

**CLERK & COMPTROLLER
PALM BEACH COUNTY
CASH MANAGEMENT AUDIT**



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Division of Inspector General

Audit Services Unit

September 19, 2014



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The Honorable Sharon R. Bock, Esq.
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We conducted an audit of Cash Management, which was included on the annual audit plan.

The objectives were to: perform a risk assessment to identify the risks and vulnerabilities, evaluate the overall effectiveness and efficiency of the cash management processes and related internal controls to mitigate the risks, and verify compliance with pertinent laws and regulations as well as established policies.

Our audit was neither designed nor intended to be a detailed study of every process, procedure, transaction or system in each area. Accordingly, the observations and recommendations included in this report are not all-inclusive.

Cash Management provides timely and accurate service to its customers – the Clerk & Comptroller and County departments, and various agencies and vendors who receive electronic payments. The audit identified control weaknesses and improvement opportunities related to revising approval authorities assigned to employees, enhancing the segregation of roles and responsibilities, and implementing various other general fraud prevention techniques to further minimize the risks inherent in handling significant transfers of monies through various electronic channels.

We appreciate the cooperation of management and staff during the course of this audit.

Respectfully submitted,

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cc: Shannon Ramsey-Chessman, Chief Operating Officer Finance

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Executive Summary

An audit of Cash Management was performed by the Clerk & Comptroller's Division of Inspector General. This regularly scheduled audit was included on the annual audit plan.

Cash Management handles outgoing wire transfers and ACH payments for the Board of County Commissioners and Clerk & Comptroller's office, ensures adequate funds are maintained to cover daily operating activities, and optimizes the consolidated account balance to maximize earnings credits and minimize banking fees. For fiscal year ended September 30, 2013, 1,573 outgoing wires and ACH payments were processed totaling \$3.67 billion.

The objectives of this audit were to: perform a risk assessment to identify the risks and vulnerabilities, evaluate the overall effectiveness and efficiency of the cash management processes and related internal controls to mitigate the risks, and verify compliance with pertinent laws and regulations as well as established policies.

Cash Management provides timely and accurate service to its customers – the Clerk & Comptroller and County departments as well as various agencies and vendors who receive electronic payments. The audit identified control weaknesses and improvement opportunities related to revising approval authorities assigned to employees, enhancing the segregation of roles and responsibilities, and implementing various other general fraud prevention techniques to further minimize the risks inherent in handling significant transfers of monies through various electronic channels.

The report contains three observations and thirteen recommendations.

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Introduction

Overall Conclusion

Overall, Cash Management provides timely and accurate service to its customers – the Clerk & Comptroller and County departments as well as various agencies and vendors who receive electronic payments.

The Cash Management audit identified control weaknesses and improvement opportunities related to the approval authorities assigned to employees, segregation of roles and responsibilities, and general fraud prevention measures to minimize the risks inherent in handling significant transfers of monies through various electronic channels.

Objectives, Scope and Methodology

The Clerk's Audit Services Unit of the Division of Inspector General conducted an audit of Cash Management. This regularly scheduled audit was included on the annual audit plan.

The objectives of this audit were to:

- Perform a risk assessment to identify the risks and vulnerabilities,
- Evaluate the overall effectiveness and efficiency of the cash management processes and related internal controls to mitigate the risks, and
- Verify compliance with pertinent laws and regulations as well as established policies.

In order to meet these objectives, we conducted interviews and reviewed departmental policies and procedures. We obtained key contracts in place. We identified the pertinent Florida Statutes and other laws and regulations. We gathered key performance volumes/metrics and relevant statistics. We performed a risk assessment of the cash management processes by documenting workflows and activities, identifying key risks, and evaluating the adequacy of the internal control environment to mitigate the risks identified. We conducted testing of internal controls and transactions. Testing performed covered the period from October 1, 2012 through March 2014. In addition, we performed other procedures that were deemed necessary under the circumstances. This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Background

Cash Management is a function that was combined with the Revenue Department in October 2009 as part of a reorganization within the Clerk's Finance Division. A previous audit of the Clerk's Revenue Department, which did not include Cash Management, was completed by the Clerk's Inspector General and a formal report was issued on August 12, 2010.

Primary Cash Management responsibilities include the following: process all outgoing wires and ACH payments for the Board of County Commissioners and Clerk & Comptroller's office, notify appropriate parties for posting of activity into Advantage, ensure adequate funds are maintained in the operating account to cover all daily operating activities, and manage the consolidated account balance to maximize earnings credits and minimize banking fees.

