

*Internal Audit Report*

LCCC  
Cash Management and Investment



**Report Number:** 2017.07  
**Date:** September 1, 2017



## Audit of LCCC

### Cash Management and Investment



To: The Honorable Linda Doggett, Lee County Clerk of the Circuit Court & Comptroller

From: Tim Parks, Chief Internal Audit Officer/Inspector General

Date: September 1, 2017

Re: Audit of LCCC Cash Management and Investment

Dear Ms. Doggett,

The Inspector General Department (IG) has completed an audit of the Lee County Clerk of Circuit Court & Comptroller (LCCC), Cash Management and Investment Office (CMI). Mabel Febles, CIGA, Internal Auditor, and Lihong Xia, CPA, Internal Auditor completed this review.

This audit activity conforms to the Institute of Internal Auditor's (IIA) *International Standards for the Professional Practice of Internal Auditing (Red Book)* and the Association of Inspectors General (AIG) *Principles and Standards for Offices of Inspector General (Green Book)*.

The audit client's response is attached to this report. We wish to express our appreciation for the cooperation and assistance provided us by management and staff during this review.

This report will be posted to the LCCC website, [www.leeclerk.org](http://www.leeclerk.org), under Inspector General Audit Reports. A link to this report has been sent to the appropriate parties.

Should you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in blue ink that reads "Tim Parks".

Tim Parks, Chief Internal Audit Officer/Inspector General  
Inspector General Department

TJP/GK



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### Executive Summary

The Lee County Clerk of Circuit Court & Comptroller's (LCCC) 2017 Annual Audit Plan included an audit of the Cash Management and Investment Office (CMI) within the Finance & Records Department.

The CMI Office's risk factors were identified in a risk assessment questionnaire that was completed by department management. An Entrance Conference was held with management to discuss the results, confirm the audit's objective and scope, and to solicit current information regarding risks.

The audit objective was to determine if effective internal controls are in place, evaluate the effectiveness and efficiency of the cash management processes, and to determine if the office is in compliance with applicable laws, regulations, policies and procedures.

A number of tests were performed, including the review and analysis of:

- BOA CashPro user authorization and monitoring process
- Wire transfer verification and approval process
- The investment tracking system portfolio balance compared with general ledger financial figures
- Liquid investment calculation to determine sufficiency of funds for daily operations
- Document retention schedule compliance

Our conclusion is that the Cash Management & Investments Office employees are performing their duties in a satisfactory manner. They appear to be adequately trained and appropriately certified to perform the work. We offer recommendations to add value and potentially enhance the efficiency and effectiveness of CMI's processes and controls.

CMI has effective internal controls related to the approval of wire transactions, making investments, and monitoring the cash balances for various bank accounts to ensure sufficient cash for operations. However, enhancements pertaining to the monitoring of BOA's banking system user's access rights and settings should be implemented. Not all important internal controls and revision dates are included in the existing written policies and procedures. CMI is in the process of updating the written policies and procedures. While in the updating process, we recommend that the latest revision dates be included and all internal controls and procedures be incorporated in writing.

During our review of records retention management, we relied on a retention schedule list provided by CMI and identified that the retention of two reports didn't agree with the supplied retention schedule list. At the Exit Conference, it was mentioned that the supplied retention schedule list was no longer applicable. Since there were different interpretations of



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the retention period as represented by the two reports that were unresolved at the Exit Conference discussion, we recommend that CMI consults with the Chief Records Officer to review and validate the applicable record retention documents categorization to ensure compliance with Florida's GS1-SL Retention Schedule.

### Background

The Cash Management and Investment Office is an office within the Lee County Clerk of Court & Comptroller's Finance & Records Department. The functions that CMI performs for the LCCC, Lee County Board of County Commissioners (BOCC), and Lee County Port Authority (LCPA) include:

- Preparing deposits
- Recording the purchase and sale of investments
- Negotiating the banking arrangements, including a custodial bank for the BOCC and LCCC
- Distributing all interest income and interest coupons
- Preparing and recording the electronic transfers of funds
- Monitoring the various accounting funds for cash and budget availability prior to the release of any payment or transfers
- Administering the internal fund loan system that tracks the loaning of monies from one fund to another
- Generating statements, preparing invoices and applying payments through the LCCC's accounts receivable system
- Managing distributions and investment of daily cash
- Managing banking services for BOCC, LCPA, and LCCC
- Recording revenues/deposits on behalf of BOCC, LCPA, and LCCC

The CMI office currently has four employees. They are in the process of being cross trained to perform multiple duties. CMI works with the LCCC's General Accounting Office within the Finance & Records Department on approving wire transactions, and works with the Investment Committee on making investment decisions.

