



**Internal Audit Committee  
of  
Brevard County, Florida**

**Internal Audit Review of**

**Finance – Cash Management**

**Prepared By:  
Internal Auditors of Brevard County  
September 30, 2003**

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September 30, 2003

The Audit Committee of  
Brevard County, Florida  
Viera, Florida 32940-6699

Pursuant to the provisions of Section 125.01(1)(s), Florida Statutes, and the approved 2002/2003 internal audit plan, we hereby submit our internal audit report covering Finance – Cash Management. We will be presenting this report to the Audit committee at the next scheduled meeting on November 13, 2003.

Our report is organized in the following sections:

<b>Background</b>	This provides an overview of Finance – Cash Management.
<b>Objectives and Approach</b>	The internal audit objectives and focus are expanded upon in this section as well as a review of the various phases of our approach.
<b>Issues and Recommended Actions</b>	This section gives a description of the issues as well as the impact and recommended actions.

We would like to thank the Finance Department and all those involved in assisting the Internal Auditors regarding this report on the Cash Management function. Overall, we found good internal controls over the cash management function. We found the Finance staff to be receptive to the recommendations and, as noted in our report, they have already begun making the recommended improvements.

Respectfully Submitted,

*INTERNAL AUDITORS*

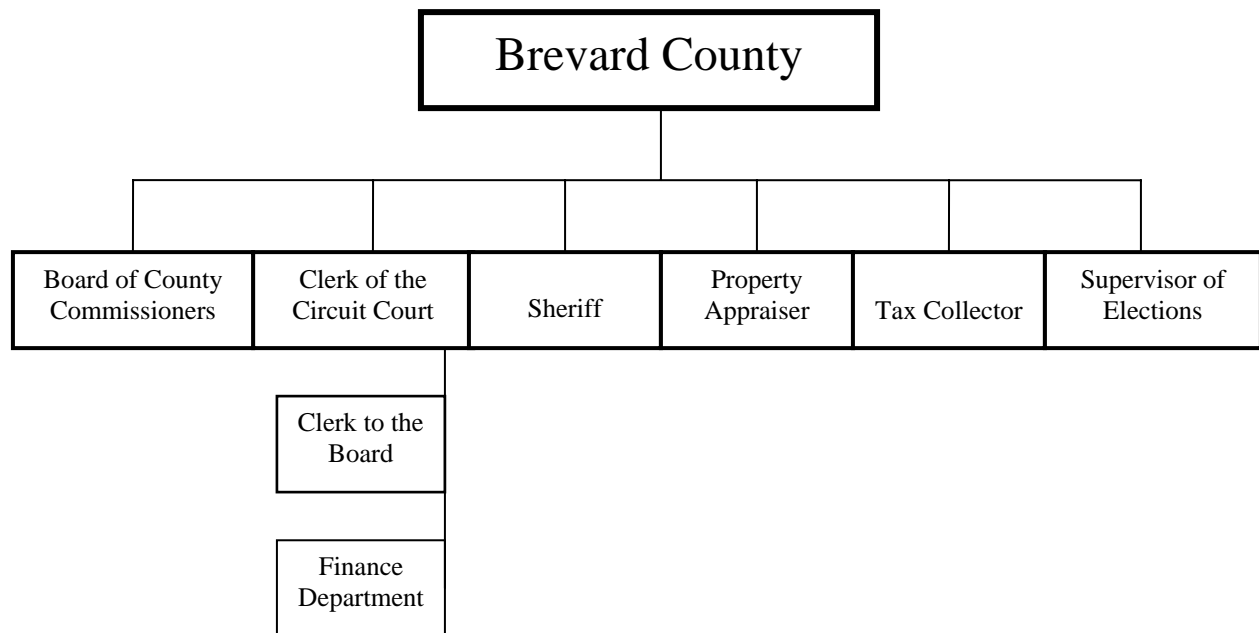
# **Background**

# Background

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## Organization

Under Florida Statutes, Section 28.12, the Brevard County Clerk of the Circuit Court serves as both the clerk and accountant of the Board of County Commissioners. The Clerk of the Circuit Court is authorized under Florida Statutes, Section 28.33, to invest County funds in excess of those required to meet expenses as provided in Section 218.415. Within the Clerk of the Circuit Court, the County's Finance Department primarily controls the cash management function and is responsible for the management and use of funds generated from various sources including bond proceeds, local, state, and federal grants, revenues from daily operations, and investment earnings.



## Responsibilities

The Finance Department is responsible for accounts payable, payroll and timekeeping, cash management and overall general accounting for Brevard County.

