

**Montgomery County, Maryland  
Office of the County Executive  
Office of Internal Audit**



**Follow-up Audit of the 2009  
Treasury Risk Assessment**

**March 2, 2015**

# Highlights

## Why MCIA Did this Audit

The accounting firm of SC&H, under a contract with the County's Office of Internal Audit (MCIA) performed a follow-up review of an April 2009 risk assessment that was conducted by MCIA on the Treasury Division of the Department of Finance. The 2009 risk assessment identified weaknesses within 17 process areas with high risk and one process area with medium risk. Based on the procedures performed during the 2009 risk assessment, 18 recommendations were provided to Finance to address these identified risks. The recommendations included the formalization of documented policies and procedures, the cross-training of Treasury employees, the standardization of financial reports, and the implementation of internal controls within several key processes,

## What MCIA Recommends

MCIA is making 17 recommendations to the Department of Finance to strengthen its internal controls and improve overall performance. Twelve recommendations address risk areas that were identified in the 2009 risk assessment and have not yet been fully remediated. The remaining five recommendations address additional risks that were identified during this follow-up engagement. Finance concurred with the recommendations and stated it has since implemented or is in the process of implementing the corrective actions.

**March 2015**

## Treasury Risk Assessment Follow-Up Audit

### What MCIA Found

The Treasury Division has remediated six of the risk areas that were identified in the 2009 risk assessment through the implementation of prior recommendations, or other revisions to its processes and procedures. The risk areas that were remediated include:

- Treasury Division – Accounting
- Billing
- Treasury Information Systems – E-PILOT
- Treasury Information Systems – Spreadsheet Controls
- Cashiering – Total Activity
- Collections – Third Party Processor

There are 12 risk areas that were identified in the 2009 risk assessment that have not been successfully remediated and continue to lack the proper controls to mitigate the previously identified risks. These areas include:

- Policies and Procedures
- Key Personnel – Treasury Division
- Key Personnel – Program Manager II
- Property Tax Credits
- Transfer and Recordation Taxes
- Property Tax Refunds
- Treasury Information Systems – Access Controls
- Cashiering – Reconciliations
- Cashiering – Parking, Speed, and Red Light Violations
- Call Center (i.e. Adjusting Penalties and Interest Charges)
- Undeliverable County Issued Checks
- Rejected Tax Payments from the Lockbox Processor

Additionally, through the work performed, we noted five additional risk areas that will require remediation in order to mitigate the associated risks. These risk areas include:

- Key Personnel – Program Manager II
- Key Personnel – Treasury Division (Training)
- Transfer and Recordation Tax
- Key Personnel – Treasury Division (Staffing)
- Cashiering

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## Objectives

This report summarizes an audit performed by SC&H Group under contract with the Montgomery County Office of Internal Audit (MCIA) to review the Treasury Division's current processes to determine whether the risks identified in the prior risk assessment have been remediated. The primary objective of this audit was to assess the adequacy of any corrective actions that Treasury/Finance has taken in response to recommendations in the risk assessment report since its issuance on April 17, 2009. Additionally, the review included reporting on any other control weaknesses observed during our follow-up engagement, and any suggestions that we may have for additional audit work that should be performed at the Treasury Division.

This internal audit report was performed in accordance with consulting standards established by the American Institute of Certified Public Accountants (AICPA) and generally accepted government auditing standards (GAGAS) established by the Government Accountability Office, as appropriate. SC&H Group's proposed procedures were developed to meet the objectives stated above, and were reviewed and approved in advance by MCIA. The interviews, documentation review, and field work were conducted from August 2014 to October 2014.

## Background

The Treasury Division, within the Department of Finance, is responsible for the collection of property (real and personal), excise, transfer, and recordation taxes. Additionally, the Treasury Division has a Cashiering function responsible for collecting payments received at the Cashiering Office. The Treasury Division manages approximately 337,500 real and more than 30,000 personal property tax accounts. According to the Summary of Changes in Net Position in Montgomery County's Fiscal Year 2013 Comprehensive Annual Financial Report (CAFR), revenue from property taxes constituted approximately 40 percent of the total revenue at approximately \$1.47 billion dollars, making it the largest source of revenue for the County.<sup>1</sup>

The Treasury Division generates annual, quarterly, and monthly revised real property tax bills. The process for the annual and quarterly bill generation is similar, while the process for the revised bill generation is different. Before the next levy year, which begins July 1<sup>st</sup>, multiple County departments and external agencies, including but not limited to: the State Department of Assessments and Taxation (SDAT), the Washington Suburban Sanitary Commission (WSSC), and the Division of Solid Waste Services, will enter applicable information (e.g. property assessments, special charges, etc.) into the Tax Assessment System (TAS), which is the intake system for all data files required to produce the property tax bills. The information will be sent to the E-PILOT system, a web-based application that captures Payment In Lieu Of Tax (PILOT)<sup>2</sup> for assessment and calculation of appropriate taxes. The E-PILOT system will separate the property accounts into two groups: one group includes the majority of accounts in which the assessed property tax will be paid (non-PILOT accounts), and the other group consists of the accounts in which the payments in lieu of tax have been negotiated (PILOT accounts). Currently, there are approximately 334,000 Non-PILOT accounts and 3,500 PILOT accounts. The file of Non-PILOT accounts is imported into MUNIS, the property tax billing system, first for processing. Once the Non-PILOT accounts are imported into MUNIS, the Biller (a Treasury

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<sup>1</sup> [Fiscal Year 2013 Montgomery County Comprehensive Annual Financial Report](#)

<sup>2</sup> According to Montgomery County Code section 52-18M, "when authorized by state law, the Director of Finance may agree to accept a negotiated payment in lieu of the real property tax that would otherwise be levied on a qualifying housing development."

representative who generates the tax bills) reviews and corrects any errors and runs a series of reports. Prior to the generation of the tax bills, the Accounting Unit of the Treasury Division will randomly select a sample of bills to ensure the information from TAS was processed correctly in MUNIS. Once the review has been completed, the Biller will generate the Non-PILOT tax bills. Subsequently, the Biller will complete the same process in MUNIS for the PILOT bills. The annual tax bills are sent to all taxpayers in July and are also available online. The County residents and businesses are able to pay their taxes due online, by mail, by telephone, or in person. Accepted forms of payment include: cash, personal check, certified check, cashier's check, money order, debit card, credit card, bank bill pay, or the County's electronic check.

Throughout the year, the various departments and external agencies will make adjustments to the real property accounts in the TAS system. Such adjustments include tax credits, increased assessments, abatements, or other changes which result in either a supplemental tax bill or a revised tax bill. Once a month, the TAS system will be temporarily closed from accepting new data for the Treasury Division to begin the revised billing process. The data from TAS will flow through E-PILOT and MUNIS similarly to the annual and quarterly process; however, the Accounting Unit does not perform a review. Instead, the Biller will generate the Subsequent Change Report in MUNIS to review the changes for appropriateness. Afterwards, the Biller completes the remaining steps to generate the revised tax bills.

In contrast to the real property tax billing process, the personal property tax billing process differs as the flow of information is more direct. Personal property information is entered into TAS by the SDAT. From TAS, the personal property information does not flow through E-PILOT, and therefore, transfers directly into MUNIS. An additional difference between the real and personal property tax billing process is there are no changes or calculations made in TAS to the personal property tax information. Further, the personal property tax billing rules are similar to the real property tax subsequent change billing or revised billing because SDAT sends data throughout the year, not all at once like the annual real property tax billing process.

The Treasury Division is also responsible for applying tax credits to the property tax bills. Many of these tax credits (e.g. homestead credit, homeowner's property tax credit, and senior credit) are calculated and entered into TAS by SDAT. The remaining tax credits (e.g. enterprise zone tax credit, new jobs tax credit, Brownfields<sup>3</sup> property tax credit, and historic preservation tax credit) are calculated by the Treasury Division utilizing Excel spreadsheets. Once calculated, the tax credits will be either uploaded or manually entered into TAS. For Levy Year 2013, the Treasury Division calculated and applied approximately \$10.5 million dollars of property tax credits.

In addition to processing the property tax bills and applying the property tax credits, the Treasury Division will issue property tax refunds for reasons such as overpayments or a change in underlying tax liability, in which the original tax amount was already paid. Within a three month period, June through August 2014, over 1,500 property tax refunds equaling approximately \$6.7 million dollars were processed and issued. In each instance, the Treasury Division researches the proposed property tax refund to ensure its validity. Once the validity of the requested refund is confirmed, the Treasury Division will process the refund either individually or in a batch. The following tax refunds are processed individually: mass pay<sup>4</sup>, critical, and time-sensitive refunds. All other refunds are processed in a batch. If a refund is processed individually, the refund is prepared, reviewed, and recorded within the Treasury

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<sup>3</sup> Brownfields are generally considered to be abandoned or underutilized properties (especially industrial and commercial facilities) where redevelopment or expansion may be complicated by possible environmental contamination (real or perceived)."

