



HARFORD COUNTY, MARYLAND

Office of the County Auditor

AUDIT OF INVESTMENT CONTROLS

Report Highlights

Report Number: 2016-A-01

Date Issued: 11/20/2015

Why We Did This Audit

This audit was conducted as part of the County Auditor's risk-based Annual Audit Plan approved by the County Council for FY2016.

What We Found

We noted that competitive purchasing practices are not being used for all investment purchases.

What We Recommend

Management should use competitive purchasing practices to ensure highest investment return.

Council Members and County Executive Glassman:

In accordance with Section 213 of the Harford County Charter, we have performed an audit of controls over the investing of public funds.

The audit found competitive purchasing practices were not always used to ensure public funds were invested with the highest rate of return. We do not believe that this departure from policy significantly impacted the County's investment revenue. The detailed results of that audit, our findings and recommendations for improvement are detailed in the attached report.

We would like to thank the members of management for their cooperation during the audit. The audit team is available to respond to any questions you have regarding the attached report.

Sincerely,

Chrystal Brooks
County Auditor

cc: Robert Sandlass, Treasurer
Billy Boniface, Director of Administration



HARFORD COUNTY, MARYLAND

Office of the County Auditor

REVIEW RESULTS

We have audited the investment controls for the period of 7/1/2013 through 9/1/2015. Harford County's Investment Policy requires that public funds be invested to provide the highest investment return with the maximum security. The County's Investment Manager is responsible for monitoring the bank balance and making investment decisions within the scope of Harford County Investment Policy.

Our opinion, based on the evidence obtained, is investment policies are generally followed; however, controls could be improved to ensure investments with the highest rate of return are purchased. The audit approach focused on testing the key controls that address management's objectives for the process. Conclusions drawn are below.

Risk	Expected Control	Conclusion
Investments are not well balanced for income and security, resulting in loss of money.	Investments are competitively bid to ensure highest rate of return. Investment types used are allowable by state.	Needs Improvement Satisfactory
Loss of funds due to failure of financial institution.	Adequate collateral is obtained for each investment.	Satisfactory
Brokers used to purchase investments are unqualified.	Investments are made through approved financial institutions in accordance with the policy.	Satisfactory
Interest income is not deposited.	The Investment Manager verifies total interest income is received by observing the deposit on the daily cash report.	Satisfactory
Loss of funds due to improper fee payments to the Investment Custodian and Investment Consultants.	Investment manager verifies the amount on the invoice is proper prior to payment.	Satisfactory
Funds are moved to an unauthorized account or employees are able to transfer money to a personal account.	Access to transfer funds is limited to accounts previously approved by the treasurer. Access to the online banking account is restricted.	Satisfactory Satisfactory

Areas for improvement are described in the Findings and Recommendations section of this report.

FINDINGS AND RECOMMENDATIONS

Finding Number: 2016-A-01.01 Competitive Purchasing of Investments

Securities are not always competitively purchased to ensure the highest investment return.

Analysis: According to the County's Investment Policy, the County should "invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the County and conforming to all State of Maryland and County statutes governing the investment of public funds. The investment officer is required to use competitive purchasing practices except where impractical." We found the investment officer did not use competitive purchasing practices for the purchase of Federal Agency securities. Specifically, the Federal Agency securities are purchased as new issues at par. Usually, a broker will notify the investment officer of a new issue and the investment officer will confirm the rate quoted prior to approving the purchase. As of June 30, 2015, the federal agencies balance was \$30.0 million. The lack of competitive bids on routine bases could also increase the likelihood of favoritism or kickbacks from brokers. During our testing, we did not find any investments that were not in line with the County's investment policy and there was no indication of abuse. This issue does not materially impact the County's potential investment income.

Recommendation: We recommend the investment manager use competitive purchasing practices for all investments, as required by the investment policy.

Management Response: Treasury agrees with the recommendation and the investment manager will use competitive purchasing practice for all investments.

Expected Completion Date: 11/19/2015

BACKGROUND INFORMATION

PROGRAM DESCRIPTION AND KEY STATISTICS

The Harford County Investment Policy was adopted 4/20/1999 in compliance with State regulations. The Harford County policy is “to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the County and conforming to all State of Maryland and County statutes governing the investment of public funds”. State regulations authorize the County to invest in obligations of the United States Government, federal government agency obligations, Maryland Local Investment Pool, repurchase agreements and certificates of deposit if adequately collateralized and Mutual Funds. The County is required to use competitive purchasing practices to invest public funds. Various brokers are asked to submit investment choices and the Harford County Investment Manager selects the highest interest rate from these investment options. An independent third party investment custodian is used to ensure adequate collateral.

The County has separate policies for the financial assets of the Harford County’s Other Post Employment Benefit Trust (OPEB), Harford County Volunteer Fire Length of Service Award Program (LOSAP) and Harford County Sheriff’s Office Pension Fund. Each plan has an Investment Consultant who makes recommendations to a Board who makes the final investment decision based on the recommendation.

Investments reported as of June 30, 2015 annual financial report totaled approximately \$458.0 million.

REVIEW OBJECTIVE, SCOPE AND METHODOLOGY

The objective of this audit is to determine if controls are adequate to ensure proper selection, purchase, sale and accounting of the County’s investments. The scope of this review is limited to the investments of funds accounted for in the County’s Comprehensive Annual Financial Report. It covers the financial assets of the Harford County Government, Harford County OPEB, Harford County Volunteer Fire LOSAP and the Harford County Sheriff’s Office Pension Fund. The audit focused on activity during the period of 7/1/2013 through 9/1/2015. Our audit procedures included interviewing personnel, observation and testing. Specifically, we met with personnel from the Department of Treasury to gain an understanding of the investment process. Additionally, we performed the following procedures:

- Reviewed investments to determine if the purchase was in accordance with the Harford County Investment Policy;
- Confirmed all financial institutions, brokers and investment consultants were properly approved by the Treasurer;

- Confirmed the investment report submitted to the County Council agreed to financial records and the Harford County Comprehensive Annual Financial Report;
- Analysis of the brokers and investment types to ensure in line with the County's policy;
- Verified the County's investment policy is in accordance with State regulations and State's investment policy;
- Verified fees charged by the investment custodian and investment consultants; and
- Confirmed access to transfer funds was limited to treasury approved accounts and restricted to individuals who require access to perform their daily job functions.

Harford County management is responsible for establishing and maintaining effective internal controls. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets and compliance with applicable laws, rules and regulations are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected.

The audit was performed in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient evidence to provide a 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.

Audit Team:

Chrystal Brooks
CPA, CIA, CGAP, CISA, CGFM, CRMA
County Auditor

Laura Tucholski
CPA, CIA, CFE, CRMA
Managing Auditor