

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



**Cash Management Targeted Internal Control Review
Department of Transportation**

August 1, 2022

Highlights

Why MCIA Did this Review

The Montgomery County Office of Internal Audit (MCIA) conducted a targeted internal control review (review) of the Montgomery County Government's (County) Department of Transportation's Division of Parking Management (MCDOT Parking) cash management function.

MCDOT Parking is responsible for receiving, processing, and depositing parking related transactions. It helps the County achieve its economic development and transportation management goals by creating and managing public parking in commercial areas, with fiscal year 2020 cash receipts of approximately \$8 million.

The review was conducted by the accounting firm SC&H Group, Inc., under contract with MCIA.

August 2022

Cash Management – Targeted Internal Control Review, Department of Transportation

What MCIA Found

MCDOT Parking cash management includes functions and internal controls to mitigate fraud risks. However, opportunities exist to improve control design and operational effectiveness to more effectively mitigate those risks. The opportunities can be addressed by enhancing or implementing additional steps within MCDOT Parking cash management operations.

We identified five areas of improvement to strengthen controls and mitigate risks in the following areas:

1. Enhanced segregation of duties related to cash management responsibilities
2. Enhanced formalized review procedures and improved documentation retention
3. Enhanced documentation for manual permit transactions
4. Improved retention of access management review documentation
5. Enhanced County cash management policies and procedures

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Objectives

This report summarizes a targeted internal control review (review) of Montgomery County's (the County) cash management programs and operations within the Department of Transportation, Division of Parking Management (collectively, MCDOT Parking). The review was performed by SC&H Group, Inc. (SC&H), under contract with the Montgomery County Office of Internal Audit (MCIA).

The MCDOT Parking review focused on how the County manages fraud risks associated with cash management processes such as receiving, processing, reporting, and reconciling cash transactions. The objective was to evaluate MCDOT Parking's cash management internal controls for design and operational effectiveness.

Cash Management Process Review Background

Cash Management Types

For the purposes of this review, the following was used to define the types of transactions and activity to be considered cash management related:

1. Cash management includes:
 - a. The receipt of cash and check payment methods (collectively, cash).
 - b. The physical handling and management of cash.
2. Cash management excludes:
 - a. Transactions that bypass a department and are directed to another department, such as lockboxes, third-party vendors/contractual agreements that go directly to Finance or Treasury, and other (e.g., automated clearing house (ACH), electronic funds transfer (EFT), wires, etc.).
 - b. The following specific types of transactions: Grants (i.e., Federal, State, or Local funds), intergovernmental transfers, and investment income.
 - c. Petty cash and credit or debit card transactions.

Department of Transportation

Montgomery County Department of Transportation (MCDOT) is responsible for building and maintaining the County's infrastructure such as roads, paths, lighting, crosswalks, sidewalks, bus shelters, and drainage systems. MCDOT is a large County department consisting of approximately 1,300 employees across the following five divisions:

1. Parking Management
2. Highway Services
3. Transit Services
4. Traffic Engineering
5. Operations and Transportation Engineering

Division of Parking Management

MCDOT Parking helps the County achieve its economic development and transportation management goals by creating and managing public parking in commercial areas. It is comprised of approximately 55 employees within the following four sections, which are responsible for certain cash management programs and operations:

1. Parking Operations:
 - a. Garage and Contract Management
 - b. Enforcement and Citation Management
 - c. Revenue Processing

2. Financial Management:
 - a. Revenue Management
 - b. Financial Audits
3. Administrative Management
4. Engineering and Capital Project Management

MCDOT Parking collected approximately \$8M in fiscal year 2020 (FY20 - July 1, 2019, through June 30, 2020). Parking Operations collected \$6,985,011 and Financial Management collected \$966,962. As a result, these sections were selected for the review. The Administrative Management and Engineering and Capital Project Management sections do not have cash management responsibilities or cash receipts; and, therefore, were not part of this review. The following provides each selected section's managed receipt types and FY20 receipts, and their programs and operations included in the review.

