

Yolo County

Division of Internal Audit

Internal Control Review of Wire Transfers and ACH Transactions

For the Period:

April 1, 2018 to March 31, 2019

Audit No: 2019-1

Report Date: November 6, 2019

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Division of Internal Audits
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County of Yolo

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CHAD RINDE, CPA
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- Financial Strategy Leadership
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Transmittal Letter

November 6, 2019

Chad D. Rinde, CPA
Yolo County, Chief Financial Officer
Department of Financial Services
625 Court Street, Room 103
Woodland, CA 95695

Re: Internal Control Review of Wire Transfers and ACH Transactions

Dear Mr. Rinde:

The Division of Internal Audit performed an internal control review of wire transfers and ACH transactions at the Department of Financial Services (DFS) for the period of April 1, 2018 to March 31, 2019 to determine whether adequate internal control exists to provide reasonable assurance to county management that there is an acceptable level of operational accountability over county assets at the DFS Treasury & Revenue Division and Accounting & Financial Reporting Division.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain sufficient, reliable, relevant and useful information to provide reasonable assurance that our objective as described above is achieved. An internal audit includes the systematic analysis of information to evaluate and improve the effectiveness of internal controls. We believe this audit provides a reasonable basis for our conclusion.

Internal controls are processes designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial and non-financial information. Management is responsible for establishing and maintaining adequate internal controls. Our responsibility is to evaluate the internal controls.

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to ACH enrollments and transactions, wire transfers, logical and physical security, and segregation of duties.

As required, in accordance with auditing standards, this report was forwarded to management with a request for response. The management's response will be submitted at a later date in a separate report. We will follow-up to verify that management implemented the corrective actions.

In regards to auditor's independence, the Internal Audit Division reports administratively to the Chief Financial Officer, but functionally to the Board of Supervisors.

We thank the DFS management and staff at the Treasury & Revenue Division and Accounting & Financial Reporting Division for their cooperation; their assistance contributed significantly to the successful completion of this audit.

Sincerely,



Kim Eldredge, CGAP
Senior Auditor

Distribution
Edward Burnham, Treasury & Revenue Division Manager
Merilyn Tiriboyi, Accounting & Financial Reporting Division Manager
Patrick Blacklock, Yolo County Administrator
Chad Rinde CPA, Yolo County, Chief Financial Officer
Yolo County Audit Committee
Audit File Project No. 2019-1

AUDIT FACT SHEET

Yolo County Division of Internal Audit Report on the Internal Control Review of Wire Transfers and ACH Transactions

For the Period: April 1, 2018 to March 31, 2019

Audit No: 2019-1

Report Date: November 6, 2019

BACKGROUND

During the audit period, the following transactions were processed:

- 578 wire transfers totaling \$191,049,936 (Figure 1)
- 1,764 ACH transaction payments totaling \$109,528,985 (Figure 2)
- *Other Matters* – Fraudulent account in the amount of \$1,396,202 issued/recovered

The auditors performed a variety of procedures that tested the processes and controls around the following areas:

- **Wire Transfers/ACH Transactions:** Reviewed internal controls for enrolling vendors and for processing transactions.
- **Logical and Physical Security:** Determined that logical and physical access to banking website and Infor system was adequately controlled.
- **Contingency Plans:** Determined that a contingency plan was in place for operation and system interruptions for wire transfers and ACH transactions.
- **Segregation of Duties:** Verified that proper segregation of duties existed with wire transfers and ACH transactions.

Wire Transfers		
Issued Amounts	# of Transactions	Total Amount Paid
\$40 to \$4,999	138	\$171,744
\$5,000 to \$19,999	146	\$1,820,669
\$20,000 to \$49,000	35	\$1,114,182
\$50,000 to \$99,000	62	\$4,458,103
\$100,000 to \$499,999	137	\$27,104,937
\$500,000 to \$999,999	26	\$17,834,724
\$1 M to \$7.9 M	30	\$79,654,480
\$8 M to \$14.9 M	3	\$36,770,368
\$15 M to \$29.9 M	1	\$22,120,729
Totals	578	\$191,049,936

(Figure 1) Wire Transfer Transaction Summary (Total Cost \$2,890)

