

Montgomery County, Maryland
Office of the County Executive
Office of Internal Audit



**Performance Audit of the Department of Finance Cashiering
Operations**

Department of Finance

May 7, 2019

Highlights

Why MCIA Did this Audit

The Montgomery County Office of Internal Audit (MCIA) conducted a performance audit of the Department of Finance Cashiering Operations (Cashiering). The performance audit is a result of the following:

1. A countywide risk assessment completed in 2016
2. A follow-up audit of the 2009 Treasury Risk Assessment was conducted in 2015 that identified prior unresolved Cashiering findings and new findings

The performance audit reviewed Cashiering activities performed at the County's Treasury office located at 255 Rockville Pike, Rockville, MD. Specifically, the audit focused on the following Cashiering functions: cash handling/ cash receipts, credit card transactions, lockbox payment processing, and ACH payment processing. The performance audit was conducted by the accounting firm SC&H Group, Inc. (SC&H), under contract with MCIA, and focused on Cashiering transactions processed between July 1, 2017 and June 30, 2018.

What MCIA Recommends

MCIA is making three recommendations to the County to strengthen internal controls, reduce risk, and improve overall performance related to the oversight, management, and performance of the Cashiering function.

May 2019

Performance Audit of the Department of Finance Cashiering Operations

What MCIA Found

Based on information obtained through the performance audit and the results of detailed testing procedures, it appears overall that the Cashiering processes are operating as intended.

MCIA identified opportunities to further strengthen internal controls to mitigate the risk of a process deficiency. These opportunities are related to:

1. Completeness of information documented in the Cashiering Section Operations Manual
2. Segregation of duties in the processing of rejected lockbox payments
3. Data security controls over fully outsourced vendors

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Objectives

This report summarizes the planning and fieldwork phases of the performance audit (audit) of the Department of Finance Cashiering Operations performed by SC&H Group, Inc. (SC&H)¹, under contract with the Montgomery County (County) Office of Internal Audit (MCIA). The audit reviewed Cashiering activities that are performed at the County's Treasury office located at 255 Rockville Pike, Rockville, MD. Specifically, the audit was focused on the Cashiering cash handling/ cash receipts, credit card transactions, lockbox² payments, and Automated Clearing House³ (ACH) payments processing functions.

Specifically, the County engaged SC&H to achieve the following preliminary objectives:

1. Evaluate and document the end to end cash receipt process
2. Evaluate and document the receipt/reporting of cash within Finance
3. Assess the remediation of the agreed upon findings from the Follow-up Audit of the 2009 Treasury Risk Assessment as documented in the report dated March 2, 2015⁴ {"2015 Audit"}
4. Document preliminary observations based on procedures performed during the planning phase
5. Establish updated objectives related to key risk areas to achieve during fieldwork

The audit was conducted in two phases:

1. Planning (February 2018 – April 2018): Planning focused on gaining an end-to-end understanding of the Cashiering cash receipt and reporting process.
2. Fieldwork (April 2018 – December 2018): Fieldwork focused on evaluating Cashiering transactions processed during the audit period.

Proposed procedures were developed to meet the preliminary objectives stated above, and were reviewed and approved in advance by MCIA.

Preliminary objectives were assessed during the planning phase and updated based on risk and information learned. As a result, the final audit objectives were the following:

1. Ensure rejected lockbox checks are properly processed, reconciled, and documented
2. Verify transactions, deposits, and reconciliations are performed in accordance with Cashiering policies and procedures
3. Ensure system access is restricted to active employees and capabilities are restricted to maintain segregation of duties
4. Evaluate the Payment Card Industry (PCI) compliance of Cashiering third party vendors
5. Ensure Cashiering maintains adequate segregation of duties during daily operations

¹ SC&H Group Inc., including wholly owned affiliate, SC&H Attest Services, P.C. (SC&H)

² Lockbox banking is a service provided by banks to companies/government clients for the receipt of payment from customers. Under the service, the payments made by customers are directed to a special post office box, rather than going to the company. The bank will then go to the box, retrieve the payments, process them, and deposit the funds directly into the company bank account.

³ ACH payments are electronic payments that are created when a customer gives the County authorization to debit directly from the customer's checking or saving account for the purpose of bill payment.

⁴ https://www.montgomerycountymd.gov/exec/Resources/Files/Treasury_Risk_Assessment_Followup.pdf

Background

The Cashiering Section is within the Division of Treasury under the County's Department of Finance. The Cashiering Section consists of a Cashiering Supervisor, a Head Cashier, and three Cashiers.