Parking Operations

Garage and Contract Management

FY20 total cash managed/garage receipts: \$993,478

MCDOT Parking has contracted with a third-party service provider, Penn Parking, to manage the six parking garages throughout the County. Three of the six parking garages are solely operated by Penn Parking gate attendants who perform cashiering responsibilities. The remaining three garages have a combination of pay on foot machines and Penn Parking gate attendants. Penn Parking gate attendants utilize a point of sale (POS) system called PARC/S to process the garage parking tickets and cash receipts. A team of County employees within the Garage and Contract Management section is responsible for oversight and monitoring of Penn Parking operations.

Enforcement and Citation Management

FY20 total cash managed/permit and citation receipts: \$2,878,548

MCDOT Parking has contracted with a third-party service provider, Conduent, to manage two sales store locations, where parking permit and parking citation transactions are processed by sales store cashiers. Conduent utilizes a POS system called eTIMS to process the permit and citation transactions and cash receipts. Additionally, there is an integrated interface between eTIMS and the County's Oracle enterprise resource planning (ERP) system that allows for the automated upload of deposit transactions. A team of County employees within the Enforcement and Citation Management section is responsible for oversight and monitoring of Conduent operations.

Revenue Processing

FY20 total cash managed/meter receipts: \$3,112,985

MCDOT Parking has contracted with a third-party service provider, LAZ Parking, to collect the parking street and pay on foot parking garage (referenced above in Garage and Contract Management) cash and coin receipts (collectively, parking meters). Parking meters are located in four parking lot districts across the County. These districts consist of parking lots, parking garages, and street meters. As of July 2020, there are 1,368 parking lot meters, 2,335 parking garage meters, 3,470 street meters and 18 parking lots/garages that are not metered. The meter and non-metered cash and coin is collected and brought to a centralized location by a LAZ Parking collector, where the Revenue Processing section counts and processes the cash and coin for deposit. A team of County employees within the Revenue Processing section is responsible for oversight and monitoring of LAZ Parking operations.

Financial Management

Revenue Management

FY20 total cash managed/parking lease receipts: \$966,962

MCDOT Parking receives parking lease checks primarily for the rental of parking spaces within the parking lot districts of Bethesda and Silver Spring. The checks are processed and deposited by the Financial Management Section Chief.

Financial Audits

On a periodic basis, the above cash management programs and operations provide the MCDOT Parking Financial Audits team within Financial Management with supporting documentation for cash management related activities (e.g., daily/shift transaction reports, supervisory summary reports, and copies of deposit slips and receipts). The daily deposit amounts are recorded in Oracle ERP by the Accountant/Auditor II and reviewed and approved by the Financial Management Section Chief and Accounts Receivable within the County's Department of Finance. Additionally, the Accountant/Auditor III is responsible for performing periodic reconciliations between the deposit transactions received at the financial institution (PNC Bank) and Oracle ERP, as well as monitoring and reporting functions for the division.

Scope and Methodology

The review was conducted from December 2021 to May 2022. The scope focused on the cash management activity processes within the above MCDOT Parking programs and operations, which included:

1. Cash Handling/Receipts: Cash collection; operation of POS systems and/or cash registers; utilization of cash boxes; making change for customers; providing receipts of purchase (paper trail); documenting transactions (payment tracking).
2. Balance and Reconcile: Hourly, shift, or daily reconciliation of sales records/receipts to cash on hand; supervisory reviews of reconciliations.
3. Cash Security: Storage of cash (e.g., on-site, in-transit); physical security; utilization of security cameras; physical (e.g., combination for a safe) and logical access (e.g., user credentials for POS systems).
4. Deposit: Preparation of deposit; transport of deposit; deposit at bank; physical (e.g., deposit slip) or system documentation of deposit.
5. Refunds/Credits/Voids: Refunds, credits, or voids processes via POS and/or Oracle ERP; documentation and audit trail; authorization and approval (e.g., limits on amount that need approval); supervisory review of refunds, credits or voids.
6. Bank Reconciliation: Monthly reconciliation between cash records (e.g., POS system, deposit slips), the Oracle ERP system, and the bank statement/records.
7. Financial Recordkeeping: Account reconciliations; journal entries; integration with banking systems.
8. Training/Other: Policies and procedures; training materials; on the job training; communication.
9. System/User Access: Logical access to point of sales systems and other recordkeeping systems/tools; physical access to parking locations; access rights and privileges.

In order to achieve the objectives, SC&H performed the following procedures.

