

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



**Cash Management Targeted Internal Control Review
Montgomery County Police Department
Vehicle Recovery Section**

August 28, 2023

Highlights

Why MCIA Did this Review

The Montgomery County Office of Internal Audit (MCIA) conducted a targeted internal control review (review) of the Montgomery County Government's (the County) Montgomery County Police Department (MCPD), Vehicle Recovery Section (VRS) cash management function.

MCPD VRS stores and maintains vehicles that have been towed at the direction of MCPD and cash receipts include fees from towing, storage, and administrative costs as well as the proceeds from vehicles sold at auction. VRS' cash management function includes receiving, processing, and depositing cash receipts from fees paid by customers picking up their vehicles or by customers buying vehicles at auction. In calendar year 2022, VRS recorded approximately \$2,387,200 of cash and check receipts.

The review was conducted by the accounting firm SC&H Group, Inc., under contract with MCIA.

August 2023

Cash Management – Targeted Internal Control Review, Montgomery County Police Department, Vehicle Recovery Section

What MCIA Found

MCPD's VRS cash management operations include processes and internal controls to mitigate fraud risks. However, opportunities exist to improve control design and operational effectiveness to more effectively mitigate those risks. The opportunities can be addressed by enhancing or implementing additional steps within VRS's cash management operations.

We identified three areas of improvement to strengthen controls and mitigate risks in the following areas:

1. Enhanced cash management policies and procedures
2. Enhanced formalized review procedures
3. Improved access management review procedures

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Objectives

This report summarizes the results of a targeted internal control review (review) of Montgomery County's (the County) cash management program and operations within the Montgomery County Police Department's (MCPD) Vehicle Recovery Section (VRS). The review was performed by SC&H Group, Inc. (SC&H), under contract with the Montgomery County Office of Internal Audit (MCIA).

The MCPD VRS review focused on how the County manages fraud risks associated with cash management processes such as receiving, processing, reporting, and reconciling cash transactions. The objective was to evaluate VRS' cash management internal controls for design and operational effectiveness.

Cash Management Process Background

Cash Management Types

The following was used to define the types of transactions and activities to be considered cash management for the purposes of this review:

1. Cash management includes:
 - a. Receipt of cash and check payment methods (collectively, "cash").
 - b. Physical handling and management of cash.
2. Cash management excludes:
 - a. Transactions that bypass a department and are directed to another department, such as lockboxes, third-party vendors/contractual agreements that go directly to the County Department of Finance (Finance or County Finance) – either the Accounts Receivable (AR) section of the Controller Division or the Treasury Division (Treasury) -- and electronic payments (e.g., automated clearing house (ACH), electronic funds transfer (EFT), wires, etc.).
 - b. The following specific types of transactions: grants (i.e., Federal, State, or Local funds), intergovernmental transfers, and investment income.
 - c. Petty cash and credit or debit card transactions.

Montgomery County Police Department

Montgomery County Police Department (MCPD) is responsible for policing Montgomery County, with approximately 1,300 sworn officers and approximately 650 support personnel.

MCPD includes the following organizational groups:

1. Office of the Chief
2. Internal Affairs Division
3. Professional Accountability Division
4. Public Information Office
5. Five major bureaus: Community Resources Bureau, Field Services Bureau, Investigative Services Bureau, Management Services Bureau, and Patrol Services Bureau.
 - a. The Patrol Services Bureau oversees most of MCPD's uniformed officers on patrol. The Patrol Services Bureau is divided into six police districts.

The MCPD Management Services Bureau provides essential administrative and management support services to MCPD and technical support to police operations through various types of

technology, analyses, education, training, and maintenance of active and historical records and warrants. MCPD's Vehicle Recovery Section (VRS), resides within the Management and Budget Division, one of seven divisions within the Management Services Bureau. This review only encompasses VRS due to the total cash and check amounts it processes.

Vehicle Recovery Section

VRS is responsible for storing vehicles towed at the direction of MCPD. This includes abandoned vehicles in community neighborhoods or on commercial or residential properties. VRS employs approximately 10 career staff (full-time employees). VRS recorded approximately \$2,387,200 in cash receipts in calendar year (CY) 2022 (CY - January 1, 2022 through December 31, 2022). An overview of VRS's cash receipt types follows.