<sup>4</sup> Mass pay is when mortgage companies pay the real property tax bills on behalf of their customers.

Division. If the refund is processed in a batch, the refund is prepared and reviewed within the Treasury Division and then sent to the Accounts Payable Division of the Finance Department, to record the batched refunds. Accounts Payable issues all refund checks.

Additionally, the Treasury Division is responsible for the collection of excise taxes, which is a tax or duty on the privileges of consumption, supply, manufacture, or distribution of various commodities and services<sup>5</sup>. Currently, the Treasury Division administers four types of excise taxes: fuel-energy taxes, telephone taxes, room rental and transient taxes, and admission taxes.

The Treasury Division receives and reviews tax account applications and tax reports, collects and deposits taxes collected, monitors accounts receivable activity, and enforces noncompliance, and requests assistance from the County Attorney for further collection of delinquent taxes<sup>6</sup>. Based on the Fiscal Year 2013 CAFR, revenues from consumption/excise taxes were \$292 million dollars<sup>7</sup>.

Another key function of the Treasury Division is ensuring the accurate and timely processing and collection of transfer and recordation taxes due from the transfer of real property and recordation of instruments of writing. A representative from the title company will provide the appropriate documentation to the Treasury Division, either in person or through the web-based E-Transfer application. The Treasury Division will ensure the accuracy of the transfer and recordation tax calculations and verify the tax due to the payment received. Once confirmed, the payments will be batched and given to Cashiering for processing.

The Cashiering function of the Treasury Division will receive and record payments made to the County for various services, taxes, and fees. Accepted forms of payment include: cash, personal check, certified check, money order, or credit card for real and personal property taxes, tax lien sale, excise tax, transfer taxes, traffic violations (e.g. speed camera, red light camera, and school bus camera), business licenses, permits, and other miscellaneous County fees and taxes. The Cashiers record the payments in the appropriate systems, which include MUNIS, Oracle (i.e. the County's Enterprise Resource Planning system), and eTIMS, the traffic violation system.

## Scope and Methodology

To satisfy the stated objectives for this follow-up review, we evaluated each of the deficiencies noted in the 2009 risk assessment, along with their associated risks. For each deficiency noted, we reviewed the Treasury Division's current process to determine whether the risks identified in the 2009 risk assessment had been successfully remediated. In doing so, we conducted interviews with key Department of Finance personnel from the Treasury Division (Management and Operations Sections), Controller Division (Accounts Payable and Accounts Receivable Sections), and Fiscal Management Division to discuss the identified risks and to gain an understanding of the current processes and controls. Additionally, we observed various Treasury Division personnel perform their daily functions and reviewed pertinent documentation. In addition to the review of the implementation of previous risk remediation, our follow-up review consisted of identifying and reporting any additional internal control weaknesses or deficiencies that we observed during our fieldwork. Finally, throughout our review process, we remained attentive to opportunities to further evaluate the processes and controls within the Treasury Division through additional internal audit reviews and assessments.

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<sup>5</sup> Division of Treasury's Excise Tax Administration Policy and Procedures

<sup>6</sup> Division of Treasury's Excise Tax Administration Policy and Procedures

<sup>7</sup> [Fiscal Year 2013 Montgomery County Comprehensive Annual Financial Report](#)

We focused our review on the process areas with noted deficiencies from the 2009 risk assessment. Table 1 provides a summary of the previous risk assessment areas and the original observations in each area.

**Table 1 – Summary of Prior Risk Assessment**

Risk Assessment Area	Original Observation
1. Policies & Procedures	The Division does not have documented Policies and Procedures for the majority of Treasury processes.
2A. Key Personnel – Treasury Division	Employees are not cross-trained in Division Functions.
2B. Key Personnel – Program Manager II	A single employee has responsibility for and access to functions which void the segregation of duties.
3. Treasury Division – Accounting	Management information is gathered through inconsistent queries rather than standard management reports.
4. Property Tax Credits	There is manual recordation of calculations and an individual can both prepare and approve transactions.
5. Transfer and Recordation Tax	This area lacks formal documented procedures.
6. Property Tax Refunds	Refunds are subject to high volume and many employees can research and process refunds perhaps leading to inconsistent results.
7. Billing	The review of tax bills from the MUNIS system does not focus on the highest risk transactions such as exemptions.
8A. Treasury Information Systems – Access Controls	Approval access in system is not in line with job responsibilities and personnel without authority have access to make changes to data in systems.
8B. Treasury Information Systems – E-Pilot System	A PILOT agreement could be entered into the system and a bill processed based on an incorrect set of business rules.
8C. Treasury Information Systems – Spreadsheet Controls	Calculations on spreadsheets are subject to input and logic errors.
9A. Cashiering – Reconciliations	Incomplete reconciliation – between the bank and the deposits processed by Merkle.
9B. Cashiering – Total Activity	There is an incomplete reconciliation of deposits activity.
9C. Cashiering – Parking, Speed, and Red Light Violations	Improper segregation of duties in recording and reconciling Parking, Speed, and Red Light violation payments.
10. Collections – Merkle	There is no evidence that the services provided by Merkle are supported by a properly approved and executed contract.
11. Call Center	Call Center staff may adjust interest and penalties without supervisory approval.
12. Undeliverable County Issued Checks	The number and value of returned checks are not tracked to ensure checks are properly accounted for until voided, or processed.
13. Rejected Tax Payments from Lockbox Processor	The number and value of rejected checks are not tracked to ensure checks are properly accounted for until voided, or processed.

Prior to the commencement of this detailed audit work, the Department of Finance provided us with the current status and key contact(s) for each deficiency noted on the prior risk assessment. Based on this information, we scheduled our initial interviews. As additional information was obtained about the various process areas through our inquiries, additional

interviews were scheduled as needed. The list of the interviews that we conducted is in the table below.

**Table 2 – Conducted Interviews**

Reference Number	Interview Topic
1	Billing
2	Cashiering – Parking, Speed, and Red Light Violations
3	Cashiering – Reconciliations
4	Cashiering – Total Cash Activity
5	Collections – Merkle
6	Employee Cross-Training
7	Key Personnel – Program Manager II
8	Policies and Procedures
9	Program Manager II Responsibilities
10	Property Tax Credits
11	Property Tax Refunds
12	Rejected Checks from the Lockbox Processor
13	Rejected E-Transfer Wire Payments
14	Transfer and Recordation Tax
15	Transfer and Recordation Tax (E-Transfer)
16	Treasury Division – Accounting
17	Treasury Information Systems – Access Controls
18	Treasury Information Systems – E-PILOT
19	Treasury Information Systems – Spreadsheet Controls
20	Undeliverable County Issued Checks

**Remediation Status of the 2009 Risk Assessment Deficiencies**

Along with detailed discussions regarding each of the process areas that included previously-recognized deficiencies, we reviewed applicable supporting documentation and observed personnel performing related tasks. We have identified each process area below, along with the testing methodology used for our assessment of the remediation status, for each of the deficiencies identified in the 2009 risk assessment. The results of these review procedures are presented in Table 3 below. Additionally, reference Appendix A for a list of specific documents that were requested and the corresponding date that each item was received.

- To evaluate the policies and procedures implemented since the previous risk assessment, we requested all policy and procedure documents related to Treasury functions. We reviewed the policy and procedure documents that we received in an effort to determine whether the documents are complete, accurate, and up-to-date. As a result of this review,



we identified any process areas where the policies and procedures were not formally documented, where the documentation was not consistent with the activities that were performed, or where the documentation was not reviewed and updated on a consistent basis.

