, nor applied to subsequent property tax charges.
- DIA also noted instances where payments were made in December 2012 and refunded the following January. Specifically, in one case a check for $46,925 was made to the County for 22 parcels. The owner also made individual payments on the parcels totaling the $46,925 in December 2013. In January 2013, the owner requested and was granted a refund totaling $46,925. This creates an unfavorable tax return position on real estate tax credits for the property owner if the owner takes a federal tax deduction for both payments.

The Treasurer's Office does not have formal policies and procedures in place on property tax refunds. Failure to implement operational controls in the property tax refund process could result in unauthorized refunds to property owners, lenders, or unjustified individuals.

Recommendation:

We recommend the Treasurer implement controls on property tax refunds to include, but not be limited to the following:

- Surplus amounts be credited to the following period taxes instead of immediately being refunded, unless a valid reason is noted in MVP and approved by a supervisor.
- Approval of refunds granted should be evident by signature/initials of an immediate supervisor. The supervisor should be reviewing support to assure all documentation was maintained and all information on the support is accurate.
- If a refund is requested and deemed necessary, the Treasurer's Refund Division should include a detailed note in MVP. The reviewer should be able to understand the note and why a refund was issued.
- All documentation should be filed away or electronically saved to support the refund.
- All refunds requested after an overpayment on taxes is made in December should be monitored closely.
- The Treasurer's Office should not be mailing refund checks since the Office is also responsible for issuing them. All refund checks should be mailed by Accounts Payable.

Management's Response and Target Completion Date:

The Treasurer staff in the Quality Assurance (Refund) Division was provided access to FAMIS in December 2013. This area utilizes two computer systems so training will be provided to the appropriate staff to ensure that they are able to capture the information that is needed to answer questions about refunds. Management will work with the Unit Supervisor to determine the best process to incorporate the remaining recommendations and have them implemented.

Surplus amounts are credited to the following tax period, typically during the month of November or December, on an annual basis (prior to the First Half collection). Property transfers or other (recorded) deed related changes within a given year will prevent a surplus balance from crediting the following year (within MVP). Non-credited surplus amounts are researched and processed accordingly by the Quality Assurance Department; refunds are not immediately issued, but instead, are refunded after thorough research is conducted. Staffing constraints prohibit research to address the volume of surplus amounts listed.

Refunds requested require signed documentation from the payer. Supplemental documentation is required and specified on the signed document. Refunds processed to address internal applications are reviewed, by a supervisor, for accuracy and require a supervisor's signature; these refunds are defined as follows:

- *removing a tax lien payment from real tax due to a value reduction or lien payoff*
- *applying surplus payments that were not credited via the mass surplus payment application process*
- *transferring a payment to another property (when the misapply application is not available)*
- *Refunds associated with automatic check handling participants (i.e. delinquent payment agreement or prepayment)*
- *Funds prorated and paid for a future tax cycle via sheriff sale*

New procedure: Refund requests will be reviewed by the supervisor, prior to the weekly file transmit.

Detailed notes are available in an alternate access database titled "Switchboard." MVP will include clear/concise notation regarding the reason for processing a refund.

All refund requests are submitted, electronically, via management (or designated staff) to the Financial Reporting Department.

All documentation to support the refund is compiled and saved electronically. Scanned files are available on the "K" drive.

The "Surplus Listing Report" is printed after the close of the second half tax collection and prior to December. Treasury staff monitors and researches overpayments throughout the year.

Discussions have not been finalized with Financial Reporting/Accounts Payable regarding check mailing.

Property Tax Refunds Issued to the Treasurer's Office

The Treasurer's Office has a refund division to review and issue property tax refund checks to the appropriate individual or company. During DIA's test of these refunds, we identified multiple checks issued to the Treasurer's Office from the Treasurer's Office. In many instances these checks were also written in the names of the County Treasurer's Office personnel.

Checks issued from the Treasurer's Office to the Treasurer's Office are issued for two reasons: (1)A tax lien is on the parcel and the final payment to satisfy the lien was posted to the parcel through MVP instead of through the Treasurer's Tax Lien Division and (2)A surplus needs to be applied to another tax cycle, but the tax cycle is closed in which the surplus occurred.