Towing Cash Receipts

Vehicles towed at the direction of MCPD are towed by a contracted tow company. Most vehicles towed at MCPD's direction are initially towed to an approved tower's lot for up to five days. If the vehicle is not retrieved within this timeframe, the towing company is required to transfer the vehicle to the VRS impound lot. Vehicles may only be released to the titled (registered) owner or his/her authorized representative. In order to be considered an authorized representative, the representative must have authorization in writing, with the notarized signature of the registered owner. An individual retrieving a vehicle registered in a business name must provide proof of an authorized relationship to the business. When retrieving a towed vehicle, the owner or authorized representative must bring proof of ownership, e.g., title or current registration card, and government issued identification. Vehicle owners or authorized representatives enter into the VRS impound lot lobby to pay the associated towing fees via cash or check in order to release their vehicle. Cash receipts are processed by VRS cashiers in the ShopKeep point of sale (POS) system. Fees are generated for the towing, storage, and administrative costs associated with the vehicle, which ShopKeep calculates at the time of the transaction. The cashier processes the transaction into ShopKeep based on a case-ID number associated with the towed vehicle that MCPD has logged into an Access Database for tracking purposes.

At the end of the day, cashiers calculate the total cash and check amounts received, close out the cash register, and prepare the deposit. The cash deposits are picked up twice a week by Loomis and transported to PNC Bank for deposit.

Auction Cash Receipts

On the fourth Saturday of every month, VRS holds an auction for vehicles that owners have decided not to pick up or that are deemed totaled. Interested buyers come to the impound lot and take part in the auction. If a vehicle is purchased, the buyer will pay for the vehicle in the VRS lobby with cash and/or check. The cash management processes performed by VRS on the auction dates are the same when vehicle owners pay for and pick up their vehicles during the other days of the month.

Scope and Methodology

The review evaluated cash receipts received during CY22. The scope focused on the cash management activity processes within VRS, which included:

1. Cash Handling/Receipts: Cash collection; operation of POS systems and/or cash registers; utilization of cash boxes; making change for customers; providing receipts of purchase (paper trail); documenting transactions (payment tracking).

2. Balance and Reconcile: Hourly, shift, or daily reconciliation of sales records/receipts to cash on hand; supervisory reviews of reconciliations.
3. Cash Security: Storage of cash (e.g., on-site, in-transit); physical security; utilization of security cameras; physical (e.g., combination for a safe) and logical access (e.g., user credentials for POS systems).
4. Deposit: Preparation of deposits; transportation of deposits; deposit at bank; physical (e.g., deposit slip) or system documentation of deposit.
5. Refunds/Credits/Voids: Refunds, credits, or voids processed via POS and/or Oracle ERP; documentation and audit trail; authorization and approval (e.g., limits on amount that need approval); supervisory review of refunds, credits or voids.
6. Bank Reconciliation: Monthly reconciliation between cash records (e.g., POS system, deposit slips), the Oracle ERP system, and the bank statement/records.
7. Financial Recordkeeping: Account reconciliations; journal entries; integration with banking systems.
8. Training/Other: Policies and procedures; training materials; on the job training; communication.
9. System/User Access: Logical access to POS systems and other recordkeeping systems/tools; access rights and privileges.

In order to achieve the objectives, SC&H performed the following procedures.

Scoping

The review began by conducting a fraud risk assessment (assessment) of the County's VRS operations, which included the following:

1. Documenting the VRS operations from end-to-end.
2. Identifying risks or scenarios that potentially could be exploited to commit fraud.
3. Identifying and overlaying the internal controls within the in-scope programs and operations.
4. Assessing the design effectiveness of the controls and the resulting residual risks that appear to remain.
5. Identifying potential gaps in the internal controls.

The identification of potential residual risks and gaps in the control environment allows the County to focus corrective actions on additional or re-designed controls that need to be implemented to address any elevated risk situations.

SC&H performed the following procedures to complete the assessment.

Fraud Risk Assessment and Test Plan Development

SC&H conducted department interviews and performed documentation review and other research to identify potential cash management fraud risks/schemes and scenarios. Based on these analyses, SC&H formulated a plan to test internal controls identified during the risk assessment, and test VRS' controls, policies and procedures.

Fieldwork

Fieldwork consisted of testing the operational design and/or effectiveness of internal controls identified during the assessment. SC&H prepared a document request listing information needed to satisfy the testing steps developed in the test plan, including populations required to

select samples for which additional information was selected. The following includes additional details regarding sample selections and test procedures.