Scoping

The review began by conducting a fraud risk assessment (assessment) of the County's MCDOT Parking programs and operations which included the following:

1. Documenting the MCDOT Parking programs and operations from end-to-end.
2. Identifying risks or scenarios that potentially could be exploited to commit fraud.
3. Identifying and overlaying the internal controls within the in-scope programs and operations.
4. Assessing the design effectiveness of the controls and the resulting residual risks that appear to remain.
5. Identifying potential gaps in the internal controls.

The identification of potential residual risks and gaps in the control environment allows the County to focus corrective actions on additional or re-designed controls that need to be implemented to address any high-risk situations.

SC&H performed the following procedures to complete the assessment.

Fraud Risk Assessment and Test Plan Development

SC&H conducted department interviews and performed documentation review and other research to identify potential cash management fraud risks/schemes and scenarios. Based on these analyses, SC&H formulated a plan to test internal controls identified during the risk assessment, and test MCDOT's controls, policies and procedures.

Fieldwork

Fieldwork consisted of testing the operational design and/or effectiveness of internal controls identified during the assessment. SC&H prepared a document request listing for information needed to satisfy the testing steps developed in the test plan, including populations required to select samples for which additional information was selected. The following includes additional details regarding sample selections and test procedures.

Sample Selections

Sample selections were made utilizing a population of cash receipts transactions provided by Financial Management. The scope period for the population report and samples selected was from January 1, 2021, to December 31, 2021. SC&H utilized judgmental, random, and haphazard selection methods for sampling.

Internal Controls Testing

Internal controls identified and detailed within the test plan were tested to assess the operational effectiveness of the identified control activity.

1. Garage, Permit and Citations, Meter, and Parking Lease Receipts: Obtained supporting documentation to determine the accuracy and completeness of the daily transactions, deposit amount, and evidence of review and sign-off by applicable supervisory personnel.
2. Monthly Reconciliations: Obtained supporting documentation with the appropriate supporting research and resolution of identified discrepancies, as applicable.
3. System and User Access Reviews:
 - a. Obtained and reviewed supporting documentation to determine appropriate logical and physical access for applicable MCDOT Parking employees.
 - b. Requested evidence of prior periodic user access reviews (e.g., collection cards, badge/key access, and applicable software system access) performed by MCDOT Parking.

Supplemental Test Procedures

SC&H evaluated and reconciled documented MCDOT Parking cash management internal controls with related department-level and County level policies and procedures (i.e., Department of Finance Accounts Receivable Policy, or Finance AR Policy). This consisted of evaluating MCDOT Parking policies and procedures to the identified cash management sub-processes (e.g., cash handling/receipts, balancing, and reconciliation, etc.) for completeness as well as alignment with the Finance AR Policy.

Validation

The preliminary test results were compiled and presented to MCDOT Parking Management and the IA Manager.

Findings and Recommendations

Results

We appreciate the assistance and cooperation from the County's MCDOT Parking team during this review. The team was attentive and cooperative throughout the review procedures, and provided data, information, and responses in a timely manner.

Overall, the MCDOT Parking cash management function is complex, consisting of various processes conducted throughout multiple programs and operations. Further, MCDOT Parking manages and operates this function with internal and external resources. Based on the review procedures, the MCDOT Parking cash management function appears to incorporate controls to mitigate fraud risks throughout the various programs and resource utilization criteria.

The review yielded findings and opportunities for MCDOT Parking to improve its cash management operations. These findings are categorized by functional area and are presented to help strengthen the design and operational effectiveness of internal controls within the operations.

Finding 1: Segregation of Duties Limitations

Background

SC&H conducted process interviews and walkthroughs to understand and document MCDOT Parking's cash management programs and operations and risks throughout. During the procedures, SC&H evaluated for segregation of duties limitations within cash management operations.