The Cashiering Section is responsible for receiving and recording payments submitted to the County by residents, businesses, and departments for various services, taxes, and fees. Montgomery County's CountyStat website⁵ shows the Cashiers processed 107,921 transactions in FY17 and completed an estimated 99,000 transactions in FY18.

The Overview section of the Cashiering Section Operations Manual states, Cashiering's main functions include the collection and oversight of tax payments including real and personal property tax, tax lien sale, transfer and recordation tax, and excise tax; as well as collection of payments for fees associated with the following: traffic citations, permitting services, fare media program, and board of elections.

Cashiering receives payments in multiple ways. Check payments are received at Cashiering through surface mail (payments delivered by postal carrier), customer walk-ins, and processing of checks received by County departments. Payments are also received via PNC lockbox and Merkle lockbox (primarily for overflow of property tax payments), credit card, and by ACH. PNC Bank and Merkle are the two property tax lockbox processors for the Treasury Division. PNC Bank is the primary lockbox processor; however, the County utilizes Merkle for limited lockbox services. The lockbox processors process all payments received through the bank lockbox operation, scan all real and personal property tax remittance advice forms they receive, and send the Cashiering Section a daily electronic file listing of payments received. The Cashiering Supervisor manually downloads the file on a daily basis into the MUNIS Property Tax module, the County system used to track payments made to taxpayer accounts for real estate tax payments.

Tax Collection

Cashiering is responsible for collecting and processing the following four types of tax revenues.

1. **Real and Personal Property Tax:** Collection of tax assessments paid by taxpayers via cash, check, credit card, or ACH.
2. **Tax Lien Sale Payments:** Collection of unpaid real property taxes, interest, and penalties. Customers can pay by cash, certified check, cashier's check, or ACH.
3. **Transfer and Recordation of Taxes:** The Treasury Division's Transfer Tax Section is responsible for collecting transfer and recordation taxes associated with real property transfers. The Transfer Tax Section provides Cashiering with a Revenue Transmittal Form and a completed bank deposit slip for processing.
4. **Excise Tax Deposits:** Taxes collected by the County for fuel-energy, telephone services, heavy equipment gross receipts, e-Cigarettes, shopping bags, and transient room rentals. Affected businesses submit payments to the Treasury Division. A Treasury Division employee presents the Cashiering Section with a Revenue Transmittal Form, bank deposit slip, and corresponding set of checks for processing.

⁵

<https://apps.montgomerycountymd.gov/BASISOPERATING/Common/Program.aspx?ID=32D&PROGID=P32P21>

Other Services

Cashiering is also responsible for processing non-tax related payments, including:

1. **Citation Payments:** Cashiering receives red light, automated speed enforcement, and school bus safety citation payments. Customers can pay by cash, certified check, credit card, or money order.
2. **Business License Validation:** Cashiering validates taxpayer business licenses and receives associated payments. Business license types include retail, construction, vending machine, plumbers, gas fitters, etc. Customers can pay by cash, certified check, or credit card.
3. **Permitting Services:** Cashiering receives payments on behalf of the Montgomery County Department of Permitting Services (DPS) for building permits, contractor licensing, electrical permits, mechanical inspection fees, etc. DPS customers present with supporting documentation (e.g. permit invoices, bond letters, etc.) and may only pay with cash for permitting services.
4. **Fare Media Program:** Cashiering issues public transportation cards to the public. Fare media cards include youth cruiser bus pass, senior/ disabled Smart Trip card, and regular Smart Trip cards. Customers can pay by cash or credit card.
5. **Board of Election Deposits:** Cashiering receives revenue for the Board of Elections, such as candidate filing fees, election publication fees, etc., as outlined in the Cashiering Section Operations Manual. Once Cashiering verifies the customer submitted the proper documentation, payment is received via cash or check.
6. **Miscellaneous Services:** Cashiering processes walk-in payments for miscellaneous County fees and services that do not fit any type listed above. These services may include property tax bill duplication fees, copy fees, and other fees.

Reconciliations

In addition to receiving payments, Cashiering is responsible for ensuring payments received reconcile to/match the County's electronic systems (listed below) and the County PNC Bank accounts. Daily, each Cashier reconciles all cash receipts, bank deposit slips, and checks to the dollar amount listed in the Oracle E-Business Receivable module (Oracle). The reconciliation is documented on a Cash Register Settlement form. Discrepancies are researched and resolved.