ACH Transactions		
Issued Amounts	# of ACH Transactions	Total Amount Paid
\$40 to \$4,999	983	\$1,362,492
\$5,000 to \$19,999	385	\$4,081,378
\$20,000 to \$49,000	156	\$5,310,672
\$50,000 to \$99,000	103	\$7,015,087
\$100,000 to \$499,999	105	\$18,398,477
\$500,000 to \$999,999	24	\$15,924,698
\$1 M to \$7.9 M	6	\$13,745,317
\$8 M to \$14.9 M	1	\$14,453,513
\$15 M to \$29.9 M	1	\$29,237,350
Totals	1,764	\$109,528,985

(Figure 2) ACH Transaction Summary (Total Cost \$88)

The Audit Fact Sheet is a summary of highlights from the report on the Internal Control Review of Wire Transfers and ACH Transactions

FINDINGS

- Finding #1: ACH payment enrollment process needs improvement validating information
- Finding #2: Lack of monitoring of ACH transactions verifying in compliance with County policy and procedures, contract provisions, and supported by adequate documentation
- Finding #3: Changing the default payment method in the Infor system not in agreement with payment method on file
- Finding #4: Improvement needed over the handling of wire transfers verifying in compliance with County policy and procedures, contract provisions, and supported by adequate documentation
- Finding #5: Access to resources and records should be assigned and maintained
- Finding #6: Continuity of Operations Plan not updated
- Finding #7: Process for handling wire transfers and ACH enrollments needs to be properly documented
- Finding #8: Segregation of duties for ACH enrollments and wire transfer payments not according to best practices

RECOMMENDATIONS

The auditors recommend that management consider the following to improve internal controls over wire transfers and ACH transactions.

Wire Transfers/ACH Transactions

- Review GFOA recommended safeguards and internal controls for ACH enrollments
- Protect vendor/employee banking information
- Develop a verification process before updating vendor banking information
- Increase management oversight and approval to ensure that wire transfers/ACH transactions are completed, supported by adequate documentation, and management review is documented

Logical and Physical Security

- Document user profile assignments to US Bank system and set up payment limits
- Implement Kinsey & Kinsey security tool for access to the Infor system

Contingency Plans

- Update Continuity of Operations Plan
- Review and update written procedures for wire transfers and ACH enrollments

Segregation of Duties

- Review process for wire transfer payments and ACH enrollments to ensure duties are properly segregated

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Detailed Findings and Recommendations

Background

The Department of Financial Services (DFS), Treasury & Revenue Division and Accounting & Financial Reporting Division (Division Managers) are responsible for processing the County's wire transfer payments and ACH transactions, which include but not limited to, vendor payments, payroll benefits, intergovernmental payments, property tax distributions, investments, and other recurring payments. The managers for both divisions are responsible for the day-to-day management and the processing of wire transfers and ACH transactions.

Wire Transfers

Wire transfers are funds transferred between bank accounts, using the Federal Reserve Communications System (Fedwire) for the settlement of transactions. Wire transfers have no mail float and funds are immediately available. They can be transferred from one account to another in the same day. Although wire transfers result in immediate availability, the cost per transaction is greater than ACH-based transactions and is therefore used for larger-dollar transactions. In order to execute a wire transfer, the following information is provided to the bank:

- Routing number for the receiving bank
- Name of the receiving bank
- Name and account to be credited
- Name of specific person to whom wire should be directed

Source: Government Finance Officers Association, "Banking Services: A Guide for Governments"

Wire transfers are utilized by the County in payment of an obligation on an emergency basis or when the situation requires immediate funds to settle a transaction. The cost per wire transfer is \$5.00. Payment requests are initiated by departments and/or agencies and are reviewed/approved by the Accounting & Financial Reporting Division. The Treasury & Revenue Division processes the wire transfers through the US Bank system and in the County's financial system Infor.

