Douglas County Internal Audit

July 25, 2014

Douglas County Board of Commissioners
1819 Farnam Street, Suite LC2
Omaha, NE 68183

Attention: Mary Ann Borgeson, Mike Boyle, Clare Duda, Marc Kraft, PJ Morgan, Chris Rodgers and Pam Tusa

John Ewing, Treasurer
1819 Farnam Street
Omaha, NE 68183

Dear Commissioners and Mr. Ewing:

I have completed a performance audit of cash management for Douglas County. The purpose of the audit was to assess the adequacy and effectiveness of the policies and procedures in place over cash management including short and long-term investments. The audit revealed that there are opportunities to improve cash management for the County and its investment performance. Specific issues and recommendations to improve management over cash and investments were identified and appear below.

Background

Over the last fiscal year, the County's total cash and investments including those held for others averaged approximately $296 million. Throughout the year, it collects roughly $1 billion for itself and other political subdivisions and agencies. On average the investments total approximately $133 million. The remainder of the amount is kept in cash. Obviously, managing the cash and investment needs for this amount of money is an important function of County government.

The County has a passive investment policy meaning there is limited buying and selling with the intention of holding purchases to maturity. The primary investment objectives listed in order are safety, liquidity, and yield. The policy limits maturities to terms of no longer than two years. The types of securities generally purchased are U.S. Government bills and bonds, and securities issued by the Federal Farm Credit Bank, Fannie Mae and Freddie Mac. All purchases are the highest rated securities of AAA or AA+. Investments in certificate of deposits have been very limited due to the extremely low rates at the present time. The County also makes use of short-term repurchase accounts that can be accessed whenever needed.

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Objective

Specific objectives to be achieved by the audit included determining if management had policies and procedures in place to ensure that:

- Cash balances are accurately forecast to maximize short-term investment income and avoid shortfalls.
- All County operational personnel participate in cash planning.
- Return on investments is optimized.
- Disbursements are timed so that payments are made upon due dates and to take advantage of any available discounts.
- Treasurer cash disbursement and investment function duties are adequately controlled including appropriate segregation of duties.
- Best practices are used to help ensure that electronic transactions between customers, vendors and financial institutions are secure.
- Bank accounts are adequately monitored.
- Investment policies are reasonable and follow state statutes.

Scope

The scope of the audit included an assessment of the policies, procedures, and controls in place over the past fiscal year (i.e., July 2013 – May 2014). Tests of individual financial transactions and performance were also examined over the same period.

Methodology

The information used by Internal Audit was obtained through analysis of written policies and procedures, interviews of staff and external parties, physical observations and data and reports obtained through various systems throughout the period identified in the scope. Along with an assessment of the policies and procedures as understood, tests were performed to verify the accuracy and legitimacy of system-produced data and adherence to departmental policies. The tests included but were not limited to the following steps below:

- Verification that all investments held conformed to the investment policy.
- Analysis of investment performance.
- A review of the usage of the known bank accounts of the County.
- Examination of the banking analysis statement.
- Examination of bank reconciliations.
- Examination of fifty-five Treasurer Disbursements and eight journal entries for proper support and authorization.

Additionally, Internal Audit compared Douglas County's investment policy and performance to other similarly populated counties. The counties included Fort Bend County, Texas, Ramsey County Minnesota, Stanislaus County, California, and Johnson County, Kansas. It was noted that the two counties that disclosed their portfolio rates of return were much higher than Douglas County (.0056 and .0093 compared to .0022). This was primarily due to investing in longer term yields. The policy comparisons also provided some significant differences. Proposed policy changes and other issues appear in the Findings section below.

Findings

Cash Management Policy

Criteria: County-wide cash and investment management policies should be designed to provide the best possible returns in light of the County's risk appetite. The policies should make use of best practices where appropriate, and the Treasurer's office should disseminate the policies to other elected officials and departments to help ensure conformance where required.

