



HARFORD COUNTY, MARYLAND

Office of the County Auditor

January 10, 2014

Honorable Members of the County Council
Harford County, Maryland
212 S. Bond St., 2nd Floor
Bel Air, MD 21014

County Executive David Craig
Harford County, Maryland
220 S. Main St.
Bel Air, MD 21014

Dear Council Members and Mr. Craig:

In accordance with Section 213 of the Harford County Charter, we have performed an audit to determine if Harford County Government's revenue collection controls are effective and if the controls can provide assurance that County receipts are deposited and applied to the proper accounts.

The audit found most components of the collection process work as expected. However, we identified some areas for improvement. While the audit testing showed that the collection process has been effective in the past, some controls can be improved to help ensure the collections process remains effective in the future.

The results of the audit, our findings and recommendations for improvement are detailed in the following 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, CPA, CGFM, CIA, CISA, CGAP, CRMA
County Auditor

cc: Ms. Kathryn Hewitt, Treasurer

~ Preserving Harford's past; promoting Harford's future ~





HARFORD COUNTY, MARYLAND
Office of the County Auditor

AUDIT OF CASH RECEIPTS CONTROLS

Period Covered:
07/01/2012 through 05/31/2013

Report Number: 2013-A-05

Date Issued:
01/10/2014

Audit Team:

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

Laura Tucholski, CPA, CFE, CRMA
Auditor

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BACKGROUND INFORMATION

INTRODUCTION AND KEY STATISTICS

Cash Receipts are initiated when payments are received for water and sewer bills, property taxes, transfer taxes, licenses, permits, and other revenue. Payment is received over-the-counter in the Treasurer's Office, via mail, lockbox or by completing an electronic online payment through the Official Payments website.

The County uses an automated cash register system to account for its over-the-counter receipts. The Treasurer receives payment files from "Official Payments" for online credit and debit card receipts and M&T Bank for the lockbox receipts. There are electronic interfaces that upload each payment file to the proper accounts receivable system (e.g. Water and Sewer, Property Tax) and post the payments to individuals' accounts.

According to Harford County's fiscal year 2013 Financial Report, annual revenue totaled approximately \$610.6 million during fiscal year 2013. Collections processed over-the-counter totaled approximately \$148.1 million during fiscal year 2013. Revenue processing is a key administrative function, for which the public should expect there to be adequate controls.

REVIEW OBJECTIVE, SCOPE AND METHODOLOGY

The objective of this review was to determine if controls related to Cash Receipts are adequate to ensure that payments received at the Treasurer's payment window, lockbox and online are properly applied and deposited. The scope of this review was limited to controls over payments received from taxpayers or businesses and ensuring receipts are properly applied and deposited in the County's bank account. The audit did not include a complete evaluation of internal control, but instead, relied on substantive testing to support conclusions. Due to the narrow scope of this review, our evaluation of internal control was limited to the above mentioned areas. This lack of a complete review of internal control did not affect our achievement of the audit objective.

The audit focused on activity during the period of 07/01/2012 through 05/31/2013. Our audit procedures included interviewing personnel, observation and testing. Specifically, we met with the Treasury department to understand and observe the procedures for processing revenue collections for over-the-counter, online, and lockbox receipts and the procedures for applying the payment to the related accounts receivable account.

Based on our understanding of the underlying processes, we tested a sample of receipts to ensure they were applied to the correct accounts. Further, we selected a sample of

business days' collections to ensure interfaces to the related accounts receivable systems were timely and complete and tested controls over the receipt of over-the-counter collections to ensure they were adequate to prevent misappropriation. Finally, we tested a few months' bank reconciliations to ensure they were complete, timely and approved.

Harford County relies heavily on computer applications to apply the collections to the related individual accounts. An internally developed application is used to transfer payment information to the accounts receivable applications. To ensure controls were adequate, we performed reviews of the cash register application and related accounts receivable applications. The older mainframe systems are currently being phased out. Consequently, the extent of our testing related to those applications were limited to the key controls that ensure payments are applied to the proper account.

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.

REVIEW RESULTS

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.

Our procedures disclosed that processes could be improved to ensure over-the-counter collections were completely deposited. Specifically, cashiers were able to process adjustments/voids without a supervisory or subsequent review. As a result, an employee could collect a payment from a customer and then void the transaction. We found some of the cashiers also have access to make adjustments to billing accounts, so that a customer's account would indicate that a payment was made. We noted that adjustments are not always reviewed to ensure they were proper.