Specifically, the cash management function includes, but is not limited to, the following:

- Accounting and recordkeeping for all cash and investment activities.
- Periodic review of cash balances and investment portfolios.
- Recording and monitoring investment earnings.
- Handling bank deposits for other departments.
- Monitoring contracts on behalf of the County:
  - Outsourced investment advisory services
  - Custodial/safekeeping
  - Repurchase agreements
- Bank and investment reconciliations.
- Miscellaneous cash receipts
- Electronic transfers of cash.
- Cash flow analysis.

# Background - continued

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## Cash

The Finance Department monitors the cash balance on a daily basis to make certain enough funds are available to meet current expenses and also to ensure that large amounts of excess funds are taken out and invested elsewhere to earn a higher rate of return. SunTrust serves as the County's designated custodian of all cash and investments.

There is one primary bank account, referred to as the "Consolidated" account, and one "Payroll" account. The County has a repurchase agreement in place with SunTrust whereby all funds over \$1.1 million are swept out of the Consolidated account and invested overnight to earn interest. In addition, there are eight small bank accounts for Barefoot Bay. Although Barefoot Bay is owned by the County, these accounts are required to be kept separate from the County's other accounts in order to comply with bond covenants.

## Investments

In December 2001, the County Commission adopted the County's Investment Policy (Policy) as revised to meet the requirements outlined in Florida Statutes, Section 218.415. This Statute dictates that local governments must have an investment policy for any public funds in excess of the amounts needed to meet current expenses. The policy is to be structured in such a way that the optimization of investment returns is secondary to the requirements for safety and liquidity. In addition, the following items are addressed within the Policy as required under the Statute:

- Scope
- Investment objectives
- Performance measurement
- Prudence and ethical standards
- Listing of authorized investments
- Maturity and liquidity requirements
- Portfolio composition
- Risk and diversification
- Authorized investment institutions and dealers
- Third-party custodial agreements
- Master repurchase agreement
- Bid requirements
- Internal controls
- Continuing education
- Reporting

In January 2002, the County Commission passed an ordinance establishing a listing of authorized investments for the County's investment program pursuant to Section 218.415, Florida Statutes as follows:

- A. The Florida Local Government Surplus Funds Trust Fund ("SBA")
- B. United States Government Securities
- C. United States Government Agencies
- D. Federal Instrumentalities
- E. Interest Bearing Time Deposit or Saving Accounts
- F. Repurchase Agreements
- G. Commercial Paper
- H. Corporate Notes
- I. Bankers' Acceptances
- J. State and/or Local Government Taxable and/or Tax-Exempt Debt
- K. Registered Investment Companies (Money Market Mutual Funds)
- L. Intergovernmental Investment Pool
- M. Inter-Departmental Loans

# Background - continued

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## Investment Committee

The County's revised Investment Policy entrusts the Brevard County Investment Committee (Committee) with the responsibility of providing oversight to the management of the County's investment program. As outlined in the Policy, the Committee consists of two community volunteers and three staff members as follows:

- 1) Dr. Brent Dalrymple - Professor of Finance for the University of Central Florida,
- 2) Amy Elliot – Assistant City Manager for the City of Melbourne, Florida,
- 3) Greg Lugar – Director of Economic and Financial Programs for Brevard County,
- 4) Greg Pelham – Finance Manager for the Brevard County Public Works Department,
- 5) Mark Peterson – Financial Accounting Supervisor for the Brevard County Finance Department.

Mr. Lugar currently serves as the acting Chairperson. The Committee met for the first time in April 2002 and has met six additional times since then. According to the Policy, the Committee is given the following responsibilities:

- Review and recommend changes to the investment policy,
- Monitor the investment transactions to ensure that proper controls are in place to maintain the integrity and security of the investment portfolio,
- Assure that any applicable statutes and written policies of the Board are being followed by investment staff,
- Review and approve written investment procedures,
- Assist the Board in developing performance benchmarks and evaluating the performance of the investment strategy,
- Evaluate new or alternative investment strategies,
- Discuss such topics as economic outlook, portfolio diversification, maturity structure, potential risks and the target rate of return for the investment portfolio, and
- Report regularly to the Board.