ACH Transactions

Automatic Clearing House (ACH) is an electronic fund transfer process that clears and settles debits and credits between banks. The ACH is governed by National Automated Clearing House Association (NACHA) rules. The cost per ACH transaction is \$0.05. An ACH payment is designed for recurrent transactions; such as, utility bills, property tax payments, state and federal payments, taxes, etc. Because the cost per transaction of ACH-based payments is lower than for wire transfers and for paper-based checks, ACH is very beneficial when used to process smaller, recurring customer payments. In order to process an ACH transaction, the following items are required:

- Identification of a debit or credit transaction
- Use of the routing identification number of the applicable bank account
- Specification of the transaction amount
- Provision of the settlement date

Source: Government Finance Officers Association, "Banking Services: A Guide for Governments"

The County uses ACH as a form of payment for all vendors who elect to enroll in the ACH process. ACH transactions are initiated by the departments in the Infor system and submitted to the Accounting & Financial Reporting Division. The Division generates a file from the Infor system and transmits the file directly to US Bank.

During the audit period, there were 578 wire transfers totaling \$191,049,936 and 1,764 ACH transaction payments totaling \$109,528,985 as illustrated on the charts below.

Yolo County Division of Internal Audit
Internal Auditor's Report

Wire Transfers		
Issued Amounts	# of Transactions	Total Amount Paid
\$40 to \$4,999	138	\$171,744
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(Figure 1) Wire Transfer Transaction Summary (Total Cost \$2,890)

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\$15 M to \$29.9 M	1	\$29,237,350
Totals	1,764	\$109,528,985

(Figure 2) ACH Transaction Summary (Total Cost \$88)

Audit Objective:

The objective of the audit was to review the internal controls over the handling of wire transfers and ACH transactions; that the wire transfers and ACH transactions are properly authorized and supported by adequate documentation and in compliance with County policy and best practices.

Scope/Methodology:

To accomplish our objective, we performed the following procedures that tested the processes and controls around the following areas:

- A. ACH Transactions:** Reviewed internal controls for enrolling vendors and for processing transactions and tested a sample of enrollments and transactions to ensure compliance with County policy and procedures.
- B. Wire Transfers:** Reviewed internal controls for processing wire transfers and tested a sample of transactions to ensure compliance with County policy and procedures.
- C. Logical and Physical Security:** Determined that logical and physical access to banking website and Infor system was adequately controlled to prevent loss and theft.
- D. Contingency Plans:** Determined that a contingency plan was in place for operation and system interruptions for wire transfers and ACH transactions.
- E. Segregation of Duties:** Verified that proper segregation of duties existed with wire transfers and ACH transactions.

The audit scope included the review of wire transfers and ACH transactions for the period of April 1, 2018 to March 31, 2019. This report does not include a review of the Infor system controls.

Other Matters:

On February 7, 2019, the Accounting & Financial Reporting Division received an ACH Payment Enrollment Form to update the bank account number for an existing vendor. A payment totaling \$1,396,202 was issued to the account number on file. The receiving bank identified suspicious activity as required by the USA PATRIOT Act and had flagged the account. After communication with the vendor, the Division confirmed that the payment was sent to a fraudulent account and immediately notified the County's bank to reverse the payment. The County's bank returned the full amount on March 18, 2019. The auditors inquired of the matter with the Division management and staff and found several internal control weaknesses. The internal control weaknesses are described in this report.

Yolo County Division of Internal Audit
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A. ACH Transactions

Finding #1: ACH payment enrollment process

The ACH Payment Enrollment Form is completed by vendors who want to enroll in the ACH payment process and or add/change their banking information. The form is emailed and or faxed to the Treasury & Revenue Division for receipt and routed to the Accounting & Financial Reporting Division for set-up within the vendor master file. There are currently 360 vendors established for ACH payment. The auditors selected a sample of vendors and reviewed the safeguards and internal controls. The results are illustrated below:

- Supporting documentation for enrollment forms missing or not signed by vendor
- Enrollment forms received by email not encrypted to protect banking information
- Verification not performed prior to making changes to banking information
- Process followed by staff to verify changes to banking information not documented
- Pre-note or other testing mechanisms to verify bank account number not used
- Approval for new and updated payment information not reviewed by management

The Government Finance Officers Association (GFOA) recommends that the ACH payment method be used for high volume, low dollar transactions. The County uses ACH as an alternative payment method and does not have an established limit per transaction. During the audit period, there were 1,764 transactions totaling \$109,528,985 as shown in (Figure 2).

