

Sonoma County

Auditor-Controller-Treasurer-Tax Collector

Internal Audit Report

**Follow-up of the
Cash Management Audit:
Auditor-Controller-Treasurer-Tax Collector**

Original Report Dated
August 31, 2017

Engagement No: 4007
Report Date: December 14, 2021



Erick Roeser
Auditor-Controller-Treasurer-Tax Collector

Table of Contents

**Follow-up of the
Cash Management Audit: Auditor-Controller-Treasurer-Tax Collector
Engagement No. 4007**

	<u>Page</u>
Executive Summary	1
Introduction, Background, Objective, Scope & Methodology	2
Prior Recommendations & Current Status.....	4
Appendix A – Report Item Risk Classifications	8

Executive Summary

As part of the 2021/2022 Annual Audit Plan, the Internal Audit Division (IA) of the Sonoma County Auditor-Controller-Treasurer-Tax Collector's Office (ACTTC) conducted a follow-up audit of the Cash Management Audit dated August 31, 2017.

The two objectives of that audit were to determine if the County's 1) cash investment activities were optimizing asset growth and 2) cash collection and handling controls at departments adequately secure all cash collected and mitigate untimely deposit risks.

The original report contained eight recommendations which were accepted by management. Out of these eight recommendations:

- 2 have been partially implemented
- 5 have been implemented and
- 1 has not been implemented

The objective of this follow-up audit is to determine the status of implementation of the audit recommendations. Further discussion is provided on page 3.

Introduction, Background, Objective, Scope & Methodology

Introduction

We conducted the follow-up audit in accordance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*. These Standards require that we identify, analyze, evaluate, and document sufficient information and evidence to achieve audit objectives. We believe that the evidence obtained provides a reasonable basis for the conclusions contained in our audit report. The Standards require that we establish a follow-up process to monitor and ensure that management has effectively implemented actions or that senior management has accepted the risk of not taking actions. We conducted this follow-up audit from August 2021 through September 2021.

Background

The Treasurer serves as the depository for all funds belonging to the county, school district, and some special districts within the county. These entities rely on the County Treasurer to provide them with the daily liquidity needed to carry out their respective businesses. Operating primarily under the Government Code, the Treasurer receives, deposits, and manages investments of \$3.1 Billion for the fiscal year ended June 30, 2021, generated from taxes, fees, grants, and bond proceeds. For the fiscal year ended June 30, 2021 approximately \$22 million in interest earnings were apportioned to pool participants. The Treasurer oversees all banking operations for the County and its Departments. In addition, the Treasurer is responsible for the issuance of county debt obligations which support a variety of projects and other county financing needs. The ACTTC is responsible for setting policies and procedures over the collection, deposit and investment of cash for County departments and certain special districts.

In Sonoma County, the Treasurer-Tax Collector and the Auditor-Controller functions are combined and assigned to the elected Auditor-Controller-Treasurer-Tax Collector (ACTTC).

Throughout the County various departments receive cash (physical currency and checks) for services performed or taxes due in person and via mail.

California Government Code Section 27000 states, "...the county treasurer shall receive and keep safely all money belonging to the county..."

The County departments are required to receive, record and safeguard all cash collected in accordance with policies and procedures prescribed by the ACTTC and transport the collection to the Treasury. The Treasurer, as required by law, receives, safeguards and deposits all funds submitted by the departments. In addition, the Treasurer is responsible for investing and safeguarding all funds in their custody.

The Treasury staff ensure the total collection submitted by the department for deposit agrees with the total recorded in the County's Enterprise Financial System (EFS) by the department. Monthly, the total cash and investments held by the Treasury is reconciled with the total cash recorded in EFS.

The Investment and Debt Officer is responsible for investing excess cash, ensuring there are sufficient funds available to pay for the county's obligations as they come due. The Investment and Debt Officer is restricted to purchase only those types of investments that are allowed by the County's investment policy and the law. An audit is conducted annually to provide assurance that the Treasurer complied with such requirements of the investment policy and the law. The three main objectives of the investment policy are:

Introduction, Background, Objective, Scope & Methodology

1. **Safety of Capital** – The preservation of capital is the primary objective. Each transaction shall seek to ensure that capital losses are avoided, whether they be from securities default or erosion of market value.
2. **Liquidity** – As a second objective, the Pooled Investment Fund should remain sufficiently flexible to ensure the County Treasurer meets all operating requirement, which may be reasonably anticipated in any depositor’s fund.
3. **Maximum Rate of Return** – As the third objective, the Pooled Investment Fund should be designed to attain a rate of return through budgetary and economic cycles, consistent with the risk limitations, prudent investment principals and cash flow characteristics identified.

Objective

The objective of this follow-up audit was to determine the status of implementation of the recommendations contained in the Cash Management Audit: ACTTC dated August 31, 2017 and, where applicable, the impact of actions taken by management.

