

Wire Transfer Audit

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Authorization

We have conducted an audit of the Finance Department. This audit was conducted under the authority of Article VII, Section 5 of the Garland City Charter and in accordance with the Annual Audit Plan approved by the Garland City Council.

Scope and Methodology

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate 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. These included procedures assessing management controls, such as segregation of duties, checks and balances, accurate wire transfers and compliance with directives, policies and procedures. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objectives. Our audit period covered October 1, 2007 to May 31, 2009.

While we report to the Mayor and City Council and present the results of our work to the Audit Committee, we are located organizationally outside the staff or line management functions we are auditing. Therefore, this Audit organization may be considered free of organizational impairments to independence to audit internally and report objectively to those charged with governance.

The objectives of our audit were:

- Review and evaluate wire transfer internal controls.
- 2. Determine whether wire transfers are made accurately and timely.

To adequately address the audit objectives, we:

- Flow chart wire process to verify proper controls were in place. (Objective 1)
- Verified if any written policies and procedures were in place. (Obj. 1)
- Verified wire entry and approval lists to ensure segregation of duties. (Obj. 1)
- Verified security measures were in place. (Obj. 1)
- Ensured all wire transfer payment forms had correct information and matched wire transactions. (Obj. 2)
- Verified whether only authorized transactions were processed according to the Authorization of Expenditures Directive. (Obj. 2)
- Reviewed JP Morgan Chase contract to make sure we are in compliance with Government Finance Officers Association (GFOA) practices. (Obj. 1)
- Verified an audit trail is kept on all wire transactions. (Obj. 1)
- Ensured all wire transactions are being reconciled each month. (Obj. 2)
- Matched employee addresses to vendor addresses to detect for fraud. (Obj. 2)
- Verified whether multiple vendors have same billing address. (Obj. 2)

- Matched vendor bank information to City employees direct deposit account numbers to detect for fraud. (Obj. 2)
- Ensure no duplicate payments were made to vendor. (Obj. 2)

Overall Conclusion

We found through observation that the vendor wire transfers and investment wire transfers were accurate. During our audit, we found no instances of fraud, waste or abuse. Our audit provides opportunities to improve internal controls, segregation of duties, reduce risk and prevent fraud.

Background

The Finance department is responsible for handling the financial affairs of the City. The department manages the cash management system and processes A/P wire transfers. Wire transfers are an electronic transfer of money, allowing large, time-sensitive funds to be rapidly moved to or from the City's operating accounts. By sending large dollar payment orders electronically reduces the risk of large checks being lost, stolen or delayed by mail. Wire transfers offer expedient, same-day delivery payment. The City processes 30 - 40 wire transfers a month. The most frequent wire transfers are for our electric division, GP&L. The City uses wire transfers for large vendor check payments, property settlements, housing, and investment accounts. The City also uses Automated Clearing House (ACH) as an electronic method of payment or delivery. ACH is a reliable and efficient nationwide batch-oriented electronic funds transfer system governed by the National Automated Clearing House Association (NACHA) Operating Rules. ACH payments include direct deposit of payroll, social security, federal, state and local tax payments. ACH batched transactions involve an industry standard two day processing time. In contrast, wire transfers are individual transactions, tracked by reference number, transmitted through the Federal Reserve, and subject to state Uniform Commercial Code. Due to the high risk of transferring large amounts of money our audit shop focused on wire transfers.

The process of an A/P Wire Transfer starts with a vendor invoice being approved by the appropriate City department and from there is forwarded to the Finance department for payment. Finance will make sure all necessary documents and information is correct. Once Finance approves payment the wire transfer data is entered into the banking system by an individual. The approval/release of wire transfer will be performed by an individual other than the person who initiated the wire transfer with the exception of non-GP&L transfers. (See Exhibit A & B for wire transfer process) To send a wire transfer, the City uses an electronic transaction initiation system, provided by an approved local depository financial institution (bank). The bank then sends the funds using the Fedwire Funds Transfer Service maintained by the Federal Reserve System. Funds are transferred the same business day within established deadlines. Finance performs bank reconciliations each month.

Finance is also responsible for investing the City's funds. The City uses a state investment pool called Texpool. Finance transfers money between multiple Texpool accounts. Texpool was organized in 1989 and is the largest and oldest local government investment pool in the State of Texas. The State Comptroller of Public Accounts oversees Texpool. Deposits and withdrawals can be made on any business day of the week and there is no minimum balance requirement for Texpool participants or limit on number of accounts a participant can have in Texpool. Interest is accrued daily and paid monthly. Interest may either be left in the participants account or withdrawn. Our Finance department processes 30 – 40 investment wire transfers a month. They transfer money between multiple Texpool accounts and the Chase bank account. It is Finance's mission to provide the maximum amount of earnings on investments with minimal risk and to coordinate the maturity of the investments to coincide with expected expenditures.

Management Accomplishments

Financial Services feels that the Internal Audit recommendations identified below can be used to strengthen internal controls in place. The current practices that were reviewed by Internal Audit were designed to safeguard City assets and to prevent fraud, waste and abuse. Implementation of the Management Responses will improve the already secure JP Morgan Chase wire transfer environment. The wire transfer system has numerous control features including user identification tokens at each login, administrator entitlements for users and wire transfer monitoring by JP Morgan Chase.