In addition, the auditors found 22 County employees established as ACH payment in the Infor system. The banking information for these employees and other vendors are visible to all Infor system users who have access to AP10 Vendor-List View.

Furthermore, the banking information for the fraudulent activity found on February 7, 2019 was retained in the Infor system until discovered by the auditors. County management has removed the account from the system.

Recommendation 1

The Division Managers should review their internal controls over the ACH enrollment process against the "Government Finance Officers Association Advisory for Electronic Vendor Fraud" for recommended safeguards and internal controls to mitigate the risk of fraudulent vendor payment activity and to ensure that the above noted exceptions are addressed. In addition, the Division Managers should review GFOA recommended guidelines and NACHA rules to determine if a dollar limit should be established per ACH transaction.

Finding #2: Monitoring of ACH transactions

The auditors selected a sample of 20 ACH transactions and verified that the transactions were in compliance with County policy and procedures, contract provisions, and supported by adequate documentation. The exceptions are noted below:

- 4 transactions not supported with an original invoice or any other documentation that detail the description of goods or services purchased
- 3 transactions corrected by department staff on invoice amount
- 3 transactions with no description of business purpose

Yolo County Division of Internal Audit
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- 12 transactions not approved by an authorized approving official
- 4 transactions approved with no contract agreement on file

In addition, purchase orders and contract payments processed through the perfect match process in the Infor system are not reviewed by the Accounting & Financial Reporting Division for adequate supporting documentation.

Recommendation 2

The Accounting & Financial Reporting Division should ensure that ACH transactions are supported by sufficient documentation to support the charges against County funds.

Finding #3: Changing the default payment method

There were 250 ACH vendors paid through multiple payment methods. All vendors have completed an enrollment form authorizing the County to be paid through ACH. This authorization remains in effect until written notice is received from the vendor to terminate the ACH payment method. Exception was noted within the Infor system that allows users to change the default payment method during payment processing. The multiple payment methods are illustrated below.

Payment Method	Number of Vendors
ACH only	95
ACH and warrant	147
ACH, warrant, and wire transfer	8
Total	250

Recommendation 3

The Accounting & Financial Division should develop a process to ensure that vendor payments are in agreement with the payment method on file.

B. Wire Transfers

Finding #4: Handling of wire transfers

The Outgoing Wire Request Form is used by department/agencies to request wire transfers. The form and supporting documents are sent to the Accounting & Financial Reporting Division to ensure compliance, completeness, and proper general ledger recording. The forms are submitted to the Treasury & Revenue Division for approval and release of payment.

The auditors selected a sample of 23 wire transfer transactions and verified that the transactions were in compliance with County policy and procedures, contract provisions, and supported by adequate documentation. The results are illustrated below:

- 2 transactions not accompanied by an Outgoing Wire Request Form. *For those transactions, it was undetermined that the bank account information was keyed correctly by staff or that the payment went to the right bank account.*
- 9 transactions not reviewed/signed by the Accounting & Financial Reporting Division
- 17 transactions not approved by an authorized approving official and/or a contract agreement on file

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- 5 transactions not supported with an original invoice or any other documentation that detail the description of goods or services purchased
- 10 transactions for payment transfers to the State/other agencies (worksheet prepared by staff) not reviewed by an independent person to ensure accuracy of calculation for payment amount

Recommendation 4

The Division Managers should ensure that wire transfers are supported by sufficient documentation to support the charges against County funds and other agencies.

C. Logical and Physical Security

Finding #5: Access to resources and records

The auditors met with Department of Financial Services management and staff to determine if logical and physical access to the banking website and Infor system is adequately controlled to prevent loss and theft. The following control concerns were noted:

Wire Transfers: The wire transfer process is performed in the US Bank system. The US Bank system has a dual authentication security in place; whereas, a pin code and pass code key is required. The system administrator assigns each user accounts, entitlements, and payment limits.

