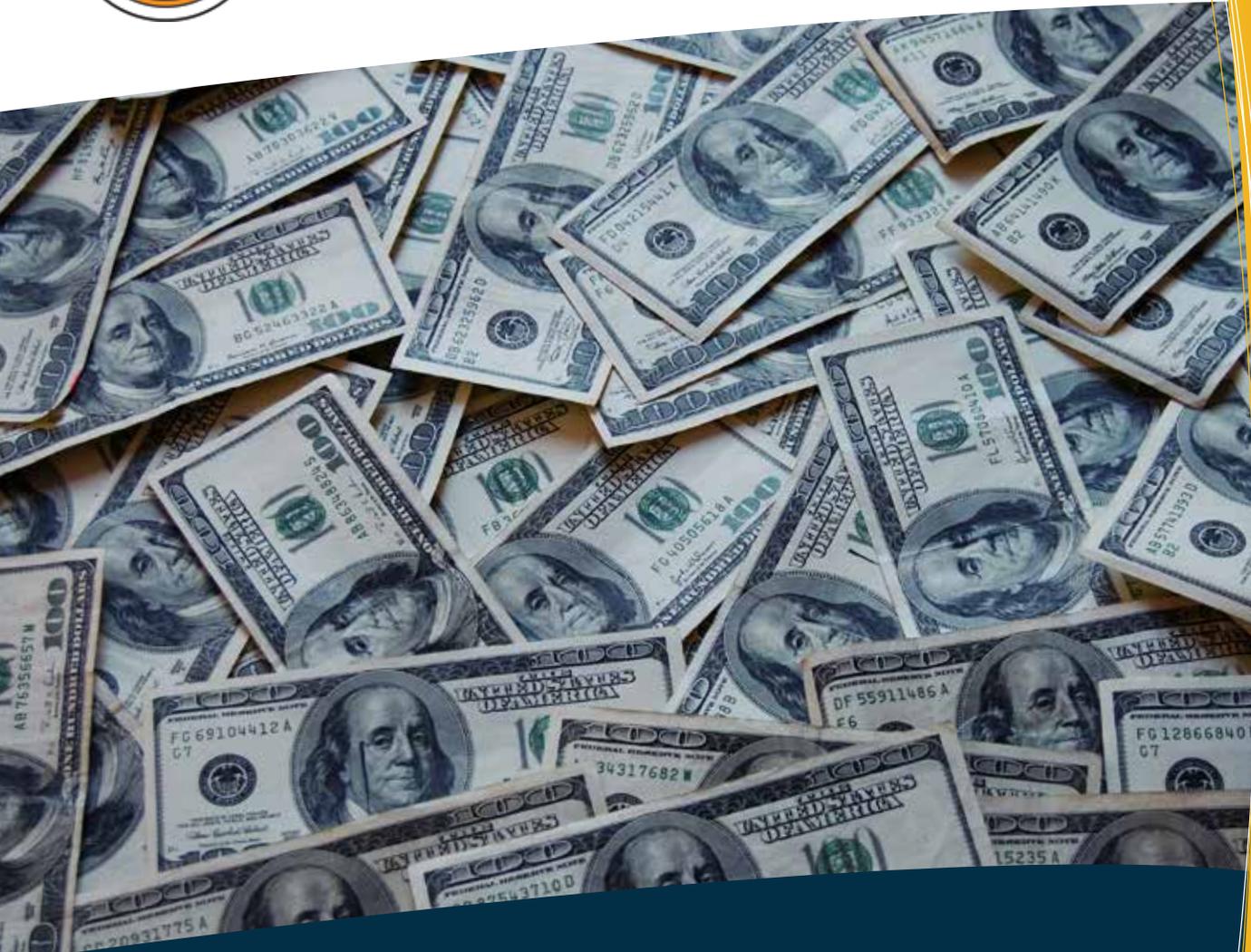




# Orange County Auditor-Controller Internal Audit



Internal Control Audit:  
Treasurer-Tax Collector  
Electronic Funds Transfer Process

As of August 15, 2016

Audit Number 1583  
Report Date: June 13, 2017



O R A N G E C O U N T Y  
**AUDITOR-CONTROLLER**  
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**ERIC H. WOOLERY, CPA**  
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**Transmittal Letter**

**Audit No. 1583**

**June 13, 2017**

**TO:** Shari L. Freidenrich, CPA  
Treasurer-Tax Collector

**SUBJECT:** Internal Control Audit:  
Treasurer-Tax Collector Electronic Funds Transfer Process

We have completed our audit of internal controls over the Treasurer-Tax Collector's electronic funds transfer (EFT) process as of August 15, 2016. Our final report is attached for your review.