## Investment Advisory Services

In January 2002, the County Commission approved a three year contract for investment advisory services with Public Financial Management Asset Management, LLC (PFM), a Delaware limited liability company with an office in Orlando, Florida. The primary terms of the contract are as follows:

- PFM will provide investment management of the “long-term core funds”.
- PFM will provide statistical information and reports with respect to the “long-term core funds”.
- PFM will act as an agent on behalf of the County for placing orders for the purchase, sale, loan or exchange of portfolio securities.
- PFM will not take possession or act as custodian for the cash, securities or other assets in the “long-term core funds”, but will provide instructions to the depository designated by the County as its custodian as to the delivery of securities and payment of cash for the account of the County.
- PFM will respect the County's advice and instructions with respect to selecting authorized investments and broker/dealers.
- PFM will perform its services in compliance with Florida Statutes, Board Investment Policy, and County Ordinances.
- This contract will end on January 8, 2005, or may be terminated by either party at any time by giving no less than thirty days written notice. PFM will be compensated by the County with an annual fee to be paid in monthly installments based on the daily net assets under management at an annual rate of:

<u>Average Assets Under Management</u>	<u>Fees (in basis points)</u>
First \$10 million	10 basis points
\$10 million to \$20 million	9 basis points
Over \$20 million	8 basis points

# Background - continued

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## Investment Portfolio

By using historical cash flow data provided by the County, PFM determined that the “long-term core funds” consisted of approximately \$150 million. These funds are available for long-term investment purposes and are not considered necessary to meet the County’s anticipated short-term cash needs. One of PFM’s primary objectives is to preserve the integrity of the principal core while increasing its value over time. The long-term portfolio is primarily invested in U.S. Treasuries, Federal agencies, and Mortgage-backed securities.

The Financial Accounting Supervisor in the Finance Department is responsible for managing and investing the County’s short-term funds. This includes the investment of all bond proceeds which are not considered to be part of the “long-term core funds”. The County’s short-term funds are primarily invested in State Board of Administration (SBA) of the State of Florida.

## Internal Controls and Operational Procedures

In November 2002, the County’s Investment Committee adopted the Internal Controls and Operational Procedures Manual for Investments (Manual). The purpose of this policy is to set out guidelines for authorized staff to use in performing day-to-day investment operations. These controls were created to reduce the potential risk for material loss due to: fraud, human error, misrepresentation by third parties, and imprudent actions by employees.

The Manual establishes rules for the chain of command, duties and responsibilities, separation of duties, custodial accounts, delivery versus payment, collateralization, interest rate risk, liquidity objectives, and portfolio management. Moreover, it outlines procedures for cash review, investment selection, purchasing an investment, settlement and follow-through, reporting requirements, accounting for and date input of investment transactions, bid process, safekeeping statements and procedures, and general daily operations.

The Committee is responsible for reviewing the Manual on an annual basis, and if necessary, will present modifications to the Clerk and the Finance Director.

## Staffing

Key personnel involved in the Finance – Cash Management function are as follows:

<b>Name</b>	<b>Title</b>
Steve Burdett	Finance Director
Kathy Prothman	Assistant Finance Director
Mark Peterson	Financial Accounting Supervisor

## Selected Statistics

	<u>9/30/2000</u>	<u>9/30/2001</u>	<u>9/30/2002</u>
	*	*	*
Cash and cash equivalents	\$ 191,240,681	\$ 220,961,972	\$ 264,604,966
Cash with escrow and paying agent	5,966,744	1,081,966	1,997,237
Investments (at fair value):	<u>51,899,720</u>	<u>103,413,558</u>	<u>73,866,230</u>
 Total Cash and Investments	 <u>\$ 249,107,145</u>	 <u>\$ 325,457,496</u>	 <u>\$ 340,468,433</u>

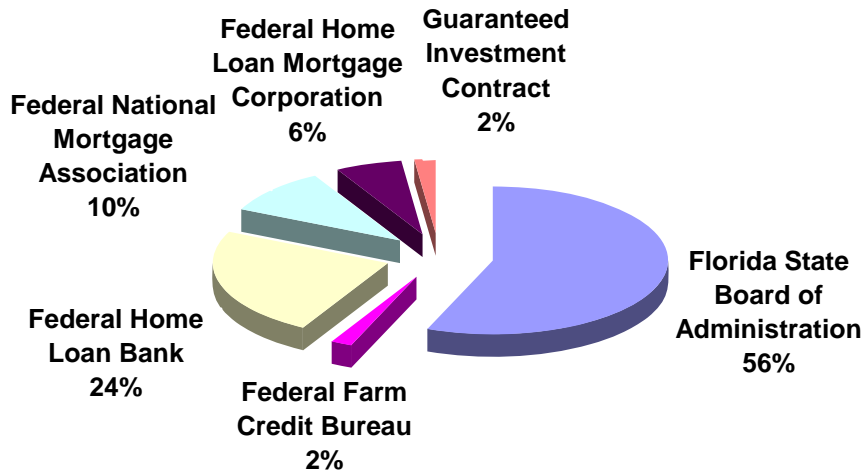
\* Source: Brevard County Comprehensive Annual Financial Reports – Primary Government.

