

TOM GREEN COUNTY



San Angelo, Texas

OFFICE OF THE County Auditor

November 8, 2017

The Honorable Dianna Spieker
Tom Green County Treasurer
113 W. Beauregard Avenue
San Angelo, Texas 76903

Dear Ms. Spieker,

We have completed our review of your office's financial records for the period of January 1, 2017 through March 31, 2017. Included in the review were internal controls, receipts, deposits, disbursements, cash and near cash balances, securities, bank reconciliations, collateralization, unclaimed property, investments, interest earned, and your continuing education hours.

We found that the County's bank accounts at Wells Fargo were under-collateralized on January 10, 2017 by \$1,396,410.39. When the County's funds are not fully collateralized, there is a risk of loss in the event of bank default, and the County is not in compliance with the Public Funds Collateral Act. We recommend you continue to monitor the collateral and take proactive measures by notifying the bank when you expect large deposits.

For the January through March quarter, your staff entered the payroll tax liability amount in the incorrect date box on form 941, schedule B. The IRS assessed a penalty of \$13,336.61 because the form reflected the liability on a date prior to actual payment. Upon receipt of the penalty letter, your staff was able to explain the error to the IRS and go through the process to have the penalty waived. Greater care should be taken to properly fill out the IRS tax forms to avoid this situation in the future.

We also reviewed your purchases of investment securities during the quarter. At the time, the County had two investment brokers on the approved list, and there were multiple instances in which you placed orders with both brokers for the same security (with identical CUSIP number). We believe the brokers quoted the securities to you and sent settlement orders, not knowing the other had quoted the same ones. We realized the duplication when you sent the settlement tickets to our office to be entered into the general ledger. Once we notified you of the problem, you were able to have the situation resolved. However, unique CUSIP numbers

should be part of your review when determining whether or not to purchase a security. The County could easily have paid for the same security twice. After these incidents, we do note that you developed a spreadsheet list of securities by CUSIP and by bank, and we appreciate that you have kept it up diligently since that time.

We next reviewed your investment reports, included in your Treasurer monthly reports, to the Commissioners Court. In your report you include interest rate yields for the County's investments in TexPool, TexPool Prime, and Texas Class, showing the current month and the prior month with a percentage change. When we attempted to confirm those rates, we discovered that you had never received a report from TexPool for December 2016, and these rates were never included in your monthly report. The report erroneously compared January to November, as "current" and "prior" months. We also found that in your "Current Report" column, sometimes the figures are for the current month and sometimes they are from the prior month, depending on when you received a statement from the pool. Accordingly, the figures in your report are not easily ascertained and do not always present a clear picture of interest rates or percentage changes. We recommend that you go back and revise your January report to include the missing rates from December and correct the percentage changes, and we also recommend that you label the interest rates with the corresponding time periods. This will allow for a better understanding for the readers of the report, and allow you to show consistent changes in yields for the investments.

Also in the investment area, we found that no interest earnings had been received for the Certificate of Obligations, Series 2017 fund in the months of February or March under review. The funds were invested in the Texas Class investment pool during that time. We informed your office and discovered that your interest earnings allocation spreadsheet had not been updated to include this new fund, and therefore it was not receiving any allocation of interest earnings. Interest was reallocated and received in June. You added the fund to your spreadsheet in June and it has been allocating properly since that time. It is not often that the County adds a new fund, and the oversight could easily be attributed to that. However, if the interest allocation documentation had been compared to the funds listed in the Munis Bank Reconciliation this oversight would have been apparent. We recommend that you review your staff's work for accuracy prior to posting or during your preparation of your monthly reports.

In our review of your reconciliations of County bank accounts, we found accounts that had not been balanced or balanced in a timely manner. Local Government Code requires bank accounts to be reconciled by the Treasurer, and we recommend as a long standing practice, that they be reconciled by the end of the succeeding month. In addition, during this same time you presented a signed affidavit to the Commissioners Court, as part of your monthly report, that "The Bank Statements have been reconciled..." Reconciling the bank accounts in a timely manner is crucial to the proper accounting of funds, and ensures that the balances in the account reflect the legitimate financial activity of the County for that month.

The bank account reconciliation for the District Clerk credit card clearing account, for the month of January, was not completed until June 23rd, and the January reconciliation for the JP 2 credit card clearing account was not completed until May 15th. For February's activity, these same two bank accounts were not reconciled until June. Also the County's main operating account activity for February was not reconciled until June, and we have not received an account reconciliation at all from you on the JP 4 E-file account's February statement. Reconciliations for the month of March were also brought current during June.

In several instances, your documentation for the bank account reconciliations was also incomplete. The operating account, County Clerk E-file account, FORT account, CSCD account, Wire account, and the payroll account were all missing documentation for various reconciling items during the quarter. All of the documentation was eventually provided to us for our review, but had to be researched and found again.