For fiscal year ended September 30, 2013, 1,573 outgoing wires and ACH payments were processed totaling \$3.67 billion. For the first six months of fiscal year end 2014 as of March 31, 2014, 778 outgoing wires and ACH payments were processed totaling \$977 million. Key performance activity for the months of September 2013 and March 2014 are presented below for comparative purposes.

Key Activity	Sept 2013	March 2014
Average Collected Balance – Wells Fargo	\$84,215,497	\$111,440,583
Earnings Credits	\$34,609	\$47,324
Bank Fees	\$67,579	\$96,457
Daily Balance to Offset Fees	\$77,000,000	\$106,000,000
Month Ending Balance Wells Fargo Money Market Account	\$1,483,473	\$132,405,750
Average Daily Interest Wells Fargo Money Market Account	0.08%	0.06%
Outgoing Wires/ ACH Payments	\$76,441,301	\$68,399,871
Number of Outgoing Wires/ ACH Payments	110	121
Revenue Posted	\$53,810,632	\$62,540,419
Number of Cash Receipts (CR's) Posted	426	383
Average CR Processing Time/ Days	3.29	3.32

Cash Management relies upon the Wells Fargo Commercial Electronic Office (WF CEO) Portal for initiating, approving, and confirming ACH and wire transactions. Also, the department uses standard Microsoft applications such as Excel, Word, and Outlook for processing work.

Cash Management is led by Olga Enrique - Manager, supported by one Assistant Manager and four staff positions. The Cash Management budget is not broken out separately from the Revenue & Cash Management Department budget.

Audit Team:

Charles Mansen, Senior Internal Auditor

Observations & Recommendations

The audit identified certain policies, procedures and practices that could be improved. The audit was neither designed nor intended to be a detailed study of every relevant system, procedure or transaction. Accordingly, the observations and recommendations presented in this report may not be all-inclusive of areas where improvement may be needed.

1. Opportunities exist to revise approval authorities and implement additional fraud prevention measures.

The loss of public funds due to computer and electronic funds transfer crimes is one of the most significant risks facing the Cash Management department. Management has implemented various actions to mitigate these risks. Our audit identified various actions that can be taken to revise approval authorities and implement additional fraud prevention measures.

Cash Management utilizes the Wells Fargo Commercial Electronic Office (WF CEO) Portal to issue wire transfers and ACH payments from the County's consolidated bank account. The consolidated account had an average collected daily balance for the period of October 2012 through March 2014 of approximately \$119 million. During the audit, we noted the following observations.

- Twenty-four Clerk employees are authorized to create and/or approve individual transactions of up to \$999,999,999 as well as daily cumulative transactions of up to \$999,999,999. The largest disbursement within our audit scope was \$60 million. The Clerk's Government Crime insurance policy in place provides coverage of \$500,000 per occurrence (with a \$10,000 deductible). We also noted that employees are not bonded as reliance is placed on this insurance policy.
- WF CEO Portal was set up by Cash Management to require one individual to initiate and a different individual to approve wire transfers and ACH payments. The intent was to provide dual control over disbursements. However, our audit disclosed that the WF CEO Portal has an "Approve Own" authority level, which takes precedence and overrides the intended dual control by allowing one individual to both create

and approve their own ACH templates and ACH payments. This “Approve Own” functionality was assigned to five Clerk employees and two Preferred Governmental Claim Solutions (PGCS) employees. This access was eliminated during the audit.

- Six Clerk employees (three in Cash Management and three in Financial Reporting) were not assigned a specific authority dollar limit in WF CEO Portal. The limit was left blank rather than inserting a \$0 limit. As a result, these employees had unlimited authority to initiate or approve ACH payments, contrary to management’s intention. This was corrected during the audit.
- Four PGCS employees have individual payment and cumulative daily payment authority limits in WF CEO Portal of either \$100,000,000 (two PGCS employees) or \$100,000 (two PGCS employees) for ACH payments from the Workers’ Compensation Claim Account. A mitigating control is that Wells Fargo set a \$5,000 limit; any requests exceeding this would result in an alert email and required approval by Cash Management.
- Opportunities exist to strengthen policies and procedures and periodic security awareness training to further educate employees about online banking fraud and related risks. A Wells Fargo CEO On-Line Banking Security Disclosure Form is initially signed by each employee, acknowledging responsibility to protect their user ID and password. Given that the WF CEO Portal is accessed by each employee’s computer, rather than a single dedicated computer in a secure location as best practices recommend, it is critical that robust safeguard measures be in place. Consideration should be given to expanding employee training and awareness on risks related to: security over assigned RSA SecurID Token Cards, malicious websites, opening email attachments, pop-up windows containing false security or update messages, phishing and social engineering attacks, and general risks of processing on-line banking transactions with outside service providers.