# Background - continued

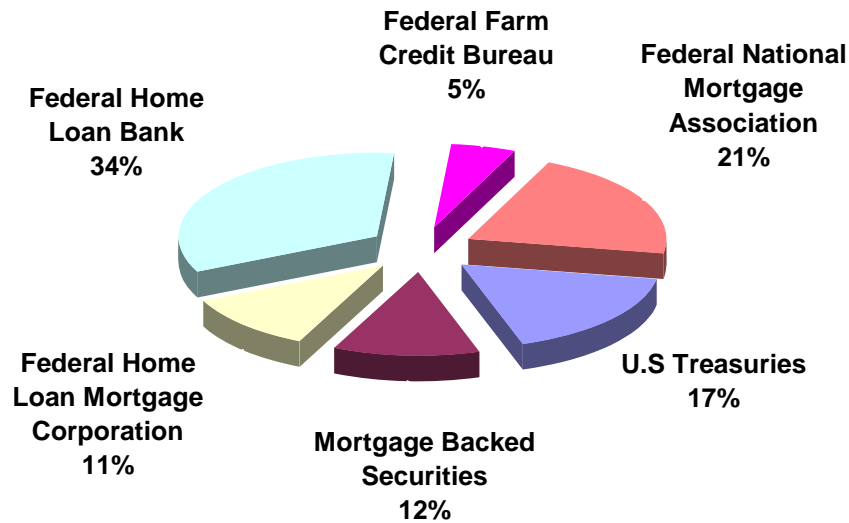
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Funds were invested in the following instruments according to the County's short and long-term investment strategies:

## Short-term Portfolio Composition as of 9/30/2002



## Long-term Portfolio Composition as of 9/30/2002



Source: Brevard County Review of Investment Performance Report for the Year Ended September 30, 2002.

## **Objectives and Approach**

# Objectives and Approach

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## Objectives

The internal audit objectives in Finance – Cash Management include the following:

<input type="checkbox"/>	Determine whether the County is in compliance with Florida Statute 218.415, <i>Local government investment policies</i> .
<input type="checkbox"/>	Determine whether the County is acting in accordance with its adopted Investment Policy No. BCC-49.
<input type="checkbox"/>	Verify that the department is operating in accordance with its Internal Controls and Operational Procedures Manual for Investments.
<input type="checkbox"/>	Determine whether the County has adequately addressed all recommendations made by the Investment Advisor, Public Financial Management, Inc. (PFM), in their report dated August 13, 2001.
<input type="checkbox"/>	Verify that there is adequate segregation of duties for cash and investments.
<input type="checkbox"/>	Determine if procedures for cash receipts, deposits, and related reconciliations include adequate control procedures to assure that cash receipts are safeguarded from loss and misappropriation.
<input type="checkbox"/>	Determine whether the County is meeting the expected performance benchmarks for both short-term and long-term investment portfolios and assess the adequacy of the chosen benchmarks.
<input type="checkbox"/>	Determine that physical controls over securities are adequate.
<input type="checkbox"/>	Determine whether the Investment Committee is meeting on a regular basis to monitor the County's investment activity.
<input type="checkbox"/>	Verify that computer controls exist to limit and control access to cash and investment records.

## Approach

Our audit approach consisted of four phases:

### Understanding and Documentation of Process

During phase one, we held an entrance conference with Steve Burdett, Finance Director, Kathy Prothman, Assistant Finance Director, and Mark Peterson, Financial Accounting Supervisor, to discuss the scope and objectives of the audit work, obtain preliminary data, and establish working arrangements. We then interviewed other employees in the Department and documented their role in the process.

### Population and Sample Determination

Transactions were selected from multiple populations in order to obtain samples of (1) investment sales and purchases, (2) investment earnings calculations, (3) outgoing wire transfers and ACH transactions, and (4) cash receipts. Our testing encompassed the period from June 01, 2002 through May 31, 2003. In addition, a sample of inter-departmental loans was selected for testing from a listing provided with balances as of September 23, 2003.

# **Objectives and Approach (continued)**

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## **Detailed Testing**

The purpose of this phase was development of applicable tests based on our understanding of the process. Our procedures included observation and inquiry, walk-throughs, and testing of individual transactions. Our testing included, but was not limited to, reviewing individual receipt transactions, timeliness of deposits, reconciliations, bank statements, investment portfolio reports, physical safeguards over assets, system and procedural controls, compliance with documented procedures, and analyzing the efficiency and effectiveness of policies and procedures.

## **Reporting**

During this phase, we summarized our findings related to the Cash Management function, based on our detailed testing, into a report format.