During our test of refunds, DIA noted five out of 34 refunds tested were issued to the Treasurer's Office from the Treasurer's Office including a Treasurer's Office employee as a co-payee. These checks were authorized by the Refund Division's Supervisor after a form was completed by the employee requesting the check. The check was issued through Accounts Payable and sent back to the Treasurer's Office employee to be receipted into MVP.

The Treasurer's Office should have adequate controls in place to assure these checks are closely monitored and reviewed. Without these controls, the Treasurer's Office risk of theft and misappropriation of monies increases. The employee in which the check is co-issued could potentially cash the check and record the receipt in MVP. Furthermore, the County could be liable to property owners for missing or misappropriated property tax monies.

Recommendation:

DIA recommends the Treasurer's Office eliminate issuing checks from the Treasurer's Office to the Treasurer's Office. The Office should work with MVP to allow property tax surplus amounts to be transferred from one tax cycle to another after a tax cycle is closed. If the Treasurer's Office continues to perform this procedure, checks should not be issued with a Treasurer's Office employee as a co-payee and the process should be documented in detail with approval by the Business Administrator 4 or Treasurer.

<u>Management's Response and Target Completion Date:</u>

Refund checks that are requested to resolve payment posting discrepancies are made payable to the Treasury due to the fact the collected monies are intended for real tax. The "fix" for a given discrepancy is to make the check payable to Treasury in order to apply the payment correctly. The following scenarios apply:

- *removing a tax lien payment from real tax for lien payoff*
- *applying surplus payments that were not credited via the mass surplus payment application process (including sheriff sale prorations)*
- *transferring a payment to another property (when the misapply application is not available)*

Discussion will occur during implementation of the (new) real property tax system to allow transfer of surplus amounts between tax cycles.

Checks are no longer issued with the employee name as a co-payee.

Refund and Surplus Reports in MVP

The Tax Department within the Treasurer's Office is responsible for issuing property tax refunds. Having system controls in place is critical to this function. MVP is utilized to initiate the refund by using refund and surplus reports. When the taxpayer's account is overpaid, the amount should appear on the surplus report. When a refund check is issued to the taxpayer, the amount should appear on the refund report.

During DIA's test of refunds in MVP, we noted instances with the refund and surplus reports generated in MVP. DIA selected 19 transactions from the surplus report to test in detail. Of the 19 transactions pulled from the surplus report, all 19 were refunded but did not appear on the refund report. All refunds should be taken out of the surplus report and appear in the refund report after a refund check is issued.

Without proper IT controls in place to assure accuracy and consistency with property tax refund reports the Treasurer's Office is at risk of unauthorized refunds being issued. Furthermore, reliance on accounting reports is compromised when reports do not produce accurate data.

Recommendation:

DIA recommends the Treasurer's Tax Department review system controls in place over the property tax refunds process to assure system reports are accurate and consistent.

<u>Management's Response and Target Completion Date:</u>

Discussions regarding refund and surplus report content/customization are ongoing with implementation of the new real property system (Govern/Harris).

Outstanding Balance Report in MVP

MVP is utilized by the Treasurer's Office and Fiscal Office in recording tax collections by parcel. All collections, billings, refunds, and adjustments are done through MVP. Having effective controls in place to assure collections and billings are accurate is crucial to the County's financial statements. A large amount of the property taxes receivable in the County's agency fund on the financial statements should be derived from MVP numbers.

DIA accepted the fact that total taxes receivable was comprised of many taxes from other systems other than real property from MVP; however, a large portion of the total is real property. DIA attempted to compare MVP numbers to the County's property taxes receivable in the agency fund of the 2013 financial statement subsidiary ledgers. In doing so, we took the following steps with Fiscal Office departments:

- Inquired with Financial Reporting and Budget Commission on where numbers originate and how they are presented in the financial statements. DIA reviewed work papers with the financial statements and noted the receivable is taken from the Budget Commission's system. The Budget Commission receives the amounts from MVP via the Real Property Department.
- Inquired with Real Property on potential MVP reports used to determine the amount of property taxes receivable.
- Reviewed reports derived from MVP to determine whether the amount billed in December 2013 less collections by 12/31/2013 plus the delinquent amount at 12/31/2013 reconciled to the year-end accounts receivable balance.

The financial statement property taxes receivable appears to be an unsubstantiated number as DIA could not find any support that real estate property tax amounts are derived from the outstanding taxes report from MVP. This report was not deemed necessary to include in the financial statement number in prior years.

