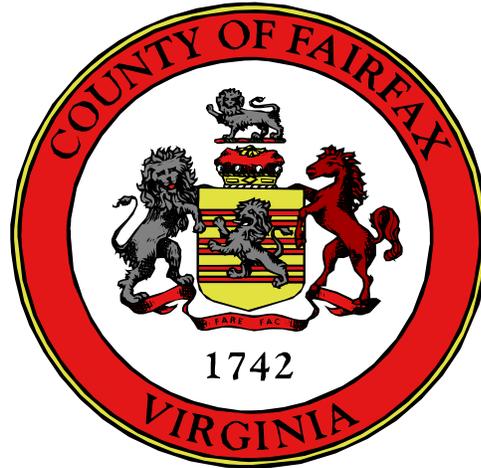


INTERNAL AUDIT REPORT

Audit of Non-Finance Department Bank Accounts



Fairfax County Internal Audit Office

**FAIRFAX COUNTY, VIRGINIA
INTERNAL AUDIT OFFICE
M E M O R A N D U M**

TO: Anthony H. Griffin
County Executive

DATE: January 3, 2003

FROM: Larry S. Hertzog, Acting Director
Internal Audit Office

SUBJECT: Report on the *“Audit of Non-Finance Department Bank Accounts”*

Attached is the Internal Audit report entitled, *“Audit of Non-Finance Department Bank Accounts.”* It was performed as part of our FY2002 Annual Audit Plan.

The findings and recommendations of this audit were discussed with the appropriate departments. We have reached agreement on all of the recommendations and I will follow up periodically until implementation is complete. Their responses are incorporated into the report and the full response is attached at the end of the report. After your review and approval, we will release the report to the Board of Supervisors.

LSH: dh

Attachment

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Introduction

The Department of Finance's (DOF) role regarding County bank accounts is to provide guidance and oversight support to all County banking functions ensuring cost efficient, timely and accurate banking services. The County's primary banking services are currently provided by Bank of America and include: depository, disbursements, lockbox, armored carrier service, positive pay, wire transfers, account reconciliation and reporting and Automated Clearing House (ACH) services. The Department of Finance directly maintains, monitors and transacts business using 33 accounts with the Bank of America. These depository and transaction accounts had deposits of over \$3.07 billion and issued about 320,801 checks in FY2002.

Additional banking services are acquired by County departments, generally for checking accounts, at eight banks in the area. These accounts had balances of approximately \$54.2 million as of December 31, 2001, excluding retirement funds. The vast majority of those accounts are managed by the Department of Housing and Community Development with 171. The Department uses 68 of the 171 accounts to conduct County business and 103 of the 171 accounts are conduit accounts with SunTrust Bank used for limited partnership development projects. Additional accounts are managed by Circuit Court, Animal Shelter, Juvenile and Domestic Court and Office of the Sheriff.

The DOF mission includes development and distribution of County policy and guidance concerning financial processes and account arrangements for all County funds. The Director of Finance has responsibilities for the keeping and supervision of all accounts, including supervision of expenditures and the collection of all money. In addition, the DOF is responsible for the accurate recording of all transactions and financial reporting.

Safeguarding and preserving the integrity of the County's bank accounts is important in maintaining successful fiscal operations. A well-managed set of banking relationships assures asset protection, efficient transaction processing, satisfied customers and business partners, and a clear picture of the County's financial circumstances. In addition, adherence to statutory requirements and sound management controls and practices minimizes the potential for misuse of County funds.

Purpose and Scope

This audit was performed as part of our FY 2002 long-range Audit Plan. Our audit objectives were to:

- Identify all bank accounts used by County departments that are not monitored or controlled by the Department of Finance
- Determine that the accounts are managed in compliance with the County's policies and procedures
- Determine that proper internal controls exist and accounts are controlled with proper accounting, authorization and depository and expenditure controls
- Verify that monthly reconciliations are being performed on all County non-Finance bank accounts.

The scope of our audit focused on a review of management and internal controls over all departments with bank accounts that are not maintained by the Department of Finance during FY 2002. This audit focused on all bank accounts not included in Financial Accounting Management Information System (FAMIS), the County's financial system.

Methodology

Our audit approach included interviewing key employees, examining account records and conducting surveys. We reviewed controls for a sample of the 187 accounts identified as non-Finance bank accounts. We evaluated the departmental processes for compliance with Accounting Technical Bulletin 003, *Bank Deposit Preparation and Recording*. This included the review of standard internal controls and procedures for bank accounts.