## **Issues and Recommended Actions**

<b><i>Issue # 1</i></b>	<b><i>Bank Reconciliations</i></b>
	<p>We noted that the County's bank reconciliations for the months of May through July 2003 were not done in a timely manner. Per our discussions with County Finance Department staff, this was primarily due to staff helping with a special project for the Clerk of the Court.</p> <p>In addition, it was noted that the bank reconciliations for the eight Barefoot Bay accounts were not being reviewed by an authorized party.</p> <p><b><i>Impact</i></b></p> <p>Not reconciling the accounts on a monthly basis could result in errors or other problems not being recognized and resolved in a timely manner. Also, it is generally easier and less time-consuming to reconcile accounts while transactions are fresh in the mind. Timely preparation of complete and accurate bank reconciliations is a key to maintaining adequate control over both cash receipts and disbursements.</p> <p><b><i>Recommended Action</i></b></p> <p>We recommend that all bank reconciliations be performed on a monthly basis in a timely manner. We further recommend that all bank reconciliations be reviewed by an authorized party and that the reconciliations be signed (or initialed) as an indication of approval. Doing so would take little additional time and would document the review process.</p>
	<b><i>Management Response and Action Plan</i></b>
<b>Response</b>	Bank reconciliations for the County's accounts are normally completed by the end of the following month. As noted by the auditors, there were exceptional circumstances that resulted in the reconciliations for May, June and July not being completed as of the date of the auditor's testing. All bank reconciliations through August were completed by September 30, 2003. Procedures are now in place for supervisory review and signed approval of all bank reconciliations.
<b>Time Frame</b>	Completed September 30, 2003
<b>Person Responsible</b>	Assistant County Finance Director

<b>Issue # 2</b>	<b><i>Unidentified Deposits</i></b>
	<p>While reviewing the County’s bank reconciliations, we noted “unrecorded deposits” which represent monies that have not been claimed by any of the County’s departments and therefore, have not yet been recorded in the general ledger. From all of the months sampled, the largest amount of unrecorded deposits was found to be \$315,525 in November 2002. This list is reviewed by County Finance Department staff on a monthly basis and attempts are made to determine which department the funds belong to.</p> <p>In some cases, copies of the checks are requested from the bank to see which department stamped the back of the check. However, there are times when departments fail to stamp the back of the check and the Finance Department comes to another dead end. After all possible methods are exhausted, the funds are eventually recorded in the General Fund if it can not be determined which department should get the monies.</p> <p><b><i>Impact</i></b></p> <p>Failure by departments to properly communicate with the County Finance Department staff and/or to stamp the back of all checks the departments are depositing results in items not being recorded in a timely manner. In some cases, the original department is never given credit for the funds deposited, if they cannot be identified, and the funds are given to the General Fund. Furthermore, the County Finance Department staff is spending a lot of time and effort trying to track down which department should be given the credit.</p> <p><b><i>Recommended Action</i></b></p> <p>We recommend that all departments be reminded of the importance of stamping the back of any checks to be deposited and of communicating with the Finance Department to ensure that all of the money they deposit is properly recorded.</p> <p>We further recommend that the County’s Finance Department consider adopting an internal policy whereby funds that are still unclaimed within 90 days will automatically be recorded into the General Fund.</p>
<b><i>Management Response and Action Plan</i></b>	
<b>Response</b>	Departments have been reminded, in a memo sent to Department Directors, on October 21, 2003 of the importance of promptly notifying County Finance of deposits. County Finance will distribute a list of unrecorded deposits on a monthly basis and will record any deposits still unclaimed at the end of 90 days.
<b>Time Frame</b>	November 30, 2003
<b>Person Responsible</b>	Assistant County Finance Director

<b><i>Issue # 3</i></b>	<b><i>Insurance Policy</i></b>
	<p>The County does not carry fidelity bond insurance on any of its employees. Per discussion with the County's Risk Management staff, the County is currently looking to purchase an insurance policy that will specifically cover losses due to fraud or misappropriation by any of the County's employees for up to \$1 million.</p> <p><b><i>Impact</i></b></p> <p>Without an insurance policy in place, the County is exposed to a greater risk for potential loss due to employee fraud or misappropriation.</p> <p><b><i>Recommended Action</i></b></p> <p>We recommended that the County follow through with obtaining insurance that will specifically cover fraud and misappropriation for all County employees.</p>
<b><i>Management Response and Action Plan</i></b>	
<b>Response</b>	Applications are currently being prepared for employee dishonesty coverage through Fidelity and Deposit Company of Maryland (F&D) and Colonial American Casualty and Surety Company.
<b>Time Frame</b>	A policy proposal will be submitted during January 2004..
<b>Person Responsible</b>	Director of Insurance & Risk Management