Without using detailed MVP reports, where tax collections and tax billings are recorded, to support the County's financial statements, the County could be at risk of misstatement in the financial statements. This would result in inaccurate financial reporting to the citizens of Cuyahoga County.

Recommendation:

DIA recommends the County's Fiscal Office works closely with MVP to collect accurate and timely reports on tax collections, billings, and delinquents so the property taxes receivable in the County's financial statement subsidiary ledgers can be supported.

<u>Management's Response and Target Completion Date:</u>

Treasury Department Management agrees with this finding and will continue to work with the County's Fiscal Office to develop better reconciliation processes. Managers' reports for settlement, collections and delinquencies will be a key deliverable for the new real property system.

Misapplied Adjustments

There is currently no policy or procedure in place relating to approvals of real estate misapplied adjustments, including refunds, in MVP. Misapplied adjustments include adjustments made to a taxpayer account due to a charge to the wrong account. Misapplied adjustments may also be refunds made to taxpayers, mainly companies, as payment(s) exceeded the amount owed.

DIA performed a review of misapplied adjustments by selecting 20 items from 881 entries that occurred between January 1, 2013 through April 30, 2013 and noted 20 out of the 20 (100%) misapplied adjustments tested were not approved by a supervisor. The Office has never required supervisory approval for misapplied adjustments in the Office's real estate system prior to or after adjustment.

Without a formal approval process of misapplied adjustments the chance for errors to occur increases. More importantly refunds may be made without the proper documentation adding to the potential for funds to be fraudulently diverted.

Recommendation:

DIA recommends that a supervisor's approval be required in order to process a misapplied adjustment or refund. If this is not possible, a regular review should be conducted at a minimum to approve such adjustments after their occurrence.

Management's Response and Target Completion Date:

The Quality Assurance Manager reviews the adjustments to verify that they are correct.

The misapply process is often used as a method of facilitating partial refunds. All refund requests are submitted via management to the department of Financial Reporting.

The misapply application report will be reviewed on a weekly/bi-weekly basis for accuracy.

Presently, each refund/misapply processed includes additional evidence/documentation warranting the request. MVP notation is required.

All refund requests are submitted in writing for proper documentation and record retrieval.

Review of Non-Sufficient Fund Transactions

Non-Sufficient Fund (NSF) transactions occur when a taxpayer does not have enough funds in their bank account to cover the check that has been written to the Office. If such a case arises, the bank will alert the Office so they can make adjustments to their system, namely MVP and Treasurer's World. There are daily cashiering adjustment reports in these systems that are created which show all of the NSF transactions that were performed on any given day. Testing identified 830 NSF adjustments, totaling $1,338,130, for the time period beginning January 1, 2013 through April 11, 2013 were made.

Currently, there is no review performed on the NSF adjustments that take place in the Office. It is not required in the Policies and Procedures, nor has it been a practice of the Office to review or sign off on NSF transactions.

Also, the Office does not have procedures in place to collect monies after NSF checks have been identified. Furthermore, the bank does charge the County a fee when NSF checks occur.

Without a review of NSF transactions, there is increased risk that an error or misappropriation of public monies could occur. The Office is also at risk of revenue loss if follow-ups are not done to collect NSF checks.

Recommendation:

DIA recommends that all NSF transactions be reviewed regularly by Office management for appropriateness and for any indication of fraud or abuse. The Office should also incorporate procedures on collecting monies from NSF checks after they have been identified. Also, bank charges for NSF checks should be discussed with the bank and eliminated, if possible.

Management's Response and Target Completion Date:

Treasury management agrees with this finding and is in the process of developing new procedures for the management of Non-Sufficient Funds processes. The County is in the process of purchasing a new ERP system. The question has been raised as to whether or not the real property system can account for these additional fees (i.e. NSF charges) and post to an ERP solution. It is assumed by county management that the basic requirements of an ERP system will include a solution to this issue.

Currently, nonsufficient fund items are reconciled between the MVP real property system and the daily bank statements, by the Cashier Department.

The "Returned Items" sheet generated by Cashier Department is given to the Investments Department for the purpose of clearing NSF balances and is signed by the Cashier supervisor.

MVP Voids

The Office is responsible for processing and posting payments received from taxpayers to the Treasurer's real estate accounting system (MVP). If there is an error made during the posting process it is the responsibility of the Office to void the transaction and correct the posting.