Condition: The Treasurer has a written investment policy. However, there are key aspects and best practices of cash management that are not included in its policy and practices. This includes the omission of:

- An Advisory Committee to help strengthen investment policy and performance.
- The use of an experienced or credentialed investment officer or adviser.
- A disbursement policy designed to conserve cash.
- Dissemination of these policies and practices with other departments and elected officials including cash forecasting.

Effect: Cash management and investment performance is not being independently evaluated or scrutinized. Without independent and professional oversight, the cash management and investment policies and procedure may not include important aspects of managing cash and investments. As an example, County expenses (i.e., disbursements made through the County Clerk/Comptroller) are paid after they are processed without regard to a due date. Twenty-five percent of invoices (fifty-five percent of the dollar value) are paid within seven days of the invoice date. Fifty percent are paid within fourteen days (Seventy-one percent of the dollar value). Paying invoices sooner than may be required does not conserve cash and results in lost investment income. If the County had held on to these disbursements for seventeen days, the County could have earned an additional $8000 of investment income over the past year (based upon the County's return over the past year).

Cause: The Treasurer's cash management efforts were narrowly focused based upon the current investment policy.

Recommendation: Expand the current policies to include all aspects of cash management as well as investments. This should include:

- The use of an Advisory Committee to provide additional expertise over cash management/investments.
- Guidelines to conserve cash through the use of properly timed invoice payments.
- County-wide, periodic, coordinated cash forecasting.
- Dissemination of the cash management policies to other elected officials and departments.

Additionally, consider requiring treasury and cash management training or professional certification for the person performing investment and cash management functions within the Treasurer's office.

Management Response: The Douglas County Treasurer's Office does annually review its investment strategy with its banking partners and the County's Fiscal Administrator (Joe Lorenz). The investment strategy seeks to obtain the best return on the County's investment while minimizing the annual banking fees that would have to be paid at year end.

The Treasurer's Office will collaborate with the Clerk's Office, Patrick Bloomingdale, Purchasing Department, and the County Board to develop an advisory committee that could include individuals with the proper credentials to assist with developing long range cash management and investment strategies that could guide the policies revisions.

As well, the Douglas County Treasurer's Office will consider credentialing its accounting management staff, recognizing this may result in having to pay an increase in salary(ies) to that/those individual.

Criteria: Management should adhere to the investment policies it has established for itself.

Condition: The following key requirements of the investment policy were not being followed:

- The policy has not been reviewed annually nor updated since 2005.
- There have not been annual external audits for policy compliance.
- The Treasurer's Office has not actively analyzed its investment performance.
    - Note: Internal Audit verified that the return on investments (approximately .0022 over the past fiscal year) has met the benchmark of the average Federal Funds rate per the policy.
- Annual depository compliance per the Investment has not been complete; however, this may be an unnecessary and inefficient policy requirement.

Effect: The effects of the above conditions are reflected as follows:

- The policy does not provide for the possibility of investing in additional securities and securities with longer terms as provided for in state statute §77-2341 and currently in use by the Nebraska Investment Council. The use of additional investment options would likely have resulted in higher investment returns.
- Additional investment income may have been lost by keeping excessive amounts in short-term investments rather than longer-term investments as provided in the current policy. There is currently $14.7 million in the County's short-term investment account. If $10 million of this amount had been invested longer term, the County could have received an additional $25,000 of investment income over the past year (using the average Treasury rate for two-year securities over the last year).
- There was no evidence to show that all banks where deposits are kept have been approved by the County Board as required by state statute §77-2313. The banks that may not have been approved are Bank of Bennington, Wells Fargo, and Bank of America.

- The Investment policy requires annual approval of depositories by the County Board. Annual approval is not required by state statute. Obtaining annual approvals resulted in unnecessary efforts in obtaining the approvals.

Cause: The Treasurer's office did not schedule an annual update of the investment policy. Independent oversight could have helped to ensure that there were updates and adherence to policy, as well as provide close scrutiny of performance.