Scope & Methodology

Our procedures were limited to reviewing evidence supporting actions taken by the ACTTC, as of August 31, 2021, towards implementation of the report recommendations. To accomplish our audit objectives, we reviewed:

- ACTTC updated Cash Handling Policy,
- Annual department certifications and tracking documentation,
- Bank collateralization letters,
- Treasury Investment Cash flow and related analysis documents,
- Continuity of Operations Plan documentation,
- Disaster recovery testing documentation
- Plant sales invoice and deposit tracking spreadsheet.

We also conducted interviews with the ACTTC management, Sheriff’s Office Accounting and Jail Industries staff.

Prior Recommendations and Current Status

The following is a discussion of the status of implementation of the prior audit report recommendations.

Recommendation 1 – Risk Classification B – Significant Control Weakness

Additional resources should be allocated to investment management to optimize the investment of assets and better safeguard principal.

In order to perform the recommended additional procedures including implementing a more actively managed approach to the investment pool, detailed cash flow and credit analysis, it is recommended the ACTTC add one full-time position so that a Manager is primarily dedicated to the management of the investment pool. Also, it is critical that investment activities be continued during any unanticipated absence of the Manager in order to avoid coverage risk. Therefore, it is also recommended that the ACTTC continue to employ some combination of a second FTE to provide support and back up for the investment function to mitigate coverage risk and support the Manager.

A detailed cash flow forecast should be developed and maintained to ensure adequate liquidity while maximizing cash available for investing.

The Manager should perform necessary credit analysis to supplement any reports received from outside analysts.

Status – Implemented

The ACTTC dedicated the existing Investment and Debt Officer position solely to work on the day to day investment activity for the Treasury Pooled Investment Fund. This position was filled in mid-2019. The new Investment and Debt Officer, created a detailed cash flow forecast which is used on a daily basis to monitor daily cash flows and funds available for investing. A credit policy has been drafted and is revisited periodically and is adjusted accordingly as market conditions warrant.

Recommendation 2 – Risk Classification C – Control Finding

At least annually the ACTTC should require the County departments and special districts under its jurisdiction to confirm that they have disclosed all bank accounts they opened. ACTTC should periodically confirm with the departments that they have disclosed all bank accounts under their control.

Status – Implemented

The ACTTC began sending annual outside bank account requests to County Departments and Special Districts where the Sonoma County ACTTC is the acting Treasurer. The annual request includes a copy of the ACTTC's cash handling policy C-6 and a line for departments and special districts to certify that they complied with the ACTTC's cash handling policy. The ACTTC maintains a log to track which departments and special districts have returned the annual cash handling certification and bank account request form. Some departments, agencies and special districts did not return signed certification forms, the ACTTC should follow up with non-responders.

Prior Recommendations and Current Status

Recommendation 3 – Risk Classification B – Significant Control Weakness

Safeguarding of County Assets Needs improvements.

a.) Timely Deposit of County Assets:

The ACTTC should do the following as part of rolling out the revised cash handling policy:

- 1) Send out the revised cash handling policy to departments on an annual basis.
- 2) Review and update the cash handling policy annually as necessary.
- 3) On a case by case basis, the Treasury Manager should approve department requests to be granted exception to the policy requirements. The exception should be based on business needs described by the department and add controls to address increased risk of noncompliance with the policy.

b.) Combination to the safe:

The ACTTC should collaborate with departments/agencies/offices to develop greater awareness of the cash handling risks and policies for those individuals involved in handling cash. At a minimum the ACTTC and affected departments should develop a documented process to ensure employees involved in cash handling provide written confirmation that they have read and will comply with the County cash handling policy.

c.) Safe and secure transportation of cash collected:

As required by the revised county wide Cash Handling Policy updated and distributed on June 30, 2017, departments should assign two employees when large amounts of cash is transported. The County policy should be periodically communicated to the departments.

Status - Partially Implemented

The ACTTC updated cash handling policy C-6 requires departments to periodically change the combination to safes used to store cash. The policy also requires departments to establish procedures for safely transporting cash, such as having a second employee or a security officer accompany the employees transporting large amounts of cash. The departments and special districts are required to certify annually that the policy is in place.

Although the revised Cash Handling Policy has been communicated to departments, some continue to send large cash deposits with one employee. There remains an increased risk of robbery resulting in loss of cash and potentially unsafe conditions for the employee(s) assigned to transfer deposits to the Treasury.

Prior Recommendations and Current Status

Recommendation 4 - Risk Classification C – Control Finding

Documentation of evaluation of banking agreements.

Treasury management should continue to evaluate the agreements with the banks when they are renewed/extended or at least every two to five years and move forward with plans to conduct an RFP.