Our audit did not test the accuracy of departmental bank reconciliations. We did not evaluate computer systems controls in FAMIS or in departmental record keeping for bank accounts and their transaction trails.

In addition, we used as references, survey information collected from other local governments concerning the management of bank accounts and banking relationships, authorization to open accounts, and organizational policies that provide guidance to departments. We reviewed State Code and regulations promulgated by the Auditor of Public Accounts in order to determine County compliance with these statutory and oversight bodies. This audit was performed in accordance with generally accepted government auditing standards.

The Fairfax County Internal Audit Office is free from organizational impairments to independence in our reporting as defined by Government Auditing Standards. We report directly to and are accountable to the County Executive. Organizationally, we are outside the staff or line management function of the units that we audit. We report the results of our audits to the County Executive, the Board of Supervisors, and reports are available to the public.

Executive Summary

In our opinion, the County effectively manages bank services and accounts. However, there are several opportunities for improving controls over non-Finance bank accounts. We identified 278 accounts under the management responsibility of departments other than DOF. These accounts were opened to satisfy departmental banking needs, and 187 were opened without approval or coordination with DOF. We provided detailed information collected concerning the 187 bank accounts to DOF. The majority of these accounts are managed in full compliance with existing County policies and guidelines.

Internal controls are adequate, with a few exceptions, to safeguard bank accounts from loss or misuse. With the exception of Comments 2 and 3, the records maintained for the departmental bank accounts that we reviewed in our sample are complete.

There are several opportunities for strengthening internal controls for non-Finance bank accounts and we have made the appropriate recommendations to management as summarized below.

- The Director of Finance has the authority to determine the effectiveness of requiring County agencies and departments to place bank accounts with the County's primary bank services provider. Advantages may include reduction or elimination of bank account fees and improvements to the overall control environment for the County's business accounts. Control over bank accounts will be strengthened by providing direct bank on-line access to the DOF under the primary bank contract.
- DOF must update existing County policy or develop a new policy document regarding bank accounts. This policy must require all departments to provide information to DOF concerning their existing bank accounts and give prior notification for all actions to open or close bank accounts used for County business, regardless of funding sources. The department should ensure the successful implementation of this policy and its compliance over time through its oversight role.
- The Community Services Board's (CSB) policies and procedures are outdated and do not address authorizing, reconciliations and segregation of duties. In addition, there is inadequate control over use and monitoring of accounts. CSB should update their procedures to address segregation of duties, issuing checks and reconciliations. These procedures should be distributed to all CSB programs with departmental bank accounts so all facilities will be consistent with the process. CSB should also segregate check issuance duties from bank reconciliation duties in all cases.
- The Department of Housing and Community Development (DHCD) has not consistently performed monthly reconciliations for some of their bank accounts. The DHCD should perform the reconciliations of the bank accounts on a monthly basis.

Some potential issues regarding the monitoring and reconciliation of capital retainage escrow accounts came to our attention during the audit. The final disposition of these issues will be further researched and, if necessary, a separate audit will be conducted.

Comments and Recommendations

Department of Finance

1. County departments have opened and established 187 bank accounts without the knowledge of the Department of Finance.

These accounts are not processed through FAMIS, the County's financial system. DOF has established internal procedures for its own operations to open bank accounts. They also have written procedures for departments to open and establish accounts through FAMIS. However, the DOF did not establish procedures for the County departments opening accounts outside of FAMIS. County departments have opened 187 bank accounts outside of FAMIS totaling approximately \$54,198,000. An additional 91 accounts were either approved by the DOF or opened with their knowledge.

According to Section 15.2-826 of the Code of Virginia, Department of Finance; director; general duties states that, "The Director of Finance shall be the head of the Department of Finance and as such have charge of . . . (iv) the custody of all public funds belonging to or handled by the county; (v) the supervision of the expenditures of the county and its subdivision; (vi) the disbursement of county funds . . . (viii) the keeping and supervision of all accounts: . . ." Further, Section 15.2 - 829 of the Code of Virginia states that, "All moneys received by any county officer or employee for or in connection with the business of the county shall be paid promptly into the hands of the director of finance." In addition it states, "No money shall be disbursed or paid out of the county except upon check signed by the chairman of the board, or other person the board designates, and countersigned by the director of finance or by an electronic fund wire or payment system, or by any means deemed appropriate and sound by the director of finance and approved by the board drawn upon a warrant issued by the board."

