

**Summit County Fiscal Office
Investment Division
Preliminary Audit Report**

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**PREPARED FOR:
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**Approved by Audit Committee
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**Summit County Fiscal Office
Investment Division
Preliminary Audit Report
Table of Contents**

I.	General Background.....	3
II.	Objectives.....	3
III.	Scope.....	4
IV.	Detailed Comments.....	5-9

**Summit County Fiscal Office
Investment Division
Preliminary Audit Report
Background**

General Background

The mission of the County of Summit Investment Division (Investment Division) is to advise, recommend and implement a timely investment service under the direction of Chief of Investments and our Assistant Investment Officer within the legal authority of the Ohio Revised Code. The Treasurer's Office invests all funds that are not immediately used to pay county expenses. The Office manages more than \$1 billion in revenue annually.

Audit Objectives And Methodology

The primary focus of this review was to provide the Summit County Fiscal Office, Investment Division (Investment Division) with reasonable assurance, based on the testing performed, on the adequacy of the system of management control in effect for the audit areas tested for the ten months ended October 31, 2009, unless otherwise specified in the individual test area. Management controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. Management is responsible for establishing and maintaining effective controls that, in general, include the plan of organization, as well as methods, and procedures to ensure that goals are met. Specific audit objectives include evaluating the policies, procedures, and internal controls related to the Investment Division.

Our review was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and accordingly included such tests of records and other auditing procedures as we considered necessary under the circumstances. Our procedures include interviewing staff, reviewing procedures and other information and testing internal controls as needed to assess compliance with policies and procedures.

Based on the results of our review, we prepared specific issues and recommendations for improvement that were discussed with management. These recommendations, as well as management's unaltered written response, can be found in the following sections of this report.

Specific Objectives:

1. To obtain and review the current policies and procedures.
2. To review the internal control structure through employee interviews, observation and testing.
3. To perform a general overview of the physical environment and security of the facilities, data, records and departmental personnel.

Source: www.co.summit.oh.us/fiscaloffice/index.htm

Scope

An overview and evaluation of the existing policies, processes, procedures, contracts and internal control structure utilized by the division.

The following were the major audit steps performed:

OBJECTIVE 1 – POLICY AND PROCEDURES REVIEW

1. Obtain and review the current policies and procedures.
2. Meet with the appropriate personnel to obtain an understanding of the current department processes and procedures. Compare those existing processes to the policies and procedures manual for consistency, noting all exceptions.
3. Test procedures for mandatory compliance where applicable.
4. Identify audit issues and make recommendations where appropriate.

OBJECTIVE 2 – REVIEW OF INTERNAL CONTROLS

5. Meet with the appropriate personnel to obtain an understanding of the control environment.
6. Document the existing control procedures in narratives and/or flowcharts.
7. Compare existing processes to the policies and procedures manual for consistency.
8. Test procedures for compliance where applicable, noting all exceptions.
9. Investigate discrepancies and summarize results.
10. Make recommendations where appropriate.

OBJECTIVE 3 – REVIEW OF SECURITY

11. Perform a general overview of the physical environment and security of the department/ agency being audited.
12. Interview various personnel to determine that confidential information is secure and processed only by appropriate parties.
13. Obtain and review the document retention policy and determine if policies and procedures are currently in place and being followed.
14. Test security issues where appropriate.
15. Analyze current policies and make recommendations.

**Summit County Fiscal Office
Investment Division
Preliminary Audit Report
Detailed Comments**

Interviews:

To gain an understanding of the functions within the Investment Division, IAD interviewed the following positions throughout the organization:

- a. Chief Deputy Fiscal Officer
- b. Assistant Director of Administration

No issues were noted.

I. Policies & Procedures Review:

IAD obtained and reviewed the following documentation:

- a. O.R.C. § 135.35 “County inactive monies” to gain an understanding of O.R.C. mandates regarding the Summit County Investment Policy,
- b. The Investment Division Procedures Manual, revised 9/24/09, to gain an understanding of the division’s processes/procedures,
- c. The Summit County Investment Policy to gain an understanding of the priorities and guidelines regarding the investment management of the County's operating funds as well as to ensure the policy addressed O.R.C. §135.35 mandates.

