



HARFORD COUNTY, MARYLAND

Office of the County Auditor

AUDIT OF BANKING AND INVESTMENT CONTROLS

Report Number:
2023-A-08

Report Date:
10/17/2022

Council Members and County Executive Glassman:

In accordance with Section 213 of the Harford County Charter, we have performed an audit of the County's Banking and Investment Controls for the period of 7/1/2020 through 8/31/2022. This audit was conducted as part of the County Auditor's risk-based Annual Audit Plan approved by the County Council for FY2023.

The objective of this audit was to confirm bank account balances and transactions are routinely reviewed and reconciled and to ensure that controls are adequate to ensure proper selection, purchase, sale, and accounting of the County's investments. The scope was limited to the accounts and investments under the control of Harford County Government. It did not include controls over pooled investment funds and accounts controlled by the County's component units or other governments and did not include agency funds held by the County. The results of the audit, our findings and recommendations for improvement are detailed in this report.

We would like to thank the members of management for their cooperation during the audit. Although none was required, they have been provided an opportunity to respond to this report and none was provided.

Sincerely,

Chrystal Brooks, CPA

Chrystal Brooks
County Auditor

CONCLUSIONS

Our opinion, based on the evidence obtained, is controls are adequate to ensure that transactions are reconciled properly, and investments are purchased, sold, and accounted for properly. This assessment is based on the strengths and weaknesses identified for the operational objectives below.

Business Process Objective	Assessment ⁱ
Bank balances are reported accurately	Effective
Bank transactions are reconciled timely, to the correct accounts	Effective
Policies identify investment priorities and meet legal standards	Effective
Investment balances are reported accurately	Effective
Investment income is received timely and distributed to the correct accounts	Effective

BACKGROUND, OBJECTIVES, SCOPE, AND METHODOLOGY

Harford County processes approximately 1,600 transactions through its bank accounts each month. Outgoing transactions are usually vendor payments, payroll, and wire transfers; while incoming transactions are primarily batched payments from customers, State or Federal revenue, and bond or investment proceeds. The accounting system, Workday, is configured so that bank files are imported daily and are passed through First Notice Rules which auto-reconcile many of the transactions. Any transactions that are not automatically matched are researched and reconciled manually by Treasury staff.

Harford County maintains its bank balances at a level that will cover its expected outgoing payments. Additional funds are invested in accordance with the Harford County Investment Policy. The Harford County policy is “to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the County and conforming to all State of Maryland and County statutes governing the investment of public funds.” State regulations authorize the County to invest in obligations of the United States Government, federal government agency obligations, Maryland Local Investment Pool, repurchase agreements and certificates of deposit if adequately collateralized and Mutual Funds. The County is required to use competitive purchasing practices to invest public funds, selecting the highest interest rate from the investment options provided by approved brokers. An investment custodian is used to ensure adequate collateral.

The County has separate policies for the financial assets of Harford County’s Other Post Employment Benefit Trust (OPEB), Harford County Volunteer Fire Length of Service Award Program (LOSAP) and Harford County Sheriff’s Office Pension Fund. Each plan has an Investment Consultant who makes recommendations to a supervisory Board who makes the final investment decisions.

Cash, Equity in Pooled Cash, and Investments reported as of June 30, 2022 totaled approximately \$566.9 million.

The audit approach focused on testing the key controls that address management’s objectives. We also reviewed the results of prior audits of Investment Controls and Banking Controls and considered their impact on the audit procedures to be performed. Those reports included one finding, related to Investments in 2016, which was remediated prior to this audit and remains closed following our testing. The planned audit procedures included interviewing personnel, observation and testing as described in the table below.

Process / Control Objective	Scope of Review
Bank Balances	
Transaction details are received automatically from the bank each day.	<ul style="list-style-type: none"> • Confirm that the inbound bank data integrations were completed without error each day
Outgoing transactions are approved prior to payment by the bank	<ul style="list-style-type: none"> • Observe the funds transfer process to confirm it appropriately limited destination accounts • Confirm the outbound data integrations were completed without error
Bank Reconciliations	
Transactions are automatically reconciled by the accounting system, when possible.	<ul style="list-style-type: none"> • Review the configuration of the First Notice Rules for their adequacy
Manually reconciled transactions are attributed to the correct expense and revenue categories.	<ul style="list-style-type: none"> • For a sample of manually reconciled transactions, confirm that they were posted to the correct accounts.
Transactions are reconciled timely.	<ul style="list-style-type: none"> • Review unreconciled transactions to determine if they had reasonable explanations.
Investment Policies	
The County's Investment Policy addressed the County's priorities and state laws	<ul style="list-style-type: none"> • Compare the County's Investment Policy to the relevant state statutes • Confirm that requirements set by the Policy were followed
Investments are purchased based on competitive bids within authorized categories of investments	<p>For a sample of purchases:</p> <ul style="list-style-type: none"> • Confirm the highest bid was selected and the investment choice was allowable • Confirm an investment profile is created in the accounting system for recording balances

Process / Control Objective	Scope of Review
Investment Balances	
Accurate Investment Reports are provided to the County Executive and County Council each month, as required by the Policy	<ul style="list-style-type: none">• Confirm the existence of the monthly reports for each month in the audit period• For a sample of months, confirm that the balances in the report are supported by bank statements and other data.
Investment Accounting	
Matured investments are redeemed completely and timely	<p>For a sample of matured investments:</p> <ul style="list-style-type: none">• Confirm the proceeds were returned timely• Confirm that interest received agreed to the terms of the investment
Investment income is distributed to County funds monthly based on their average daily balances.	<ul style="list-style-type: none">• For a sample of months, confirm that interest distributions were supported by bank statements and correct calculations

Harford County management is responsible for establishing and maintaining effective internal controls. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets and compliance with applicable laws, rules and regulations are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected.

The audit was performed in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Report Distribution:	Audit Team:
Mr. Benjamin Lloyd, Director of Administration	Chrystal Brooks
Mr. Robert Sandlass, County Treasurer	CPA, CIA, CGAP, CISA, CGFM, CRMA
	<i>County Auditor</i>
	Brad DeLauder, CPA
	<i>Senior Auditor</i>

ⁱ Definitions

Effective: The design and effectiveness of the internal control environment address key risks. The business unit complies with external laws and regulations, and internal policies, procedures, and guidelines. Business processes are managed effectively resulting in achievement of expected outcomes.

Generally Effective: The design and/or effectiveness of the internal control environment generally address key risks; however, the number and severity of findings relative to the size and scope of the business unit being audited indicate that some minor areas of weakness in the control environment need to be addressed. Isolated instances of non-compliance with external laws and regulations, and internal policies, procedures and guidelines may exist. Business processes may not be managed effectively in all areas resulting in reduced achievement of expected outcomes.

Not Effective: The design and/or effectiveness of the internal control environment does not address key risks. Non-compliance or historical patterns of non-compliance with key regulatory requirements and internal policies, procedures and guidelines exist which expose the audited entity to financial, reputational, and operational risks. Business processes are not managed effectively and expected outcomes are not achieved.