We also conducted a survey of five local jurisdictions and compared the practices to the County's policies and procedures. Overall survey results show jurisdictional policies and procedures for openings; establishing and approval of any and all bank accounts go through a central department.

The lack of thorough guidance and coordination with DOF could lead to poor controls over non-FAMIS funds and be in potential violation of the Code of Virginia.

Recommendation 1.1

High Priority

DOF should update existing County policy to require all departments to provide information to the Department of Finance concerning their existing bank accounts and give prior notification for all actions to open or close bank accounts used for County business, regardless of funding sources.

Department Response

- Draft a policy document that states the policy for opening and closing county bank accounts.
- Update existing guideline and develop a draft document for maintaining depository bank accounts.
- Review the draft documents (selected County departments)
- Finalize documents and communicate policy to departments.

Recommendation 1.2**High Priority**

The Director of Finance, subsequent to the issuance of this updated policy; should assign the appropriate staff to assist departments' compliance with that policy and followup to certify the bank account listing on an annual basis.

Department Response

Meet with those departments that have Non-Finance bank accounts. Begin this process with:

- Housing
- Circuit Courts
- Sheriffs Department.

Establish a database of accounts not recorded in FAMIS.

- Require departments to certify that bank reconciliation occurs each month.
- Require departments to submit a certified annual report of accounts with a copy of the bank statement.
- Require departments to develop written procedures for maintaining this type of bank account.

Community Services Board**2. The Community Services Board's policies and procedures are outdated and do not address authorizing, reconciliations and segregation of duties. In addition, there is inadequate control over use and monitoring of bank accounts.**

We found that 12 of 15 bank accounts examined showed no evidence of supervisory or independent review for bank account reconciliations. Also, the same person is signing checks and performing the reconciliations. Management has closed six of the fifteen accounts during our audit.

Basic accounting principles and sound internal controls require adequate separation of duties and periodic reconciliation of accounts to safeguard assets and deter misappropriation of funds. The lack of CSB standardized policies and procedures weakens controls and safeguards over bank accounts.

Prior to the centralization of the CSB administrative function, each section was responsible for developing their own set of procedures for bank accounts. There was no well defined procedure for monitoring the accounts.

Recommendation**High Priority**

CSB should update their procedures to address segregation of duties, issuing checks and performing reconciliations. These procedures should be distributed to all CSB programs with bank accounts so all facilities will be consistent with the process and controls will be improved.

Department Response

CSB will prepare and disseminate interim procedures to address segregation of duties, check issuance, and reconciliation. Upon receipt of County-issued policy and procedures on non-Finance checking accounts, the CSB will review and update the interim procedures as necessary.

Department of Housing and Community Development

3. The Department of Housing and Community Development has not consistently performed monthly reconciliations for some of their bank accounts.

In reviewing the bank reconciliations for a sample of 19 accounts, 7 accounts were not being reconciled. Four accounts which were being reconciled had no evidence of supervisory review. An additional 8 accounts from the sample of 19 are not the responsibility of the Department of Housing for reconciliation purposes. These accounts are conduit accounts with Sun Trust Bank used for limited partnership development projects..

Basic accounting principles and a sound internal control system deters potential theft or fraud and provides early detection of any fraudulent activity. Periodic and frequent reconciliation of bank accounts performed properly, is a management control procedure that accomplishes this objective. Theft or other irregularities affecting bank accounts can take place and not be detected timely unless periodic bank reconciliations are performed.

The Department of Housing and Community Development had several vacant positions which had to be filled due to their reorganization. They were temporarily under staffed and did not perform the reconciliations. However, new positions and positions which were vacant were filled at the end of 2001. The Department of Housing and Community Development has written and submitted their reconciliation plan as required by the Department of Finance. The plan does identify who will be performing tasks and specifies segregation of duties.

Recommendation

High Priority

The Department of Housing and Community Development should perform the reconciliations of the bank accounts on a monthly basis. The reconciliation should be documented and signed and dated by the person performing the reconciliation. The appropriate supervisor should initial and date the review as evidence of the supervisory approval. In addition the Department of Housing and Community Development should review their existing accounts to determine if they are still needed.

Department Response

The Financial Management Division (FMD) performs monthly reconciliations on four of the seven accounts IAO examined. The remaining three accounts are reconciled semiannually based on available staff time. FMD will attempt to do monthly reconciliations, but no less than quarterly. The responsible FMD Accountant II is required to sign and date the reconciliation. In addition, the responsible Accountant III is required to initial and date the review. During calendar year 2003, FMD will review all FCRHA bank and trustee accounts to determine if any should be closed out.