- We requested evidence to support that Treasury personnel have been adequately cross-trained, that they have received on-the-job training, and that their job responsibilities are properly documented. In addition to the detailed discussions that we conducted, we selected and received five employee work plans for Fiscal Year 2015. The work plans list the applicable job responsibilities, upon which each employee is evaluated.
- To assess whether the Program Manager II's system access is appropriate, we combined this review with the Treasury Information Systems – User Access review, where we evaluated the employee system access in the key Treasury Information Systems (i.e. TAS, E-PILOT, MUNIS<sup>8</sup>, and the Lender Services Site) to determine whether appropriate access is granted to the Treasury employees to ensure that segregation of duties issues do not exist within or between systems.
- To gain an understanding of how Management information is gathered through the use of reports, we discussed each of the relevant systems used with the Accounting Unit, along with the reporting capabilities of each system. Once we understood the current reporting environment, we observed the Accounting Unit utilizing available MUNIS reporting capabilities, as well as customized reports created using Crystal Reports<sup>9</sup>, which is a business intelligence software application.
- We spoke directly with the Treasury employee responsible for property tax credits, and we also requested the spreadsheets used for property tax credit calculations to determine if the proper spreadsheet controls are in place. We also selected a sample of 10 property tax credits from Levy Year 2013, calculated by the Treasury Division, to verify that there was adequate supporting documentation, and sufficient evidence of review.
- To learn about the Transfer and Recordation Tax processes, we reviewed the Transfer and Recordation Tax procedure document and conducted a meeting with several Transfer Tax personnel, as well as the Tax Operations Manager, who oversees the Transfer Tax area. Additionally, we observed two Transfer Tax employees performing the batching process for payments that were received both over the counter, and through the E-Transfer web application. We also selected a sample of 15 days between September 1, 2013 and August 31, 2014 and performed testing designed to validate that reconciliations were properly performed, and that sufficient evidence of review was retained.
- Our process to properly understand the property tax refund process began by conducting a meeting with several Property Tax employees. Additionally, we selected a sample of 20 property tax refunds that were processed between June 1, 2014 and August 31, 2014. Our testing was designed to ensure that sufficient evidence of review and approval was obtained.

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<sup>8</sup> Due to the limited reporting capabilities in MUNIS, we judgmentally selected six Treasury employees, including the current Program Manager II, to review system access. For the remaining systems reviewed, all user access was assessed.

<sup>9</sup> Due to the limited reporting capabilities in the MUNIS system, the Treasury Division utilizes Crystal Reports to provide supplemental information to the aggregated reports generated out of MUNIS.

- We met with several Treasury employees and gained a firm understanding of the monthly, quarterly, and annual billing processes, as well as the billing review process. To confirm the review process, we received evidence to support the implemented sampling technique.
- We conducted a meeting with the E-PILOT Administrator and defined the E-PILOT process. Based on the information that we documented as a result of this meeting, we obtained sample documents from the Department of Housing and Community Affairs (DHCA) that provided us with examples of the documentation used during the process to set up PILOT accounts within the E-PILOT system.
- Using the spreadsheets that we evaluated and process information that we documented, we assessed the internal controls associated with the spreadsheets used for key Treasury functions.
- We met with the Cashiering Manager to document the Cashiering Reconciliation process. After defining the process, we selected a sample of five days between September 1, 2013 and August 31, 2014. For each sample selected, we reviewed the reconciliations between the payments received by the lockbox processor and the lockbox payments deposited at the bank. For the same dates, we also reviewed the payments received through Official Payments and the payments deposited at the bank.
- After all of the interviews were conducted and various reconciliations were reviewed, we were able to gain a firm understanding of Cashiering total activity and evaluate whether the risks identified in the prior risk assessment were remediated.
- We were able to learn and assess the Cashiering – Parking<sup>10</sup>, Speed, and Red Light Violations process through conversations with the employee overseeing the Cashiering Unit and a Cashier, as well as the Cashiering Operation Manual.
- Through various conversations with Treasury and Fiscal Management, we learned background information regarding the third party service providers for lockbox<sup>11</sup> services. Prior to June 2014, Montgomery County was utilizing Merkle for its lockbox services. The agreement with Merkle was established through an evergreen<sup>12</sup> contract with First Union Bank, Montgomery County's prior primary bank, many years ago. Since June 2014, Montgomery County has switched its primary lockbox processor to PNC Bank; however, the County continues to utilize Merkle for limited lockbox services. The formal agreements with Montgomery County and the third party service providers of lockbox services were requested for review.
- As the Treasury Division no longer has a Call Center function, as was referenced in the 2009 risk assessment, we met with three Property Tax employees to document the process for adjusting penalties and interest on tax bills.
- We reviewed the process for undeliverable County issued checks and rejected tax payments through discussions with Treasury Division personnel.

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<sup>10</sup> Parking violation payments are no longer processed by the Treasury Division. Additionally, the Treasury Division now processes payments for school bus camera violations.

<sup>11</sup> Lockbox banking is a service provided by banks to companies for the receipt of payment from customers. Under the service, the payments made by customers are directed to a special post office box, rather than going to the company. The bank will then go to the box, retrieve the payments, process them, and deposit the funds directly into the company bank account.

<sup>12</sup> An evergreen contract is a legal agreement that will automatically start again unless one of the people or businesses involved officially terminates it.

### **Identification of Control Weaknesses Not Noted in the 2009 Risk Assessment**

Throughout the procedures that we performed to evaluate the status of the remediation of each of the deficiencies identified in the 2009 risk assessment, we also identified and reported additional instances of internal control weaknesses that were observed during our fieldwork. These observations are presented in Table 4 herein.

### **Observations and Recommendations**

During our review of the status of the remediation for each of the deficiencies identified in the 2009 risk assessment, we found that six deficiencies from the 2009 risk assessment have been adequately remediated; however, the remaining 12 process areas continue to lack the proper controls to mitigate the identified risks. Table 3 lists the results of our review. Additionally, we identified five new risk areas--control weaknesses--which are listed in Table 4. Our recommendations to the Director of Finance are contained in the last columns of Tables 3 and 4.

**Table 3 – Remediation Status of the 2009 Risk Assessment Deficiencies Results**

Risk Assessment Area	Original Deficiency Noted	Current Observation	Risk	Recommendation
<p>1. Policies &amp; Procedures</p>	<p>The Treasury Division does not have formally documented policies and procedures for the majority of processes in the Treasury Division. The key elements associated with the development of formal policies and procedures include a standard format for documentation of the policies and procedures; approval or authorization of the policies by the appropriate level of management; and communication of the policies and procedures to those individuals responsible for their execution. These elements were frequently not evident.</p>	<p>1. A number of policy and procedure documents were formalized as a result of the 2009 risk assessment; however, these documents are incomplete and outdated, as they have not been updated since 2009, 2010, or 2011. These policies include:</p> <ul style="list-style-type: none"> <li>• Adjusting Penalty and Interest Charges;</li> <li>• Transfer and Recordation Taxes;</li> <li>• Property Tax Refunds;</li> <li>• Cashiering; and,</li> <li>• Excise Tax.</li> </ul> <p>Additionally, there are instruction and guidance documents available for accounting activities, E-PILOT, Bag Tax, billing, and multiple MUNIS functions; however, these documents have not been documented in a format that is consistent with existing policy and procedure documents. Additionally, these documents have not been reviewed or approved.</p> <p>Lastly, there is a lack of written policies and procedures for:</p> <ul style="list-style-type: none"> <li>• Tax credits;</li> <li>• Collections;</li> <li>• Official Payments reconciliations;</li> <li>• Rejected lockbox payments; and,</li> <li>• Undeliverable County-issued checks.</li> </ul>	<p>Without documented procedures, employees may not have:</p> <ul style="list-style-type: none"> <li>• Awareness of their job responsibilities;</li> <li>• A reference for infrequently performed or technically challenging processes;</li> <li>• Consistent handling or processing of transactions;</li> <li>• Appropriate on the job training; and,</li> <li>• Procedures to prevent loss of knowledge due to employee turnover.</li> </ul>	<p>1.1. Establish a formal process to assure that detailed, comprehensive policy and procedure documents are developed in a consistent format for all Treasury processes.</p> <p>1.2. Establish a process to ensure that all policy and procedure documents are appropriately updated, reviewed, and approved on a consistent basis so that all documents remain reflective of the current processes and controls.</p>

Risk Assessment Area	Original Deficiency Noted	Current Observation	Risk	Recommendation
		<p>2. The Treasury Division does not have a formalized process for documenting, reviewing, approving, or updating policies and procedures on a regular basis.</p>		
<p>2A. Key Personnel – Treasury Division</p>	<p>Treasury staff are not cross-trained; there is usually only one employee who thoroughly understands certain subject areas (e.g. tax credit, recordation tax, accounting function, etc.). Only one person may understand how to process or approve certain transactions.</p>	<p>Based on information obtained through discussions with Treasury Management, we were not able to obtain sufficient evidence to determine which processes employees had been cross-trained to perform, and when the cross-trainings were administered.</p> <p>Further, we noted that the Treasury Division is working on formalizing and documenting the cross-training process.</p>	<p>The lack of cross-training can result in inefficiencies, inaccuracies, or an overall lack of knowledge during employee turnover or extended employee absence.</p>	<p>2A.1. Establish a schedule of on-going cross-trainings to ensure that all applicable employees are cross-trained, and that all applicable positions have been cross-trained.</p> <p>Additionally, employees who have been cross-trained should be informed of any changes to the processes on which they've been cross-trained.</p> <p>Further, establish a method to track and monitor the completion of conducted cross-trainings.</p>
<p>2B. Key Personnel – Program Manager II</p>	<p>1. Vast knowledge of the Treasury functions is concentrated in one employee whose current responsibilities included:</p> <p>a. Detailed reviewer for key division transactions such as refunds and tax</p>	<p>1. <b>Remediated.</b> Since the 2009 risk assessment, the Program Manager II has retired; however, she is currently working under a Knowledge Transfer contract with the Treasury Division.</p> <p>The current Program Manager II's responsibilities are not as vast as the previous Program Manager II. The former Program Manager II was</p>	<p>The Program Manager II's current access lacks proper segregation of duties.</p>	<p>2B.1. Assure that users do not have the ability to enter, modify, and post significant transactions within both the MUNIS and TAS systems.</p> <p>Additionally, develop a process to review the system accesses for each Treasury Information System</p>