At daily closing, the Head Cashier completes the Cashiering Daily Reconciliation Checklist. The checklist includes reconciling each cash drawer, bank record, electronic systems (Oracle, Electronic Transportation Information Management System (eTIMS), and MUNIS) to ensure all receipts have been deposited and recorded into the applicable systems properly.

The following business day, the Head Cashier or Cashiering Supervisor recounts all cash and verifies that it reconciles to the individual deposit tickets. The Cashier's individual Cashier Daily Closing Summary form is balanced and reconciled against the bank record and the Oracle Daily Cash Reconciliation Report of Transactions & Deposits in order to verify that all receipts were properly deposited and recorded. This process is performed and documented by completing the Consolidated Daily Cash Drawer Settlement and Reconciliation form. Reconciliation procedures are performed for cash payments, credit card payments, lockbox, and ACH payments. The following systems are used by Cashiering to process and record transactions:

1. **MCG Integrated ACH System Production:** County site used by Cashiering Supervisor to download ACH payment files. The ACH file batches payments made by taxpayers for real and property taxes online through the County webpage⁶.
2. **MUNIS:** County system used to track taxpayer accounts for real estate tax payments. Specifically, MUNIS tracks real and personal property tax and tax lien sale payments.
3. **Oracle E-Business Receivable Module:** County system used to record all summarized transactional data.
4. **eTIMS:** County system used to collect vehicle citation payments (red light, speed, and school bus).
5. **County PNC Bank Accounts:** County accounts that are used to deposit payments collected by Cashiering.

Protection of Cardholder Payment Data

Cashiering receives payments via credit card. As a result, planning procedures included a review of PCI compliance. During the review, SC&H learned that the County had recently (2017) participated in a formal PCI Compliance review by a third-party qualified assessor that concluded the following:

1. Montgomery County Government does not store or process cardholder data.
2. The County is compliant with the 12 PCI DSS Requirements, with no deficiencies.

The Information Technology Division Chief for the County's Department of Finance identified Conduent and Elavon as two third party vendors responsible for processing and handling cardholder payment data on behalf of the County, applicable to Cashiering. Through inquiry and further follow-up, Official Payments was also confirmed to be responsible for processing and handling cardholder payment data.

1. Conduent (formerly Xerox): Used by the County to process eTIMS related payments (vehicle citations)
2. Elavon: Used by the County as a general credit card payment processor
3. Official Payments: Payment services partner with the County, used as a method available to taxpayers to make property tax payments online.

Based on the fact that the County engaged a qualified assessor who determined that the County does not process or store credit card data, SC&H focused on gaining reasonable assurance that third party providers engaged by the County to process and secure cardholder payment data are reviewed, to confirm adequate internal control design and effectiveness. SC&H's approach included requesting and reviewing Service Organization Controls (SOC) reports. Procedures and results are documented below. See Test D.1 SOC Report Review table within the Audit Program Execution section of the report for additional information.

SOC Background

In third party vendor arrangements, SOC reports are an available resource to user entities that provide third party attestation over internal control. The County is a user entity of third-party vendors who collect, process and store credit card data for the County. There are two types of SOC reports; SOC 1 and SOC 2. A SOC 1 report is a report on controls at a service organization relevant to user entities internal controls over financial reporting. SOC 1 is not applicable to the

⁶ <https://apps.montgomerycountymd.gov/realpropertytax/>

County’s needs related to this review. A SOC 2 report includes a third-party attestation and detailed results of validating the service provider has proper internal controls designed and operating effectively to manage, process, and secure customer data. While both SOC 1 and SOC 2 audits evaluate internal controls, policies, and procedures, a SOC 2 audit report focuses specifically on vendor controls within one or more “Trust Services Criteria” established by the Association of International Certified Public Accountants (AICPA): Common Criteria (Security), Availability, Processing Integrity, Confidentiality, and Privacy of the data at the service organization.

A SOC 2 examination is a report on management’s description of the service organization’s system and the suitability of the design of the controls to achieve the relevant Trust Services Criteria and criteria included in the description as of a specified date (Type I) or throughout a specified period including operating effectiveness (Type II).

