

**BROOME COUNTY
DEPARTMENT OF
AUDIT AND CONTROL**

**DEPARTMENT OF FINANCE
ELECTRONIC FUNDS TRANSFER
CONTROLS AUDIT**

January 2001

Alex J. McLaughlin, Comptroller

January 23, 2000

Jeffrey P. Kraham, County Executive:

The Department of Audit and Control has audited the system of controls established by the Finance Department to manage electronic fund transfers. The principle objective was to ensure that electronic fund transfers are properly authorized and executed.

The audit was conducted in accordance with generally accepted auditing standards. Such standards require that the Department of Audit and Control plan and perform the audit to adequately assess the accuracy of the financial records and adequacy of the internal controls, and that we examine, on a test basis, sufficient, competent and relevant evidence to afford a reasonable basis for our conclusions.

Based on the results of our examination, except for the instances noted herein, it is our opinion that the Department of Finance has adequate controls to effectively manage electronic fund transfers.

Sincerely,

Alex J. McLaughlin
Comptroller

cc: Jerome Z. Knebel, Commissioner of Finance
Daniel A. Schofield, Chairman of the Legislature
Members of the Legislature
Louis P. Augostini, Clerk of the Legislature

Background Information:

The purpose of our audit was to confirm that the Department of Finance has adequate controls in place to ensure that electronic fund transfers are properly authorized and executed.

Article 2 § 5-a (b) 2 of the General Municipal Law stipulates that local governments are responsible for adopting a system of internal controls for the documentation and reporting of all transactions or disbursements of funds accomplished by electronic or wire transfers.

The Electronic Funds Transfer Act, § 903(6) defines the term “electronic fund transfer” as any transfer of funds, other than a transaction originated by check, draft, or similar paper instrument, which is initiated through an electronic terminal, telephonic instrument, or computer or magnetic tape so as to order, instruct, or authorize a financial institution to debit or credit an account. Such term includes, but is not limited to, point-of-sale transfers, automated teller machine transactions, direct deposits or withdrawals of funds, and transfers initiated by telephone.

The Finance Department does not currently use terminals (computers) to electronically transfer funds. The Finance Department does make use of the telephone and/or fax machines to initiate the electronic transfer of funds between various banks.

We limited the scope of our examination to transactions that occurred between banks. We excluded transactions that occurred within Broome County’s major group of accounts maintained at Chase Manhattan Bank.

The fund transfers we reviewed consisted of monies invested in certificates of deposits with various banks other than Chase Manhattan Bank. We also reviewed the transfer of funds from Charter One Bank (a Transit department bank account) to Broome County’s concentration account (Broome County’s major account) at Chase Manhattan Bank.

For the period we reviewed (1/2000 – 6/2000), approximately \$531,000,000 in certificates of deposits were purchased from the various banks not including CD’s purchased from Chase Manhattan. Additionally, during the same period, over \$855,000 was transferred from the Charter One Bank (Transit department account) to the Chase Manhattan Bank concentration account.

Prior Audit:

None

AUDIT FINDINGS, RECOMMENDATIONS, AND RESPONSES

FINDING 1: FORMAL WRITTEN RECONCILIATION PROCEDURE SPECIFIC TO ELECTRONIC TRANSFERS NEEDED

We noted that the Finance Department does not have a procedure in place to ensure that all electronic transfers of funds are properly executed in accordance with management's intentions (and that only authorized transfers are executed).

The Finance Department does have procedures in place to monitor daily activity within the County's main account at Chase Bank, but transfers into or out of the County's other accounts would not be captured by this process.

The Standards For The Professional Practice of Internal Auditing section 300 .03 notes that periodic comparisons of actual to planned performance enhances the likelihood that activities occur as planned.

Not having a written formal procedure to identify and reconcile electronically transferred funds increases the risk that material errors and improper acts will not be prevented or detected and corrected within a timely period by employees in the normal course of performing their assigned duties.

RECOMMENDATION:

We recommend that the Finance Department develop a written procedure specifically aimed at identifying and reconciling electronically transferred amounts. The procedure should be included with current written procedures. We also recommend that an employee who is not responsible for initiating or authorizing electronic fund transfers perform the reconciliation on a periodic basis.