Risk Assessment Area	Original Deficiency Noted	Current Observation	Risk	Recommendation
	<p>credits;</p> <p>b. Reviewer with the most technical knowledge for most refund transactions; and</p> <p>c. Provider of training and oversight for a significant number of key processes such as refunds, tax credits, lender service site, and the PILOT program.</p> <p>d. Program Manager II performs system administrator duties, such as changing user passwords, in several information systems (Lender Service Site).</p> <p>2. Program Manager II can approve payments in FAMIS<sup>13</sup> related to transactions possibly self-entered and approved in other information systems.</p>	<p>responsible for overseeing both Billing and Collections. The Billing process is currently managed by the former Program Manager II. The current Program Manager II oversees Collections and is responsible for reviewing refunds, along with two other Property Tax employees, as well as addressing any miscellaneous billing questions. The current Program Manager II is not the system administrator for any Treasury Information Systems.</p> <p>2. The current Program Manager II does not have approver access in Oracle (i.e. FAMIS's replacement); however, the current Program Manager II is able to enter, modify, and post significant transactions within both the MUNIS and TAS systems – accesses that should not reside within a single user's profile. The Program Manager II's access to enter, modify and post transactions represents a risk that assets could be misappropriated.</p>		<p>on a recurring basis to assure appropriateness and proper segregation of duties.</p>

<sup>13</sup> FAMIS was the Treasury Division's General Ledger System at the time of the 2009 risk assessment. FAMIS has since been replaced by Oracle.

Risk Assessment Area	Original Deficiency Noted	Current Observation	Risk	Recommendation
3. Treasury Division – Accounting	Most managerial, financial reporting and status reports are produced by generating queries using Crystal Reports.	<p><b>The identified risk for this process area has been remediated.</b></p> <p>The Accounting Unit utilizes standard reports out of MUNIS and custom Crystal Reports for gathering managerial information. As the reports produced out of MUNIS are at an aggregated level, Crystal Reports is used to generate supplemental reports by pulling information from a MUNIS data source. The Accounting Unit will request a report that provides the appropriate level of detail. The Financial Program Manager will create a custom report in Crystal Reports and work with the Accounting Unit to validate the accuracy and completeness of the report prior to its use in order to ensure that the data is populated correctly. Once confirmed, the Accounting Unit will utilize the finalized report for its ongoing needs.</p>	Risk has been remediated.	N/A
4. Property Tax Credits	<p>1. Due to limitations in MUNIS, the following is occurring:</p> <p>a. Tax credits are calculated in an Excel spreadsheet or manually on paper with no controls.</p>	<p>1. Property tax credits are currently calculated in Excel spreadsheets that can be processed from start (i.e. receiving the application/certification) to finish (i.e. applied to a tax bill) by one individual, without required review or approval.</p>	<p>The lack of proper review and/or independent approval may result in incorrect or unjustified tax credits applied to tax bills, which could adversely impact the amount of funds owed to the County.</p>	<p>4.1. Adjust the current process to include dollar amount and/or complexity thresholds for the tax credits calculations to be reviewed and approved by a second reviewer or supervisor prior to being applied to customer tax bills. Property tax credits above a certain threshold should be approved by senior management.</p>

Risk Assessment Area	Original Deficiency Noted	Current Observation	Risk	Recommendation
	<p>b. Tax credits are recorded manually in MUNIS with some tax credit recapture scenarios not being recorded in MUNIS at all.</p> <p>2. During our review of Treasury Division access to FAMIS, we noted that the Tax Credit Accountant is responsible for calculating and processing the journal entries related to tax credits has approver rights in the General Ledger.</p> <p>3. The process to obtain the required approval of tax credits is delayed due to the volume of transactions (tax credits and others) that the single approver must review and approve manually.</p>	<p>2. The Property Tax Accountant no longer enters journal entries within Oracle; however, we noted the accountant continues to have access within Oracle to post journal entries to the General Ledger. Refer to Observation 8A for the Treasury Information Systems – Access Controls observation and recommendation.</p> <p>3. Two of the 15 tax credits (i.e. new jobs tax credit and brownfield’s tax credit) calculated by the Treasury Division are reviewed; however, they are only reviewed the first year of the tax credit. The preparer may send additional tax credits calculations to be reviewed; however, it is up to the preparer’s discretion, rather than a required step.</p>		



Risk Assessment Area	Original Deficiency Noted	Current Observation	Risk	Recommendation
5. Transfer and Recordation Tax	<p>1. The area lacks formally documented policies and procedures (the personnel in the area have created informal manuals from memorandums and sample documentation).</p> <p>2. The staff often process complex transactions with little oversight and informal review. The transaction documentation is reviewed by only one staff person and the transfer and recordation taxes are calculated and approved manually by that one staff person. The Supervisor is spot checking during the filing process after the transaction has been completed.</p> <p>3. The staff responsible for processing transfer and recordation taxes may calculate the taxes owed manually. The staff only uses the E-Transfer system for the simplest of transactions since it takes more time to complete taxes owed</p>	<p>1. The documented policies and procedures for transfer and recordation taxes are inadequate as there are several inconsistencies and instances of incompleteness between the documented procedures and the current process.</p> <p>2. The staff continue to process complex transactions with minimal oversight and review. Additionally, there is not a formalized process that defines when complex transactions are to be reviewed.</p> <p>3. For payments received over the counter, the employees verifying the transfer and recordation taxes enter the applicable information into an Excel spreadsheet, which will automatically calculate the appropriate tax amounts due. However, for payments received over E-Transfer, the transfer and recordation taxes, in particular the 50K exemption and Capital Improvements Program related taxes, are calculated manually.</p> <p>4. <b>Remediated.</b> The batching process includes reconciling the amount of taxes due on the Intake sheet to the payment received both over the counter and through E-Transfer.</p>	<p>1. Without documented procedures, employees may not have:</p> <ul style="list-style-type: none"> <li>• Awareness of their job responsibilities;</li> <li>• A reference for infrequently performed or technically challenging processes;</li> <li>• Consistent handling or processing of transactions;</li> <li>• Appropriate on the job training; and,</li> <li>• Procedures to prevent loss of knowledge due to employee turnover.</li> </ul> <p>2. Manually calculating transfer and recordation taxes increases the risk of error.</p>	<p>5.1. Review and update the Transfer and Recordation Tax policy documentation to ensure that the contents are up-to-date, complete, and consistent with the current process. Additionally, the Transfer and Recordation Tax policy should include:</p> <ul style="list-style-type: none"> <li>• A formalized process for the review of complex transactions,</li> <li>• The process to check for rejected E-Transfer payments; and,</li> <li>• The process to collect rejected E-Transfer payments.</li> </ul> <p>5.2. Enforce the use of the Transfer Recordation Worksheet to process all transfer and recordation tax payments received to reduce the risk of errors resulting from manual calculations.</p>

Risk Assessment Area	Original Deficiency Noted	Current Observation	Risk	Recommendation
	<p>calculations using the E-Transfer system then to manually process them.</p> <p>4. There is no evidence of a formal process for reconciling activity and payments received in person or through the online E-Transfer system.</p> <p>5. There is no consistent documented reconciliations of daily activity funds (settlement sheets) received via the E-Transfer system or over the counter to deposit to the bank. There is no tracking of over the counter activity.</p> <p>6. Transfers are accepted and processed in the E-Transfer system prior to the wire transfer of the funds from the taxpayer. There are no procedures at the Transfer Office to re-collect funds based on wire transfers or ACHs with insufficient funds.</p>	<p>5. <b>Remediated.</b> The batching process for E-Transfer also includes reconciling the payments received against the payments deposited in the bank. The Transfer area does not reconcile the payments received against the payments deposited in the bank; however, a Banking Analyst at Montgomery County will reconcile the bank deposit amounts against the payments posted by Cashiering.</p> <p>6. Although it is rare to see rejected ACH payments through E-Transfer, as the payments are made by mortgage companies on behalf of the taxpayers, a payment could be rejected (e.g. changed banking information was not updated in the system or a new user did not enter his/her banking information into the system). Therefore, a Transfer Tax employee will log into E-Transfer daily to check if any payments have been rejected. However, the process to check for rejected payments and the process of reclaiming funds from rejected ACH payments is not documented.</p>		