Scope and Methodology

The audit was initiated in April 2018 and completed in December 2018. The period in scope for the performance of this audit included completed transactions from July 2017 through June 2018.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Planning Summary Results

A previously conducted (2015) Follow-up Audit of the 2009 Treasury Risk Assessment identified eight Cashiering-specific audit recommendations, identified below. The Department of Finance provided detailed responses to identify specific actions taken to address each of the findings. During the planning phase of the audit, SC&H assessed the actions implemented in response to the recommendations through inquiry and inspection where possible. Using the knowledge gained from meetings, observations, and review of the Cashiering Section Operations Manual, SC&H developed and finalized process flowcharts for the in-scope Cashiering functions. SC&H used the flowcharts and information learned during the planning procedures to perform a risk analysis, which identified and ranked risks, internal controls, and process gaps.

The following summarizes the results of the analysis from the planning phase:

2015 Report: Recommendation #	Recommendation	Results from Planning Phase
1.2	Establish a process to ensure that all policy and procedure documents are appropriately updated, reviewed, and approved on a consistent basis so that all documents remain reflective of the current processes and controls.	See Finding and Recommendations Table, Finding 1

2015 Report: Recommendation #	Recommendation	Results from Planning Phase
9A.2	Formally document the process to perform the reconciliation between Official Payments and the bank.	No findings identified; no further action required
9A.1	Update the Cashiering Section Operations Manual to include the procedures to perform the reconciliation between Merkle and the bank.	No findings identified; no further action required
9C.1	Update the Cashiering Section Operations Manual to ensure the procedures for processing violation payments are complete and accurate.	No findings identified; no further action required
13.1	Update the process to include the recording of rejected lockbox checks on a log.	Tested as Part of Fieldwork Phase; see "Audit Program Execution" section below
13.2	Ensure that the individuals responsible for recording the checks are independent from the individuals responsible for processing the payment.	Tested as Part of Fieldwork Phase; see "Audit Program Execution" section below
13.3	Establish a process whereby the Treasury Division employee responsible for the disposition of the returned lockbox check updates the log to reflect the action taken.	Tested as Part of Fieldwork Phase; see "Audit Program Execution" section below
18.1	The Treasury Division should adjust the current process to ensure the personnel responsible for accepting and recording payments are independent from the personnel with access to the safe, where cash and checks are retained prior to deposit.	Tested as Part of Fieldwork Phase; see "Audit Program Execution" section below

Fieldwork Audit Program Development

Based on the procedures performed during the planning phase, SC&H developed an audit program to achieve the objectives. The program included detailed steps to address each objective with the goal of assessing risk and identifying opportunities for improvement, where necessary. As discussed above, SC&H identified the following objectives to be completed during the fieldwork phase:

- A. Ensure rejected lockbox checks are properly processed, reconciled, and documented

- B. Verify transactions, deposits, and reconciliations are performed in accordance with Cashiering policies and procedures
- C. Ensure system access is restricted to active employees and capabilities are restricted to facilitate segregation of duties
- D. Evaluate the PCI compliance of Cashiering third party vendors
- E. Ensure Cashiering maintains adequate segregation of duties during daily operations.

Audit Program Execution

Below is a summary of how SC&H achieved the audit plan:

Test A.1 – Policy Review	
Objective A: Ensure rejected lockbox checks are properly processed, reconciled, and documented.	
Relevant 2015 Audit Recommendation(s) Tested (if applicable)	13.1 Update the process to include the recording of rejected lockbox checks on a log.
Documentation Reviewed	Current Cashiering Section Operations Manual
Test Method	Inspection
Attribute 1	Verify current policy/standard operating procedure (SOP) documentation addresses the procedures to process rejected lockbox checks.
Attribute 2	If a policy is not documented, ensure there is a process in place to process the rejected lockbox checks.
Outcome	The Cashiering Section Operations Manual does not contain language related to the rejected lockbox process currently performed by Cashiering personnel. However, an informal/ undocumented process is in place to process rejected lockbox payments. Reportable issue noted, see Finding 1.

Test A.2 – Rejected Lockbox Log	
Objective A: Ensure rejected lockbox checks are properly processed, reconciled, and documented.	
Relevant 2015 Audit Recommendation(s) Tested (if applicable)	13.2 Ensure that the individuals responsible for recording the checks are independent from the individuals responsible for processing the payment. 13.3 Establish a process whereby the Treasury Division employee responsible for the disposition of the returned lockbox check updates the log to reflect the action taken.
Sample Size	60 Rejected Payments, selected judgmentally
Test Method	Inspection
Attribute 1	Ensure the rejected amount was resolved, deposited, and recorded in MUNIS, Oracle, and PNC Bank.
Attribute 2	Ensure that the Cashiering employee that recorded the check on the Rejected Lockbox log is independent of the employee that processed the payment in Oracle.

