

MARYLAND-NATIONAL CAPITAL PARK & PLANNING COMMISSION
Treasury-Cash Management
Report Number: CW-010-2019

January 25, 2019

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Treasury-Cash Management

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I. EXECUTIVE SUMMARY

A. Background

The Department of Finance operates under the direction of the Secretary-Treasurer. The department provides fiscal management and oversight of all Commission (M-NCPPC) financial activities. Services include providing financial guidance to operating departments; financial reporting and policy development; payroll processing; accounts payable and disbursements; purchasing transactions; and treasury services.

Treasury Operations provides services such as cash management, investment management and revenue processing. The audit focused primarily on cash management, which is tantamount to managing the organization's operating liquidity. Treasury Operations is responsible for ensuring that the daily cash flows (i.e., receipts and payments) within the organization are accounted for and processed as efficiently as possible. Key activities include cash collections, bank deposits, wire transfers, recording transactions to the general ledger, cash fund administration (e.g., petty cash) and bank reconciliations. The Commission has three primary operating accounts with the Bank of America: payroll, disbursement and concentration accounts.

The Investment and Treasury Operations Manager has overall responsibility for Treasury Operations and reports to the Accounting Department's Division Chief, under the direction of the Commission's Secretary-Treasurer.

B. Objective, Scope and Methodology of the Audit

Objective

The purpose of the audit was to identify opportunities to strengthen internal controls, improve operational efficiencies and help ensure compliance with Commission practices.

Scope

The scope of the audit included, but was not limited to, the following audit procedures:

- Reviewed Commission practices and procedures related to cash administration;
- Interviewed management and staff to obtain an understanding of cash operations;
- Reviewed process used for ensuring adequate operating cash liquidity;
- Verified that the cash deposit FTP file interface placed on the CAS server and transmitted to Treasury from the Help Desks was downloaded from the CAS server completely and accurately; and verified the file data was posted to the general ledger completely and accurately (see below scope limitation);
- Verified appropriate segregation of duties are established for input, release and reconciliation of wire transfers and daily cash activity;
- Reviewed the administration of cash distributed to facilities and departments (i.e., petty cash, petty cash checking accounts, change and temporary funds); and
- Verified monthly bank statement reconciliations are prepared completely, accurately and timely, and verified differences are investigated and resolved timely.

Scope Limitation: The Office of the Inspector General (OIG) limited the audit scope to Treasury Operations' cash management activities. For the FTP file interface placed on the CAS server by the Help Desks, OIG did not review and test for integrity checks related to file data transmission. Note that the Commission's external auditor, SB & Company, performed the annual audit of financial statements in September 2018 for fiscal year-end 2018. During a joint preliminary planning meeting in May 2018, the external auditor informed OIG that their Information Technology (IT) Auditor would review the IT controls for the FTP

file interface. Therefore, OIG limited its review to the manual controls for the file download from the CAS server and the import of file data into the Infor/Lawson general ledger.

The audit covered the period from July 1, 2017 through October 31, 2018.

Methodology of the Audit

Inquiry, observation, data analysis, and tests of transactions were performed to complete the audit objectives.

The audit was conducted in accordance with the *U.S. Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

C. Major Audit Concerns

The results of our evaluation and testing procedures indicated no major audit concerns.

D. Overall Conclusions

The results of our evaluation and testing procedures indicate no major weaknesses in the design or operation of internal controls for the Treasury-Cash Management function. On an overall basis, we consider the controls to be satisfactory. See the definition below.

We believe all weaknesses identified and communicated are correctable and that management's responses to all recommendations satisfactorily address the concerns. It is the responsibility of management to weigh possible additional costs of implementing our recommendations in terms of benefits to be derived and the relative risks involved.

We wish to express our appreciation to management and staff of Treasury-Cash Management for their cooperation and courtesies extended during the course of our review.



Wanda King, MBA
Assistant Inspector General



Renee M. Kenney, CIG, CPA, CIA, CISA
Inspector General

January 25, 2019

Conclusion Definitions

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|-------------------------------|--|
| Satisfactory | No major weaknesses were identified in the design or operation of internal control procedures. |
| Deficiency | A deficiency in the design or operation of an internal control procedure(s) that could adversely affect an operating unit's ability to safeguard assets, comply with laws and regulations, and ensure transactions are properly executed and recorded on a timely basis. |
| Significant Deficiency | A deficiency in the design or operation of an internal control procedure(s) which adversely affects an operating unit's ability to safeguard assets, comply with laws and regulations, and ensure transactions are properly executed and reported. This deficiency is less severe than a material weakness, yet important enough to merit attention by management. |
| Material Weakness | A deficiency in the design or operation of an internal control procedure(s) which may result in a material misstatement of the Commission's financial statements or material impact to the Commission. |

II. DETAILED COMMENTARY AND RECOMMENDATIONS

1. Investigate and Correct Bank Reconciliation Differences

Issue: For the monthly bank statement reconciliation process, Treasury compares and reconciles dollar amounts recorded on the Bank of America bank statements for three accounts (payroll, disbursement and concentration) with entries recorded in the Infor/Lawson general ledger. Bank statement reconciliations enable Treasury to identify any reconciliation differences between the two sets of records, which should be investigated, resolved and corrected timely.