<b>Issue # 4</b>	<b>Cash Receipts</b>
	<p>When reviewing the daily deposit prepared by one of the Fund Accountants, the Assistant Finance Director does not compare the deposit amount to the cash receipts log to verify that the cash received per the Receptionist agrees to the deposit amount per the Fund Accountant.</p> <p>In addition, after reviewing the cash receipts from the Receptionist, the Fund Accountant will send certain checks out of the Finance Department that are written to other parties within the County and not include them in the daily deposit. The Assistant Finance Director does not look at all of these checks before they leave the Finance Department, only certain ones.</p> <p><b>Impact</b></p> <p>There is currently no control in place to ensure that all the cash received is properly included in the daily deposit. Furthermore, the checks that are sent out to other departments are not always authorized.</p> <p><b>Recommended Action</b></p> <p>The Fund Accountant who performs the bank reconciliations should compare the daily deposit amount to the cash receipts log to verify that the deposit is complete. Any checks sent outside of the Finance Department should be authorized by the Assistant Finance Director so that they can be identified as reconciling items between the cash receipts log and the daily deposit.</p>
<b>Management Response and Action Plan</b>	
<b>Response</b>	<p>Beginning with the October 2003 bank reconciliations, the accountant responsible for bank reconciliations will compare the daily deposit amount to the cash receipts log. The checks representing deposits for other County Departments are sent to the respective department for proper recording. Procedures for the Assistant County Finance Director to authorize any checks sent outside the Finance Department have been implemented.</p>
<b>Time Frame</b>	November 30, 2003
<b>Person Responsible</b>	Assistant County Finance Director

<b>Issue # 5</b>	<b><i>Safekeeping of Daily Deposit</i></b>
	<p>The daily deposit (checks and cash) is kept overnight in a locked cabinet inside of a locked closet in the County Finance Department. Deposit slips and blank checks for Accounts Payable, Payroll and the County Clerk's office are also kept locked in this closet. There are three sets of keys to the closet. Two of these sets also include a key to the locked cabinet where the daily deposit is kept.</p> <p>One set of keys is kept by the Payroll Supervisor hidden in a desk drawer that does not lock. There are three people in Payroll who are authorized to use the keys to the closet.</p> <p>A second set of keys is kept by the Accounts Payable Supervisor in a locked desk drawer. There are four people in Account Payable who are authorized to use the keys to the closet. In addition, the Receptionist responsible for the cash receipts log and the Fund Accountant responsible for the daily deposit are both authorized to use the set of keys in Accounts Payable.</p> <p>The County Clerk's office has a third set of keys that is kept in a locked desk drawer. However, this set does not include a key to the locked cabinet where the daily deposit is kept.</p> <p><b><i>Impact</i></b></p> <p>There are many people within the Finance Department who have access to the daily deposit before it is deposited. There is currently no system in place to track which employees are using the keys and when. One set of keys is not locked up which increases the risk that an unauthorized party could access the funds.</p> <p><b><i>Recommended Action</i></b></p> <p>We recommend that the daily deposit be isolated in a separate vault or locked cabinet with minimal access. We further recommend that all sets of keys to the closet be kept in a locked drawer to prevent them from being stolen or used by an unauthorized party.</p>
<b><i>Management Response and Action Plan</i></b>	
<b>Response</b>	Access to the locked cabinet where the daily deposit is kept has been limited to the receptionist and accountant responsible for preparing the deposit and their backups. All sets of keys to the locked room are now kept in a locked drawer.
<b>Time Frame</b>	Completed October 17, 2003
<b>Person Responsible</b>	Assistant County Finance Director

<b>Issue # 6</b>	<b>Cash Flow Projections</b>
	<p>Per the County’s Investment Policy, Section XII, the County Department and Office Directors are responsible for updating cash flow projections and expenditure projections over \$100,000 and for providing this information to the Finance Director on a quarterly basis or as needed.</p> <p>Per discussion with the County’s Finance Department staff, in the majority of cases the Departments are failing to provide this information on a timely basis, if at all, despite numerous requests from the County’s Finance Department staff.</p> <p><b>Impact</b></p> <p>Without knowing the intended cash flow and expenditure projections of the Departments, the Financial Accounting Supervisor cannot make an informed decision on how best to invest the available funds to balance the potential rate of return on investment for the County with the level of liquidity needed by the Department.</p> <p><b>Recommended Action</b></p> <p>We recommend that a responsible party from each of the County’s Departments submit the required cash flow and expenditure projections to the County’s Finance Department on at least a quarterly basis.</p> <p>To assist in obtaining this information, we recommend that the Financial Accounting Supervisor clearly re-communicate to all County Departments the importance of providing this information to the County’s Finance Department in a timely fashion and also explain exactly what information is needed.</p>
<b>Management Response and Action Plan</b>	
<b>Response</b>	The County Manager will recommunicate to County Departments the importance of this information. If this information is not provided to the Finance Department in a timely manner, the County Manager will be notified by the Financial Accounting Supervisor.
<b>Time Frame</b>	November 2003
<b>Person Responsible</b>	County Manager, Financial Accounting Supervisor and individuals from County Departments who are responsible for cash flow and expenditure projections.