Test A.2 – Rejected Lockbox Log	
Objective A: Ensure rejected lockbox checks are properly processed, reconciled, and documented.	
Outcome	<p>1. For 22 of 60 rejected payments reviewed, the Rejected Lockbox Log identified reasons for the rejection of customer payments; such as, account already paid in full, payee error, illegible information, etc. In these instances, the Rejected Lockbox log was not consistently documented with the applicable customer account number. As a result, the audit team could not verify the appropriateness of each rejected lockbox payment disposition.</p> <p>2. For rejected payments reviewed, the Cashiering employee that recorded the check in the Rejected Lockbox Log was not identified and could not be determined to be independent from the employee that processed the payment in Oracle.</p> <p>Reportable issue noted, see Finding 2.</p>

Test B.1 – Lockbox Reconciliations	
Objective B: Verify transactions, deposits, and reconciliations are performed in accordance with Cashiering policies and procedures.	
Relevant 2015 Audit Recommendation(s) Tested (if applicable)	Not Applicable
Sample Size	60 Lockbox Deposits
Sample Value	\$420,295,224.44, selected judgmentally
Sample %	58% of Dollar Value
Test Method	Re-performance
Attribute 1	Re-perform the reconciliation between the MUNIS Lockbox Batch Report, Lockbox Payments Process Report, Oracle, and the PNC bank statement.
Attribute 2	Review, aggregate, and analyze adjustment reconciliation discrepancies and discuss with Management, if necessary.
Outcome	<p>1. In each instance, transactions, deposits, and reconciliations were agreed without exception.</p> <p>2. No adjustment reconciliation discrepancies were identified.</p> <p>No reportable finding noted.</p>

Test B.1.1 – Daily Cashier Reconciliations	
Objective B: Verify transactions, deposits, and reconciliations are performed in accordance with Cashiering policies and procedures.	
Relevant 2015 Audit Recommendation(s) Tested (if applicable)	Not Applicable
Sample Size	25 Transaction Days, selected judgmentally
Test Method	Re-performance

Test B.1.1 – Daily Cashier Reconciliations	
Objective B: Verify transactions, deposits, and reconciliations are performed in accordance with Cashiering policies and procedures.	
Attribute 1	Re-perform the daily reconciliation performed by each Cashier and the Cashiering Supervisor. Verify cash and check revenue is correctly reconciled and processed.
Attribute 2	Verify that the Cashiering Supervisor overseeing all Cashiering Operations did not process any transactions within Oracle.
Attribute 3	Verify transactions collected were entered into Oracle completely and accurately and posted to the County's Bank Account.
Outcome	<ol style="list-style-type: none"> 1. In each instance, transactions, deposits, and reconciliations were agreed without exception. 2. No instances in which the Cashiering Supervisor processed transactions were identified. 3. Transactions collected were entered into Oracle completely and accurately, without exception. <p>No reportable finding noted.</p>

Test B.2 – Oracle Reverse Reconciliation	
Objective B: Verify transactions, deposits, and reconciliations are performed in accordance with Cashiering policies and procedures.	
Relevant 2015 Audit Recommendation(s) Tested (if applicable)	Not Applicable
Sample Size	60 Oracle Entries (15 transactions for each of the Cashiers and the Head Cashier), selected judgmentally
Sample Value	\$12,298,491.98
Test Method	Inspection
Attribute 1	Verify Oracle transactions processed by Cashiers are supported by a confirmed bank deposit.
Outcome	<p>In each instance, Oracle transactions processed by Cashiers were supported by a confirmed bank deposit.</p> <p>No reportable findings noted.</p>

Test B.3 – ACH Payment Reconciliation	
Objective B: Verify transactions, deposits, and reconciliations are performed in accordance with Cashiering policies and procedures.	
Relevant 2015 Audit Recommendation(s) Tested (if applicable)	Not Applicable
Sample Size	60 ACH Payments, selected judgmentally
Sample Value	\$122,912,181.47
Sample %	47.5% of dollar value
Test Method	Inspection

Attribute 1	Independently verify ACH sample selections were completely, accurately, and timely entered into MUNIS and Oracle.
Attribute 2	Verified the ACH amount was entered into Oracle by any Cashiering employee other than the Cashiering Supervisor.
Outcome	<ol style="list-style-type: none"> 1. In each instance, ACH sample selections were completely, accurately, and timely entered into MUNIS and Oracle. 2. In each instance, the ACH amount was entered into Oracle by any Cashiering employee other than the Cashiering Supervisor. <p>No reportable findings noted.</p>