CMI manages outgoing wires and maintains the investment portfolio. During May 2017, CMI processed approximately \$268.7 million of outgoing wire transactions. As of May 23, 2017, CMI oversaw approximately \$1.2 billion in total investment portfolio that included LCPA and BOCC funds. By following the Investment and Portfolio Policies, money is moved or invested to meet the entities' obligations and needs.



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### Objective, Scope, and Methodology

The audit objective was to determine if effective internal controls are in place, to evaluate the effectiveness and efficiency of the cash management processes, and to assure that the department is in compliance with applicable, laws, regulations, and written procedures.

The audit scope focused on the Cash Management operational activities including:

- Reviewing the creation process of wire transfers and Automated Clearing House (ACH) transactions. We limited examination to CMI's wire approval process post receipt of the authorized wire request from the originating departments. The test did not include the requesting departments' original wire authorization process.
- Assessing whether adequate wire transfer and ACH internal controls are in place.
- Determining whether transactions involving liquid investments are sufficient in order to meet daily cash requirements as well as investment strategy.
- Assuring that proper record retention procedures are in place.
- Documenting that bank user access and authorization controls are in place.
- Determining that investment brokers are selected in compliance with regulations, policies, and procedures.
- Ensuring that there is sufficient staff coverage that includes adequate segregation of duties.

The audit methodology is comprised of four steps:

- Preliminary Risk Assessment: A meeting was held with management to discuss the audit objective and scope and to solicit information regarding risks.
- Planning: Audit procedures were developed based upon research, audit objective, scope, and the preliminary meeting.
- Field Work: Managers and employees were interviewed for insight on the operations. Evaluations and tests were conducted on operations and procedures to address and complete the audit fieldwork.
- Wrap-up: An Exit Conference was held with management to discuss the audit results.

### Observations and Recommendations

#### *BOA CashPro Authorized Users List and Settings*

A test of the current "Authorized User's List" for BOA's CashPro system was conducted, and it was noted that the list is not fully updated. For example, a terminated employee was included on the list, and another employee was inactive for more than two years.



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According to the General Records Schedule GS1-SL for State and Local Government Agencies, Access Control Records (Item #189), records pertaining to employees' permission records have a retention period of "1 anniversary year after superseded or access rights terminated."<sup>1</sup>

As a best practice, we identified the following: *"The user access review process should include an employee that is independent of the system administration role for each IT system to verify that an administrator is not assigning excessive privileges to users or creating hidden accounts to use for illicit activities."*<sup>2</sup>

There are no written procedures on how each user's access rights and settings are monitored and how requests for adding or deleting an authorized user are handled. Changes to employee access are not made unless the affected department makes a written request. Currently the requests are not retained. The purpose for retaining the original request from the department pertaining to any changes of the user's authorized rights and privileges, is to prevent the assignment of excessive privileges to users.

*"Failing to perform user access reviews on a regular basis will place the organization at a higher risk for:*

- *A terminated employee gaining remote access to the network (i.e. bank system)*
- *Segregation of duties issues if an employee moves to a new department, but retains system privileges from the previous department"*<sup>3</sup>
- Unauthorized usage and dissemination of information by users that should be inactivated from the system

Failure to review user's access settings periodically could lead to:

- A higher risk in securing and protecting the privacy of the data
- An increased risk of user's abusing their access rights

Recommendations:

We recommend that:

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<sup>1</sup> State of Florida GENERAL RECORDS SCHEDULE GS1-SL. (August 2017). Retrieved from <http://dos.myflorida.com/media/693576/gs1-sl-2017-final.pdf>

<sup>2</sup> From The Importance of User Access Reviews, by: Mike Detrow, CISSP, Senior Consultant and Manager of IT, <http://www.younginc.com/the-importance-of-user-access-reviews/>

<sup>3</sup> Ibid.



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- CMI creates and documents a method of communicating with other departments when it comes to updating the status of the authorized users
- The BOA CashPro Authorized User's list be periodically reviewed and updated when changes occur, and that permission records supporting the changes are retained for one year. The user access review process should include segregation of duties between the reviewer and the person that conducts the updates in the BOA CashPro system
- User settings for banking system be reviewed to ensure access settings are customized to each user's job functions

#### ***Wire Approval Process (Cash Workpaper)***

The January 2017 cash workpapers were tested on a sample basis. This test proved that there are adequate controls in place as evidenced by the approvers catching two wire entry errors, (i.e. a different amount and a different recipient bank account from the requested data). However, there are no written procedures detailing how the approvers should check the wire orders to ensure consistency and continued effectiveness of the review process.

“Well written policies and procedures increase organizational accountability and transparency and become fundamental to quality assurance and quality improvement programs.”<sup>4</sup>

Recommendation:

We recommend that the existing informal procedures be formalized to ensure the approval process is consistent.