Risk Assessment Area	Original Deficiency Noted	Current Observation	Risk	Recommendation
6. Property Tax Refunds	<p>The refund process entails a large volume of accounts and has twelve Treasury Division staff that can prepare refunds but only one staff that can review and manually approve the technical transaction. There are eight staff with the authority in FAMIS to approve the financial transaction. This imbalance results in the following:</p> <ul style="list-style-type: none"> <li>a. Untimely processing transaction approval without detail review; and,</li> <li>b. Inconsistent level of review by transaction reviewers.</li> </ul>	<p>Eight property tax employees are able to prepare property tax refunds, three of which are also designated reviewers. Additionally, the current process requires that any refund greater than \$10,000 be reviewed and approved by the Treasury Division Chief. This is a lower threshold than the County's policy, which requires review and approval for refunds greater than \$25,000.</p> <p>Twenty property tax refunds were reviewed and we confirmed that each samples' preparer and reviewer were independent, as well as any refunds over \$10,000 were reviewed and approved by the Treasury Division Chief. However, a control gap was found in the refund batching process, as a refund could be prepared and reviewed by the same employee and continue through the process undetected because the preparer is the employee preparing the batch of refunds and not the employee researching and preparing the refund.</p>	A refund could be processed without review, resulting in the potential theft of County funds.	6.1. Adjust the current refund batching process to require the preparer of the refund (i.e. the employee researching the validity of the refund as well as gathering the supporting documentation) to sign and date the refund as evidence to ensure that the preparer and reviewer are independent.

Risk Assessment Area	Original Deficiency Noted	Current Observation	Risk	Recommendation
7. Billing	<p>1. The review of the annual and quarterly billing performed by the Treasury Accounting Unit does not include risk based sampling of bills under review.</p> <p>2. The monthly revised bills which are changed due to changes of assessments of previously existing property are not independently reviewed prior to or after mailing.</p>	<p><b>The identified risk for this process area has been remediated.</b></p> <p>The Accounting Unit's review process for quarterly and annual billings is adequate, as randomly selected samples from each type of bill (i.e. tax class, exemption code, special credit code, etc.) will be reviewed and recalculated to ensure that the amounts were processed correctly through the MUNIS system.</p> <p>During the monthly revised bill process, the Biller will review the Subsequent Change report, which displays the old and new values in MUNIS, allowing the Biller to investigate any anomalies.</p>	Risk has been remediated.	N/A
8A. Treasury Information Systems – Access Controls	<p>1. Some personnel have access to approve transactions in one system that resulted from transactions they initiated in another system.</p> <p>a. FAMIS access is not in line with the job responsibilities of personnel in the Division (e.g. supervisors with access to multiple systems that creates potential segregation issues, non-supervisory</p>	<p>1. Through our review of user access to the Treasury Information Systems, we noted instances of inappropriate user access. Details were provided to Treasury Management.</p> <p>2. <b>Remediated.</b> Since the 2009 risk assessment, IMS has been replaced by TAS. During the implementation of TAS in June 2014, FIN-IT obtained a list of individuals who need access to the system from each department. No subsequent review of user access has been completed following implementation.</p>	Inappropriate user accesses could result in a lack of segregation of duties within or between systems.	8A.1. Develop and implement a process to review all user accesses to Treasury Information Systems regularly for appropriateness and to ensure that the proper segregation of duties is maintained.

Risk Assessment Area	Original Deficiency Noted	Current Observation	Risk	Recommendation
	<p>personnel with approver access).</p> <p>b. The Program Manager II is seen as the key contact for operational understanding of significant data systems (e.g. MUNIS, IMS, E-PILOT, and Lender Services Site) and has the ability to do the following:</p> <ul style="list-style-type: none"> <li>i. Grant and define Treasury Division Staff access in all Treasury systems;</li> <li>ii. Approve payments in FAMIS for transactions such as tax credits, assessments, changes, and refunds.</li> </ul> <p>2. The staff from multiple departments/agencies (e.g. WSSC, State Assessment Office, DEP, etc.) have direct access to IMS data with no periodic review of access granted to ensure it is properly aligned with staff duties and responsibilities</p>			

Risk Assessment Area	Original Deficiency Noted	Current Observation	Risk	Recommendation
	related to County assessments and taxes.			
8B. Treasury Information Systems – E-Pilot System	Currently, Treasury Division staff are required to interpret the details of each PILOT agreement to determine which of the nine pre-defined business rules programmed into the E-PILOT system should be applied to calculate the assessment reduction. This can be a complicated process as these agreements are complex legal documents.	<p><b>The identified risk for this process area has been remediated.</b></p> <p>The E-PILOT process does not require an employee to interpret the business rules defined in E-PILOT. The employee entering the PILOT agreement into the E-PILOT system will utilize the documentation (i.e. PILOT agreement and attached documentation) provided by the Department of Housing and Community Affairs (DHCA) to set up the PILOT in the system by selecting the appropriate pre-defined business rules in E-PILOT. If there are any questions, the employee will contact DHCA for clarification.</p>	Risk has been remediated.	N/A
8C. Treasury Information Systems – Spreadsheet Controls	Significant calculations and processes such as tax credits and month end journal entries are calculated and tracked on individual spreadsheets without	<p><b>The identified risk for this process area has been remediated.</b></p> <p>The spreadsheets used to calculate significant transactions (i.e. property tax credit calculations, transfer and recordation tax credit calculations,</p>	Risk has been remediated.	N/A

Risk Assessment Area	Original Deficiency Noted	Current Observation	Risk	Recommendation
	controls to ensure the overall integrity of the spreadsheet is maintained to prevent errors in calculations performed or data captured.	and accounting related) have adequate controls in place.		
9A. Cashiering – Reconciliations	<p>1. There is no evidence of a daily reconciliation being performed on the activity between Merkle and the bank, and the Treasury Division.</p> <p>a. The amount of the tax payments collected and processed by Merkle that should have been deposited into the bank;</p> <p>b. The total of the tax collections processed as captured in the Merkle data file sent to Treasury for entry into MUNIS;</p> <p>c. The total of tax collections recorded in MUNIS from the Merkle data file uploaded by Treasury.</p> <p>d. The amount of tax collections sent to the bank by Merkle</p>	<p>1. <b>Remediated.</b> The reconciliation process between the lockbox processor and the bank is adequate as the amount of payments processed by Merkle is agreed to the lockbox payments deposited at the bank, which is part of the daily cashiering reconciliation process.</p> <p>2. <b>Remediated.</b> The reconciliation process between Official Payments and the bank is adequate as the amount of payments received by Official Payments is agreed to the amount of payments deposited by the bank, which is performed by a Property Tax employee. Both reconciliations are reviewed during the daily cashiering reconciliation process by an independent employee.</p> <p>3. We were able to confirm that the reconciliations were occurring; however, the procedures associated with the reconciliation activity between Merkle and the bank, and between Official Payments and the bank, have not been formally documented.</p>	<p>Without documented procedures, employees may not have:</p> <ul style="list-style-type: none"> <li>• Awareness of their job responsibilities;</li> <li>• A reference for infrequently performed or technically challenging processes;</li> <li>• Consistent handling or processing of transactions;</li> <li>• Appropriate on the job training; and,</li> <li>• Procedures to prevent loss of knowledge due to employee turnover.</li> </ul>	<p>9A.1. Update the Cashiering Operation Manual to include the procedures to perform the reconciliation between Merkle and the bank.</p> <p>9A.2. Formally document the process to perform the reconciliation between Official Payments and the bank.</p>

Risk Assessment Area	Original Deficiency Noted	Current Observation	Risk	Recommendation
	<p>for depositing.</p> <p>e. The verification of the amount of checks received by the Cashiering Unit that were rejected by Merkle for processing.</p> <p>2. There is no evidence of a daily reconciliation of the following information between the website (Credit card and ACH) and the bank:</p> <p>a. The amount of payments processed by Official Payments that should have been deposited into the bank account.</p> <p>b. Comparison of that total to the amount of collections processing in MUNIS after the data file is uploaded.</p> <p>c. The amount from the corresponding deposit received by the bank.</p>			