Test C.1 – System Access Review	
Objective C: Ensure system access is restricted to active employees and capabilities are restricted to facilitate segregation of duties.	
Relevant 2015 Audit Recommendation(s) Tested (if applicable)	Not Applicable
Sample Size	Population of Cashiering Users (five)
Test Method	Inspection
Systems	MUNIS, Oracle, eTIMS, PNC Bank Account, MCG ACH System Production
Attribute 1	Verify all Cashiering personnel listed as active on the user lists are an active County employee.
Attribute 2	Verify the appropriateness of user access-based position and responsibility
Outcome	<ol style="list-style-type: none"> 1. All Cashiering personnel listed as active on the user lists were determined to be active County employees. 2. User access was determined to be appropriate based on position and responsibility. <p>No reportable findings noted.</p>

Test D.1 – SOC Report Review	
Objective D: Evaluate the PCI compliance of Cashiering third party vendors.	
Relevant 2015 Audit Recommendation(s) Tested (if applicable)	Not Applicable
Sample Size	Two of the three vendors engaged with Cashiering
Test Method	Inquiry and inspection
Document Reviewed	The Finance Information Technology team requested a current SOC 2 report from each vendor
Attribute 1	Review each vendor's SOC 2 report to determine the effectiveness of the internal control environment.
Outcome	Reportable issue noted. See Finding 3.

Overall Segregation of Duties Assessment	
Objective E: Ensure Cashiering maintains adequate segregation of duties during daily operations.	
Relevant 2015 Audit Recommendation(s) Tested (if applicable)	18.1 The Treasury Division should adjust the current process to ensure the personnel responsible for accepting and recording payments are independent from the personnel with access to the safe, where cash and checks are retained prior to deposit.
Method	This objective was assessed throughout fieldwork. Objectives A, B, and C each included procedures to evaluate segregation of duties.
Outcome	<p>Specific to the 2015 Audit recommendation noted above, confirmation of the Cashiering employee who deposited cash receipts into the safe, is not a verifiable attribute. However, the effectiveness of the current safe deposit process, which through inquiry includes the segregation of the personnel who accept and record payments and the personnel with access to the safe, was validated through the detailed testing performed above in which the completeness and accuracy of deposits was evaluated.</p> <p>Specific to the 2015 Audit recommendation, no further reportable observation is noted.</p>

Findings and Recommendations

After reviewing the processes in place and evaluating the current control environment, SC&H concludes that overall it appears that the Cashiering processes are operating as intended. The following opportunities to further strengthen existing controls and processes were identified during the course of the audit. The table below provides additional information regarding the findings and recommendations for three separate issues identified.

Ref #	Finding	Risk	Recommendation
1	The Cashiering Section Operations Manual does not include language related to the rejected lockbox process currently performed by Cashiering personnel.	Staff may not understand Cashiering duties, resulting in the mismanagement of County funds received by customers.	<ol style="list-style-type: none"> 1. Cashiering Management should add the rejected lockbox process within the Cashiering Section Operations Manual. 2. Cashiering Management should review the Cashiering Section Operations Manual to ensure completeness and accuracy and update as changes in the process occur.
2	<p>Rejected lockbox documentation does not contain complete details regarding the recording and processing of rejected payments.</p> <ol style="list-style-type: none"> 1. Evidence supporting independent logging and processing of the rejected lockbox payments was not recorded. 2. For 22 of 60 rejected payments reviewed, the Rejected Lockbox Log identified reasons for the rejection of customer payments (e.g.: account already paid in full, payee error, illegible information, etc.), but did not capture the applicable customer account number. In these instances, the payments were not processed by Cashiering. The audit team could not verify the appropriateness of each 	Payments may not be properly processed, resulting in discrepancies between payments received and payments posted.	<ol style="list-style-type: none"> 3. Cashiering Management should ensure that the Rejected Lockbox Log is consistently and accurately completed (all fields). Two sets of initials should be recorded on the log: the employee who recorded the payment on the log, and the individual that processed the payment. The log should also record the reason for the rejection and the customer account number.