Recommendation: As recommended above, update the current cash management and investment policies and establish controls to help ensure the policies are followed. To help provide higher investment returns consider expanding the list of investments as allowed in statute §77-2341. It provides for investments in terms longer than two years and additional types of investment securities. Examine the short-term needs of the County and move short-term investment not needed from the short-term to longer term investments. Consider omitting the requirement to obtain annual approval of depositories. Obtain approvals for initial applications only.

Management Response: The Douglas County Treasurer's Office had begun the process of updating its investment policy and has obtained information from the Nebraska Investment Council.

The Treasurer's Office has transferred $10 million from Mutual to invest First National Bank to purchase a bond with a higher yield.

As well, the Treasurer's Office believes the advisory committee may assist with developing long range cash management and/or investment strategies which, in turn, will guide the policy revisions.

Currently, the Douglas County Treasurer's Office does annually review its investment strategy with its banking partners and the County's Fiscal Administrator (Joe Lorenz). The investment strategy seeks to obtain the best return on the County's investment while minimizing the annual banking fees that would have to be paid at year end. In the past, the interest rates were such that the interest income was sufficient to cover the banking fees.

The Douglas County Treasurer's Office believes it appropriate to inform the County Board of who the County conducts business with.

Bank Reconciliations

Criteria: Management should periodically substantiate and evaluate recorded balances for cash accounts and provide for proper preparation, supervisory review, and timely resolution of outstanding items.

Condition: Investments and cash accounts are reconciled from bank statements to QuickBooks and then subsequently to Oracle. The differences between the QuickBooks reconciled balances and Oracle accounts averaged $162,000 over the first 10 months of the 2014 fiscal period. There was no explanation detailing what the differences were. This is a repeat finding originally noted in the 2013 cash handling audit.

Effect: Without knowing the detail of the differences between Oracle and QuickBooks, management cannot know with certainty that all transactions were posted completely and accurately and any error or irregularities were properly resolved.

Cause: The investigation of the reconciliation differences has not been a priority of the Treasurer's office.

Recommendation: With the help of other County departments, investigate further and work toward developing a strategy to migrate from QuickBooks and Quicken to Oracle Cash Management. It is recognized that migrating to Oracle is a major undertaking and the County may ultimately decide the effort is not worthwhile. In the meantime, the Treasurer should make it a priority to investigate the differences and provide detailed explanations of the differences in the formal reconciliations along with appropriate documentation and evidence of supervisory review.

Management Response: The Douglas County Treasurer's Office continues to work toward resolving the issue of reconciling QuickBooks/Quicken to Oracle.

Banking Analysis Statements

Criteria: The County should pay for all and only the fees and expense for which it is liable.

Condition: The banking analysis statements show that the County Corrections Inmate and the Eastern Nebraska Human Services Agency (ENSHA) bank accounts are included in the County's banking fee structure. The amount of money on hand for these accounts does not generate enough credits to cover the banking fees that these accounts generate. The average excess fees generated by the Inmate and ENSHA account were approximately $300 a month each. An additional $1.1 million for each account would be needed to be deposited at the bank to cover these expenses.

Effect: The County must keep an additional $2.2 million of cash on-hand at the bank to cover the banking fees generated by the Inmate and ENSHA accounts. This results in lost investment income of approximately $4900 based upon the County's current rate of return for both short and long-term investments. The return could potentially be almost double the amount if the cash was invested solely in long-term securities.

Cause: The Treasurer did not consider pursuing reimbursement from other entities generating County banking fees.

Recommendation: Consider seeking reimbursement from ENSHA and the Inmate account or have the entities open their accounts under their own identities and fee structures.

Management Response: The Douglas County Treasurer's Office will confer with Fiscal Administration and then take the appropriate action to resolve this issue.

Bank Accounts

Criteria: The County should monitor all bank accounts for proper control and activity.

Condition: By state statute, the Treasurer is required to receive all money collected by the County. Logically, it would follow that the Treasurer would be the proper office to be the repository of all bank account information. The County does not have a complete, definitive list of all County bank accounts. The County Clerk/Comptroller keeps one list and the Treasurer another. The Treasurer had seven accounts that were not included on the Clerk/Comptroller's list; the Clerk/Comptroller had ten accounts not included on the Treasurer's list. Internal Audit identified an additional account that was not on either list. Additionally, the accounts (including the investment accounts) were not effectively monitored for need or use.