Signed Summit County Investment Policies were obtained and reviewed for the financial institutions utilized by the county, and were traced and agreed to a listing of financial institutions, provided by the Deputy Fiscal Officer.

IAD verified policy and procedure sign-offs for all Investment Division personnel.

No issues were noted during testing.

II. Internal Control Testing:

Internal control testing and/or observations were performed in the following areas:

- Continuing education
- Expenditures
- Investment activity
- Cash and investment reconciliation
- Electronic transfers
- Legal agreements
- Security

**Summit County Fiscal Office
Investment Division
Preliminary Audit Report
Detailed Comments**

CONTINUING EDUCATION

IAD obtained and reviewed the following documentation to gain an understanding of the continuing education requirements for individuals responsible for investing activities:

- a. The Summit County Investment Policy,
- b. O.R.C. § 321.46 “Education programs for new treasurers and continuing education programs,”
- c. Investment Division organizational chart.

IAD confirmed with the Chief Deputy Fiscal Officer that the personnel listed on the Investment Division Organizational chart are responsible for investing activities. IAD obtained and reviewed certificates or documents verifying the completion of the mandated continuing education hours.

No issues were noted during testing.

EXPENDITURES

IAD obtained and reviewed the Fiscal Office Personnel Policy and Procedures Manual and the Fiscal Office Purchasing Department Operations Manual to gain an understanding of any purchasing procedures for the Investment Division. IAD obtained and reviewed ORC § 5705.41(D) (2), to gain an understanding of the requirements for the appropriation of money. Additionally, obtained and reviewed was Summit County Codified Ordinance § 177.23 Purchases not Exceeding \$1, 000, to gain an understanding of any instances where a purchase order would not need to be obtained.

IAD contacted the Deputy Fiscal Officer of Finance, to confirm that the expenditure process flowcharts, approved by the Fiscal Office Chief of Staff on 4/23/09, reflect the process in place from 1/1/09 to 10/31/09. IAD reviewed the expenditure process flowcharts and expenditure interview conducted on 3/16/09 with the Fiscal Office Purchasing Agent during the Fiscal Office Recorder Division Preliminary Audit, in order to become familiar with the purchasing process. IAD noted during the Recorder Division Preliminary Audit that the Fiscal Office purchasing function is centralized for all Fiscal Office Divisions and Departments.

Through discussions with the Deputy Fiscal Officer of Finance, it was noted that all Investment Division expenditures are processed through a fund and organizational account that is shared by the other Fiscal Office Divisions and Departments, therefore, IAD was unable to run a Banner report for expenditures specific to the Investment Division. IAD interviewed the Assistant Director of Administration and the Chief Deputy Fiscal Officer, utilizing a standard expenditure questionnaire, to gain a further understanding of the Investment Division’s involvement in the expenditure process. Per additional discussions with Fiscal Office Purchasing Agent, the Investment Division utilizes the following vendors:

- a. Corporate Express.
- b. United American Capital Corp

IAD reviewed all 2009 requisitions for those vendors to locate Investment Division requisition forms, however IAD was unable to locate any requisition forms completed by the Investment Division for 2009. Per the Chief Deputy Fiscal Officer, the Investment Division rarely has any expenditures and

**Summit County Fiscal Office
Investment Division
Preliminary Audit Report
Detailed Comments**

the Fiscal Office Purchasing Agent performs general ordering functions for the Fiscal Office. Additionally, during the 2009 Accounting Department Preliminary Audit, IAD noted that there is a supply closet utilized by several Fiscal Office departments, and confirmed with the Chief Deputy Fiscal Officer that the Investment Division utilizes those supplies.

No issues were noted during testing.

INVESTMENT ACTIVITY

IAD obtained and reviewed the Investment Division preliminary interviews to gain a general understanding of the division. Additionally, obtained and reviewed were the Investment and Banking questionnaires to gain an overview of the process.