Ref #	Finding	Risk	Recommendation
	rejected lockbox payment.		
3	The current PCI vendor review process, as managed by the Finance department in association with a contracted QSA, includes annual due diligence PCI compliance review procedures but does not include requirements for performing additional review procedures as it relates specifically to general data security controls over fully outsourced vendors (i.e. SOC reports, Security Questionnaire, etc.).	Though there are contract mechanisms in place to protect the County from a PCI and PII perspective, transactional data containing PII or credit card data has a higher security risk when managed by fully outsourced third party service providers, resulting in potential theft of information and/or reduced confidence by County citizens/customers.	<p>4. The Finance Information Technology team should implement a requirement within the PCI vendor review process to request and review SOC 2 reports (Type II) on a scheduled basis for fully outsourced vendors engaged with the County to process and handle customer credit card data. The review should ensure that no significant control deficiencies are identified related to the handling and security of sensitive customer payment data. If a SOC 2 Type II report is not available Management should implement review procedures to ensure sufficient controls are in place over the security of customer payment data; for example, a Security Vendor Questionnaire or audit procedures (e.g.: request of policy and procedures).</p> <p>5. If complementary user entity controls (CUECs) are identified within a SOC 2 report, the Finance Information Technology Team should assess internal compliance of applicable controls (based on the services provided) with suggested controls to maximize effectiveness. Upon receipt of a vendor's SOC 2 report, Finance should develop a process to map applicable CUECs to its current control environment and identify resource requirements associated with implementing the process. Once the process is implemented any deficiencies should be considered for resolution. Given the decentralized nature of County operations, Finance should also assess the feasibility and resource implications associated with mapping of CUECs to all applicable departments and ensuring that deficiencies are addressed.</p>

Suggested Improvement Opportunities

In addition to the formal recommendations discussed above to further strengthen internal controls within the Cashiering operation, the following opportunities for process improvement were noted and discussed with Cashiering management; Cashiering management's response is provided below. These do not represent formal recommendations but are identified as suggestions for consideration in the future.

Ref #	Finding	Risk	Suggestion
1	A system generated receipt to evidence entry into a County system is not provided or generated.	Payments may not be completely or accurately entered into County systems, resulting in inaccurate payment records.	Cashiering Management noted that they previously investigated the feasibility of system-generated payment receipts but found potential Oracle solutions to be impractical/ineffective. Specific to cash payments, Cashiering Management should consider the adoption of numbered, sequential receipts that would allow for subsequent review and validation.
2	A threshold for overage/shortage memo reporting has not been formally established.	Cash drawers may not be properly settled/ reconciled at the close of each business day, resulting in theft or overages/ shortages discrepancies between payments received and payments posted.	Cashiering Management should develop and document thresholds for cash drawer overages and shortages, beyond which reporting and investigation would be required. Cashiering should develop and implement analytics that would allow management to capture, quantify, and trend overages by cashier.
3	Documentation to evidence that the annual MUNIS access review was performed was not retained and could not be provided.	Access to collect, process, and post payments to County systems may not be properly restricted or authorized, increasing the risk of errors or inaccurate records.	Cashiering Management should ensure access reviews are documented and retain support. Further, Cashiering Management should verify the review was performed completely, accurately and timely.

Comments and MCIA Evaluation

We provided the Department of Finance with a draft of this report for review and comment on April 12, 2019 and Finance responded with comments on May 2, 2019. Finance's response notes their concurrence with the recommendations and the progress the department has made in addressing the findings. The report findings and recommendations remain unchanged. The response received has been incorporated in the report at Appendix A.

Appendix A: Department of Finance Response



DEPARTMENT OF FINANCE


Marc Elrich
County Executive

Michael J. Coveyou
Acting Director

MEMORANDUM

May 3, 2019

TO: Bill Broglic, Internal Audit Manager
Office of the County Executive

FROM: Michael Coveyou, Acting Director 
Department of Finance

SUBJECT: Formal Comments on Draft Report: Performance Audit of the Department of Finance Cashiering Operations – dated May 2019

Enclosed please find the Department of Finance formal response to the Performance Audit of the Department of Finance Cashiering Operations issued by Internal Audit.

If you, or the audit firm working with you, have any questions relating to the attached, please contact Karen Hawkins, Chief Operating Officer, at 240-777-8828, Jhason Abuan, IT Division Chief, at 240-777-8826, or me at 240-777-8870.

Attachment

cc: Karen Q. Hawkins, Chief Operating Officer, Department of Finance
Jhason Abuan, IT Division Chief, Department of Finance
James Babb, Acting Treasury Division Chief, Department of Finance

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**Finance Response to
Performance Audit of the Department of Finance Cashiering Operations
by the Office of Internal Audit
Dated May 2019**

Recommendation:

- 1.1. Cashiering Management should add the rejected lockbox process within the Cashiering Section Operations Manual.