Risk Assessment Area	Original Deficiency Noted	Current Observation	Risk	Recommendation
9B. Cashiering – Total Activity	<p>1. Currently, the Cashiering Unit only verified the total cash collected for the deposit and does not review the checks bundled for deposit prepared by other departments.</p> <p>2. The Cashiering Unit does not ensure that the total funds collected and sent to the bank for depositing are recorded by the bank. The bank reconciliation, which is not completed for a minimum of 45 days, is a delayed detective control.</p>	<p><b>The identified risk for this process area has been remediated.</b></p> <p>Each department is responsible for reconciling its payments received (except lockbox payments and the property tax ACH payments, which are completed by Cashiering) against a bank deposit slip or PNC report of amounts deposited. As part of the daily Cashiering reconciliation, the Cashiering Unit ensures that the transmittal sheets completed by each department agree to the bank deposit slip or PNC report prior to posting the payments into Oracle. Also, the bank reconciliations are performed on a daily basis by the Bank Reconciliation Unit, outside of the Treasury Division.</p>	Risk has been remediated.	N/A
<p>9C. Cashiering – Parking, Speed, and Red Light Violations</p> <p><b>Note:</b> Parking violations are no longer processed by the Treasury Division. Additionally, the Treasury Division now processes school bus camera</p>	The Cashiering Unit records the receipts of payments to the respective violation systems as well as the MUNIS cashiering system. In addition, the Head Cashier is responsible for reconciling the reporting of receipts from the three violation systems to the cashiering system.	<p>1. <b>Remediated.</b> The traffic violation payment process as described appears to be adequate as the Cashiers process the payments into eTIMS, a traffic violation system, and Oracle. The payments are included in the daily cashier closing process, which is reviewed and approved as part of the daily Cashiering reconciliation process.</p> <p>2. The documented procedures for processing traffic violation payments are incomplete and outdated.</p>	<p>Without documented procedures, employees may not have:</p> <ul style="list-style-type: none"> <li>• Awareness of their job responsibilities;</li> <li>• A reference for infrequently performed or technically challenging processes;</li> <li>• Consistent handling or processing of transactions;</li> <li>• Appropriate on the job training; and,</li> </ul>	9C.1. Update the Cashiering Operation Manual to ensure that the procedures for processing violation payments are complete and accurate.

Risk Assessment Area	Original Deficiency Noted	Current Observation	Risk	Recommendation
violations.			<ul style="list-style-type: none"> <li>Procedures to prevent loss of knowledge due to employee turnover.</li> </ul>	
10. Collections – Merkle	There is no evidence that the services provided by Merkle are supported by a properly approved and executed contract.	<p><b>The identified risk for this process area has been remediated.</b></p> <p>Currently, the Treasury Division utilizes two third party service providers (i.e. PNC Bank and Merkle) to process lockbox payments. In June 2014, Treasury has transitioned its third party lockbox service provider to PNC Bank from Merkle; however, customers continue to send its payments to Merkle's lockbox. As a result, Treasury continues to use Merkle to process these lockbox payments. Additionally, Treasury decided to continue utilizing Merkle lockbox services to assist in processing checks received that cannot be processed through PNC Bank's automated process, and require manual investigation and resolution in order to be appropriately applied to customer accounts. A formalized contract has been established between Montgomery County and PNC Bank for lockbox services. As PNC Bank pays Merkle directly on Montgomery County's behalf for lockbox services, no formalized contract between Merkle and the County was or could be established.</p>	Risk has been remediated.	N/A

Risk Assessment Area	Original Deficiency Noted	Current Observation	Risk	Recommendation
<p>11. Call Center</p> <p><b>Note:</b> The Treasury Division no longer has its own Call Center. A centralized County-wide Call Center has been opened since the 2009 risk assessment.</p>	<p>The Call Center personnel have the ability to adjust interest and penalties on tax bills with no approval necessary.</p>	<p>1. Our assessment of Treasury employees' ability to adjust interest and penalties in MUNIS resulted in inconsistent understandings by the three Property Tax employees with whom we met.</p> <p>The first employee with whom we spoke noted that the interest and penalty charges can only be corrected, not waived, without required approval.</p> <p>The second employee with whom we spoke noted that the interest and penalty charges can be written off or corrected without required approval, but only if under \$10 or \$50, respectively.</p> <p>The third employee with whom we spoke noted that the standard process does not allow for interest and penalties to be waived, although there are exceptions which are brought to the attention of a Manager.</p> <p>2. Policies and procedures have been implemented for adjusting penalties and interest charges; however, the procedures documents do not provide steps on how to adjust penalties or interest. Additionally, the current processes do not follow the guidelines established in these above-referenced policies.</p>	<p>Adjustments to penalties and interest are processed inconsistently amongst the Treasury employees and could exclude the proper approval as defined in the Adjusting Penalties and Interest Charges policy.</p>	<p>11.1. Review and update the Adjusting Penalty and Interest Charges policy to reflect the correct and complete process to adjust penalties and interest charges within MUNIS.</p> <p>11.2. Take action to ensure employees responsible for adjusting penalties and interest charges in MUNIS to know Treasury's policies and procedures for handling these transactions. This may include the need for more or better training.</p>

Risk Assessment Area	Original Deficiency Noted	Current Observation	Risk	Recommendation
12. Undeliverable County Issued Checks	Undeliverable County Issued Checks returned to Treasury are not logged or tracked to determine if all checks returned are properly forwarded to Accounts Payable Section for processing.	<p>The process of receiving undeliverable County issued checks is inadequate as there is no segregation of duties between the responsibilities for recording and the custody of undeliverable County issued checks.</p> <p>The Treasury Division receives the undeliverable County issued checks; however, the checks received are not recorded. The checks are sent to Accounts Payable, where one employee is responsible for both recording and custody of the checks.</p>	The undeliverable County issued checks are not properly safeguarded from risk of theft.	12.1. As long as the Treasury Division receives undeliverable County issued checks, record the returned undeliverable County issued checks and reconcile its log with Accounts Payable to ensure that all checks are received and recorded timely by Accounts Payable.
13. Rejected Tax Payments from Lockbox Processor	Rejected checks from the lockbox processor forwarded to Treasury are not counted, tracked or summed to ensure all the checks received are properly handled.	The procedure for processing rejected checks from the lockbox processors needs to be improved as the rejected checks received by the Treasury Division are not recorded or tracked to ensure that all checks were received and properly handled.	The rejected lockbox checks are not properly safeguarded from risk of theft.	<p>13.1. Update the process to include the recording of rejected lockbox checks on a log.</p> <p>13.2. Ensure that the individuals responsible for recording the checks are independent from the individuals responsible for processing the payment.</p> <p>13.3. Establish a process whereby the Treasury Division employee responsible for the disposition of the returned lockbox check updates the log to reflect the action taken.</p>

In addition to our evaluation of the status of the remediation of each of the deficiencies identified in the 2009 risk assessment, we also identified the following new areas needing improvement.

**Table 4 – Identification of Control Weaknesses not noted in the 2009 Risk Assessment Results**

Process Area	Type	Observation	Risk	Recommendation
14. Key Personnel – Program Manager II	Internal Control Weakness	<p>The 2009 risk assessment stated that the "vast knowledge of the Treasury functions is concentrated in one employee..." Additionally, the 2009 risk assessment's recommendation for this identified risk stated, "documentation of job responsibilities, operational and systems knowledge is needed to ensure a successful transition from the Program Manager II to others within the Division".</p> <p>Since the 2009 risk assessment, the Program Manager II has retired and the manager's operational and systems knowledge related to billing has not been formally documented. To compensate, the Treasury Division entered into a Knowledge Transfer Contract with the former manager, who has provided training to the current FIN IT lead and the current Collections employee (i.e. current Program Manager II) , assisted with the TAS implementation, and remains involved with the revised billing process, which has not been formally documented.</p>	<p>The Treasury Division continues to be dependent on the former Program Manager II. Without adequate knowledge transfer and process documentation, this creates a risk that operational and system knowledge could be lost as the Knowledge Transfer Contract expires.</p>	<p>14.1. To reduce the dependence on the former Program Manager II, Treasury Division Management should ensure that the former Program Manager II transfer all remaining operational and system knowledge that has not yet been transferred. This should be accomplished through additional training of current employees, and formal documentation of remaining process and system knowledge.</p>
15. Key Personnel – Treasury Division (Training)	Internal Control Weakness	<p>Per a conversation with Treasury Division Management, on-the-job training is provided to Treasury employees. The trainings and updates that are provided to employees are not formally documented, and employee completion of administered trainings is not tracked.</p>	<p>Failure to document and track training and updates provided to employees may result in employees not receiving all the appropriate training on a timely basis.</p>	<p>15.1. The Treasury Division should track completed employee trainings to ensure that all required trainings and updates are provided to all employees and completed timely.</p>
16. Transfer and Recordation	Internal Control Weakness	<p>A control gap was found in the transfer and recordation tax batching process. A Transfer Tax</p>	<p>The lack of segregation of duties could</p>	<p>16.1. The Treasury Division should modify the current</p>