OIG reviewed bank statement reconciliation differences for all three accounts, as of September 30, 2018. The review disclosed that several differences remain unresolved for the Payroll account, dating from 2016 through 2018 (**please see Exhibit A-Payroll Account Reconciliation Differences**). Note: The offset of the two grand totals in Exhibit A (\$5,980.21 and \$14,066.35) results in an \$8,086.14 net amount that remains unresolved. The disbursement and concentration accounts did not have any unresolved differences.

Criteria/Risk: Best business practices support the timely identification and resolution of outstanding differences between an entity's bank statement and its records (i.e., general ledger). Failure to resolve outstanding differences may lead to undetected errors and also increases the potential for fraud. Furthermore, failure to do so may mask the need for additional employee training and updated policies and procedures. Ultimately, the results may lead to a negative impact on Commission operations and financial statements.

Recommendation: We recommend the following:

- Management should develop a strategy for resolving all current outstanding bank reconciliation differences, including the possibility of potentially writing off differences, based on cost and effect analysis.
- Going forward, the manager who reviews and signs the monthly reconciliations should immediately discuss all differences with the preparer Accountant and Payroll, or the applicable department staff. Discussions should include the reasons for differences and a plan for timely resolution and correction.
- Management should review the checklist that the Accountant currently uses and update the document as needed. The update will be especially useful as a training tool, because of the current Accountant's recent retirement.

Risk: High

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Management Response: We agree that a strategy should be developed for resolving differences and it is in process. Beginning with the November 2018 bank reconciliations, the manager who reviews will discuss the differences, including the reasons for the differences, and review the checklist as recommended.

Expected Completion Date: January 2019

Follow-Up Date: March 2019

2. Strengthen Security Over the Cash Liquidity Spreadsheet

Issue: Treasury uses a spreadsheet for monitoring the Commission's daily cash liquidity position, which is a mission critical function. The spreadsheet is stored in a folder on the Central Administration Services (CAS) server. The unrestricted folder is available to all staff with access to the server, including those who have no need for accessibility. In addition, spreadsheet formulas are unprotected and can be overridden, causing potential calculation errors.

The overall objective for monitoring available cash liquidity is to administer and preserve financial assets, while simultaneously optimizing liquidity to ensure the Commission has sufficient available cash for meeting projected operating requirements. Treasury must ensure that available surplus cash (i.e., funds not needed for immediate expenditure) is invested appropriately in accordance with the Investment Policy.

Note that the OIG's audit review did not disclose any security breaches; however, because the manual spreadsheet is the main tool used for monitoring cash liquidity, implementing some additional measures will enhance security.

Criteria/Risk: Industry best practices encourage 1) restricting security access to spreadsheets to those who require it as a part of their job function, and 2) protecting cells with formulas. Failure to implement basic security may result in spreadsheet errors, whether accidentally or intentionally. Erroneous cash liquidity calculations could result in the Commission's inability to meet its financial obligations, including stewardship over financial assets.

Recommendation: We recommend that management restrict access to the folder on the CAS server where the Cash Liquidity spreadsheet is stored. Access should be granted based on the principle of least privilege (i.e., only the Treasury manager and her/his designated backup). As an alternative, Treasury should consider using SharePoint to strengthen access security controls.

Risk: Medium

Management Response: We agree that restricting access to the folder will add an additional level of security.

Expected Completion Date: Completed

Follow-Up Date: March 2019

Exhibit A

Payroll Account Reconciliation Differences
As of 09/30/18

Description: Cancelled in Bank, Not Recorded in General Ledger

| Date | Total |
|--------------------|--------------------|
| 12/12/16 | \$ 1,074.30 |
| 01/18/17 | 277.92 |
| 04/28/17 | 227.53 |
| 05/01/17 | 227.53 |
| 06/29/17 | 570.36 |
| 07/18/17 | 132.54 |
| 12/29/17 | 166.97 |
| 03/20/18 | (123.35) |
| 04/30/18 | 411.71 |
| 06/11/18 | 174.34 |
| 06/29/18 | 124.83 |
| 06/28/18 | 779.62 |
| 07/18/18 | 1,571.73 |
| 08/16/18 | 75.63 |
| 08/16/18 | 75.63 |
| 09/27/18 | 103.89 |
| 09/27/18 | 109.03 |
| Grand Total | \$ 5,980.21 |

Exhibit A

Payroll Account Reconciliation Differences
As of 09/30/18
Description: Recorded in General Ledger, Not in Bank

| Date | Total |
|-------------|--------------|
| 07/28/17 | \$ 1,150.00 |
| 08/18/17 | 581.53 |
| 08/19/17 | 154.85 |
| 09/16/17 | 426.68 |
| 11/03/17 | 36.62 |
| 11/03/17 | 37.46 |
| 11/03/17 | 280.01 |
| 12/01/17 | 602.00 |
| 12/01/17 | 1,440.03 |
| 01/12/18 | 136.50 |
| 01/19/18 | 1,422.99 |
| 02/02/18 | 74.99 |
| 05/25/18 | 38.79 |
| 05/04/18 | 198.37 |
| 05/25/18 | 556.35 |
| 05/04/18 | 569.89 |
| 05/04/18 | 627.17 |
| 07/13/18 | 810.57 |
| 07/05/18 | 43.94 |

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|--------------------|--------------------|
| 08/10/18 | 804.25 |
| 08/10/18 | 817.58 |
| 08/10/18 | 976.39 |
| 08/10/18 | 1,051.54 |
| 09/07/18 | 860.95 |
| 09/24/18 | 366.90 |
| Grand Total | \$14,066.35 |

Unresolved Net Amount - \$8,086.14