Finance Response:

The Finance Department concurs with this recommendation and is in the process of implementation. Treasury will add the rejected lockbox process within the Cashiering Section Operations Manual, which is anticipated to be completed during calendar year 2019.

Recommendation:

- 1.2. Cashiering Management should review the Cashiering Section Operations Manual to ensure completeness and accuracy and update as changes in the process occur.

Finance Response:

The Finance Department concurs with this recommendation and is in the process of implementation. Treasury will update the Cashiering Section Operations Manual as changes in the process occur. To ensure required changes have been made on a timely basis, Treasury will establish an annual high-level review of the manual in the first quarter of calendar year. The annual high-level review will be documented in a checklist at the front of the manual with the reviewer's initials and the date of review.

Recommendation:

- 2.3 Cashiering Management should ensure that the Rejected Lockbox Log is consistently and accurately completed (all fields). Two sets of initials should be recorded on the log: the employee who recorded the payment on the log, and the individual that processed the payment. The log should also record the reason for the rejection and the customer account number.

Finance Response:

The Finance Department concurs with these recommendations, which were implemented in April 2018. Treasury implemented these recommendations in April 2018 by adding two additional columns on the Rejected Lockbox Check Log: the preparer's initial column and the account number column. In addition, the supervisor of property tax section has been regularly reviewing the log to ensure that the Rejected Lockbox Log is consistently and accurately completed.

Recommendation:

- 3.4 The Finance Information Technology team should implement a requirement within the PCI vendor review process to request and review SOC 2 reports (Type II) on a scheduled basis for fully outsourced vendors engaged with the County to process and handle customer credit card data. The review should ensure that no significant control deficiencies are identified related to the handling and security of sensitive customer payment data. If a SOC 2 Type II report is not available Management should implement review procedures to ensure sufficient controls are in place over the security of customer payment data; for example, a Security Vendor Questionnaire or audit procedures (e.g.: request of policy and procedures).

Finance Response:

The Finance Department concurs with these recommendations and will implement them during the next PCI compliance annual assessment starting in Spring 2020.

Recommendation:

- 3.5 If complementary user entity controls (CUECs) are identified within a SOC 2 report, the Finance Information Technology Team should assess internal compliance of applicable controls (based on the services provided) with suggested controls to maximize effectiveness. Upon receipt of a vendor's SOC 2 report, Finance should develop a process to map applicable CUECs to its current control environment and identify resource requirements associated with implementing the process. Once the process is implemented any deficiencies should be considered for resolution. Given the decentralized nature of County operations, Finance should also assess the feasibility and resource implications associated with mapping of CUECs to all applicable departments and ensuring that deficiencies are addressed.

Finance Response:

The Finance Department concurs with these recommendations and will develop a process to map applicable CUECs to Finance's control environment and develop a remediation plan if deficiencies are discovered during the next PCI compliance annual assessment starting in Spring 2020. As recommended, if CUECs need to be mapped to control environments in other

departments, Finance will assess the risk associated with the CUECs, the vendor, and/or the scope of services under contract, and the feasibility of performing mapping based on resource requirements and availability.

Suggestion:

1. Cashiering Management noted that they previously investigated the feasibility of system-generated payment receipts but found potential Oracle solutions to be impractical/ineffective.

Specific to cash payments, Cashiering Management should consider the adoption of numbered, sequential receipts that would allow for subsequent review and validation.

Finance Response:

The Finance Department is reviewing this suggestion specific to cash payments in relation to other internal controls in place. This suggestion will be implemented if it is determined to be cost-effective or cost beneficial.

Suggestion:

2. Cashiering Management should develop and document thresholds for cash drawer overages and shortages, beyond which reporting and investigation would be required. Cashiering should develop and implement analytics that would allow management to capture, quantify, and trend overages by cashier.

Finance Response:

The Finance Department concurs with these suggestions and will implement them during calendar year 2019.

Suggestion:

3. Cashiering Management should ensure access reviews are documented and retain support. Further, Cashiering Management should verify the review was performed completely, accurately and timely.

Finance Response:

The Finance Department concurs with this suggestion and is in the process of implementation. Treasury will ensure access reviews are performed, documented and verified annually starting calendar year 2020, in the first quarter of the calendar year.