I submit an **Audit Status Report** quarterly to the Audit Oversight Committee (AOC) and a quarterly report to the Board of Supervisors (BOS) where I detail any critical and significant audit findings released in reports during the prior quarter and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the AOC and BOS.

Additionally, we will request your department to complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

A handwritten signature in blue ink, appearing to read "Toni Smart".

Toni Smart, CPA, Director  
Auditor-Controller Internal Audit Division

**Attachments**

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Eric Woolery, Auditor-Controller
- Frank Kim, County Executive Officer
- Mark Malbon, Chief Assistant Treasurer-Tax Collector – Treasury
- JC Squires, Financial Manager, Treasurer-Tax Collector
- Foreperson, Grand Jury
- Robin Stieler, Clerk of the Board of Supervisors
- Macias Gini & O'Connell LLP, County External Auditor



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Treasurer-Tax Collector Electronic Funds Transfer Process  
Audit No. 1583*

As of August 15, 2016

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# Internal Auditor's Report

**Audit No. 1583**

**June 13, 2017**

TO: Shari L. Freidenrich, CPA  
Treasurer-Tax Collector

FROM: Toni Smart, CPA, Director  
Auditor-Controller Internal Audit Division

SUBJECT: Internal Control Audit:  
Treasurer-Tax Collector Electronic Funds Transfer Process

## OBJECTIVES

We have completed our audit of internal controls over the Treasurer-Tax Collector's (T-TC) Electronic Funds Transfer (EFT) process as of August 15, 2016. Our audit was conducted in conformance with professional standards established by the Institute of Internal Auditors. The objectives of our audit were to:

1. Ensure appropriate internal controls (manual and IT) for safeguarding EFTs are in effect and operating as intended, by preventing or detecting the unauthorized direction of funds, including properly segregating duties for processing EFTs (manual and application), i.e., no single individual can initiate, approve, and release an EFT.
2. Ensure EFTs processed by the T-TC are accurate (for the correct amount, to the correct bank account, etc.) and valid (properly authorized, processed per documented procedures, etc.).
3. Identify any business process efficiency enhancements related to EFTs.

## RESULTS

**Objective #1:** Our audit found that no single individual could initiate, approve, and release an EFT, and that internal controls for processing EFTs were in effect and operating as intended; however, we identified **two (2) Critical Control Weaknesses**, **one (1) Significant Control Weakness**, and **four (4) Control Findings**.

**Objective #2:** Our audit found that appropriate internal controls for ensuring the validity and accuracy of EFTs were in effect and operating as intended with the following exceptions. We identified **two (2) Control Findings** regarding the need to incorporate a process to validate the authenticity of signatures recorded on county EFT payment request forms and the need to print the names next to signatures recorded on the Department of Education EFT payment request form in order to validate the owner of the signature.

**Objective #3:** Based on our audit, we did not observe any areas where business process efficiency could be enhanced.

**Due to the sensitive nature of the specific findings, the details of the report were presented to a limited audience.**



# Internal Auditor's Report

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## BACKGROUND

The mission of the Office of the Treasurer-Tax Collector (T-TC) is to ensure safe and timely receipt, deposit, collection, and investment of public funds. The department has 91 employees in three divisions (Treasury, Tax & Central Collections, and Investment) and a FY 2016-17 operating budget of almost \$14 million. Related to this audit, the Cash Management unit of the Treasury Division provides bank-related services and relationship management, cash management and forecasting, and financial electronic commerce solutions. It also coordinates electronic payment options via wire, ACH (Automated Clearing House), and intra-bank transfers.

### Electronic Funds Transfers

Electronic funds transfers (EFT) consist of wire transfers, ACH transactions, and intra-bank transfers. The T-TC processed approximately \$24 billion in EFTs between July 2015 and June 2016 as follows:

- Wire transfers (approximately \$5.7 billion) are electronic payments made the same day as the scheduled payment date. Wire transfers are used for accounts payable, payroll, and trust payments for both the County and the Department of Education (DOE).
- Investment wire transfers (approximately \$14.5 billion) relate to investment purchases performed by the T-TC on behalf of the pooled and non-pooled participants, including the County and Educational participants.
- ACH (approximately \$839 million) payments are electronic payments that settle one day after being processed. ACH payments are used for accounts payable, trust payments, state payroll taxes, sales taxes, and landfill taxes.
- Intra-bank transfers (approximately \$3 billion) are transfers between the various bank accounts managed by the T-TC including the County and DOE.

### Prior Audit Coverage

A report on Internal Control Audit: Auditor-Controller's and Treasurer-Tax Collector's \$22 Billion Electronic Funds Transfer Processes for the period March 1, 2008 through March 31, 2010, Audit No. 2821, was issued on October 14, 2010.