- User profile assignments for access to banking system not documented for assigned accounts, entitlements or payment limits
- Payment limits not established for authorized personnel in banking system. *Users for initiating and approving ACH, book transfer and wire transfers have maximum payment limits of over 9 billion dollars each.*
- System Administrator(s) in the banking system also have system administration rights and permissions in the County financial system (Infor system)

ACH Transactions: The ACH process is performed in the Infor system. The security is linked to the vendor master file where the requestors banking information is stored. The ACH transaction is processed through the Infor system accounts payable module. The user enters the requestors invoice for payment, selects the payment code, and submits for approval. Transactions over \$5,000 are routed to the DFS Accounting Manager for review/approval for payment (except perfect match process).

- Security class "APXAVendorMtce" gives access to add/change/delete vendor banking information to users that are not necessarily to perform the job

Recommendation 5

The Division Managers should consider; 1) documenting user profile assignments for access to the banking system for assigned accounts, entitlements and payment limits. Payment limits should be set at tolerance levels for authorized personnel in banking system and in accordance with insurance policy coverage; and, 2) implementing the Kinsey & Kinsey security tool (Agreement 17-210 dated 7/18/2017), that assists with improving the security and monitoring of the system, and review each user's profile to identify the nature and extent of access to the Infor system for necessary restricted access and segregation of duties.

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D. Contingency Plans

GFOA recommends that governments develop, test, and maintain a plan to continue their basic business operations during and immediately after disruptive events. Governments must be able to anticipate problems, detect threats and determine effective protective actions to enable them to continue a function.

Yolo County Office of Emergency Services requires departments to submit an updated Continuity of Operation Plan (COOP) annually around May of each year.

Finding #6: Continuity of Operations Plan

Auditors reviewed the COOP Plan for the Department of Financial Services. The COOP Plan has been created to ensure that the continued operation of essential functions in the Yolo County Department of Financial Services (DFS) during a disaster does not negatively impact the daily operations of its office. The last update of the plan was revised in March 2018. According to the Chief Financial Officer, the 2019 plan is currently under review.

Recommendation 6

The Chief Financial Officer should complete and submit their updated COOP Plan to the Yolo County Office of Emergency Services to comply with the requirement and to ensure that continued operations during and after a disruptive event is mitigated.

Finding #7: Written policy and procedures for wire transfers and ACH enrollments

Wire Transfer Payments: The Treasury & Revenue Division developed a written procedure for handling wire transfers in September 2018. However, the procedure does not have all of the essential components to provide specific and detailed procedures for initiating, approving and executing wire transfer payments.

ACH Enrollments: The Accounting & Financial Reporting Division developed a draft procedure in June 2019 for adding ACH information for a vendor during the vendor registration process or as requested by vendor. However, the procedure does not include key components recommended by the GFOA to mitigate the risk of electronic payment fraud.

Best business practice recommends that the following components be present in the policy and procedures to ensure internal processes are fully documented and understood by staff:

- Reviewing wire request forms for completeness
- Obtaining supporting documentation
- Verifying accounting information
- Verifying bank account information and documenting the verification process
- Processing wire transfers in the US Bank system
- Handling routine wires for processing
- Maintaining updated records for authorized approvers

Recommendation 7

The Division Managers should formally develop, document, and disseminate policy and procedures to provide direction and guidance to staff for handling wire transfer and ACH transactions.

Yolo County Division of Internal Audit
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E. Segregation of Duties

According to best business practices and the COSO framework of strong systems of control, key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

Finding #8: Segregation of duties for wire transfer payments and ACH enrollments

Wire Transfer Payments: One employee at the Treasury & Revenue Division is responsible for initiating/approving wire transfers in the US Bank system. The assigned employee also prepares bank reconciliations, review/approves bank reconciliations prepared by staff, and authorizes wire transfer payments recorded in the general ledger without an additional review by an independent person.

ACH Enrollments: One employee is responsible for maintaining the master vendor file. The assigned employee changes vendor and banking information without an additional review by an independent person.

Recommendation 8

The Division Managers should review the process around the reconciliation of bank accounts and ACH enrollment set-up to ensure that an employee independent of the cash disbursement process reconciles transactions to the bank and the general ledger.