It was noted during testing that after a case has gone to settlement the Office can no longer void a transaction. If voids need to be performed then the Office's Systems Administrator contacts the Fiscal Officer who calls the MVP system administrators to make the void. The MVP system rules are set in such a way that MVP employees are editing County data rather than being edited by County management. During our review of voids, we noted eight voids from the period of January 1, 2013 through April 30, 2013 that were done by MVP in March of 2013 on two different days. An audit report detailing the voided transactions was not provided by MVP.

Allowing MVP employees to edit County data is a fraud risk factor and can lead to manipulated or incorrectly recorded data without the knowledge of the Office.

Recommendation:

DIA recommends the Office review and update this procedure to allow Systems Administrators from the Office to make voids in MVP after the case has gone to settlement rather than a MVP representative.

Management's Response and Target Completion Date:

The Treasury Management agrees with this finding and will work with the current Real Estate Tax System provider as well as the future provider (Govern/Harris) to ensure that the software allows for such an adjustment to be processed by internal Treasury Staff only.

Safeguarding Public Monies

Assuring daily receipts are accurately accounted for and deposited is a critical control to have in place in the Office. All monies on-hand should be monitored and reviewed on a regular basis.

During our testing and walk-through of the Office's cash collections, we noted all monies collected in a day are properly deposited in the Office's Finance Department vault; however, the vault is only audited once a quarter. Furthermore, there is no log or sign-off on who performed the audit, the results of the audit, and the day and time it was conducted.

Also, the Finance Department offers the service of providing change to the public and Huntington Parking Garage. They also cash personal checks for County employees. The Office does not keep track of change given or personal checks cashed during the course of the day.

Finally, the bank sends change to the Office every Monday through Dunbar Armored, Inc. Dunbar provides armored car service by securely collecting and delivering bank deposits for the Office on a daily basis. Dunbar picks up the daily deposit and leaves the change. Change is used for reasons described above and includes bills and coins. During our review, we noted change received from the bank was anywhere from $1,000 to $10,000. The Finance Department does not count the change received from Dunbar, does not keep a log of change received from the bank, nor is there a sign-off sheet maintained of the amount dropped off by Dunbar. During the surprise cash count of the vault, we noted the vault was $500 short and the banker's drawer was $500 over due to giving change.

Lack of periodic review of the vaults' cash balance and procedures involved in the safeguarding of public monies, increases the County's exposure to theft, loss, or potential loss of investment money. Failure to perform these reviews can lead to actions being performed that are not within management's expectations. Furthermore, without controls in place to monitor change brought in or expended on a daily basis, the cash management process of the Office is hindered.

Recommendation:

The Office should establish procedures to review cash collections and deposits, specifically considering the following:

- Audits of the vault should be performed on a more regular basis, i.e. monthly, rather that quarterly.
- A sign-off log should be kept on vault audits noting the person who performed the audit and the results. A second person should also be present during the vault audit and should also sign off on the log.
- An approved minimum/maximum cash balance in the safe should be established based on a review and analysis of the appropriate amount of cash needed on a daily basis by the Office.
- All change given and all personal checks cashed should be documented. A log with the date, amount, reason, and signature should be utilized to keep track of the daily cash used for change and check cashing. However, we recommend the Office discontinue offering the service of giving change to the public as well as cashing County employees' checks. The Office is not a bank and, therefore, should not provide banking services to the public or County employees. The only change that should be distributed by cashiers should be limited to County business.
- We recommend the Finance Department keep a log of all change received from the bank. The log should consist of the total amount received and the denominations of bills and coins received. The change should be counted and the log initialed indicating receipt. All change delivered by the bank should be tracked from the time it gets to the vault until the time it is used for change, allowing the Office to gain an understanding of the amount of change needed on any given day. This would also provide an audit trail so the vault and banker's drawer can be accurately reconciled.

<u>Management's Response and Target Completion Date:</u>

In April 2014, Treasury Department management instituted a requirement for random monthly audits. There are audit log sheets that are completed after each audit. The audit is performed by the Banker

The Cashier Department receives change from the bank each Monday. Bills are counted and verified for accuracy. Coins are received in sealed boxes. The cashing of personal checks was discontinued in October 2013.

Vault audit counts are completed daily. They are prepared in detail, verified and documented with the Cashier Supervisor's signature.

The Banker audits the vault and provides the results for the Cashier Supervisor. The Cashier Supervisor signs off on the audit, daily.