## SCOPE AND METHODOLOGY

Our audit was as of August 15, 2016 and included:

1. Only EFT transactions.
2. Only processes at the T-TC.
3. Internal controls (system and manual) for administering and monitoring EFTs around applications directly involved in the EFT process.



# Internal Auditor's Report

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## Scope Exclusions

Our audit did not include any of the following:

1. EFT request/authorization and processing by other departments as well as any downstream reviews/reconciliations processed by departments other than the T-TC.
2. Reviewing check and other disbursement methods.
3. Reviewing IT general controls related to the EFT process.
4. Testing of certain controls and processes concerning vendor table set-up, invoice approval due to prior audits performed by the former Internal Audit Department, and areas of the T-TC processes covered by the A-C's audits of the Treasury function.
5. Examining controls over interface files (e.g., Social Services Agency, Health Care Agency, T-TC, A-C Tax, Child Support Services), except for our review of EFT file security if the department uses the FTP server located at the OC Enterprise Data Center.
6. Reviewing CAPS+ user access profiles.

## FOLLOW-UP PROCESS

Please note we have a structured and rigorous **Follow-Up Audit** process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). Our **First Follow-Up Audit** will generally begin at six months from the official release of the report. A copy of all our Follow-Up Audit reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution list.

The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our **Second Follow-Up Audit** will generally begin at six months from the release of the first Follow-Up Audit report, by which time **all** audit recommendations are expected to be addressed and implemented. At the request of the AOC, we are to bring to its attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at its next scheduled meeting for discussion.

A **Follow-Up Audit Report Form** has already been provided to your department and should be completed as our audit recommendations are implemented. When we perform our first Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed form to facilitate our review.

## MANAGEMENT'S RESPONSIBILITIES FOR INTERNAL CONTROLS

In accordance with the Auditor-Controller's County Accounting Manual Section S-2 Internal Control Systems: "All County departments/agencies shall maintain effective internal control systems as an integral part of their management practices. This is because management has primary responsibility for establishing and maintaining the internal control system. All levels of management must be involved in assessing and strengthening internal controls." Control systems shall be continuously evaluated by Management and weaknesses, when detected, must be promptly corrected. The criteria for evaluating an entity's internal control structure is the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework.



# Internal Auditor's Report

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Our Internal Control Audit enhances and complements, but does not substitute for the T-TC's continuing emphasis on control activities and self-assessment of control risks.

## **Inherent Limitations in Any System of Internal Control**

Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in the T-TC's operating procedures, accounting practices, and compliance with County policy.

The Auditor-Controller Internal Audit Division is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations.

## **ACKNOWLEDGEMENT**

We appreciate the courtesy extended to us by the personnel of the Treasurer-Tax Collector and Auditor-Controller during our audit. If you have any questions regarding our audit, please contact me directly at (714) 834-5442, or Scott Suzuki, Assistant Director, at (714) 834-5509.



# Detailed Findings, Recommendations, and Management Responses

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**Finding Nos. 1, 2, 3, 6, 7, and 8** were removed from this report version due to the sensitive nature of the specific findings. T-TC management concurred with each of these recommendations.

## **Finding No. 4 – EFT Payment Form Signatures Not Validated (Control Finding)**

Based on our walkthrough observation and interviews, we found that authorization signatures recorded on the County EFT payment request forms were not validated to verify authenticity of signatures, prior to processing EFT payments. We found the T-TC relies on A-C internal controls pertaining to County signature validation prior to processing EFT payment request; however, County signatures on the Department of Education EFT forms were verified.

### **Recommendation No. 4:**

We recommend that T-TC maintain a wire transfer authorized signature document log in order to appropriately cross-reference and validate authenticity of signatures on the EFT payment request forms prior to processing payments.

### **Treasurer-Tax Collector Management Response:**

**Concur.** TTC Management will establish an authorized EFT signature document log and verification process for Auditor-Controller signatures similar to that used for the Department of Education signature verification prior to processing EFT payments.

## **Finding No. 5 – Requestor Name Not Printed on EFT Request Forms for the Department of Education (Control Finding)**

For school wire payment requests, our audit found that the requestor and approver do not print their names next to their signatures on the School Wire Request forms. As a result, it was difficult to validate the signature's owner.

### **Recommendation No. 5:**

We recommend that the Schools Wire Request form should be modified to include a section for employees to print their names next to their signatures for ease of verifying the signature's owner.