The principle of segregation of duties is based on shared responsibilities of a key process that disperses the critical functions of that process to more than one person or department. Without this separation in key processes, fraud and error risks are far less manageable.¹

Finding

The following segregation of duties limitations were identified. In these instances, multiple cash management functions are operated by the same person/people:

¹ <https://us.aicpa.org/interestareas/informationtechnology/resources/value-strategy-through-segregation-of-duties>

1. Financial Management: The Section Chief receives the check payments and then prepares, reviews, and signs-off on the deposit slip. Additionally, the Section Chief also reviews and approves the manual journal entry into Oracle ERP of received checks.
2. Garage and Contract Management: The Penn Parking Assistant Manager, General Manager, and Supervisor can all handle cash, reconcile receipts to deposit, prepare the deposit, and make the deposit.
3. Enforcement and Citation Management: The Conduent Supervisor is responsible for performing the daily balance and reconciliation of receipts as well as preparing the daily deposit.

Risks

1. Segregation of duties limitations/inappropriate allowable access rights/duties could increase fraud-related risks and activities including theft.
2. Inconsistently, incompletely, and ineffectively performed procedures to monitor and control instances where segregation of duties limitations may exist could increase fraud-related risks and activities including theft.

Recommendation 1

MCDOT should correct the segregation of duties limitations identified above, and periodically reassess whether new or similar limitations have developed. Any new or similar limitations should be corrected.

Potential mitigation steps could include incorporating additional personnel and/or implementing other preventive and detective procedures/controls. For instance:

1. Include additional Financial Management team members in the preparation of the deposit. This may help reduce the opportunity for inappropriate cash activities performed by a single employee.
2. Perform frequent/periodic reviews/audits surrounding cash management programs and operations. This may help increase the oversight and monitoring of activities performed by a single management level personnel, in situations where additional team members cannot be incorporated into a process.

Finding 2: Limited Formalized Review Procedures and Incomplete Documentation Retention

Background

MCDOT Parking performs multiple control activities throughout its programs and operations designed to mitigate inherent risks related to cash transactions. These include preventive and detective control activities within the following cash management sub-processes:

1. Cash handling/receipts
2. Balance and reconcile
3. Cash security
4. Deposit
5. Refunds/credits/voids
6. Bank reconciliation
7. Financial recordkeeping
8. Training/other
9. System/user access

SC&H conducted process interviews and walkthroughs to understand and document MCDOT Parking's cash management programs and operations and risks. During the procedures, controls designed to mitigate those risks were identified. In instances where controls did not appear to be designed to suitably mitigate risks, a design gap was documented.

Finding

Multiple cash management functions do not contain formalized review procedures.

Specifically, the following was identified during review procedures:

1. Financial Management: For check payments received in the mail, there is not an independent observer and video recording of the mail being opened by the Section Chief, once received from the Executive Assistant.
2. Permits and Citations: Checks are not endorsed with the County stamp as soon as they are received. Generally, checks are endorsed during the end of day balancing activities, as the Conduent cashiers are busy throughout the day processing payments.
3. Permits and Citations: Permit and citation payments that are mailed to the Conduent Sales Office are distributed to the Conduent cashiers for processing. There is not a log or other tracking method of the total payments received via mail and therefore, no way to reconcile back to the total amount received via mail each day.

Further, SC&H tested various control activity types throughout the programs and operations to evaluate their operational effectiveness. Based on the test procedures performed, the following instances of incomplete documentation or documentation not retained were identified, organized by program/operation:

1. 6 samples (Garage and Contract Management): Transaction documentation was not completed, did not include date information, and/or did not include signoff evidence.
2. 6 samples (Revenue Processing): Transaction documentation was not completed, did not include date information, and/or did not include signoff evidence.
3. 5 samples (Enforcement and Citation Management): Bank confirmations to evidence receipt of the automated deposit upload were not provided. *Note: Per discussions with MCDOT Parking Management, receipt of this notification from the bank was determined to be no longer required following the scope period of the audit.*
4. 9 samples (Financial Audits): Monthly reconciliation packages contained informal or inconsistent reviews and signoffs.
5. 3 samples (Financial Audits): Monthly reconciliations performed by Financial Management contained large rolling year to date variances without the supporting details of the specific transactions that comprised the variances, including:
 - a. \$111,822.58
 - b. \$128,136.78
 - c. \$(23,727.27)
6. 20 samples (Enforcement and Citation Management): Courier sign-out and sign-in log to evidence the handoff of the daily deposit and deposit receipt was not provided.