#### ***Record Retention***

According to the LCCC's Public Records Access Policies and Procedures, section 6.0 of “Records Management and Retention”; “*The Lee County Clerk of Circuit Court Office follows the Florida Department of State Division of Library and Information Services General Records Schedules. Specifically: GS1-SL State and Local Government Agencies.*”

During our review of records retention management, we relied on a retention schedule list provided by CMI and identified that the retention of two reports didn't agree with the supplied retention schedule list. At the Exit Conference, it was mentioned that the supplied retention schedule list was no longer applicable.

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<sup>4</sup> Fritz, V. (2013, July 24). Policies and Procedures: First to be ignored, last to be updated. Retrieved from <http://www.vonyaglobal.com/internal-audit/knowledge/policies-procedures-ignored-updated/>





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### Recommendation:

Since there were different interpretations of the retention period as represented by the two reports that were unresolved at the Exit Conference discussion, we recommend that CMI consults with the Chief Records Officer to review and validate the applicable record retention documents categorization to ensure compliance with Florida's GS1-SL Retention Schedule.

To: Tim Parks, Chief Internal Audit Officer/Inspector General

Through: Terry Mallow, Chief Financial Control Officer

From: Sean Congero, Cash Management & Investments Manager

Date: August 29, 2017

Re: Audit of Lee County Clerk of the Circuit Court & Comptroller Cash Management & Investments Department

The following Internal Audit recommendations are the only items commented on over broad subject matter during a five month audit review, therefore I feel confident that the internal controls of the Cash Management and Investments Office are performing as designed for multiple high risk functions.

## **BOA CashPro Authorized Users List and Settings**

The users referenced by Internal Audit on an “Authorized List” were not assigned access to process payments, initiate wires, release wires, or move money in the banking system. The users were granted read-only privileges in CashPro that provided access to report information. This is an important distinction as the County was never placed at risk for theft, misappropriation of funds or fraud which would have constituted a material weakness in Internal Controls in regards to user access<sup>1</sup>. User access to any functionality that could increase these risks is strictly controlled as outlined by the Cash Management and Investments Office’s Bank and Investment Accounts Policy. Any employee in the Finance Department granted this level of access is immediately deactivated and deleted from CashPro as necessitated by transition of duties or separation from the entity. When we receive a weekly Term Log requesting system access be removed, we follow suit and remove the exiting employee’s CashPro access.

During the audit the accesses in question were immediately reviewed and appropriate action was taken to resolve any issues. Furthermore, during the audit additional steps were implemented to strengthen processes related to CashPro user access. A user access form was developed to document Department requests and maintain appropriate records. Procedures for CashPro user access were also finalized and include; 1) the process involved in reviewing and granting user access, 2) an annual review and confirmation of existing users and their respective accesses at the beginning of each fiscal year, 3) periodic reviews of CashPro user profile and entitlement reports to monitor the status of user activity, and 4) a weekly check of CashPro users against the employee Term Log that lists transfers and separations.

Though regular monitoring and review has always been an ongoing aspect of CashPro user access, the Cash Management and Investments Department has already completed and further strengthened the written procedures that outline the internal controls for this process.

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<sup>1</sup> From Internal Controls Over Cash Management and Banking Activities, by: Office of the Inspector General, Smithsonian Institution, <https://www.si.edu/Content/OIG/Audits/2006/M-06-01.pdf>

Lastly, I believe it is prudent to point out that the footnoted article “The Importance of User Access Reviews” being used as a best practice reference is from the viewpoint of the Federal Financial Institutions Examination Council's (FFIEC) and relates to user access granted within all of the IT systems in use at a financial institution. Therefore these user access references should be considered in the context of that type of setting rather than the limited end user access environment that exists for general users in Bank of America CashPro, which is simply a banking platform.

## **Wire Approval Process (Cash Workpaper)**

We see no value in creating a procedure for a process that involves high level professional employees who, by virtue of their positions within the organization, are expertly versed and skilled in how to perform a review of wire transfers. We do hands-on, in-person training with new reviewers. A clerk would never be asked to review wires thereby a written procedure for that purpose in nonsensical.

The two instances noted in the report are evidence that our existing review system works as intended. At no time during my tenure has a wire been sent to the wrong entity, which is also a testament to the effectiveness of our existing review process.

## **Record Retention**

The Cash Management and Investments Department strictly adheres to the State of Florida General Records Schedule GS1-SL for State and Local Government Agencies. Therefore, we disagree with the findings as the record retention schedule list that the audit relied on to make its findings of the two reports was not the official GS1-SL Retention Schedule, but simply an internal spreadsheet used as a quick reference tool. The Cash Management and Investments Department is in compliance with the retention periods set forth in the general records schedules for the two reports in question and follows the regulations related to these recordkeeping requirements.