The daily cash activity fluctuates frequently; department cash requirement balances are adjusted, as needed, to complete operations.

The cashier department no longer cashes personal checks. Change is given in the normal operation of county customer related business.

The Cashier Department maintains a file of Dunbar receipts. The receipts indicate the coins, currency amount and denominations received. The currency is verified by the Banker. Sealed box coins are verified by each cashier before being used in their respective drawer.

The Cashier Department maintains a predetermined amount of change for daily operations.

Revenue Receipt Procedures

Having procedures in place to assure proper segregation of duties is essential in the deposit of monies and the process of recording revenue. Therefore, revenue receipts should be completed by the County agency receiving funds and not the Treasurer's Office.

The Investment/Cash Management Department is responsible for reviewing and analyzing bank activity. All bank activity is recorded on a cash worksheet for the daily bank reconciliation. During our walkthrough of the revenue receipt process, we noted the Investment/Cash Management Department completes revenue receipts for other agencies based on the amount deposited in the County's bank account. Revenue receipts are not completed by the agency receiving the funds in some cases. The following instances were noted:

- The Investment/Cash Management Department completes revenue receipts for multiple County agencies based on the daily bank deposits per the bank statements. Specifically, the following was noted:
    - Huntington Parking Garage's revenue receipts were completed by the Investment/Cash Management Department.
    - Online credit cards, online checks, and mail-in checks for real estate revenue receipts are completed by the Investment/Cash Management Department rather than the collecting department, which is the Finance Department.
- Real estate property tax cash and check receipts are collected by the Treasurer's Finance Department. Instead of utilizing revenue receipts, the department inputs the necessary index codes on the daily cash spreadsheet used for daily bank reconciliations. The Fiscal Office's General Accounting Department receives the spreadsheet from the Finance Department in order to record cash and checks for real estate property tax collections in FAMIS.
- As of September 2013, the Investment/Cash Management Department completes revenue receipts for dog license revenue. The General Operations Department in the Fiscal Office no longer completes these revenue receipts.
- When grant money is electronically transferred to the County's bank account, the Investment/Cash Management Department completes the revenue receipt for the appropriate agency.

Failure to let agencies complete their own revenue receipt can lead to incorrect postings in the County's financial accounting system or furthermore, misappropriation of funds.

Recommendation:

To improve accountability and efficiencies over revenue receipt procedures, we recommend the Office address these issues and develop policies and procedures to include the following:

- Revenue receipts should be completed by the agency in which the revenue is collected and monitored. Receipts should also be reconciled by the agency to FAMIS. This includes grant monies received by electronic transfer (see "Grant Coordinator" finding), dog license revenue and Huntington Parking Garage receipts.
- Before being sent to general accounting, County issued revenue receipts should be completed for all County revenue collections, specifically cash and check real estate property tax collections.
- All sources of real estate property tax collections should be included on one daily revenue receipt rather than separate revenue receipts for each source (i.e., credit card, e-pay, govpaynet.com, online banking, etc.). Each source should still be separated on the revenue receipt, but one revenue receipt should be completed to reduce the amount of revenue receipts used for the same type of revenue.

<u>Management's Response and Target Completion Date:</u>

Treasury Department Management agrees with the recommendation that individual agencies should complete their own revenue receipts, but this is not always possible as some deposits are received electronically and in order to ensure timely posting, Treasury staff is forced to complete the Revenue Receipt. The Treasury Department Management does not agree that all property tax collections be combined on one revenue receipt. There is limited space for the description field, which is entered into FAMIS. Staff members sometimes perform a quick search in the FAMIS to verify information and, without the full detail, this would not be possible.

Daily time constraints make it difficult for agencies to complete a revenue receipt if the funds are received electronically. For instance, Treasury performs the initial daily tasks that identify unknown electronic payments; however, for an Agency to prepare a revenue receipt, they would need to be informed, then complete and return a revenue receipt in less than one hour. That one hour is the necessary time needed for the Investments Department to complete the daily work in order to "close" for the day and provide the working documents to Cashiers for processing. Investments has been working with Agencies to complete and provide a revenue receipt ahead of time since 2015.

Various Accounting Procedures

Effective and proper accounting procedures are essential in daily operations within the Office.

