



Wicomico County, Maryland

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Internal Auditor's Report

The County Council and County Executive of Wicomico County, Maryland:

Pursuant to Section 305(D) of the Wicomico County Code and Council Resolution No. 114-2014, the Office of the Internal Auditor (IA) has conducted an Audit of the Wicomico County Banking System. A report is submitted herewith. The purpose of the audit was to determine the adequacy of procedures and controls along with the level of compliance with those procedures and controls for the process of maintaining and controlling cash deposits and disbursement via established banking accounts.

IA conducted the audit with due professional care, and IA planned and performed the audit to obtain reasonable assurance about whether the current banking system practices are in compliance with applicable policies and procedures and whether those policies and procedures are adequate to obtain an acceptable level of control. The audit revealed an inventory system with numerous accounts containing varying degrees of established controls and adherence thereto. IA identifies several findings in subsequent sections of this report that warrant discussion.

IA extends our appreciation to Management and Staff of all Wicomico County Departments for their timely assistance, cooperation, and candid assessment of their banking systems.

Respectfully submitted,

J. Stephen Roser, CPA
Internal Auditor

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Audit Report

Background

Day to day operations of any enterprise involve banking relationships on many levels. Wicomico County must maintain accounts for making deposits, paying vendors, and investing accumulated funds. This exercise attempted to look at the substance and structure of the County's banking procedures and relationships with various banking institutions. Please note that the financial audit performed by our external auditors contains testing of some of the same accounts. We made an effort to avoid duplication of the testing performed during the financial audit. Our audit was operational and focused on efficiency, effectiveness, and internal control.

Audit Objectives

The objectives of the audit were to:

1. Determine the number and type of bank accounts owned by Wicomico County
2. Determine internal control over bank accounts
3. Evaluate adherence to internal controls
4. Evaluate efficiency and effectiveness of the bank accounts owned by Wicomico County

Scope of the Audit

The audit period examined on a test basis was FY 2015 to date. The Scope was open ended. Observations, interviews, and Inquiries with appropriate personnel were conducted. IA examined various documents pertaining to the following:

- Codified rules concerning banking practices
- Bank statements
- Bank statement reconciliations
- Postings, journal entries, and adjustments to MUNIS and other accounting software
- Fund transfers

General Highlights and Statistics

Number of Accounts

We identified twenty-two banking accounts containing County funds under the control of ten County Departments. Another ten Departments surveyed affirmed that they had no banking accounts under their direct control. Breakout of the number of accounts by Department follows:

Department	Number of accounts
Electrical Board	1
Human Resources	1
Planning & Zoning	1
States Attorney	1
Civic Center	2
Solid Waste	2
Corrections	3
Finance	3
Sheriff's Office	3
Recreation/Parks/Tourism	5

Purpose of Accounts

As mentioned in the Background portion of this report, Wicomico County uses banking accounts primarily to pay vendors and accumulate funds. Some Departments find it necessary to create accounts for specific purposes. A list of the range of functions for County banking accounts is as follows:

- General fund
- Institutional investment
- Escrow
- Special loans
- Court functions
- Law enforcement functions
- Box office
- Department-level vendor payments
- Inmate functions
- Convenience deposit accounts
- Employees flex (medical) account

Conclusion

Based on evidence gathered, and interviews performed pursuant to the County Banking System Audit, IA is of the opinion that internal control over banking practices is presently at a satisfactoryⁱ level. That is, persons responsible for banking in Wicomico County are aware of best practices for control of County funds and prevention of fraud. Adherence to internal control, however, varies among County Departments. Some County divisions are at a satisfactory level of compliance with controls, others are presently at a level ranging from adequateⁱⁱ to inadequateⁱⁱⁱ.

Schedule of Findings and Recommendations/Management Response

Materiality Considerations

Materiality varies greatly among the evaluated banking accounts. We evaluated materiality by taking a snapshot of the cash balances (based on the latest bank reconciliations) and developing a range. Common sense dictates that we must consider materiality as a major risk factor. For example, a small account with a \$500 balance should not command the resources devoted to maintaining robust internal control over a multi-million dollar account. The following section of this report addressing internal control considers materiality when scoring adherence to controls.

Internal Control

We assess internal control over banking accounts by evaluating separation of duties including the following factors:

- Signature authority
- Deposit preparation
- Delivery of deposits to the bank
- Bank reconciliation
- Journal entries

Our quantitative scoring range is on a scale of zero to twenty-five including the aforementioned factor for materiality. A score of zero indicates no internal control gaps in the criteria tested and is the best possible score. The twenty-two accounts evaluated scored as follows:

Department	Banking Institution	Account	Score
Finance	Bank of America	XXX1	0
Finance	Bank of America	XXX9	0
Solid Waste	Bank of America	XXX1	0
Human Resources	M&T Bank	XXX5	0
Finance	PNC Bank	XXX6	0
Solid Waste	PNC Bank	XXX4	0
States Attorney	PNC Bank	XXX8	0
Corrections	M&T Bank	XXX4	1
Planning & Zoning	First Shore Federal	XXX8	2
Corrections	M&T Bank	XXX1	2
Recreation/Parks/Tourism	PNC Bank	XXX2	2
Corrections	M&T Bank	XXX8	3
Electrical Board	PNC Bank	XXX5	3
Civic Center	PNC Bank	XXX8	3
Sheriff's Office	Farmer's Bank of Willards	XXX4	4
Sheriff's Office	Farmer's Bank of Willards	XXX4	4
Sheriff's Office	Farmer's Bank of Willards	XXX8	4
Recreation/Parks/Tourism	Bank of America	XXX2	5
Recreation/Parks/Tourism	PNC Bank	XXX4	5
Recreation/Parks/Tourism	PNC Bank	XXX2	5
Recreation/Parks/Tourism	PNC Bank	XXX6	5
Civic Center	PNC Bank	XXX5	5

We suggest management review accounts that scored three or four in effort to compensate for gaps in internal control and/or accept the risk (if appropriate) based on review criteria. Additionally, we suggest that management consider immediate remedial action to augment controls for accounts that scored five. IA can provide a list of accounts with specific information concerning gaps in control to management upon request. In addition to internal control, management may want to assess the needs and purpose of all accounts (from an efficiency and effectiveness standpoint) in effort to reduce the number of banking accounts.