### **Treasurer-Tax Collector Management Response:**

**Concur.** TTC Management added a line for printed names to the Department of Education Wire Request Form.

## **Finding No. 9 – T-TC Suite Physical Access Controls (Control Finding)**

Our walkthrough observation found that the entry door to the T-TC suite where EFTs are processed does not have a keycard lock and was unlocked during the day. While public access is generally restricted to the T-TC front desk and cashier only, an unauthorized person may bypass the keycard controlled T-TC front entry door by utilizing the elevator in Building 11 to go to the ground level, which allows access to the unsecured T-TC suite entry door.



## Detailed Findings, Recommendations, and Management Responses

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### **Recommendation No. 9:**

We recommend the entry point to the T-TC suite where EFTs are processed be equipped with a keycard lock.

### **Treasurer-Tax Collector Management Response:**

**Concur.** TTC Management has permanently locked the door in question and now requires employees to use one of three other keycard access doors to enter the Treasury Division area.



# Detailed Findings, Recommendations, and Management Responses

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## ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit findings and recommendations, we will classify audit report items into three distinct categories:

▶ **Critical Control Weaknesses:**

These are Audit Findings or a combination of Auditing Findings that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise the Department's or County's reputation for integrity. Management is expected to address Critical Control Weaknesses brought to their attention immediately.

▶ **Significant Control Weaknesses:**

These are Audit Findings or a combination of Audit Findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses require prompt corrective actions.

▶ **Control Findings:**

These are 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 of six months, but no later than twelve months.



# Detailed Findings, Recommendations, and Management Responses

## ATTACHMENT B: Treasurer-Tax Collector Management Response



**OFFICE OF THE TREASURER-TAX COLLECTOR**  
**SHARI L. FREIDENRICH, CPA, CCMT, CPFA, ACPFIM**

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**INTERDEPARTMENTAL COMMUNICATION**

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**Date:** May 12, 2017  
**To:** Toni Smart, CPA, Auditor-Controller Internal Audit Director  
**From:** Shari L. Freidenrich, CPA, CCMT, CPFA, ACPFIM *SLF*  
**Subject:** Management Responses to Treasurer-Tax Collector Electronic Funds Transfer Process Audit No. 1583

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**Finding No. 4 – EFT Payment Form Signatures Not Validated**

***Treasurer-Tax Collector Management Response:***  
*Concur. TTC Management will establish an authorized EFT signature document log and verification process for Auditor-Controller signatures similar to that used for the Department of Education signature verification prior to processing EFT payments.*

*Mission: Ensure safe and timely receipt, deposit, collection and investment of public funds.*



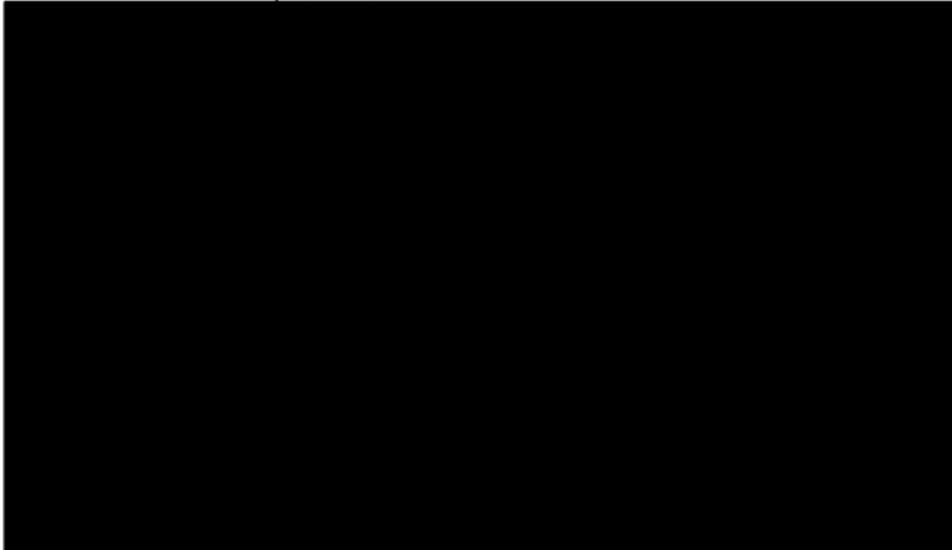
# Detailed Findings, Recommendations, and Management Responses

## ATTACHMENT B: Treasurer-Tax Collector Management Response (con't)

**Finding No. 5 – Requestor Name Not Printed on EFT Request Forms for the Department of Education**

***Treasurer-Tax Collector Management Response:***

*Concur. TTC Management added a line for printed names to the Department of Education Wire Request Form.*



**Finding No. 9 – T-TC Suite Physical Access Controls**

***Treasurer-Tax Collector Management Response:***

*Concur. TTC Management has permanently locked the door in question and now requires employees to use one of three other keycard access doors to enter the Treasury Division area.*

cc: Accounting Compliance File