During our walk-through of daily operations of the Office, we noted the following:

- The ***Payment Processing Policy*** states checks are bundled and taken to the cashiers to be picked up for deposit. DIA noted the checks are locked in a vault after being processed for deposit by the Business Services Department. Since checks are scanned to the bank for deposit, this procedure is outdated.

- Many agencies complete the "Treasurer's Use Only" box on revenue receipts, preventing the Office from being able to complete this section. Agencies are filling out the receipt date rather than the date in which the Treasurer processed the payments.
- Mail may be sent to the Tax Department if the Business Services Department cannot process all the mail checks into MVP in a day. The checks will be sent back to the Business Services Department; however, the Business Services Department does not keep a log of mail that included checks that were given to the Tax Department for processing. A log or some type of tracking of the mail could assure all checks are properly receipted and timely recorded in MVP and FAMIS.
- Credit card and MVP reports on real estate receipts are filed with revenue receipts on a daily basis; however, there was no evidence that these reports were reviewed for accuracy to assure the correct parcel number and corresponding dollar amount was uploaded from the credit card files to MVP.

The Treasurer's Office does not have policies and procedures in place to maximize effectiveness in its daily operations.

Lack of effective accounting procedures could result in daily operations not being completed in a timely manner and furthermore, increases the chance for monies to be misappropriated and not detected.

Recommendation:

We recommend the Office evaluate daily operations to assure written procedures are effective, consistent, and reflect currently accepted practices including but not limited to the following areas:

- The Finance Department's policy should be revised to state how checks are handled by the Business Services Department and stored in a locked vault.
- All agencies should be made aware that the "Treasurer's Use Only" box on the revenue receipt should be completed by the Office and not the agency. This prevents the Office from being able to complete their internal control of filling in the box as an indication of review and processing.
- The Business Services Department should keep a log of all mail collected along with checks sent to the Tax Department to assure all checks are returned to the Business Services Department.
- The Office should have a supervisor in the Finance Department review daily uploads of credit card receipts from GovPayNow.com and Official Payments and assure they agree with MVP. The review should be noted by a signature or initials.

<u>Management's Response and Target Completion Date:</u>

The Treasury Department created written policies and procedures in December 2013. The document will be reviewed and updates will be made as needed. Revenue receipts do not have a "Treasurer's Use Only" box. That wording is only added to Revenue Receipts that are created specifically in the Treasury Department. The Treasury Management does not agree with logging all mail as there are sometimes hundreds of thousands of pieces of mail to process, logging the mail would disrupt the timely posting of payments. The Treasury Management will work with the Cashier Supervisor and the Remittance Processing area to develop a process and procedure for the daily review of payments that are uploaded into the Real Estate Tax System. Again, these procedures will be reexamined during the real property implementation. In summary:

- *Payment processing policy has been updated to reflect current daily operations.*

- *'Treasury Use Only" is completed by the Treasury office only, not by other county agencies.*
- *Logging all mail is not a feasible option for the enormous amount of mail received in Treasury; that process would not be time efficient and would negatively impact the overall timely processing and posting of payments.*
- *The MVP credit card processing for daily uploads will be reviewed, verified and signed off by the Cashier Supervisor.*

Timely Posting of Receipts

Receipts of the County should be posted to the financial accounting system (FAMIS) in a timely manner to ensure the ledgers properly reflect the financial status of the County's agencies and to be useful to management for decision making purposes.

The following receipts were not considered posted by General Accounting to the County's financial accounting system in a timely manner (five days or less):

- 20 of 30 (67%) tested revenue receipts, totaling $71,016, which are received by the Treasurer's Office from other agency's for deposit and processing; and,
- 21 of 30 (70%) tested real estate receipts, totaling $294,107.

The Office does not have policies and procedures in place to review FAMIS for timely posting of public monies.

Untimely posting of receipts to the County's financial accounting system results in incomplete accounting reports that upper management relies upon.

Recommendation:

DIA recommends that all receipts that are received by the Office be posted in a timely manner by General Accounting to the County's financial accounting system. The Office should communicate with General Accounting to make sure procedures are in place to establish such an internal control. Furthermore, the Office should have adequate monitoring controls in place to assure receipts are posted in FAMIS in a timely manner.

<u>Management's Response and Target Completion Date:</u>

The Treasury Department is creating a procedure that will require verification of posting by General Accounting for items that have been submitted by the Treasury.

