

**BROOME COUNTY
DEPARTMENT OF
AUDIT AND CONTROL**

**CASH HANDLING/REVENUE PROCESSING
CONTROLS AUDIT**

Office of Management & Budget

JANUARY 2014

Alex J. McLaughlin, Comptroller



Broome County Department of Audit and Control

Alex J. McLaughlin, Comptroller . Jerry F. Marinich, Chairman of the Legislature

January 27, 2014

Debra A. Preston, County Executive:

The Department of Audit and Control has completed an audit of the Office of Management and Budget. The principal objective was to examine the processes and controls employed by the Office of Management and Budget to manage and safeguard the County's financial assets.

The audit was conducted in accordance with generally accepted auditing standards. Such standards require that the Department of Audit and Control plan and perform the audit to adequately assess the accuracy of the financial records and adequacy of the internal controls, and that we examine, on a test basis, sufficient, competent and relevant evidence to afford a reasonable basis for our conclusions.

Based on the results of our examination, except for the instances noted herein, it is our opinion that the Office of Management and Budget has proper processes and controls in place to manage and safeguard the County's financial assets.

Sincerely,

Alex J. McLaughlin
Comptroller

cc: Jerry F. Marinich, Chairman of the Legislature
Members of the Legislature
Aaron M. Martin, Clerk of the Legislature
Marie F. Kalka, Director, OMB
John M. Bernardo, Deputy County Executive
Bijoy Datta, Deputy County Executive

Background Information:

The purpose of our Audit was to ascertain the extent to which the Office of Management and Budget has developed and deployed the processes and internal controls necessary to properly manage and safeguard the County's financial assets.

To meet our objective, we examined the internal controls, including the segregation of duties, related to the collection, deposit, and recording of payments. We also traced randomly selected daily transactions through to the general ledger and examined the physical controls over payment receipts.

We also examined the management of Broome County's bank accounts. This included a review of collateralization agreements, online banking security, access credentials, and other restrictions in place with local depositories regarding the ability to open, close and/or access Broome County bank accounts.

Based on bank account information maintained in our Office, OMB is responsible for 55 accounts that have an average balance of over \$115,000,000. The number of bank accounts is subject to change because OMB has been in the process of changing Broome County's primary bank from JP Morgan Chase to M&T Bank.

Finally, we reviewed OMB's written investment policies, written cash handling procedures and cash model.

We thank the Office of Management and Budget staff for their time and assistance during our Audit.

**AUDIT FINDINGS, RECOMMENDATIONS AND RESPONSES
- OFFICE OF MANAGEMENT AND BUDGET-**

**FINDING 1: COMPREHENSIVE INVESTMENT POLICY SHOULD BE AMENDED
AND REVIEWED ANNUALLY**

During our examination, we requested and reviewed the Broome County Investment and Cash Management Policy. We found the Investment and Cash Management Policy, dated 10/29/90, is reasonably comprehensive but out of date and in need of amendment.

Article 3 of General Municipal Law Section 39 (1) Investing policies for local governments states that local governments:

“..... shall **by resolution** adopt a comprehensive investment policy which details the local government’s operative policy and instructions to officers and staff regarding the investing, monitoring, and reporting of funds of the local government. The investment policy shall be **annually** reviewed by the local government.”

It is the opinion of Broome County’s Law Department, that Broome County’s Charter supersedes General Municipal Law and assigns responsibility for Broome’s investment policy to the County Executive (or his/her designee). We agree with the Law Department.

The minimum requirements of a comprehensive investment policy are detailed in Section 39(3).

A comprehensive Investment Policy following the statutory framework noted above is intended to help ensure that local governments manage investment risk and provide the necessary safety and liquidity of public funds.

RECOMMENDATION:

We recommend that the Office of Management and Budget review and update the 1990 Investment Policy. The amended Investment and Cash Management Policy should then be shared with the Broome County Legislature for their information.

MANAGEMENT RESPONSE:

Management acknowledges that the current policy is outdated. The Broome County Investment & Cash Management Policy will be modified and brought up-to-date.

FINDING 2: OMB SHOULD SEEK PROPER AUTHORIZATION OF DEPOSITORIES AND SHOULD IMPROVE COMMUNICATION WITH FINANCIAL INSTITUTIONS

During our review, we assessed the authorization and communication with depositories by the Office of Management and Budget. Upon review, we noted that OMB has not secured proper authorization of depositories for 2013. In addition, they do not periodically make inquiries of depositories regarding current listings of accounts and activities in accounts using the County's tax identification number.

The Broome County Charter §C302 states that the County Executive must "Designate one or more depositories located within the County for the deposit of all moneys received by the Director of the Office of Management and Budget, and determine what funds may be invested and in what securities, according to the law". This point is also reiterated in OMB's written Investment and Cash Management Policy.

Securing authorization of depositories is intended to ensure that Broome County does business with financial institutions that meet regulatory requirements and are credit worthy.

RECOMMENDATION:

We recommend that OMB secure proper authorization of depositories each year.