County of Yolo

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CHAD D. RINDE, CPA
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TOM HAYNES
Assistant Chief Financial Officer

DEPARTMENT OF FINANCIAL SERVICES

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- Internal Audit
- Procurement

MEMORANDUM

TO: Kim Eldredge, CGAP
Senior Auditor

FROM: Edward Burnham, Treasury & Revenue Division Manager
Merilyn Tiriboyi, Accounting & Financial Reporting Division Manager

DATE: **23-DEC-2019**

AUDIT WORK: Report on the Internal Control Review of Wire Transfers and ACH Transactions, Audit No. 2019-1

SUBJECT: Management Response to Draft Report

In response to the Internal Control Review of Wire Transfers and ACH Transactions for the period of April 1, 2018 to March 31, 2019, our comments are provided below:

Finding #1: ACH payment enrollment process

The ACH Payment Enrollment Form is completed by vendors who want to enroll in the ACH payment process and or add/change their banking information. The form is emailed and or faxed to the Treasury & Revenue Division for receipt and routed to the Accounting & Financial Reporting Division for set-up within the vendor master file. There are currently 360 vendors established for ACH payment. The auditors selected a sample of vendors and reviewed the safeguards and internal controls. The results are illustrated below:

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- Verification not performed prior to making changes to banking information
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- Pre-note or other testing mechanisms to verify bank account number not used
- Approval for new and updated payment information not reviewed by management

The Government Finance Officers Association (GFOA) recommends that the ACH payment method be used for high volume, low dollar transactions. The County uses ACH as an alternative payment method and does not have an established limit per transaction. During the audit period, there were 1,764 transactions totaling \$109,528,985 as shown in (Figure 2).

In addition, the auditors found 22 County employees established as ACH payment in the Infor system. The banking information for these employees and other vendors are visible to all Infor system users who have access to AP10 Vendor-List View.

Furthermore, the banking information for the fraudulent activity found on February 7, 2019 was retained in the Infor system until discovered by the auditors. County management has removed the account from the system.

- a. Management position concerning the finding:

Concur Do not concur

- b. Management comments:

Recommendation 1

The Division Managers should review their internal controls over the ACH enrollment process against the “Government Finance Officers Association Advisory for Electronic Vendor Fraud” for recommended safeguards and internal controls to mitigate the risk of fraudulent vendor payment activity and to ensure that the above noted exceptions are addressed. In addition, the Division Managers should review GFOA recommended guidelines and NACHA rules to determine if a dollar limit should be established per ACH transaction.

- a. Management position concerning the recommendation:

Concur Do not concur

- b. Management comments:

DFS divisions (Budgeting, Procurement, General Accounting, and Treasury) will complete a procure to pay process review (with possible risk matrix and narrative) to identify key risks, rate them, and ensure to document management’s recommended internal controls to reduce and mitigate risks to acceptable levels.

This will act as a roadmap to developing procedures and working instructions including steps for the recommended internal controls defined.

Data cleanup will coincide as we are working through this process.

The GFOA does not recommend a limit the dollar amount but recommended best practice of high volume payee activity at a minimum for safety and efficiency.

- c. Actual / estimated Date of Corrective Action: 31-MAY-20

Finding #2: Monitoring of ACH transactions

The auditors selected a sample of 20 ACH transactions and verified that the transactions were in compliance with County policy and procedures, contract provisions, and supported by adequate documentation. The exceptions are noted below:

- 4 transactions not supported with an original invoice or any other documentation that detail the description of goods or services purchased
- 3 transactions corrected by department staff on invoice amount

- 3 transactions with no description of business purpose
- 12 transactions not approved by an authorized approving official
- 4 transactions approved with no contract agreement on file

In addition, purchase orders and contract payments processed through the perfect match process in the Infor system are not reviewed by the Accounting & Financial Reporting Division for adequate supporting documentation.

- a. Management position concerning the finding:

Concur Do not concur

- b. Management comments:

See below.

Recommendation 2

The Accounting & Financial Reporting Division should ensure that ACH transactions are supported by sufficient documentation to support the charges against County funds.

- a. Management position concerning the recommendation:

Concur Do not concur

- b. Management comments:

DFS divisions (Budgeting, Procurement, General Accounting, and Treasury) will complete a procure to pay process review (with possible risk matrix and narrative) to identify key risks, rate them, and ensure to document management's recommended internal controls to reduce and mitigate risks to acceptable levels.

This will act as a roadmap to developing procedures and working instructions including steps for the recommended internal controls defined.