Status – Not Implemented

The Bank of America contract was renewed on 7/1/2018 with an expiration date of 6/30/21 and the opportunity for two (2) one-year extensions thereafter. The ACTTC extended the Bank of America contract until 6/30/22. There has been no change in the Exchange Bank Agreement since the prior audit report. Treasury management stated that they are not staffed to handle a major bank conversion and so conducting an RFP is not appropriate. By not documenting evaluation of banking agreements and not putting banking contracts out to bid on a periodic basis, it is difficult to determine if the County is missing out on technological advances and other changes to the financial services industry that could benefit County departments and pool participants. We are also unable to determine whether the County is over paying for banking services due to the lack of competition.

Recommendation 5 - Risk Classification C – Control Finding

Monitoring the collateral maintained by the banks

Treasury management should periodically confirm that the banks the County utilizes have maintained the required market value of assets/securities as required by law.

Status – Implemented

Treasury management requested collateral letters from Bank of America and Exchange Bank certifying that they are maintaining the proper level of collateral. The last letter from Bank of America was received on 12/31/19 and on 12/2/20 from Exchange Bank.

Recommendation 6 - Risk Classification C – Control Finding

Computer Access Reviews

The Treasury should periodically conduct reviews of user access rights using a formal process. User access rights should be reviewed or reallocated after any job changes, such as transfer, promotion, demotion or termination of employment. Authorizations for special privileged access rights should be reviewed independently at more frequent intervals.

Status – Implemented

The Treasury maintains a log for online banking access with the name of the individual, the bank account for which they have access, the reason why they have access and who their department manager is. On an annual basis the Treasury reviews the online banking access log, and removes individuals who not are required to have access.

Prior Recommendations and Current Status

Recommendation 7 - Risk Classification C – Control Finding

Comprehensive Business Continuity and Disaster Recovery.

ACTTC management should work with ISD to develop a comprehensive Business Continuity Plan (BC Plan) with all IT systems administered by ACTTC personnel (Note, This BC Plan should be incorporated with the overall County ISD BC Plan as ISD resources will be working with all County Departments). The Business Continuity Plan should include:

- A list of all IT systems administered by ACTTC. The list should be prioritized to ensure most critical systems are up and running first in the case of a disaster. The amount of time it will take to bring each system online should be estimated and the impact on business continuity should be assessed.
- Business Impact Analysis. The lengths of time the operating units will be able to work off line should be estimated and the issues that will arise as a result. The plan should address these issues and provide for appropriate level of resources.
- Disaster Recovery Testing – each system listed should be tested annually to ensure recovery is possible and efficient.

Status – Partially Implemented

The ACTTC has nine Divisions, four (4) of the Divisions created Continuity of Operations Plans (COOP) which effectively serves the purpose of a business continuity plan. Enterprise Financial System (EFS), Property Tax, Revenue and Accounting, and Treasury Division’s provided COOP documents. The COOP documents for the remaining five (5) Divisions are being revised and were not available for review. For the COOP documents provided, they listed all IT systems administered by the respective Division, the list of systems includes how many days of downtime is acceptable, this information is used to prioritize which systems are most critical and should be restored first.

Disaster recovery testing was performed on the EFS PeopleSoft, C-Series and OnBase systems in February, May and August of 2020 and again in August in 2021. This disaster recovery testing took place remotely on a server located at the County’s designated off-site location. The testing documentation included descriptions of testing performed, results and issues needing to be corrected. Disaster recovery testing was not performed for the other IT systems administered by the ACTTC. Multiple disasters over the past 4 years have resulted in staff having limited or no access to work in the ACTTC office for variable lengths of time, during these times staff successfully maintained continuity of operations and administered a number of systems remotely over the County’s network.

Recommendation 8 - Risk Classification C – Control Finding

Segregation of incompatible cash collection functions

Implement proper controls over the plant sale cash collection and deposit process at the North County Detention Facility. A second person (the program sergeant) should account for all receipts issued and ensure that total collection per receipts issued agrees with total being deposited. As part of this process, the second person should ensure that all copies of voided receipts are retained.

Status –Implemented

The sergeant in-charge or his/her aid uses an invoice tracking spreadsheet to account for all receipts/invoices issued and confirms that the amount from all receipts/invoices agrees with the total being deposited. Sheriff’s Accounting also reviews the invoice tracking spreadsheet and follows up on voided or missing receipts/invoices.

Appendix A – Report Item Risk Classifications

For purposes of reporting audit findings and recommendations, audit report items are classified into three distinct categories to identify the perceived risk exposure:

- **Risk Classification A: Critical Control Weakness:**
Serious audit findings or a combination of Significant Control Weaknesses that represent critical exceptions to the audit objective(s), policies, and/or business goals of a department/agency or the County as a whole. Management is expected to address Critical Control Weaknesses brought to their attention immediately.

- **Risk Classification B: Significant Control Weakness:**
Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses generally will require prompt corrective actions.

- **Risk Classification C: Control Findings:**
Audit findings concerning internal controls, compliance issues, or efficiency/effectiveness issues that require management's corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process.