We also recommend that the Office of Management and Budget improve their communication with local depositories regarding active accounts and account activity. OMB should not wait for the depositories to contact them regarding account activity.

MANAGEMENT RESPONSE:

Management acknowledges that this process, although mandatory by County Charter, hasn't been completed. Management believes that this "power & duty" associated with the County Executive outlined in §C302 can be removed. The County Executive appointed the Director of the Office of Management & Budget to be the chief fiscal officer of the County and, by extension, responsible for securing the proper authorization of depositories in 2013 and forward.

As such, Management is working with the County Attorney to draft a recommendation to change the Broome County Charter so that this task will no longer be required.

If, however, this change is not authorized, Management will proceed as the recommendation stipulates. Management is targeting this finding will be resolved by March 31, 2014.

FINDING 3: IMPROVEMENT NEEDED IN PHYSICAL SAFEGAURDS TO PROTECT CASH

During our examination, we evaluated physical safeguards in place to prevent the loss of cash. We noted that controls are not in place to ensure that combinations are changed, keys are collected and/or locks are changed periodically or at least with turnover of staff.

Physical safeguards over cash is an important element of internal control. All forms of currency should be appropriately safeguarded to reduce the risk of theft or loss.

Effectively employing physical safeguards over cash reduces the opportunity for theft or loss to occur.

RECOMMENDATION:

We recommend that the Office of Management and Budget improve their physical safeguards over cash by adopting a policy that makes sure safe combinations are changed, keys are collected and/or locks are changed periodically or at least with turnover of staff.

MANAGEMENT RESPONSE:

Management acknowledges the weaknesses as outlined in this observation. However, Management has decided to implement a slightly different recommendation. Instead of having to manage the ownership of keys and accessibility to the cash collection area, OMB has consulted with the Broome County Security Director and will be installing badge access readers on both the outside and inside of the cash collection area. Management has submitted a Maintenance Service Request to DPW (Work Request #00022965). The requested completion date is January 31, 2014.

As it pertains to changing the combination on the safes; a vendor will perform that duty for OMB, with a scheduled completion date is also anticipated to be January 31, 2014.

FINDING 4: IMPROVEMENT NEEDED IN SECURITY OF ONLINE BANKING

During our examination we evaluated the Office of Management and Budget's security practices regarding online banking. We noted that while OMB does take some security measures for online banking (the use of tokens, pin numbers, firewalls, anti-virus software, etc.) they do not have a single, dedicated computer station for online banking.

Maintaining a single, dedicated computer station that is used exclusively for online banking would help to ensure the security of the County's financial information and assets. Dedication of an exclusive computer station is recommended by the American Bankers Association, the FBI, the New York State Police and the New York State Comptroller's Office.

If a computer station is used for purposes other than online banking, it will be subjected to a much higher level of risk associated with exposure to less secure environments. Risks include the intentional or unintentional introduction of spyware, malware, keyloggers, etc. That could result in stolen passwords and unauthorized bank account activity.

RECOMMENDATION:

We recommended that the Office of Management and Budget implement the use of a single, dedicated computer station for online banking in order to improve the security of financial information and assets.

MANAGEMENT RESPONSE:

We have reviewed this issue and discussed it among ourselves as well as conducted our own online banking security best practices research.

We don't disagree that having a dedicated computer for online banking is more secure. We merely question the balance between how much more secure a dedicated pc would actually be compared to the barrier it would cause to productivity.

Some of our thoughts were:

- Since the keyloggers/spyware threats cited in your references can be delivered from any website, it is possible that the very bank site you'd be going to for online banking could be the delivery mechanism for malware. If this were the case, you actually could have a false sense of security in having a dedicated pc.

- Even though it is possible to limit the websites that could be reached by a dedicated pc, it is not possible to enforce that the dedicated pc is the only location those bank sites can be reached from.
- To make a dedicated pc most secure, it would need to be “stand alone” (not on the County network). If it is stand alone, we lose the ability to track who is using it. It would also be more difficult to make sure the software stays up-to-date with critical security patches and virus/malware definitions.
- A dedicated pc would introduce a single point of failure.

There are some things that could be done to the pc's of those who are responsible for online banking to make them more secure:

- We can put additional malware scanning on those workstations with more frequent scanning times.
- We can put them in their own vlan (segregate them from other computers on the network).
- We can limit the websites they can go to by domain or full ip ranges via the firewall rather than the web filter.
- We can train the users how to be safer online.

The bottom line is that security threats are always evolving, so internal controls need to constantly evolve to keep up. And it's always about choosing a balance between security and productivity.

FINDING 5: CONSOLIDATION OF BANK ACCOUNTS

During the course of our audit, we examined the bank accounts managed by the Office of Management and Budget. Presently, Broome County has 55 bank accounts which include 12 accounts that are intended to be closed as part of the process of changing from JP Morgan Chase to M&T bank. OMB assures us that, as part of the conversion, they are looking for accounts that can be closed or merged. However, as a policy, OMB does not routinely perform a rationalize exercise for the purpose of closing or merging bank accounts when possible.