Data cleanup will coincide as we are working through this process.

Temporary random selection and review of transactions by General Accounting Supervisor will be included until full procedures are developed and staff are trained.

- c. Actual / estimated Date of Corrective Action: 31-MAY-20

Finding #3: Changing the default payment method

There were 250 ACH vendors paid through multiple payment methods. All vendors have completed an enrollment form authorizing the County to be paid through ACH. This authorization remains in effect until written notice is received from the vendor to terminate the ACH payment method. Exception was noted within the Infor system that allows users to change the default payment method during payment processing. The multiple payment methods are illustrated below.

Payment Method	Number of Vendors
ACH only	95
ACH and warrant	147

ACH, warrant, and wire transfer	8
Total	250

a. Management position concerning the finding:

Concur Do not concur

b. Management comments:

See below.

Recommendation 3

The Accounting & Financial Division should develop a process to ensure that vendor payments are in agreement with the payment method on file.

a. Management position concerning the recommendation:

Concur Do not concur

b. Management comments:

DFS divisions (Budgeting, Procurement, General Accounting, and Treasury) will complete a procure to pay process review (with possible risk matrix and narrative) to identify key risks, rate them, and ensure to document management's recommended internal controls to reduce and mitigate risks to acceptable levels.

This will act as a roadmap to developing procedures and working instructions including steps for the recommended internal controls defined.

Data cleanup will coincide as we are working through this process.

Develop standards and implement approval process for exceptions to vendor standard payment method that should remove payment changes from personel that enter invoices during the process if system capabilities allow.

c. Actual / estimated Date of Corrective Action: 31-MAY-19

Finding #4: Handling of wire transfers

The Outgoing Wire Request Form is used by department/agencies to request wire transfers. The form and supporting documents are sent to the Accounting & Financial Reporting Division to ensure compliance, completeness, and proper general ledger recording. The forms are submitted to the Treasury & Revenue Division for approval and release of payment.

The auditors selected a sample of 23 wire transfer transactions and verified that the transactions were in compliance with County policy and procedures, contract provisions, and supported by adequate documentation. The results are illustrated below:

- 2 transactions not accompanied by an Outgoing Wire Request Form. *For those transactions, it was undetermined that the bank account information was keyed correctly by staff or that the payment went to the right bank account.*
- 9 transactions not reviewed/signed by the Accounting & Financial Reporting Division

- 17 transactions not approved by an authorized approving official and/or a contract agreement on file
- 5 transactions not supported with an original invoice or any other documentation that detail the description of goods or services purchased
- 10 transactions for payment transfers to the State/other agencies (worksheet prepared by staff) not reviewed by an independent person to ensure accuracy of calculation for payment amount

a. Management position concerning the finding:

Concur Do not concur

b. Management comments:

N/A

Recommendation 4

The Division Managers should ensure that wire transfers are supported by sufficient documentation to support the charges against County funds and other agencies.

a. Management position concerning the recommendation:

Concur Do not concur

b. Management comments:

DFS divisions (Budgeting, Procurement, General Accounting, and Treasury) will complete a procure to pay process review (with possible risk matrix and narrative) to identify key risks, rate them, and ensure to document management's recommended internal controls to reduce and mitigate risks to acceptable levels.

This will act as a roadmap to developing procedures and working instructions including steps for the recommended internal controls defined.

Temporary random selection and review of transactions by General Accounting Supervisor will be included until full procedures are developed and staff are trained.

We will revise the current wire transfer procedure to include the special districts. We will also develop an enter agency review and authorization form for all manual calculations to be included on all booked liabilities.

c. Actual / estimated Date of Corrective Action: 31-MAY-20

Finding #5: Access to resources and records

The auditors met with Department of Financial Services management and staff to determine if logical and physical access to the banking website and Infor system is adequately controlled to prevent loss and theft. The following control concerns were noted:

Wire Transfers: The wire transfer process is performed in the US Bank system. The US Bank system has a dual authentication security in place; whereas, a pin code and pass code key is required. The system administrator assigns each user accounts, entitlements, and payment limits.

processes. All payments are approved and evaluated against approval limits within general accounting or special districts prior to submission to treasury for processing.