MANAGEMENT RESPONSE:

Management's supervision and intentions over wire transfers is conducted daily. Procedures to check bank transfers to accounting entries is performed on a daily basis.

As stated in written departmental documentation procedural steps are as follows:

1. The Treasury Associate prepares wire transfer documents under the Supervision of the Treasury Manager.
2. The wire transfer forms and TP forms (accounting entries) are reviewed by the Deputy Commissioner who then signs/authorizes the transactions.
3. Depending on the bank, wire transfers are verified by different means. The County faxes wires to HSBC and the bank does a "call-back" to a person

other than the individual initiating the wire to confirm the transfer. With BSB, wires are called in by the Commissioner or Deputy Commissioner, the phone call is recorded by the bank; the person initiating the wire is required to give an assigned CIN number to authorize the wire and the bank then sends written confirmation of the CD purchase. Chase wire transfer requests are delivered via courier to the bank and verified the next day by an on-line report. M & T wires are faxed and confirmed via written confirmation of CD purchase.

AUDITOR'S NOTE:

Procedures that are designed to compare authorized bank transfers to accounting entries are not an effective control over transfer activity. The procedures described by the Finance Department in their response help to ensure that accounting entries are prepared in a timely fashion for all transfers that are approved and executed. These procedures would not, however, detect an unauthorized transfer in a timely fashion.

FINDING 2: WRITTEN CONFIRMATIONS OF ELECTRONIC TRANSFERS NOT RECEIVED IN A TIMELY MANNER

During the course of our audit, we reviewed records of certificates of deposit purchased with electronically transferred funds. We noted Broome County is not routinely receiving written confirmations of electronic fund transfers from HSBC Bank.

General Municipal Law §5-a (b) states:

“The bank or trust company processing the transfer shall provide to the officer ordering the electronic or wire transfer of funds written confirmation of each such transaction no later than the business day following the day on which the funds are transmitted.”

These written confirmations are a form of independent verification, which adds assurance that electronic fund transfers have been used for their intended purposes. By not ensuring that written confirmations are received in a timely manner the risk of errors going undetected is increased.

RECOMMENDATION:

We recommend that the Finance Department work with all banks to ensure that written confirmations of electronic fund transfers are provided to the County in accordance with the General Municipal Law. We also recommend that these confirmations are included in the reconciliation procedure recommended above.

MANAGEMENT RESPONSE:

All banks should send written confirmation to the County for all transfers. A formal letter to the Vice-President/Branch Manager of HSBC will be written requesting written confirmation of wire transfers by the end of the next business day. Reconciliation is done on a daily basis.

FINDING 3: NO WRITTEN PROCEDURES TO IMMEDIATELY DISCONTINUE TRANSFER AUTHORITY FOR DEPARTING EMPLOYEES

We noted that there is currently no written procedure in place to immediately discontinue the authority to electronically transfer funds upon notification that an employee with transfer authority is leaving Broome County employment.

The Standards for the Professional Practice of Internal Auditing section 300.05 notes that the safeguarding of assets is one of the primary objectives of internal control.

Without written procedures in place to immediately discontinue transfer authority, Broome County's assets are exposed to increased risk.

RECOMMENDATION:

We recommend that the Finance Department develop and implement a written policy that requires fund transfer authority to be immediately discontinued upon notification that an employee is leaving Broome County's employment.

MANAGEMENT RESPONSE:

All contracts between Broome County Government and the banking institution have a section requiring "a new Certificate in the event that any present Authorized Person ceases to be an Authorized Person or in the event that any other Authorized Persons are appointed and authorized" (Miscellaneous section within the various bank contracts). Because this written required procedure already exists within the contracts as formal procedure/policy, it is not necessary to repeat existing procedures.

The Finance department maintains files consisting of written correspondence for the immediate removal of authorized signers on bank accounts upon leaving employment with the County. Past practice has been to formally remove the individual from all bank records granting authority to transfer funds and requesting new signature cards to be sent immediately.

AUDITORS' NOTE:

That the bank contracts require new certificates in the event of a personnel change is not relevant to the fact that the Finance Department lacks a formal written procedure to ensure that transfer authority is immediately withdrawn upon termination or notification of pending departure of applicable employees.