Effect: The County cannot be certain it is aware of all bank accounts currently opened in its name or of the persons with access to the accounts. Consequently, the County cannot be certain that there are proper controls over all the accounts including adequate segregation of duties or the proper preparation of bank reconciliations. Unauthorized bank activity could occur and possibly not be detected.

Without monitoring of current accounts it cannot be certain that all accounts are actually needed. Consequently, there are three idle bank accounts that are no longer needed, but have yet to be closed. Additionally, the $1.8 million short-term investment held for Hospital Fund #3 does not need to be invested separately (Hospital Fund #3 is no longer needed). The $1.8 million investment could have been available for longer-term investments and earned an additional $4,600 in investment income based upon the County's long-term rate of return.

Cause: There was a lack of coordination and attention paid to monitoring bank accounts.

Recommendation: The Treasurer should compile a definitive bank account listing for the County. Working with the Clerk/Comptroller's office and making use of their annual questionnaire is an appropriate means to help accomplish this task. There should also be documentation for each account that should include all current bank resolutions, authorized signers, associated wire transfer agreements and any other related agreements or means to access or disburse funds (e.g. a debit card). The listing and accounts should be monitored throughout the year.

Per state statute, the Clerk/Comptroller Office is responsible for accounting controls. As such, the Clerk/Comptroller office should ensure that there are proper controls over all county accounts including adequate segregation of duties and proper reconciliations prepared monthly according to their current policy. The reconciliations should be submitted or made available to the Clerk/Comptroller's office so they can be assured the reconciliations are being prepared properly. The Treasurer should also close the idle accounts and consider moving the Hospital Funds #3 account to longer term investments.

Management Response: The Douglas County Treasurer's Office will continue to work with the Douglas County Clerk's office to maintain an updated bank account listing. Both offices rely heavily on the information reported in the revenue questionnaire. The revenue questionnaire is a document the Douglas County Clerk's Office sends out at the end of each fiscal year to the various county department heads. The various department heads directs completion of this document within their organization. In turn, the banking information that is reported in this document is used to update the account listing.

Currently, the Treasurer's Office does annually review its investment strategy with its banking partners and the County's Fiscal Administrator (Joe Lorenz). The investment strategy seeks to obtain the best return on the County's investment while minimizing the annual banking fees that would have to be paid at year end. In the past, the interest rates were such that the interest income was sufficient to cover the banking fees.

As well, the Treasurer's Office believes the advisory committee could help develop long range cash management and investment strategies that will help guide policies revisions that could also include opening new accounts and/or closing idle accounts.

The Clerk/Comptroller's office will request from the County Treasurer as well as other elected officials and departments, receipt of documentation of all reconciliation of systems/accounts used in the collection and/or disbursement of county funds on a monthly basis. Copies of all bank account information obtained from the annual questionnaire sent to departments will be provided to the Treasurer. The Clerk/Comptroller's office will develop a bank account reconciliation policy governing all county bank accounts which will include sample worksheets, and will offer to provide training to county offices and departments on request.

Audit Standards

Internal Audit conducted this audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those standards require that the audit is planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Internal Audit believes that the evidence obtained provides a reasonable basis for its findings and conclusions based on the audit objectives. This report was reviewed with the Douglas County Treasurer, the Chief Deputy Douglas County Treasurer and the Treasurer's Senior Director of Accounting/Auditing.

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Internal Audit appreciates the cooperation provided by the office's management and staff. If you have any questions or wish to discuss the information presented in this report, please feel free to contact me at (402) 444-4327.

Sincerely,

Mike Dwornicki
Internal Audit Director

cc: Paul Tomoser
Trent Demulling

Joni Davis
Donald Stephens
Thomas Cavanaugh
Tim Cavanaugh
Kathleen Hall
Patrick Bloomingdale
Diane Carlson
Joe Lorenz
Patricia Carter
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