c. Actual / estimated Date of Corrective Action: _____

Finding #6: Continuity of Operations Plan

Auditors reviewed the COOP Plan for the Department of Financial Services. The COOP Plan has been created to ensure that the continued operation of essential functions in the Yolo County Department of Financial Services (DFS) during a disaster does not negatively impact the daily operations of its office. The last update of the plan was revised in March 2018. According to the Chief Financial Officer, the 2019 plan is currently under review.

a. Management position concerning the finding:

Concur _____ Do not concur

b. Management comments:

N/A

Recommendation 6

The Chief Financial Officer should complete and submit their updated COOP Plan to the Yolo County Office of Emergency Services to comply with the requirement and to ensure that continued operations during and after a disruptive event is mitigated.

a. Management position concerning the recommendation:

Concur _____ Do not concur

b. Management comments:

This is currently under review.

c. Actual / estimated Date of Corrective Action: 3-31-20

Finding #7: Written policy and procedures for wire transfers and ACH enrollments

Wire Transfer Payments: The Treasury & Revenue Division developed a written procedure for handling wire transfers in September 2018. However, the procedure does not have all of the essential components to provide specific and detailed procedures for initiating, approving and executing wire transfer payments.

ACH Enrollments: The Accounting & Financial Reporting Division developed a draft procedure in June 2019 for adding ACH information for a vendor during the vendor registration process or as requested by vendor. However, the procedure does not include key components recommended by the GFOA to mitigate the risk of electronic payment fraud.

Best business practice recommends that the following components be present in the policy and procedures to ensure internal processes are fully documented and understood by staff:

- Reviewing wire request forms for completeness
- Obtaining supporting documentation
- Verifying accounting information

- Verifying bank account information and documenting the verification process
- Processing wire transfers in the US Bank system
- Handling routine wires for processing
- Maintaining updated records for authorized approvers

a. Management position concerning the finding:

Concur _____ Do not concur

b. Management comments:

N/A

Recommendation 7

The Division Managers should formally develop, document, and disseminate policy and procedures to provide direction and guidance to staff for handling wire transfer and ACH transactions.

a. Management position concerning the recommendation:

Concur _____ Do not concur

b. Management comments:

DFS divisions (Budgeting, Procurement, General Accounting, and Treasury) will complete a procure to pay process review (with possible risk matrix and narrative) to identify key risks, rate them, and ensure to document management's recommended internal controls to reduce and mitigate risks to acceptable levels.

This will act as a roadmap to developing procedures and working instructions including steps for the recommended internal controls defined.

Data cleanup will coincide as we are working through this process.

Temporary random selection and review of transactions by General Accounting Supervisor will be included until full procedures are developed and staff are trained.

c. Actual / estimated Date of Corrective Action: 31-MAY-20

Finding #8: Segregation of duties for wire transfer payments and ACH enrollments

Wire Transfer Payments: One employee at the Treasury & Revenue Division is responsible for initiating/approving wire transfers in the US Bank system. The assigned employee also prepares bank reconciliations, review/approves bank reconciliations prepared by staff, and authorizes wire transfer payments recorded in the general ledger without an additional review by an independent person.

ACH Enrollments: One employee is responsible for maintaining the master vendor file. The assigned employee changes vendor and banking information without an additional review by an independent person.

a. Management position concerning the finding:

Concur _____ Do not concur

b. Management comments:

Recommendation 8

The Division Managers should review the process around the reconciliation of bank accounts and ACH enrollment set-up to ensure that an employee independent of the cash disbursement process reconciles transactions to the bank and the general ledg

- a. Management position concerning the recommendation:

Concur Do not concur

- b. Management comments:

DFS divisions (Budgeting, Procurment, General Accounting, and Treasury) will complete a procure to pay process review (with possible risk matrix and narrative) to identify key risks, rate them, and ensure to document management's recommended internal controls to reduce and mitigate risks to acceptable levels.

This will act as a roadmap to developing proceedures and working instructions including steps for the recommended internal controls defined.

Data cleanup will coincide as we are working through this process.

Temporary radom selection and review of transactions by General Accounting Supervisor will be inclued until full proceedures are developed and staff are trained.

- c. Actual / estimated Date of Corrective Action: 31-MAY-20