Risks

1. Lack of consistently 1) maintained and completed documentation to support and justify transaction activity and balances and 2) approved documentation to justify and support completeness, accuracy, and validity of activities could result in:
 - a. Opportunities to mishandle and/or steal cash
 - b. Unauthorized and invalid transactions
 - c. Incomplete and inaccurate reporting information
 - d. Operational error and management oversight

- e. Inefficient use of resources, due to the time needed to perform related research activities
- 2. Lack of consistent and detailed support and explanation to justify account reconciliation variances could lead to opportunities for:
 - a. Inappropriate and unauthorized transactions
 - b. Account misclassifications
- 3. Ineffectively designed and operationally ineffective internal controls could increase the risk of incorrect financial information and fraud-related risks.

Recommendation 2

MCDOT should ensure that required review procedures and documentation retention requirements (including documentation to explain variances) for the identified cash management programs and operations are documented, communicated, and enforced.

Potential control design enhancements could include additional tracking mechanisms and oversight/monitoring of cash transactions received via mail or outside applicable POS systems. For example, the requirements and procedures should include criteria such as:

- 1. Threshold amounts that require additional review/investigation, justification, and approval.
- 2. Details required to support balances and variances.
- 3. Review requirements to determine who needs to formally approve based on procedure type (e.g., cash balancing), reconciliation type, balance, variances, etc.

For instance:

- 1. Financial Management could consider the following:
 - a. Ensuring a second team member is present when the parking lease checks mail is opened, or
 - b. Creating a process to log the opened parking lease checks, including such data points as, who the check was from, the amount, the date, and who was present at opening.
- 2. MCDOT Parking Management and Conduent Management could consider the following:
 - a. Ensuring that Conduent cashiers endorse checks upon receipt, instead of waiting until end of day.
 - b. Creating a process to log the checks mailed to the Conduent Sales Office, including such data points as, who the check was from, the amount, the date, and who was present at opening.

Finding 3: Limited Documentation for Manual Permit Transactions

Background

Conduent sales store cashiers are responsible for receiving and manually tracking residential parking permit transactions that are received in person.

County residents can purchase certain residential parking permits via a separate third-party provider's website or in person at a Conduent sales store via cash and check. In these latter instances, because the residential parking permits are managed by a separate third-party provider, Conduent sales store cashiers cannot process the transactions within eTIMS. The transactions are manually recorded in a separate spreadsheet, and the corresponding cash and check amounts are included in the daily deposit amount.

On a monthly basis, the Conduent Supervisor provides MCDOT Financial Management with the transaction totals, which are also identified by MCDOT Financial Management on the monthly Conduent reconciliation report.

Finding

The review identified variances where documentation was not available to evidence or explain the variances. Further, reconciliation and cash balance activity variances were not consistently and formally documented and justified.

Risks

1. Opportunities could exist for Conduent sales store cashiers to mishandle cash received from manual permit transactions, resulting in incorrect cash amounts being recorded within MCDOT Parking financial records. Examples include:
 - a. Cashiers with physical access to cash could steal that cash from the cash register/POS system, safe, deposit bag, or other cash storage location.
 - b. Cashiers with physical access to cash could steal cash/checks by collecting cash/checks from customers, but not entering the transaction into the POS system, entering the complete value of the transaction into the POS system, and/or crediting the customer's account for payment.

Recommendation 3

MCDOT should ensure that there are clear, detailed, and documented procedures and requirements governing reconciliations for manual residential parking permits; and should ensure that these procedures and requirements are clearly communicated and enforced.

For example, the reconciliation requirements and procedures could include the following:

1. Number of permit transactions available for sale
2. Number of permit transactions sold
3. Number of permit transactions remaining
4. Variances (with any allowable thresholds), with justifications and/or resolutions
5. Preparation, review, and sign-off by the preparer and reviewer
6. Independent review and sign-off by MCDOT Parking Program Manager(s) providing oversight if the reconciliation is performed by an outside party (e.g., vendor)

Finding 4: Limited Access Management Review Documentation

Background

Within Administrative Procedure (AP) 6-7, Information Security (the County's policy and procedure document on computing assets and infrastructure policy and procedure) the following processes have been documented:

- Chapter 1 Information System Access
 - Section 1.1.10: Review User and Information System accounts for compliance with account management requirements at least annually.
 - Section 1.3.2: Reviews of the privileged accounts must be performed annually to validate the need for such privileges.
- Chapter 11 Physical and Environmental Protection
 - Section 11.1.4: Review the access list detailing authorized facility access by individuals annually.