## **Issue # 7**

## ***Banking and Safekeeping Services***

### Custodial Agreement

Per the County's Internal Controls and Operational Procedures Manual for Investments, Section IV. D, securities purchased from a broker/dealer or financial institution, including the provision of appropriate collateral, shall be placed with a third party custodian in a custodial account governed by a custodial agreement. The County's Investment Policy, Section XVI, fails to address whether a written custodial agreement is required.

Although all securities are held by a third party custodian, there is no written custodial agreement in place. Per discussion with the County's Finance Department staff, the third party custodian will require an additional fee for a written agreement to be put into place. Despite, not having the written agreement, the third party custodian continues to hold the County's securities and to provide safekeeping statements to the Finance Department.

During our testing, we noted the safekeeping statements did not agree with the County's detail investment listing for June 2002 due to the County's detail not being updated until July for securities sold in February.

### Banking and Safekeeping Fees

The Finance Department monitors banking and safekeeping fees by comparing the fees charged to the County with fees paid by other counties and by reviewing bank fee schedules of other banks. Although the Finance Department is a function of the Clerk of the Circuit Court, the banking and safekeeping fees are expenditures of the Board of County Commissioners and therefore, we believe they should be managed following the County's Policies. The County's Procurement Policy, BCC-25, requires competitive bidding occur for services that exceed annual cumulative amounts of \$35,000. The banking and safekeeping fees paid to the custodian were approximately \$60,000 for the year ended September 30, 2003.

### ***Impact***

#### Custodial Agreement

Without having a written custodial agreement, the County is not in compliance with the Internal Controls and Operational Procedures Manual for Investments. The County is exposed to a greater risk of loss because there is no formal agreement to use as leverage to prompt the custodian to produce the investments.

In addition, failure to reconcile investment activity with the safekeeping statements on a monthly basis could result in errors or other problems not being recognized and resolved in a timely manner.

#### Banking and Safekeeping Fees

The Finance Department is not in compliance with the County's Procurement Policy.

### ***Recommended Action***

#### Custodial Agreement

We recommend that the County Finance Department staff obtain a formal safekeeping agreement with the custodian to clearly delineate the custodian's responsibilities and County's rights.

<b>Issue # 7</b>	<b>Banking and Safekeeping Services (continued)</b>
	<p><b>Recommended Action (continued)</b></p> <p>We also recommend that the department maintain a formal reconciliation of the safekeeping statements with the investments reported in the County records and follow up on any differences on an monthly basis.</p> <p><u>Banking and Safekeeping Fees</u> We recommend the County Finance Department issue an RFP every 5-8 years to comply with the County's policy.</p>
	<b>Management Response and Action Plan</b>
<b>Response</b>	<p><b><u>Custodial Agreement</u></b></p> <p>County Finance is obtaining a formal safekeeping agreement with SunTrust delineating the custodian's responsibilities.</p> <p>County Finance maintains a formal monthly reconciliation of the safekeeping statements with the general investments. The proceeds from the sale of the securities were properly reflected in the County's Financial System in February and were included as a part of the Bank reconciliation. The detail listing referenced by the auditors, which is more of a subsidiary report, was delayed in being updated until July. All subsequent reports have been maintained monthly.</p> <p><b><u>Banking and Safekeeping Fees</u></b></p> <p>County Finance will prepare a cost and market analysis addressing banking and the potential issuance of an RFP. The Finance Department's ongoing monitoring of banking and safekeeping fees charged by competing financial institutions has kept Board prices competitive and has negated the hard and soft costs of transitioning to a new financial institution. The analysis will be forwarded to County Management.</p>
<b>Time Frame</b>	December 2003
<b>Person Responsible</b>	Financial Accounting Supervisor