Posting to the accounting system is not the responsibility of Treasury; that task lies with the Financial Reporting Division of the Fiscal Office. Furthermore, Treasury is a pass-through that provides all revenue receipts to Financial Reporting; it is the responsibility of the individual agency to monitor FAMIS and ensure their revenue receipts are being posted in a timely manner. Currently, every revenue receipt that originates from activity within the Investments department is tracked and reconciled back to FAMIS; this has been in effect for over 8 years.

The timing of processing financial transactions is not the responsibility of the Treasurer.

Recording Child Support Receipts in FAMIS

Agency funds are to be used for monies that are held in trust by governments for the use and benefit of other individuals and entities. During testing of child support payments made to the Office, DIA noted the payments are not posted to FAMIS in an agency fund.

It is the understanding of the Office not to record the receipt or expenditure of child support monies collected from customers and passed on to the State in the County's accounting system.

Failure to account for monies that pass through the County can result in an understatement of both revenue and expenditure of agency money.

Recommendation:

DIA recommends that an agency fund be set up for the child support money received through the Office. A revenue line item should be posted when child support money is collected; an expenditure line item should be posted when child support money is passed on to the State.

Management's Response and Target Completion Date:

Child Support is collected on behalf of the Child Support Enforcement Agency for the state administered program. The Cashier Department provides a daily deposit and receipt report to CSEA to reconcile revenues within its existing sub-fund. Since the deposits are made directly to CSEA's operating fund, Treasury questions the need for an agency fund which must also be reconciled by both departments.

Grant Coordinator

The County receives millions of dollars in state and federal grants annually. The Office oversees grant monies as they are deposited in a County bank account utilized for large electronic transfers from other government entities. Having controls in place to assure grant monies are accurately deposited and recorded in the County's financial system, FAMIS, to the receiving agency is a critical step in the accounting process.

During our walkthrough of the Investment/Cash Management Department's bank reconciliation process, we noted agencies receiving grant monies are not responsible for writing revenue receipts (see finding on "Revenue Receipt Procedures" page 37). The Investment/Cash Management Department completes the revenue receipts based on the bank deposit. We also noted instances where the Investment/Cash Management Department did not receive notification from the agency of grant monies being deposited. The Investment/Cash Management employees have to research all deposits of grant monies before completing a revenue receipt or transferring funds to the main bank account. If the Investment/Cash Management employees cannot determine which agency "owns" the grant monies, they complete a revenue receipt for the funds to be reflected in the "Temp EFT" index code until clarification is determined.

The County has never had a position of grant coordinator to oversee grants. The Office has always been responsible to write the revenue receipts and determine the agency in which the grant monies belong. Having a grant coordinator would provide for a repository of grant information the Investment/Cash Management staff could turn to in researching the unapplied funds.

The County lacks effective monitoring of grant activity without the position of a grant coordinator. Grant monies deposited may not be correctly recorded in the County's financial system to the appropriate agency if the employee creating the revenue receipt is not knowledgeable of the County's grants.

Recommendation:

In agreement with the 2012 and 2013 State Auditor's management letter recommendation, DIA also recommends the County consider creating the position of grant coordinator to oversee and monitor state and federal grants. Specific to grant monies received by the Office, the coordinator would be responsible for the following:

- Communicating with all agencies on the amount and timing of grant monies that will be deposited in the County's bank account. The grant coordinator would be responsible for notifying the Treasurer's Office of expected grant funds.
- Completing revenue receipts of all grant monies received with copies going to general accounting and the receiving agency.
- Assuring all agencies reconcile grant monies received to FAMIS.

For further non-Treasurer specific duties of a potential grant coordinator, refer to the 2013 State Auditor's management letter recommendation titled "Creating the Position of Accounting Grant Coordinator."

<u>Management's Response and Target Completion Date:</u>

The recommendation will be provided to the Fiscal Office Controller for a final determination on this subject.

Computer Controls

County agencies should assure all computer terminals are logged off or locked when an employee is absent from his or her terminal. The ***Cash Handling Procedures, Safeguarding of Cashier Funds and Teller Operation Rules*** of the Office states cashiers should log off their computer when away from them for any period of time. Also, password security is essential in eliminating the risk of unauthorized access to computers.

Cashiers did not always log off or lock their computer terminals when they were absent from the terminal. Additionally, the two computers utilized for credit card payments are kept unlocked and logged into GovPayNow.com during business hours in the Finance Department. Lastly, security over MVP passwords is extremely weak; they aren't required to be changed on a regular basis nor are there any requirements over the use of special characters, minimal length, etc.