SC&H inquired with MCDOT Parking Management regarding the periodic documented user access and physical access reviews completed during the scope period. Per discussion, the reviews should have included a review of collection cards, badge/key access, and applicable software system access (e.g., Oracle ERP, PARC/S, PNC Banking Portal, eTIMS, and related components).

Finding

Documentation could not be produced to verify the system and physical user access reviews had been performed during the scope period, as was initially communicated, in order to verify compliance with AP 6-7.

MCDOT Parking stated the MCDOT Parking Operations Section Chief performed a review of users for software system access and cloud-based users in January 2022. Additionally, it was stated a review of the user listing is performed when new users are added and removed from the division. However, there is no documented evidence of this level of review being performed.

Risks

1. Lack of a formalized process that documents the requirements for periodic user access review may result in lapses and/or breaches to critical systems and sensitive areas.
2. Failure to perform a periodic user access review could result in unauthorized access and successful attacks, including but not limited to, denial of service attacks, ransomware attacks, manipulation of data, fraudulent activities, and theft of money and assets.

Recommendation 4

MCDOT should retain documentation of the user access and physical badge access reviews that are performed to verify compliance with AP 6-7, that user access is appropriate for systems and physical locations deemed critical and/or sensitive to MCDOT Parking processes. User access reviews should record the authorized personnel reviewing the user listing, the date of review, and any necessary actions needed to ensure unauthorized users have their access disabled and/or removed.

Finding 5: Misalignment with County Policies and Procedures

Background

Finance developed and updated the County's Accounts Receivable policy as of April 1, 2020. The purpose of the policy is to ensure best practices are followed for the activities relating to the County's Accounts Receivable and collection of County cash receipts. The policy includes sections related to cash management operations, including:

1. Receiving Payments
2. Making Timely Receipt Deposits
3. Automated Financial Systems and Interfaces
4. Internal Controls and Documentation
5. Training Employees Who Work with Finances

MCDOT Parking has documented policies and procedures (procedures) for each of the cash management programs and operations. Further, for programs and operations performed by external vendors/service providers, the documented procedures are agreed upon between the vendor/service provider and MCDOT Parking. SC&H evaluated MCDOT Parking's

procedures to the identified cash management sub processes (e.g., cash handling/receipts, balancing, and reconciliation, etc.) for completeness as well as alignment with the County's Accounts Receivable policy.

Finding

We identified three (3) procedures within Enforcement and Citation Management that Conduent performs but did not document completely within its procedures and do not align with the guidance provided in the MCG Department of Finance Accounts Receivable policy.

The policies and procedures utilized by Conduent sales store personnel did not specifically include reference or provide additional details regarding the following processes, as documented in the County's policy:

1. Data upload/integration between eTIMS and Oracle ERP
2. Processing refunds/credits/voids transactions
3. Physical cash security

Risks

1. Lack of complete policies and procedures that align with Countywide requirements could negatively impact:
 - a. The establishment and performance of necessary activities performed consistently, efficiently, and effectively in a controlled and timely manner.
 - b. The ability to perform critical activities in the absence of the primary users.

Recommendation 5

MCDOT in coordination with Conduent Management, should develop/update policies and procedures to ensure they better align with County policies and procedures. MCDOT should ensure going forward that any changes in County policies are reflected in Parking Management policies and procedures; and should periodically review the Parking Management policies and procedures to ensure alignment with County policies.

For example, the policies and procedure documents could include, but not be limited to the following:

1. Documenting the data upload/integration between eTIMS and Oracle ERP.
2. Identifying system and process owners for the data upload/integration.
3. Documenting scenarios, guidelines, roles, and responsibilities for processing refunds/credits/voids transactions.
4. Documenting physical cash security parameters in place within the contractor/service provider operations.

Comments and MCIA Evaluation

We provided the Department of Transportation (MCDOT) with a draft of this report for review and comment. MCDOT responded stating that they did not have any formal comments, did not take issue with the report's recommendations, and are prepared to take corrective actions to address the report recommendations. No changes have been made in the report based on the response.