Management Response

There are five accounts for Recreation/Parks/Tourism and two accounts for the Civic Center. Four of the Recreation/Parks/Tourism accounts were considered high risk (score of 5), while the two Civic Center Accounts scored a 5 and a 3. The following information describes the issues and some of the changes that will be implemented related to the accounts to help mitigate the risk.

Recreation/Parks/Tourism – BOA account – score 5

This is the main operating account for all Recreation, Parks and Tourism check deposits. Cash deposits go directly into the BOA account maintained by GOB – Finance. This account has a high score due to its account balance, thus increasing materiality. The balance in this account gets moved to the General Fund bank account on a periodic basis. To avoid the growth in this account and to lower the materiality, staff will implement a quarterly transfer of funds from the Recreation/Parks account to the General Fund account. This will lower the balance and mitigate the risk.

Additionally, all journal entries are approved by GOB – Finance and all reconciliations are submitted to GOB – Finance. These are additional mitigating controls.

Recreation/Parks/Tourism – PNC accounts (3) – score 5 (for each of them)

For these accounts the risk is not in the amount that is in account, but that with the limited finance staff at Recreation/Parks/Tourism, one person has historically had all responsibility for each account. This meant they prepared deposits, took deposits to the bank, completed all journal entries, completed reconciliation and have signing authority. PNC requires the person who retrieves the bank statements from online to having signing authority, thus reconciliation and journal entries would have to stay with one person. The department will immediately require a non-check signer to prepare and deliver all deposits to the bank on a monthly basis. This reduces the risk from a five to a three. Additionally, there are other controls currently in place – all journal entries related to the bank accounts are approved by GOB – Finance and all bank reconciliations are submitted monthly to GOB – Finance, thus there are already some mitigating controls for the accounts.

Civic Center – PNC Account (xxx5) – score 5

This account is used to maintain an investment account for funds for the Civic Center. The account scores high primarily due to the high balance in the account. The investment account has been set up to only allow transfers from/to the Civic Center PNC checking account. This account maintains the largest balance due to the nature of the account. There are limited changes that can be made based on the limited number of staff in the department and the majority of the score coming from investment balance. To ensure we have sufficient funds on hand to provide for all payments related to shows and events, the balance should not be reduced. Furthermore, the funds belong to the Civic Center Enterprise and thus shouldn't be part of the General Fund. Additionally, no further segregation of duties is possible. The controls of journal entry approval by GOB – Finance and bank reconciliation submittal to the GOB – Finance are already in place. Thus there are back end controls on the account.

Civic Center – PNC Account (xxx8) – score 3

This account is a checking account for funds for the Civic Center. This account is tied to the investment account listed above. The person with reconciliation control over the account does not have any signing authority on the bank account. Additionally, the balance in the account is relatively high, because this account maintains the working cash for the Box Office related to Civic Center events. The mitigating controls on the account besides the segregation of some duties is that GOB – Finance approves all journal entries and they receive all bank reconciliations.

Existence Testing

IA requested information from the five banking institutions employed by Wicomico County concerning the number of accounts, types of accounts, and account signatories. Only two of the five institutions responded (thus far) after numerous inquiries. IA can provide a list to management upon request.

Investment Policy

It is financially advisable to invest cash on hand for numerous reasons that fall outside the scope of this project. Codified State law requires local governments to adopt written investment policies within prescribed guidelines. IA

reviewed the County's policy as well as practice. The Director of Finance oversees investments. Guidelines are very strict concerning types of investments. Objectives in priority order are:

1. Safety
2. Liquidity
3. Return on investment

Permitted investments with permitted fund percentages are as follows:

- Treasuries (100%)
- Local Government Investment Pool (100%)
- Repurchase agreements (90%)
- Certificates of deposit (40%)

Guidelines require external financial auditor review. Page 46 of "Notes to Financial Statements" issued as part of the FY 2014 Financial Statements and Annual Audit Report contains the required information. Wicomico County's available cash is completely invested in the Maryland Local Government Investment Pool.

Auditor's Closing Remark

The Wicomico County Office of the Internal Auditor would like to thank management and staff from all Wicomico County Departments for their timely cooperation and assistance during the audit. IA, with Council's permission and within independence limitations, is willing to devote time and effort to help correct some of these issues. Additionally, unless instructed otherwise by Council, IA plans a follow-up for these findings after ninety days.

ⁱ For the purposes of this audit, IA uses a three-tier grading system recommended by the International Professional Practices Framework (IPPF) as expressed by the IPPF Practice Guide issued March 2009. The three tiers are Inadequate System of Internal Control, Adequate System of Internal Control, and Satisfactory System of Internal Control. Satisfactory findings indicate that overall controls are satisfactory, although some enhancements may be recommended. It is the highest rating on the scale.

ⁱⁱ According to IPPF Practice Guide issued March 2009: "Adequate system of internal control means that findings are subject to reservations. A number of findings, some of which are significant, have been raised. Where action is in progress to address these findings and other issues known to management, these actions may be at too early a stage to allow a satisfactory audit opinion to be given."

ⁱⁱⁱ According to IPPF Practice Guide issued March 2009: "Inadequate system of internal control [means that] findings indicate significant control weaknesses and the need for urgent remedial action."