IAD requested the 2008 year end audit workpapers from Rea & Associates, hired to perform the state auditor (state auditors), to determine the extent of testing that was performed at that time. Their review procedures included the following:

- a. Bank and investment confirmations,
- b. Analysis of bank and investor SAS70 reports,
- c. Analysis of Investment Division internal controls and segregation of duties.

Based on the extensive testing performed by Rea & Associates during the 2008 financial audit, IAD passes on further testing.

No issues were noted during testing.

CASH AND INVESTMENT RECONCILIATION

IAD obtained and reviewed the Investment Reconciliation Policy & Procedure to gain an initial understanding of the process. IAD performed an observation of the Form 6 reconciliation process with the Chief Deputy Fiscal Officer and the Assistant Director of Administration. IAD obtained and reviewed the Form 6 for 10/30/09 and traced and agreed the current investments balance to the investment reconciliation spreadsheet.

IAD performed observations of the daily and monthly investment reconciliations processes with the Chief Deputy Fiscal Officer and the Assistant Director of Administration. IAD obtained and reviewed a narrative from Rea & Associates' audit workpapers, which includes the process for investment reconciliation to verify that the narrative and observation agreed.

IAD obtained and reviewed a copy of the reconciliation spreadsheet from the Chief Deputy Fiscal Officer and the respective bank statements for October 31, 2009. IAD traced and agreed the month-end account balances on each bank statement to the investment reconciliation spreadsheet to ensure accuracy. In addition, IAD traced and agreed all timing differences to either Banner or the respective bank statement.

**Summit County Fiscal Office
Investment Division
Preliminary Audit Report
Detailed Comments**

IAD obtained and reviewed trade tickets, which contain information regarding purchased securities (e.g., issue date, settlement date, coupon date, etc.) for the period of April through October 2009. IAD reviewed each one for the existence of accrued interest and the date of the coupon. Of the 25 trade tickets for the period selected, IAD noted 10 instances where there was accrued purchased interest. IAD traced and agreed the purchased interest on the respective trade ticket to the investments reconciliation spreadsheet.

No issues were noted during testing.

ELECTRONIC TRANSFERS

IAD perform an observation of daily activities and an ACH transaction with the Chief Deputy Fiscal Officer and the Assistant Director of Administration. IAD obtained and reviewed the “Transferring Money” sections of policy and procedure manual to gain an understanding of the process for ACH transactions, wire transfers, and account transfers. In the policy and procedure, IAD noted a listing of individuals authorized to create, approve, and release an ACH transaction. Additionally, IAD obtained and reviewed a listing of individuals who can initiate and confirm wire transfers from the Assistant Director of Administration.

IAD randomly selected 6 wire transfers and 10 ACH transactions and tested for existence in Banner and proper approvals.

No issues were noted during testing.

LEGAL AGREEMENTS

IAD obtained and reviewed ORC §135.35 “County inactive monies” to gain an understanding of ORC mandates regarding the Summit County Investment Policy. In addition, ORC §135.03 “Institutions eligible as public depositories” was obtained to gain an understanding of the depository mandates. IAD obtained and reviewed for reasonableness signed bank agreements, and confirmed that all contained a reference to the limitations noted in ORC §135.03 where banks shall not hold on deposit public money in an amount higher than 30% of total bank assets. It is noted that there are no contracts with two financial institutions, which was confirmed with the Assistant Director of Administration, but do request annual SAS70 reports and have signature cards on file. In addition, Rea & Associates, state auditors, provided IAD with their review of these reports. Based on their comments IAD passes on further testing.

IAD obtained and reviewed the signed broker agreement with United American Capital Corporation, reviewed it for reasonableness, and verified that the appropriate references to O.R.C. sections are included. In addition, it is noted that the contract was reviewed by the Summit County Law Department

IAD confirmed with the Assistant Director of Administration that there is a procedure and plan in place in the event that the electronic systems go down so that business can continue as normal.

No issues were noted during testing.

**Summit County Fiscal Office
Investment Division
Preliminary Audit Report
Detailed Comments**

III. Security:

Security issues noted during fieldwork are addressed under separate cover in the accompanying report in compliance with Ohio Revised Code §149.433.