<b>Issue # 8</b>	<b>Investment Reports</b>
	<p>Per the County's Investment Policy, Section XV, the County's Investment Advisor is to provide quarterly reports on the County's short-term and long-term core investments to the Investment Committee and Board of Commissioners.</p> <p>After reviewing the annual report for the year ended September 30, 2002 and the quarterly reports for the periods ended December 31, 2002, March 31, 2003, and June 30, 2003, we noted that the quarterly reports for March and June 2003 did not include information on the short-term investment portfolio. The Finance Department did not provide the short-term investment information for inclusion in these quarterly reports since the investment advisor did not request it.</p> <p><b>Impact</b> The information required under the County's Investment Policy for the short-term investment portfolio is not available for review by the Investment Committee and Board of Commissioners.</p> <p><b>Recommended Action</b> We recommend that the Finance Department provide the investment advisor with the short-term investment portfolio information and that they request the investment advisor to again include the required information in the quarterly reports. This will give the Investment Committee and Board of Commissioners adequate information to monitor the investment activity and overall performance of the portfolio.</p>
<b>Management Response and Action Plan</b>	
<b>Response</b>	This information is being made a part of the annual investment report ending September 30, 2003. County Finance staff has requested the Investment Advisor provide this information in the quarterly reports.
<b>Time Frame</b>	The annual investment report is being submitted to the Investment Committee on October 29 <sup>th</sup> . The following quarterly report will be completed January 2004.
<b>Person Responsible</b>	Financial Accounting Supervisor

<b>Issue # 9</b>	<b><i>Electronic Transfers Out</i></b>
	<p>After reviewing the procedures in place for making ACH debit transactions for IRS and NRS payments, we noted that there is no system in place to track which employee in the Payroll department is actually performing the supporting calculations, the actual payment or the required review.</p> <p><b><i>Impact</i></b></p> <p>There is no accountability over who is making the IRS and NRS ACH debit transactions. In addition, there is no indication that the supporting calculations for the IRS and NRS payments are being reviewed.</p> <p><b><i>Recommended Action</i></b></p> <p>We recommend that a system be established to provide accountability as to which employee is responsible for making the IRS and NRS ACH debit transactions. In addition, we recommend that the individual reviewing the supporting calculations sign off as evidence of their approval.</p>
<b><i>Management Response and Action Plan</i></b>	
<b>Response</b>	<p>The Auditors' recommendation has been implemented. The IRS and NRS ACH debit transactions provided for the disbursement of funds only to these respective parties. The payroll department personnel have begun signing whenever they review the supporting calculations and when they initiate an ACH debit transaction so as to provide a tracking of who was responsible.</p>
<b>Time Frame</b>	<p>October 2003.</p>
<b>Person Responsible</b>	<p>Payroll Supervisor</p>

<b>Issue # 10</b>	<b>Internal Control Policy Documentation</b>
	<p>The County’s Internal Controls and Operational Procedures Manual for Investments includes a reference on page 13 to filing procedures to be followed for safekeeping statements. The documentation is maintained but is not filed according to the procedures outlined in the Manual, i.e. by maturity date.</p> <p>The County’s Investment Policy and the Internal Controls and Operational Procedures Manual for Investments are not clear in the applicability of the 102% collateralization requirement for repurchase agreements in relation to the County’s overnight sweep account arrangement in the Consolidated account. The Investment Policy, Section XII, F could be interpreted that the 102% collateralization requirement does not apply to the sweep account while Section IV, F of the Manual appears to require collateralization.</p> <p><b>Impact</b></p> <p>The department is not in compliance with the Manual in regard to filing procedures to be followed for safekeeping statements.</p> <p>Due to differences in possible interpretation between the Investment Policy and the Manual in regard to the collateralization requirement for the County’s sweep account, it would be possible to be in compliance with one policy and not the other.</p> <p><b>Recommended Action</b></p> <p>We recommend that the department review the Manual for clarity and correctness and as appropriate, either revise or implement the procedures described. Revisions should be made to provide clear guidance for compliance with both the County’s Investment Policy and the Internal Controls and Operational Procedures Manual for Investments.</p>
<b>Management Response and Action Plan</b>	
<b>Response</b>	The Internal Controls and Operational Procedures will be revised to agree with the County’s Investment Policy on the 102% collateralization on repurchase agreements versus overnight sweep accounts. The documentation of the safekeeping statements and receipts will be filed according to the procedures.
<b>Time Frame</b>	The Internal Controls and Operational Procedures has been updated and will be presented to the Investment Committee, at the next quarterly meeting (October 29 <sup>th</sup> ) for review and approval. Keeping documentation of safekeeping statements and receipts by date was implemented October 20 <sup>th</sup> .
<b>Person Responsible</b>	Financial Accounting Supervisor