Currently, there is no enforcement of the Office's policies and procedures on securing computers. Furthermore, MVP does not have any policies in place to require strong security over its use of passwords, nor has the Office enacted a password policy for MVP.

The risk of unauthorized access or usage of a terminal is increased without logging off or locking computer terminals when an employee is not at the terminal. Furthermore, weak password security increases the risk of unauthorized access to terminals. This weakness of unauthorized access may result in theft and/or the altering of public records.

Recommendation:

DIA recommends the Office follow policies and procedures in place, i.e. ***Cash Handling Procedures, Safeguarding of Cashier Funds and Operation Rules***. Cashiers should lock their computers prior to leaving their terminals. Also, computers used for credit cards should be locked and logged-off of GovPayNow.com until a credit card payment is made. In addition, the Office should consider increasing the strength of its MVP passwords.

<u>Management's Response and Target Completion Date:</u>

The Treasury management agrees with this recommendation and will ensure employees follow the internal policies and procedures. Progressive discipline will be administered as required. The Treasury management will work with the Real Estate Tax system developers to determine if controls can be put in place to strengthen password protection

Job Related Training

It is important for employees to have the proper skills needed to adequately perform their duties at the Office. These skills may include, but are not limited to; computer skills, communication skills, related Office duties, cross training, and management training.

Management expressed a concern that employees may not have the proper skills to adequately perform their duties. There were many instances of adjusted transactions, including voids, made in MVP which may be a result of the lack of computer and communication skills.

Failure to obtain continuing education or some sort of job-related training has resulted in a lack of knowledge related to the work skills needed and ultimately, work performed on the job has been lacking.

Recommendation:

DIA recommends the Office offer job-related education to its employees and supervisors.

Management's Response and Target Completion Date:

After the administration of the 2013 Performance Evaluations, the Treasury Management set a goal for all staff to begin attending job related training. On-going training sessions are being attended as offered and all Treasury staff are required to attain the highest level of Excel training offered by the County by the end of calendar year 2014.

Staff has completed Excel training and continuous training is included as a goal on the annual evaluations

Job Descriptions

Every agency should have an organizational chart with job descriptions that efficiently outlines all duties encompassing the department. Job descriptions are essential for balancing work levels and also to help define the responsibilities of all employees. The Treasurer's Office recently redefined their organizational chart; however, the Office was unable to provide a job description for the Tax Administrator unclassified position. Also, in review of the classified job descriptions, we noted two classified positions used by the Office were not labeled as Treasurer's Office positions. The Fiscal Office Supervisor position was noted for use in the "Fiscal Office" and the Fiscal Officer 1 position was labeled for use in "Human Services, only".

Without well-defined job descriptions there is a lack of documented responsibilities and guidelines in which the employees are to follow and may be held accountable for. This could lead to underperforming and ultimately not achieving the agency's goals and mission. Additionally, it could lead to inefficiency in the work place as a result of redundancy in work being performed as well as individuals not being able to complete all of one's tasks.

Recommendation:

The DIA recommends the Office maintain a description for each job in the organizational chart, specifically unclassified positions. The job descriptions should list the functions and requirements of the job in order to give the employee a clear understanding of the tasks that he/she will be asked to perform in achieving the agency's goals and mission. In addition, the Office should work closely with Human Resources to assure job descriptions can be used for Treasurer's Office employees.

Management's Response and Target Completion Date:

Treasury Management will work with Human Resources to address this finding. Human Resources advised that the "Human Services" only designation on Fiscal Officer 1 is incorrect. This position is Countywide. The Tax Administrator position description was submitted to Human Resources. The Fiscal Office Supervisor position has been vacated and was reclassified to an Examiner.

INTERNAL AUDIT FINAL COMMENTS

Nine of the Treasurer's Office responses reference a written policy and procedure document that was created in December, 2013. A request made by the Department of Internal Auditing on December 11, 2014 for this document resulted in an email containing several individually written job duties, however a policy and procedure manual was not provided. In an email sent from the Interim Treasurer, Mr. William Sheehan, DIA was told the Treasurer's Office was "in the process of consolidating into one document our policies and procedures that were composed last December." Additionally, the email indicated that we would be provided the document "the first full week after the holidays." We will evaluate that document during our follow up audit review.