Sample Selections

Sample selections were made utilizing a population of cash receipts transactions provided. SC&H utilized judgmental and random selection methods for sampling. SC&H performed user access related review procedures for ShopKeep and the PNC banking portal.

Internal Controls Testing

The operational effectiveness of the control activities identified and detailed within the test plan were tested.

1. Cash Receipts: Obtained supporting documentation to determine the accuracy and completeness of the daily transactions, deposit amounts, and evidence of review and sign-off by applicable supervisory personnel.
2. Daily Reconciliations: Obtained supporting documentation with the appropriate supporting research and resolution of identified discrepancies, as applicable.
3. System and User Access Reviews:
 - a. Obtained and reviewed supporting documentation to determine appropriate logical system access for applicable VRS employees.
 - b. Requested evidence of prior periodic user access reviews (e.g., applicable software system access) performed by VRS.

Supplemental Test Procedures

SC&H evaluated and reconciled documented VRS cash management internal controls with related department-level and County level policies and procedures (i.e., the County's Finance Accounts Receivable Policy (Finance AR Policy)). This consisted of evaluating VRS policies and procedures to the identified cash management sub-processes (e.g., cash handling/receipts, balancing, and reconciliation, etc.) for completeness as well as alignment with the Finance AR Policy.

Validation

The preliminary test results were compiled and presented to VRS Management and the IA Manager.

Findings and Recommendations

Results

We appreciate the assistance and cooperation from VRS during this review.

Overall, the VRS cash management function is centralized and appears to be operating as intended. Based on the review procedures, the VRS cash management function appears to incorporate controls to mitigate fraud risks throughout the various programs and resource utilization criteria.

The review yielded findings and opportunities for VRS to improve its cash management operations and internal controls. These findings are categorized by functional area, and the recommendations are presented to help strengthen the design and operational effectiveness of internal controls within the operations.

Finding 1: Misalignment with County Policies and Procedures

Background

County Finance AR developed and updated the County's AR Policy as of April 1, 2020. The purpose of the policy is to ensure best practices are followed for the activities relating to the County's accounts receivable function and collection of County cash receipts. The policy includes sections related to cash management operations, including:

1. Receiving Payments
2. Making Timely Receipt Deposits
3. Automated Financial Systems and Interfaces
4. Internal Controls and Documentation
5. Training Employees Who Work with Finances

Further, Section 5 (*Receiving Payments*) of the AR Policy requires that "Each department should have a set of written procedures that describes the proper steps for: interacting with Customers, receiving cash at a Point of Sales (POS), and for receiving payments through the mail or electronically..."

Finding

SC&H requested and reviewed the policies, procedures, and trainings provided by VRS. The documentation provided was specific to ShopKeep, specifically how to navigate the systems, processing cash and check transactions, and troubleshooting common issues. The documentation, however, did not include comprehensive, formal policies and procedures related to the cash management sub-processes identified during this review. Training documentation was also not provided. Missing procedures included processing the deposit, user access reviews, performing daily bank reconciliations, and some specific cash handling processes.

Risks

Lack of complete policies and procedures that align with Countywide requirements could negatively impact:

1. The establishment and performance of necessary activities performed consistently, efficiently, and effectively in a controlled and timely manner.
2. The ability to perform critical activities in the absence of the primary users.

Recommendation 1

VRS should develop/update policies, procedures, and trainings to formally document and introduce cash management processes, as required in the AR Policy. Further, these policies and procedures should be consistent and align with County policies and procedures. VRS should ensure going forward that any changes in County policies are reflected in VRS policies, procedures, and trainings; and should periodically review the VRS policies, procedures, and trainings to ensure alignment with County policies.

For example, the policies, procedures, and training documents could include, but not be limited to the following:

1. Documenting roles and responsibilities, tools, and resources for cash management processes, such as processing the deposit, user access reviews, performing daily bank reconciliations, and some specific cash handling processes.
2. Documenting roles and responsibilities, timing expectations, and applicable escalation and management reviews for the unmatched report and unreconciled transactions.

Finding 2: Limited Formalized Review Procedures

Background

VRS performs multiple control activities throughout its programs and operations designed to mitigate inherent risks related to cash transactions. These include preventive and detective control activities within the following cash management sub-processes:

1. Cash handling/receipts
2. Balance and reconcile
3. Cash security
4. Deposit
5. Refunds/credits/voids
6. Bank reconciliation
7. Financial recordkeeping
8. Training/other
9. System/user access

SC&H conducted process interviews and walkthroughs to understand and document VRS's cash management programs, operations, and risks.