Process Area	Type	Observation	Risk	Recommendation
Tax		<p>employee responsible for recording checks in the batching process could have also potentially received a check included in the payments to be batched.</p> <p>This would result in a lack of segregation of duties.</p>	<p>result in the theft of County funds.</p>	<p>process to ensure that the employee responsible for the batching process could not receive a check that could potentially end up in the payments he/she would then batch.</p>
17. Key Personnel – Treasury Division (Staffing)	Internal Control Weakness	<p>Based on the below circumstances, we note that the current staffing levels of the Treasury Division may not be appropriate:</p> <ol style="list-style-type: none"> <li>1. A former Treasury Division employee, working in another Finance Division department, temporarily performed several key Treasury functions, including the administration of the E-PILOT process and the annual billing process;</li> <li>2. The Treasury Division has a Knowledge Transfer Contract with the former Program Manager II, who is involved with processing the monthly revised bills;</li> <li>3. There are currently two vacant positions within the Treasury Division;</li> <li>4. Additional Treasury Division personnel communicated that they are planning to retire in the near future; and,</li> <li>5. Treasury Division Management communicated their intent to create and fill two additional positions.</li> </ol>	<p>Inadequate staffing levels could result in increased workloads for current employees, which could result in inefficient processes, control breakdowns, and an increased risk for theft of assets as remaining employees take on additional tasks.</p>	<p>17.1. The Treasury Division should assess its current staffing environment and take the necessary steps to ensure that all key processes are adequately staffed to allow for proper segregation of duties, as well as a beneficial distribution of operational and system knowledge within the division. This includes properly staffing all current and projected open positions within the Treasury Division.</p>
18. Cashiering	Internal Control Weakness	<p>We noted a lack of proper segregation of duties within the Cashiering Unit, as a supervisor within the Cashiering Unit who records the cash and check payments also has access to the safe, where cash and checks are retained prior to deposit.</p>	<p>The lack of proper segregation of duties could result in the theft of County funds.</p>	<p>18.1. The Treasury Division should adjust the current process to ensure the personnel responsible for accepting and recording payments are independent from the personnel with access to the safe, where cash and checks are retained prior to deposit.</p>

## **Comments and MCIA Evaluation**

We provided the Department of Finance with a draft of this report for formal review and comment on January 28, 2015 and Finance responded on February 12, 2015. The Department of Finance stated that it concurred with the report's recommendations and has since implemented or is in the process of implementing corrective actions (See Appendix B for Finance's response).

## Appendix A – Documentation Requested

Document Requested	Date Requested	Date Received
Current Organizational Chart	8/13/2014	8/20/2014
Formalized Policies and Procedures	8/13/2014	8/20/2014
Treasury Information Systems Listing	8/13/2014	8/22/2014
Draft Bag Tax P&P	8/26/2014	8/28/2014
Sample of the Monthly SOS Report	8/26/2014	8/28/2014
Transfer & Recordation Tax Spreadsheets	8/26/2014	8/28/2014
Examples of Cashiering Daily Reconciliations	8/26/2014	9/4/2014
First Union Contract <sup>14</sup>	8/27/2014	N/A
PNC Bank Contract	8/27/2014	8/29/2014
Tax Credit Spreadsheets	8/27/2014	8/29/2014
TAS Access Listing	8/28/2014	9/5/2014
MUNIS Access Listing	8/28/2014	9/5/2014
Oracle Access Listing	8/28/2014	9/5/2014
Copy of the daily Transfer reconciliation/worksheet	8/28/2014	9/3/2014
Recapture Homeowners Template Spreadsheet	8/28/2014	9/5/2014
Interest calculations Spreadsheet	8/28/2014	9/5/2014
Accounting Spreadsheets with Instructions	9/3/2014	9/5/2014
Accounting Checklists	9/3/2014	9/5/2014
Billing Review Program	9/3/2014	9/5/2014
Example of MUNIS A/R report and Crystal Report	9/3/2014	9/5/2014
Example of DHCA Memo & Table for PILOT	9/4/2014	9/5/2014
MUNIS Import Checklist	9/4/2014	9/9/2014
Document of MUNIS Import Screenshots	9/4/2014	9/9/2014
Listing of adjusted penalties and interest from 9/1/13-8/31/14 <sup>15</sup>	9/9/2014	N/A
Screenshots of employee access to folders	9/9/2014	9/10/2014
Listing of refunds from 6/1/14-8/31/14	9/9/2014	9/10/2014
Samples of daily cashiering reconciliations	9/9/2014	10/9/2014
Job responsibilities	9/9/2014	9/10/2014
Cross training documentation	9/9/2014	9/10/2014
Sample refunds supporting documentation and approvals	9/11/2014	10/7/2014
Screenshots of MUNIS user access for selected employees	9/16/2014	10/1/2014
Information on Oracle Roles	9/16/2014	10/6/2014
Transfer & Recordation sampled batches	9/16/2014	9/17/2014
Tax Recordation Worksheet	9/16/2014	9/16/2014
Official Payments Reconciliations	10/13/2014	10/20/2014
TAS Access Definitions	10/21/2014	10/23/2014
MUNIS Roles Explanation	10/21/2014	10/23/2014
MUNIS Private Roles Explanation	10/23/2014	10/28/2014

<sup>14</sup> The original agreement for Merkle lockbox services was included in an evergreen contract with First Union Bank, a bank previously utilized by Montgomery County. The contract with First Union Bank could not be located.

<sup>15</sup> The Treasury Division could not generate a report out of MUNIS to produce a population of accounts where penalties and interest charges were adjusted within the selected time period.



**Appendix B – Department of Finance Formal Comments**



Isiah Leggett  
*County Executive*

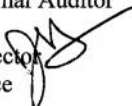
Joseph F. Beach  
*Director*

**DEPARTMENT OF FINANCE**

MEMORANDUM

February 12, 2015

TO: Larry Dyckman, Internal Auditor

FROM: Joseph F. Beach, Director  
Department of Finance 

SUBJECT: Formal Comments on Draft Report – Follow-Up Audit of the 2009 Treasury Risk Assessment dated January 28, 2015

Attached please find the Department of Finance formal response to the draft audit report referenced above.

If you, or the audit firm working with you, have any questions relating to the attached, please contact Karen Hawkins, Chief Operating Officer, at 240-777-8828, or Michael Coveyou, Treasury Division Chief, at 240-777-8878.

Attachment

cc: Karen Q. Hawkins, Chief Operating Officer, Department of Finance  
Michael Coveyou, Treasury Division Chief, Department of Finance

**Finance Response to  
Follow-Up Audit of the 2009 Treasury Risk Assessment by the Office of Internal Audit  
Dated January 28, 2015**

**Recommendation:**

- 1.1. Establish a formal process to assure that detailed, comprehensive policy and procedure documents are developed in a consistent format for all Treasury processes.

**Finance Response:**

The Finance Department concurs with this recommendation and is in the process of implementation.

Since the spring of 2014, the Department has been working with a consultant to establish a consistent format for policies and procedures, and to work with each division to inventory existing documentation and prioritize efforts required to produce complete and up-to-date policy documentation. Work with the Treasury Division (Treasury) was timed to coincide with this audit, in order to most effectively take into account the results of the audit. Treasury has begun work with the consultant and anticipates completion during calendar 2015.

**Recommendation:**

- 1.2. Establish a process to ensure that all policy and procedure documents are appropriately updated, reviewed, and approved on a consistent basis so that all documents remain reflective of the current processes and controls.

**Finance Response:**

The Finance Department concurs with this recommendation and is in the process of implementation.

Treasury will develop an umbrella policy and procedure that addresses the recommendation above, which is anticipated to be completed in the first part of 2015.

**Recommendation:**

- 2A.1. Establish a schedule of on-going cross-trainings to ensure that all applicable employees are cross-trained, and that all applicable positions have been cross-trained.

Additionally, employees who have been cross-trained should be informed of any changes to the processes on which they've been cross-trained.  
Further, establish a method to track and monitor the completion of conducted cross-

trainings.

**Finance Response:**

The Finance Department concurs with these recommendations and is in the process of implementation.

Treasury will establish both an initial cross-training schedule for 2015, and a schedule and criteria for ongoing refresher training. As it relates to changes in procedures, this will be part of a standard department process for updating policy and procedure documentation, which will include conditions and processes for notifying staff of changes. The cross-training program will also include a formal tracking mechanism which is already under development.

**Recommendation:**

2B.1. Assure that users do not have the ability to enter, modify, and post significant transactions within both the MUNIS and TAS systems.

Additionally, develop a process to review the system accesses for each Treasury Information System on a recurring basis to assure appropriateness and proper segregation of duties.

**Finance Response:**

The Finance Department concurs with these recommendations and is in the process of implementation.

Between September and December 2014 all Treasury employee access to systems, including Munis, E-Pilot, TAS and Oracle, were reviewed and updated as appropriate with the most significant changes relating to TAS and Oracle. Access to TAS for all Treasury employees, except for the Tax Credit Administrator, was updated and limited to read-only status. The Tax Credit Administrator's posting access in TAS is limited to posting Business Tax Credits; the business process for administering these tax credits is currently under review, and may result in additional security access modifications to align with any new business processes. As of January 2015, no Treasury employees can post payments in Oracle.