Recommendations:

- A. Reevaluate and consider reducing the current \$999,999,999 daily and cumulative dollar limitations for wire transfer and ACH transactions to minimize the risk of fraud and loss of funds.
- B. Review the adequacy of insurance coverage to determine if it is sufficient to mitigate the risk of fraudulent wire transfers and ACH payments by employees and third parties.

- C. Remove "Approve Own" authority from all Clerk and PGCS employees (completed during the audit).
- D. Assign a zero dollar limit for those employees who have a blank approval authority in WF CEO Portal (completed during the audit).
- E. Consider reducing the \$100,000,000 limit assigned to the PGCS employees for Workers' Compensation claims.
- F. Consider enhancing overall on-line banking security awareness by providing incremental periodic training to all employees who are provided access to WF CEO Portal.

Management Responses:

- A. Management agrees with the recommendation. We set the limits to \$750 million; the limits were set based on our records which indicate that during the period of October 2012 through March 2014, the largest disbursement was \$393 million, (February 6, 2013, AIM Investment Services). Additionally, during the period FY 2012, the highest disbursement was \$510 million.
Target Completion Date: Completed
- B. The adequacy of insurance coverage is pending further discussion by Senior Management of the Crum & Forster – Commercial Crime Policy.
Target Completion Date: Open
- C. This action was completed during the audit.
Target Completion Date: Completed
- D. This action was completed during the audit.
Target Completion Date: Completed
- E. Management agrees with the recommendation. After our review of the Worker's Compensation Claims Administrative Services contract, dated August 2, 2013, and the information that we received from Risk Management regarding the minimum fund balance containing the average of 45 days typical claim payments which was determined by the County to be \$750,000, we have set the limits from \$100 million to \$1 million. The changes were completed on August 15, 2014 in Wells Fargo CEO Portal.
Target Completion Date: Completed

F. Management agrees with the recommendation. We will reach out to Wells Fargo to inquire on what type of training is available online that will enhance the employees on-line banking security awareness. Please note that we have enhanced the Wells Fargo Security Disclosure form with the following verbiage:

Use caution if you receive an email or text message expressing an urgent need for you to update your information, activate an account, or verify your identity by calling a phone number or submitting information on a web site. Also practice caution with email attachments and downloadable files; email attachments and downloadable files from any external source could be harmful to your computer. Forward all suspicious emails or text messages to ReportPhish@wellsfargo.com. Source: WF wire transfer user guide, page 7 "Be cautious"

Target Completion Date: Open

2. Roles and responsibilities require further segregation.

Internal control best practices suggest cash management duties should be adequately segregated so that no one individual is responsible for initiating and approving wire transfers and ACH payments. Certain management and staff were assigned authority levels to execute duties that were overlapping or incompatible, which increase the potential risk of undetected errors or fraud. We recognize that management must ensure back-up approval authority is adequately in place.

Our review of access capabilities held by management and staff disclosed that:

- The Revenue & Cash Management Manager has authority to initiate and approve wire transfers and ACH payments and is assigned back up authority for voice initiation and approval of wire transfers and ACH payments. Voice initiated and approved wire transfers and ACH payments are not safeguarded by the dual control functionality within WF CEO Portal. Therefore, the Manager could both initiate and approve a voice-activated transaction for up to \$999,999,999. Voice initiation and approval is protected by the use of unique PIN numbers.
- One Financial Reporting employee had authority to create and approve ACH payment templates as well as initiate and approve ACH payments. This access was eliminated during the audit.

- Two senior management employees have authority to delete templates and pending wire transfers and ACH payments from the WF CEO Portal. This access should be restricted to Cash Management staff.
- Four Financial Reporting employees have authority to delete pending wire transfers and ACH payments. These individuals have appropriate authority to reject payment of wire transfers and ACH payments; however, deletion of wire transfers should be restricted to Cash Management.

In addition, we conducted a test of 25 wire transfers and ACH payments. Internal controls functioned properly as defined in written policies and procedures. All transactions were initiated and approved by separate individuals.

Recommendations:

- A. Segregate responsibilities held by the Manager for voice-activated wire transfers and ACH payments so that she does not have the authority to both initiate and approve such disbursements.
- B. Remove the one Financial Reporting employee's authority level to initiate and approve ACH payment templates as well as initiate and approve ACH payments (completed during the audit).
- C. Remove the authority to delete pending wire transfers and ACH payments and related templates from non-Cash Management staff. This functionality should be limited to Cash Management personnel.