Finding

SC&H tested various control activity types throughout the programs and operations to evaluate their operational effectiveness. Based on the test procedures performed, the following exceptions were identified:

1. 4 instances: Return transaction documentation did not include complete sign-offs by the reviewer (e.g., manager or supervisor).
2. 2 instances: End of day summary documentation did not include complete sign-offs by the reviewer (e.g., manager or supervisor).

Risks

Lack of consistently 1) maintained and completed documentation to support and justify transaction activity and balances and 2) approved documentation to justify and support completeness, accuracy, and validity of activities could result in:

1. Opportunities to mishandle and/or steal cash
2. Unauthorized and invalid transactions
3. Incomplete and inaccurate reporting information
4. Operational error and management oversight
5. Inefficient use of resources, due to the time needed to perform related research activities

Recommendation 2

VRS should ensure that required review procedures for the identified cash management programs and operations are documented, communicated, and enforced.

Finding 3: Limited Access Management Review Documentation

Background

Within Administrative Procedure (AP) 6-7, Information Security (the County's policy and procedure document on computing assets and infrastructure policy and procedure) the following processes have been documented:

- Chapter 1 Information System Access
 - Section 1.1.10: Review User and Information System accounts for compliance with account management requirements at least annually.
 - Section 1.3.2: Reviews of the privileged accounts must be performed annually to validate the need for such privileges.

Finding

SC&H inquired with VRS regarding the periodic documented user access reviews completed during the scope period. Per discussion, the reviews should have included a review of ShopKeep system access. VRS provided evidence of semi-annual user access reviews completed by the Cash Management Administrator, however, the documentation provided did not include evidence of review and sign-off, demonstrating completion and oversight of the review.

Risks

1. Lack of a formalized process that documents the requirements for periodic user access review may result in lapses and/or breaches to critical systems and sensitive areas.
2. Failure to perform a periodic user access review could result in unauthorized access and successful attacks, including but not limited to, denial of service attacks, ransomware attacks, manipulation of data, fraudulent activities, and theft of money and assets.

Recommendation 3

VRS should continue performing and retaining documentation for the user access reviews to verify compliance with AP 6-7, that user access is appropriate for systems deemed critical and/or sensitive to VRS processes. User access reviews should record the authorized personnel reviewing the user listing, the date of review, and any necessary actions needed to ensure unauthorized users have their access disabled and/or removed.

Further, as outlined in Recommendation 1, VRS should formally document the roles and responsibilities, including review and sign-off, for performing periodic user access reviews.

Comments and MCIA Evaluation

The draft final report was shared with the Police Department (MCPD) for its review and comment. MCPD responded on August 23, 2023, stating that it agreed with the report, and that MCPD would engage in an ongoing process to improved internal control processes and routinely train all employees to ensure adherence to County and MCPD policies. MCPD's response is included in this report at Appendix A.

APPENDIX A – Department Comments



DEPARTMENT OF POLICE

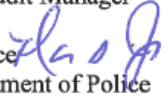
Marc Elrich
County Executive

Marcus G. Jones
Chief of Police

MEMORANDUM

August 23, 2023

TO: William Broglie, Internal Audit Manager

FROM: Marcus Jones, Chief of Police 
Montgomery County Department of Police

SUBJECT: Draft Report on *Cash Management Targeted Internal Control Review*
Montgomery County Department of Police Vehicle Recovery Section

Thank you for your review of the cash management practices of the Montgomery County Department of Police—Vehicle Recovery Section (VRS). I have reviewed the provided report based on the internal audit completed by the SC&H Group. Upon review of the provided evaluation and recommendations, I agree with the report.

The Department acknowledges the need for existing cash management practices to align with Montgomery County policies. The Department will engage in an ongoing process to improve internal control processes and routinely train all employees to ensure adherence to County and departmental policies. The Montgomery County Department of Police is developing a plan to address the audit findings.

We would also like to take this opportunity to thank you and the audit team at SC&H for their professional, collaborative, and positive approach to this review. We appreciate the opportunity to provide this formal response.

Chief J. Thomas Manger Public Safety Headquarters - 100 Edison Park Drive Gaithersburg, Maryland 20878
www.montgomerycountymd.gov - ChiefMCPD@montgomerycountymd.gov

montgomerycountymd.gov/311  301-251-4850 TTY