Best practices dictate that the number of bank accounts should be minimized.

By using the general ledger to separate funds, rather than having a separate bank account for each activity, management enhances its ability to manage and control. A minimum number of bank accounts reduces the workload and streamlines the accounting and reconciliation process.

Conversely, numerous bank accounts can complicate control of cash and result in frequent interbank transactions that can be expensive and/or time consuming to control.

RECOMMENDATION:

We recommended that, as a policy, the Office of Management and Budget should periodically examine bank accounts for the purpose of merging or closing accounts.

MANAGEMENT RESPONSE:

Management acknowledges the excessive number of bank accounts; however, before OMB can reduce them, procedural changes will be required by multiple areas within the county. Management will commit to reducing the bank accounts to a reasonable level by June 30, 2014. Moving forward, OMB will annually review the number of on-ledger accounts; end goal of keeping the number to a minimum.

FINDING 6: OMB SHOULD UPDATE THEIR CASH HANDLING PROCEDURES

During our examination, we assessed written cash handling procedures for the Office of Management and Budget. Upon review, we noted that while OMB did have some written procedures they are out of date and in need of amendment. We also noted that OMB does not maintain written emergency procedures that cover workplace violence, robbery and the potential need for immediate evacuation of workstations (eg: fire or some other emergency) etc...

Written policies and procedures help provide reasonable assurance that an organization will achieve its objectives, that assets and resources will be adequately safeguarded and that various functions are being performed by the appropriate personnel and in the proper manner.

Maintaining current written policies and procedures helps to inform employees of their duties and responsibilities. Written policies and procedures can also serve as a training resource when employees change jobs or retire.

RECOMMENDATION:

We recommend that the Office of Management and Budget develop and maintain up-to-date written cash handling and record keeping procedures.

We also recommend that OMB work with the Security Department for the purpose of developing written policies and procedures related to workplace violence, robbery, and the potential need for evacuation, etc...

MANAGEMENT RESPONSE:

Management acknowledges this weakness; OMB will work with the Security Division to update the Cash Handling Procedures by March 31, 2014.

FINDING 7: BACKGROUND CHECKS SHOULD BE ROUTINELY PERFORMED

During our examination, we inquired about whether or not background checks were done for potential employees with cash handling responsibility. Of the eight (8) employees with cash handling responsibility that we inquired about, we noted that two (2) employees had not had a background check performed. One of these employees was hired prior to the County's establishment of such background checks as a standard procedure.

Background checks for sensitive positions are considered a best practice.

Proper background checks can be an effective internal control that can, to the extent that prior history can be a predictor of future behavior, reduce the risk of dishonesty losses.

RECOMMENDATION:

We recommend that the Office of Management and Budget request background checks for all prospective employees that will have responsibility for cash handling.

MANAGEMENT RESPONSE:

The policy regarding having a background check performed on a New Hire applicant is a current practice of the department; however, Management acknowledges the weakness as it pertains to employees that were (1) hired more than ten (10) years ago or (2) transferred from another county department. The two (2) employees identified as not having a background check performed, each fell into one of the two categories.

Management will ensure the New Hire Policy & Procedure will be updated to reflect the need to have a background check performed on ALL new hires to the department, regardless of whether they are new to the county or a transfer from another department.

To be fully compliant, background checks have since been performed on the two (2) employees identified from the observation and a third that has a back-up function of preparing the daily cash up.

FINDING 8: CASH RECEIPT TRANSACTIONS ARE NOT EASILY IDENTIFIABLE IN ACCOUNTING SOFTWARE

During the course of our audit, we traced cash receipts from the point of entry (Viking software) into the general ledger (PeopleSoft software). We noted that the pre-numbered cash receipt number recorded in Viking is not the same as the cash receipt number that identifies the transaction in the accounting software (PeopleSoft). As a result, identifying cash transactions in the general ledger accounts based on the original cash receipt number involves numerous steps.

A reliable and easy to follow audit trail enables both internal and external examiners to trace financial data from the source documents to the general ledger and to verify that amounts recorded in the financial records are properly supported.

The current method of identifying recorded cash transactions is cumbersome and time consuming. Additionally, two different cash receipt numbers for one transaction is not ideal from an internal control perspective.

RECOMMENDATION:

We recommended that the Office of Management and Budget develop and implement a cash receipting system that maintains one identifying number per transaction.

MANAGEMENT RESPONSE:

OMB is working, in conjunction with Information Technology, on including the implementation of the Treasury Module and also the Cash Receipts Module (which will address this observation); this is a subset of the Financial Module. The implementation of this Cash Receipts Module will provide a more efficient way of tracking the Cash Receipts to the General Ledger through the use of a “drill” function contained within PeopleSoft. That functionality is not available today as the Viking software is not a PeopleSoft product. The PeopleSoft upgrade is scheduled to be completed by January 1, 2015.