Management Responses:

- A. Management does not agree with the recommendation. Management acknowledges that Olga Enrique – Manager is listed as an initiator and approver; however, Olga is only a back-up to approve voice activated wires. According to the "Wire Transfer Services Customer Setup Form and Agreement", section D which states that an initiator cannot approve the same wire, and Part II – Wire Transfer Services Agreement, section 2 – Security Procedures, Olga Enrique – Manager will remain as a backup approver.
Target Completion Date: N/A
- B. This action was completed during audit
Target Completion Date: Completed

- C. Management agrees with the recommendation. The authority to delete pending wire transfers and ACH payments was removed from non-Cash Management staff.
Target Completion Date: Completed

3. Written procedures require update and enhancement.

Cash Management has numerous internal policies and procedures to guide employees, most of which are thoroughly completed. Certain procedures require preparation, update or modification. Best practices in internal controls indicate that written procedures help ensure accuracy and consistency in the quality of work.

Our audit identified opportunities to improve various existing procedures by ensuring inclusion of key elements such as: positions responsible for taking action, examples of completed documents/forms as well as required supporting documentation, and transaction handling instructions that are consistently aligned with the WF CEO Portal user's guide. In addition, we noted the following observations.

- Record retention practices do not require previously modified or deleted templates for wire transfers and ACH payments within WF CEO Portal to be retained for five years. Records are retained only for the original wire transfer and ACH payment template request and the most recent template modification. Florida General Records Schedule GS1-SL (Item #264) requires retention of all documents necessary to establish and maintain the electronic transfer of funds for five fiscal years after termination of service agreements or authorization.
- Opportunities exist to further strengthen procedures and existing controls over wire transfers and ACH payments by ensuring Cash Management staff:
 - ✓ verify a payee or beneficiary is an active vendor in the Advantage financial system prior to modifying wire transfer and ACH templates.
 - ✓ periodically review the Pre-Authorized Wire Transfer and ACH Payment List against the Advantage financial system vendor list to verify template and beneficiary information.

- ✓ verify whether a payee or beneficiary is an active vendor in the Advantage financial system prior to initiating recurring and non-recurring wire transfers and ACH payments.
- Procedures were not in place for preparing and using the estimated consolidated account balance worksheet and the Cash Management dashboard of operating measures. In addition, opportunities exist to expand the dashboard metrics by including performance measures that would evaluate efficiency, effectiveness, timeliness and accuracy.

Recommendations:

- A. Revise procedures to require retention of interim modifications and deletions of templates for wire transfers and ACH payments for five fiscal years after termination of service agreements or authorizations as required by Florida General Records Schedule GS1-SL (Item #264).
- B. Establish procedures to verify whether a payee or beneficiary is an active vendor in the Advantage financial system prior to initiating wire transfers/ACH payments or modifying templates. Periodically review the Pre-Authorized Wire Transfer and ACH Payment List to verify that all beneficiaries are active vendors in Advantage.
- C. Establish procedures for preparing and using the estimated balance worksheet and the Cash Management dashboard of operating measures.
- D. Consider expanding the dashboard metrics by including performance measures that would evaluate efficiency, effectiveness, timeliness and accuracy.

Management Responses:

- A. Management agrees with the recommendation; however, Revenue and Cash Management already retains the Wells Fargo security forms and supporting documentation associated with all changes and deletions of templates. We have incorporated the five (5) fiscal year retention to our procedures (Series 119 and 120). The procedures have been reviewed and approved.
Target Completion Date: Completed

- B. Management does not agree with the recommendations. We have a set of internal requirements that were established to set up a recurring (templates) or non-recurring wires and ACH payments. Additionally, for any modifications or

deletions of a template, an online banking form (provided to Auditors) along with supporting documentation has to be submitted. Please note that for the higher risk disbursements (non-recurring wires, which includes closings), vendors would not be in Advantage, as the posting of these wires are done under a miscellaneous vendor number.

Target Completion Date: N/A

- C. Management agrees with the recommendations. The estimated balance worksheet and dashboard procedures have been completed, reviewed and approved.

Target Completion Date: Completed

- D. As for expanding the dashboard metrics, Revenue and Cash Management has been working on a Performance Measures Program to measure quality, quantity and turn time, which will be implemented once it is completed.

Target Completion Date: 5/31/15