Although procedures are in place to verify the completeness of the interfaces from the online and lockbox reports to the related accounts receivable application, documentation of the review for the water and sewer lockbox receipts was not maintained. As a result, we were unable to ensure the interface between the lockbox and the water and sewer application was working properly. We increased our testing of the detailed transactions

for the lockbox water and sewer collections and determined, for the items tested, that each payment was applied to the proper account.

Our procedures disclosed that daily deposit verifications and monthly reconciliations were performed adequately and timely. The verifications and reconciliations ensure that over-the-counter collections were completely deposited.

While the detail transaction testing showed that the collection process has been effective in the past, the related controls can be improved to help prevent future misappropriation.

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

MANAGEMENT RESPONSE

Treasury has reviewed the results from the audit of cash receipts controls and has prepared a management response for the two findings. Treasury welcomed the opportunity to review the findings to improve the internal controls of the cash receipts area.

Treasury strives to implement the best internal controls to provide reasonable assurance that the cash receipts area is working effectively and efficiently so that we can rely on it for financial reporting and that we are in compliance with applicable laws and regulations. We will work expeditiously to implement the area of improvements from the internal audit team so that we can deliver to our tax payers the best and most professional financial accounting that they deserve.

FINDINGS AND RECOMMENDATIONS

Finding Number: 2013-A-05.01 Support for Voids and Adjustments

Controls were not adequate to ensure voided and adjusted transactions were proper and authorized.

Analysis: We noted that the cash receipts system does not prevent cashiers from voiding their own transactions. Specifically, employees who had supervisor access to the cash register application can process voids. We noted that three of the four employees with supervisor-level access also routinely processed cash collections. The Revenue Collections department's unwritten policy is that all voids should be processed by an individual who is not processing the collections; however, there are no system controls that would prevent a cashier from processing a void if they have supervisory access. When automated controls are not sufficient, it is necessary to have a manual control in place to ensure timely detection of a misappropriation of cash receipts. Ideally, an individual independent of the receipts process should verify all voided transactions were adequately supported and properly approved. This control ensures that cashiers may not collect money from a customer, then void the transaction and keep the cash. However, this review does not exist. The final cash report does identify the number of voids processed for the day, but the voids are not reviewed. As a result, cash collections could be misappropriated without detection.

In addition, access to the automatic cash register application and the accounts receivable applications was not adequately segregated. We noted 13 individuals who have access to the cash collections also have the ability to process adjustments in the related billing systems. Additionally, approval is not required for adjustments in these applications nor are reports of adjustments reviewed to ensure all adjustments were authorized and supported. As a result, cashiers could adjust an individual's account without detection or process an invalid adjustment to their own account.

While we did not note any instances of inappropriate cash voids, documentation was not available to support the propriety of voided cash transactions in our testing.

Recommendation: We recommend review of the systems' access for cashiers to ensure proper segregation of duties. We recommend that supervisory personnel review and confirm voided transactions at the close of each business day to ensure voids were adequately supported and approved.

Management Response: Treasury concurs with this finding and has implemented changes to comply with the recommendation. An automated report has been created to summarize all voids

done for each day. This report will be printed daily, reviewed and signed by personnel who did not perform the void to ensure that the voids were adequately supported.

Expected Completion Date: 01/02/2014

Finding Number: 2013-A-05.02 Lockbox Interface Review

The transfer of data between the Lockbox and Water & Sewer systems is not confirmed for completeness.

Analysis: Treasury uses an internally developed application to track the billing and related payments for water and sewer charges. Each day when payments are received through the lockbox for water and sewer billings, the file is uploaded from the Bank and the cash register application to the Water and Sewer Billing application. Treasury personnel receive a confirmation message of the number of transactions and total amount of payments applied to the Water and Sewer application in order to verify all payments were properly uploaded. However, this confirmation is not retained nor is the review documented. Even though employees stated the review was performed, we were unable to confirm this through documentation. As a result, errors or irregularities in the posting of payments to the water and sewer application could occur.

Documentation was maintained for other related system interfaces. In our detailed test of water and sewer receipts, we were able to trace the tested receipts to the correct individual water and sewer account.

Recommendation: We recommend management maintain confirmation of the daily interface processes for Water and Sewer lockbox payments.

Management Response: Treasury concurs with the recommendation and has begun to maintain the confirmation of the daily interface process received for the Water and Sewer Lockbox payments.

Expected Completion Date: 01/02/2014