FINDING 4: NO REQUIREMENT FOR POSITIONS WITH ELECTRONIC TRANSFER AUTHORITY TO TAKE VACATIONS IN BLOCKS OF TIME

Currently, positions within the Finance department that have the authority to generate electronic fund transfers are not required to take vacations in blocks of time.

It is an accepted internal control in business practice for positions with access to large amounts of monies to be required to take vacations in blocks of time.

Requiring block vacations results in other employees temporarily performing the duties of the position with access to money. This, in turn, provides more assurance that material errors and improper activities will be prevented or detected.

RECOMMENDATION:

We recommend that the Finance department work with the Personnel department to incorporate a requirement that vacation time be taken in blocks of time for positions with the authority to electronically transfer funds. We also recommend that, dependent on accrued vacation time, the required block of vacation be two consecutive weeks in length.

MANAGEMENT RESPONSE:

The County Finance Department has a strong system of checks and balances even without a written requirement that the Commissioner, Deputy Commissioner or Treasury Manager take two-week blocks of scheduled vacation at this time. Segregation of duties is an integral part of the internal controls.

FINDING 5: LIABILITY FOR UNAUTHORIZED FUND TRANSFERS IS NOT CLEARLY DEFINED AND RELATED INSURANCE COVERAGE IS NOT ADEQUATE

During the course of our audit, we noted that the County's bank agreements do not clearly state conditions for liability associated with the electronic transfer of funds. We also reviewed the County's insurance policy for public employee dishonesty. The coverage is \$1,000,000 for all employees and \$5,000,000 for the Commissioner of Finance. Both the Commissioner and the Deputy Commissioner currently have authority to electronically transfer \$100,000,000 or more.

The Standards for the Professional Practice of Internal Auditing section 300.05 notes that the safeguarding of assets is one of the primary objectives of internal control.

Unless conditions for liability associated with the electronic transfer of funds is clearly defined and insurance coverage is based on those conditions, there is no rational basis to determine if insurance coverage is adequate.

RECOMMENDATION:

We recommend that the Finance Department contact all Banks for the purpose of clearly detailing any conditions for liability, any limitations on the amount of liability, and any notification requirements related to potential losses associated with the electronic transfer of funds. We also recommend that, based on those conditions, the Finance Department work with Risk and Insurance to ensure that insurance coverage is sufficient.

MANAGEMENT RESPONSE:

In discussion with the County's Risk Manager regarding the current level of coverage of the County's Crime Insurance coverage, he indicated that the level of coverage was adequate. Because the Finance Department has extensive internal control policies already in place, an only reason the increase would be necessitated only if the County did not have sufficient internal controls already in place.

The agreements do not mention any limitations on the amount of liability and any notification requirements related to potential losses associated with the electronic transfer of funds. A letter requesting clarification of their excess liability coverage over and beyond the FDIC coverage will be prepared.

FINDING 6: ELECTRONIC TRANSFER AUTHORITY IS NOT CORRELATED TO ACTUAL AMOUNTS REQUIRED TO BE TRANSFERRED

During the course of our audit, we reviewed Wire Transfer Authorization forms for all banks that funds are transferred to and/or from. Only two of the five banks specified maximum authorized transfer amounts. The maximum authorized transfer amounts for these banks were \$110,000,000 (Charter One Bank) and \$100,000,000 (BSB) per transaction. The average electronic fund transfer transaction for Charter One Bank was \$65,815 and the average for BSB was \$916,667.

Per transaction control limits must be set at a reasonable level in order to be effective. Not relating authorized electronic transfer amounts to the actual amounts that need to be transferred increases the risk that errors and irregularities will not be minimized and raises the County's per incident risk exposure to an unjustifiably high level.

RECOMMENDATION:

We recommend that the Finance Department establish per transaction transfer limits for all banks and reconsider the limits already established.

MANAGEMENT RESPONSE:

Transaction transfer limits are set to provide for the large amounts invested on a bi-weekly basis. Four Federally insured banks having collateral/third party agreements with the County and bid on investments every other week. It is conceivable that one bank could win all CD bids in an investment period. Therefore, the ceilings on the maximum authorized transfer amounts are high to cover the possibility that an individual bank will produce the highest rate of return on the County's investment.

Banks without specific amount limitations will be contacted to revise the agreement and establish such limitations.