Treasury is in the process of developing a draft policy that would require a review of system access at least annually.

**Recommendation:**

4.1. Adjust the current process to include dollar amount and/or complexity thresholds for the tax credits calculations to be reviewed and approved by a second reviewer or supervisor prior to being applied to customer tax bills. Property tax credits above a certain threshold should be approved by senior management.

**Finance Response:**

The Finance Department concurs with these recommendations and is in the process of implementation.

Treasury has identified the thresholds (dollar value and complexity) that will require supervisory review. Development of a threshold for senior management review is in process. Appropriate policy and procedure documents will also be developed.

**Recommendation:**

- 5.1. Review and update the Transfer and Recordation Tax policy documentation to ensure that the contents are up-to-date, complete, and consistent with the current process. Additionally, the Transfer and Recordation Tax policy should include:
- A formalized process for the review of complex transactions,
  - The process to check for rejected E-Transfer payments; and,
  - The process to collect rejected E-Transfer payments.

**Finance Response:**

The Finance Department concurs with this recommendation and is in the process of implementation.

Treasury is currently reviewing these policies, noting the areas that require updating, and will complete the process in 2015. The formally documented policy and procedures will include the process for review of complex transactions and the process to manage E-Transfer payments, especially those very infrequent rejected payments.

**Recommendation:**

- 5.2. Enforce the use of the Transfer Recordation Worksheet to process all transfer and recordation tax payments received to reduce the risk of errors resulting from manual calculations.

**Finance Response:**

The Finance Department concurs that a locked spreadsheet or computer program should be used to calculate all transfer and recordation tax payments.

A pilot program has been implemented to determine whether the Transfer Recordation Worksheet (which is a MS Excel file) or the E-Pilot program is the better choice for making these calculations. Preliminary results from using the Excel file led Treasury to explore E-Pilot as a suitable alternative. Final results should be available and conclusions reached by the end of March 2015.

**Recommendation:**

- 6.1. Adjust the current refund batching process to require the preparer of the refund (i.e. the employee researching the validity of the refund as well as gathering the supporting documentation) to sign and date the refund as evidence to ensure that the preparer and reviewer are independent.

**Finance Response:**

The Finance Department concurs with the recommendation, which was implemented in December 2014.

**Recommendation:**

- 8A.1. Develop and implement a process to review all user accesses to Treasury Information Systems regularly for appropriateness and to ensure that the proper segregation of duties is maintained.

**Finance Response:**

The Finance Department concurs with this recommendation, which is very similar to Recommendation 2B.1.

To facilitate a regular review process, Treasury will work with the Controller Division, the Enterprise Resource Planning (ERP) Office, and Finance-IT to develop a matrix of conflicting duties, as a tool to ensure that employee access to these systems incorporates an appropriate segregation of duties.

**Recommendation:**

- 9A.1. Update the Cashiering Operation Manual to include the procedures to perform the reconciliation between Merkle and the bank.

**Finance Response:**

The Finance Department concurs with this recommendation.

The cashiers' manual will be updated in 2015 for the interrelated processes in Recommendations 9A.1 and 9A.2.

**Recommendation:**

- 9A.2. Formally document the process to perform the reconciliation between Official Payments and the bank.

**Finance Response:**

The Finance Department concurs with this recommendation.

The cashiers' manual will be updated in 2015 for the interrelated processes in Recommendations 9A.1 and 9A.2.

**Recommendation:**

9C.1. Update the Cashiering Operation Manual to ensure that the procedures for processing violation payments are complete and accurate.

**Finance Response:**

The Finance Department concurs with this recommendation.

The manual will be updated in 2015 to include the procedure for processing Red Light, School Bus Camera, and Speed Camera violations.

**Recommendation:**

11.1. Review and update the Adjusting Penalty and Interest Charges policy to reflect the correct and complete process to adjust penalties and interest charges within MUNIS.

**Finance Response:**

The Finance Department concurs with this recommendation.

The review was conducted in 2014 and found the policy to be valid. Treasury anticipates updating the policy to make it more clear.

**Recommendation:**

11.2. Take action to ensure employees responsible for adjusting penalties and interest charges in MUNIS to know Treasury's policies and procedures for handling these transactions. This may include the need for more or better training.

**Finance Response:**

The Finance Department concurs that more training or clarification on the policy "Adjusting Penalty and Interest Charges" is warranted. Treasury will provide clarified guidance to employees after Recommendation 11.1 has been implemented.

**Recommendation:**

12.1. As long as the Treasury Division receives undeliverable County issued checks, record the

returned undeliverable County issued checks and reconcile its log with Accounts Payable to ensure that all checks are received and recorded timely by Accounts Payable.

**Finance Response:**

The Finance Department concurs with this recommendation; Treasury and the Controller Division are in the process of identifying appropriate business processes to accomplish this goal.

**Recommendation:**

13.1. Update the process to include the recording of rejected lockbox checks on a log.

**Finance Response:**

The Finance Department concurs with, and has implemented, this recommendation.

A check log has been implemented to track the checks received in Treasury. The log includes the date Treasury received the check, the check number, the check amount, and the initials of the Treasury employee who logged each check.

**Recommendation:**

13.2. Ensure that the individuals responsible for recording the checks are independent from the individuals responsible for processing the payment.

**Finance Response:**

The Finance Department concurs with this recommendation, and is in the process of implementation.

**Recommendation:**

13.3. Establish a process whereby the Treasury Division employee responsible for the disposition of the returned lockbox check updates the log to reflect the action taken.

**Finance Response:**

The Finance Department concurs with this recommendation, and is in the process of implementation.

**Recommendation:**

14.1. To reduce the dependence on the former Program Manager II, Treasury Division Management should ensure that the former Program Manager II transfer all remaining operational and system knowledge that has not yet been transferred. This should be accomplished through additional training of current employees, and formal

documentation of remaining process and system knowledge.

**Finance Response:**

The Finance Department concurs with this recommendation and is in the process of implementation.

The knowledge transfer process has been completed. There are two current employees in the Department who have been fully trained in the billing area, and have performed parts of the processes as operational needs have required. This program has undergone a reorganization, and a new billing manager position was created, prior to the audit, to enhance segregation of duties. Treasury has recently received approval under the County's hiring exemption process and is currently recruiting for the position. When this new position is filled, it is anticipated that the employees who have been cross-trained on the processes will participate in training the new manager. As it relates to documentation, the existing informal policies and procedures will be formalized as part of the policy and procedure efforts noted in response to Recommendation 1.1, and in conjunction with the training of the new manager when that position is filled.

**Recommendation:**

- 15.1. The Treasury Division should track completed employee trainings to ensure that all required trainings and updates are provided to all employees and completed timely.

**Finance Response:**

The Finance Department concurs with these recommendations and is in the process of implementation, as noted in the response to Recommendation 2A.1.

**Recommendation:**

- 16.1. The Treasury Division should modify the current process to ensure that the employee responsible for the batching process could not receive a check that could potentially end up in the payments he/she would then batch.

**Finance Response:**

The Finance Department concurs with this recommendation.

Treasury is discussing alternatives for implementing this control during 2015. Both the intake and the batching of the checks are performed by employees in the Transfer section. Intake is performed constantly throughout the business day, while batching takes the last two hours of the day for one employee. Therefore the batching process itself is a significant workload. Treasury is discussing alternatives to keep the process wholly in the Transfer section, or assigning the batching process to employees of the Property Tax, Excise Tax or Cashiers section, who are cross-trained on the process.



**Recommendation:**

- 17.1. The Treasury Division should assess its current staffing environment and take the necessary steps to ensure that all key processes are adequately staffed to allow for proper segregation of duties, as well as a beneficial distribution of operational and system knowledge within the division. This includes properly staffing all current and projected open positions within the Treasury Division.

**Finance Response:**

The Finance Department concurs with this recommendation.

Treasury has been working with the Director's office for most of 2014 on reorganizing Treasury for this purpose. The segregation of the property tax billing and collection functions is the main focus of the staffing analysis—approval to hire a billing manager was recently granted (Treasury already has a collections manager in place). The 2009 Treasury Risk Assessment and the subsequent follow-up) served as the basis for much of this analysis.

**Recommendation:**

- 18.1. The Treasury Division should adjust the current process to ensure the personnel responsible for accepting and recording payments are independent from the personnel with access to the safe, where cash and checks are retained prior to deposit.

**Finance Response:**

The Department of Finance concurs with the recommendation, which has been implemented.

The one supervisor who has access to the safe when the head of the Cashiering section is not on site no longer accepts and records payments on the same day.