We tested your revenue entries for the quarter and found on March 15, 2017 that funds from six receipts were deposited into the wrong bank account. The receipts appeared correct because they agreed to the deposit slip, however, your staff had used the incorrect "bank code" in the computer system. In addition, the County Attorney's revenue for March 2017 was receipted incorrectly and the error was not fixed until late April after we made two requests for the correction. You informed us that you would be changing staff assignments in regards to revenue to help alleviate some of these errors. Timeliness of corrections is important to maintain the integrity of the general ledger and properly account for the County's revenues. We recommend that you review the revenue activity regularly to watch for these errors and make timely corrections.

In February, your office received funds on a writ from Constable, Precinct #3. A writ requires the revenue to be receipted, and funds to be disbursed to the payee. Normally these funds would be immediately disbursed. However, the funds were not disbursed until May 3, 2017, after the Constable called both your office and the Auditor's office to question the status of the payment. These disbursements should be made in a timely manner, and we recommend you institute a procedure to ensure their prompt processing.

In addition to the testing in this review, the Auditor's office reviews every payroll prior to disbursement. There were numerous payroll errors during the quarter reported on here. Many were repeated in subsequent payrolls, as corrections were not made in both the current payroll and the master records in the Munis payroll system. This has since improved somewhat, but still remains an issue. The payroll findings are reported to you at the time of the payroll, so that correct paychecks can be delivered to employees. Some specific errors during this quarter that we will mention here, include missing worker's comp information resulting in overpayment to an employee, a void and reissue that was processed in the wrong order that created a chain of errors, and on two separate occasions payroll check numbers were started at an incorrect sequence point causing seven duplicate check numbers.

During the quarter under review, there were instances of fraud from external sources in the County bank accounts. In March, your office fielded a call from a bank in Florida stating they had an "odd" looking payroll check presented for payment. You and your chief deputy were out of the office and could not be reached, so your staff brought the matter to the Auditor's office. After reviewing the bank activity, a total of ten fraudulent checks were found to have been cashed on the County's accounts between February 11th and March 1st, adding up to \$10,399.56. The Auditor's office filed an affidavit of check fraud with the depository bank and provided supporting documentation. The bank was successful in collecting back \$2,787.14 from three of the checks, leaving the County out of pocket for \$7,612.42.

In addition to the check fraud, the Auditor's office also found in April that the Wire account had been compromised. Your staff tried to send a wire out of the account and asked for the Auditor's office to approve it. Upon review of the proposed wire, we found there were not

sufficient funds in the account to make the transfer you were attempting. Several fraudulent wires had hit the account and drained funds out of it. Each of these fraudulent wires was reported to the County's depository and eventually recovered. However, the County's bank accounts should be monitored daily. Both the fraudulent checks and wires could have been identified more quickly. And you should verify the balances in the accounts prior to initiating an outbound wire. We recommended on several times since these transactions that the current wire account be closed and a new one opened. The old account has been compromised and will continue to be a target. We note that you opened a new wire account in September 2017.

With the County's new depository contract that began in May 2017, there are new controls that require the approval of inbound and outbound electronic transactions. This is a good addition to the internal controls. But, it does not relinquish the need to monitor the accounts and review balances prior to transactions.

Lastly we reviewed the County's online accounts in Wells Fargo for current permission levels and access for users. The chief deputy in the County Clerk's office retired from the County on January 31, 2017, yet still had access to the Wells Fargo County bank accounts online as of May 9, 2017. Your office is responsible for setting access permissions in the online banking system, and you do not currently have any procedures to check user status or update user accounts in a timely manner after changes in personnel. To safeguard the County's assets, a regular check of online access is a good internal control and should be done anytime an employee leaves or changes employment status. We recommend you implement a procedure to ensure current user rights and access.

In summary, we feel that your staff would benefit from additional training that would alleviate many of the instances listed in this letter. There has been an increasing reliance by your staff on the Auditor's office for instruction on how to complete their daily tasks, and we are not in a position to immediately follow up or supervise their activities to ensure it is done correctly. We want to emphasize that we are available as a resource to you and your staff, and we are happy to assist with training. But, we believe that your staff should seek instruction from you first, and we believe that you should implement internal processes in your office to review staff work before it is sent out.

We have discussed with you separately some minor findings that do not represent a major impact to our review. Thank you for your cooperation during the review. If you have any questions or concerns, feel free to contact my office.

Very cordially,



Nathan Craddock
County Auditor

Cc: The Honorable Barbara Walther
District Judge, 51st Judicial District

The Honorable Commissioners Court
Tom Green County