Opportunities for Improvement

During our audit we identified certain areas for improvement. Our audit was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the Opportunities for Improvement section presented in this report may not be all-inclusive of areas where improvement might be needed.

Finding #	Condition (The way it is)	Criteria (The way it should be)	Cause (Difference between condition & criteria)	Effect (So what?)	Recommendation	Management Response
	is entering, approving and releasing all wire transfers except GP&L. For GP&L wires, there is one person entering and	Authorization, record keeping, custody and reconciliation should be done by different individuals. No one person should have complete control of a transaction from beginning to end.	the resources to provide for	If segregation of duties does not exist, it could lead to a fraudulent wire transaction that could have a major impact on the City.	We recommend Finance ensure segregation of duties between entering, approving and releasing wire transfers.	Concur; Additional staff in Finance will be authorized to enter and approve wire transfers in the depository bank wire transfer system to ensure proper segregation of duties. The Wire Transfer audit action plan will begin by March 1, 2010. Each audit finding will be accomplished by June 30, 2010.

Finding #	(The way it is)	Criteria (The way it should be)	Cause (Difference between condition & criteria)	Effect (So what?)	Recommendation	Management Response
2 (Obj. 1)	authorize payment for each department. B. Out of the 73 wire transactions that we tested there were only 7 that were properly approved according to the	practices dictate that Finance should know who can approve departmental requests for wire transfers. B. According to the Administration Signature Authority for Expenditures Directive #1 the approval authority is outlined in a matrix and it specifically lists the title of the person and amount they are	not provide an approval list of individuals that are allowed to approve a wire payment request. B. By not properly approving expenditures, departments	expenditure approval list for Finance to follow, if the directive is silent for approval list, anyone in the department could sign the payment request form. B. If wire transactions are not authorized properly, it may result in a fraudulent transaction.	have a departmental approval list that gives specific names of people to authorize payment for each department. B. We recommend the City Manager reviews Directive #1 for any updates such as approval list and/or to increase department approval dollar limits. Finance should ensure each department of the City is in compliance with the Administration Signature Authority for Expenditures Directive #1 when authorizing payment to a vendor.	review and possible revision to Administration Signature Authority for Expenditures Directive #1 to ensure compliance with

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3 (Obj. 2)	wire transfers generated during our scope period.		automatically assigned in the Finance system when a vendor is being set up to be paid by a wire transfer. If the	tracking each prepaid check number, Finance system should allow a field that identifies each check whether it is assigned or deleted.	Finance provide a mechanism to allow each prepaid check to be tracked, accounted for, and reported even if it has been deleted in the finance system.	Concur; Finance has a manual tracking system in place to account for issued prepaid checks. The Wire Transfer audit action plan will begin by March 1, 2010. Each audit finding will be accomplished by June 30, 2010.

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	transfers. According to the Accounting Manager, the Finance system has limitations and will not document missing prepaid check numbers.		correct information for that check number which causes gaps in the check order.			
	standard forms on file identifying the vendor's banking information in the Finance department.	Funds Transfer	required vendors to fill out an EFTAF form.	set up there is no verification of banking information every time a wire is sent. 2. This will prevent money being wired to the wrong account.	for each vendor and reconcile the bank information on file to the information on the invoices before processing payment.	Concur; Finance will maintain vendor wire transfer information to ensure that wire transfers are issued according to current wire transfer instructions. The Wire Transfer audit action plan will begin by March 1, 2010. Each audit finding will

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		This will prevent unauthorized transfer of wire payments.				be accomplished by June 30, 2010.
5 (Obj. 1)	procedures for wire transfers.	internal control framework. They provide guidance and helps new employees and those sitting in for those on vacation. They assign accountability to the process.	written policies or procedures on wire transfers.	written policies and procedures is to establish internal controls and have guidelines to follow. The proper way of performing wire transfers is not documented. Not having policies & procedures opens the door for fraud, waste and abuse. No accountability is found with the process.	We recommend Finance department develop policies and procedures for wire transfers to ensure internal controls and segregation of duties are present.	Concur; Finance will develop policies and procedures for wire transfer transactions. The Wire Transfer audit action plan will begin by March 1, 2010. Each audit finding will be accomplished by June 30, 2010.
6 (Obj. 1)	has limitations and only allows Finance to have access to the last two months of	It is beneficial for Finance to have a tracking system for each wire transaction so in the future if an audit is performed or a transaction is in question Finance can reference back to the	trail so we had to request	have to spend money requesting information from Chase and rely on Chase to send information in a timely	We recommend Finance run and maintain a monthly transaction detail report from Chase to ensure a tracking system is in place.	

Fir	nding #	Condition (The way it is)	Criteria (The way it should be)	Cause (Difference between condition & criteria)	Effect (So what?)	Recommendation	Management Response
			Chase transaction detail report.				history is readily available. The Wire Transfer audit action plan will begin by March 1, 2010. Each audit finding will be accomplished by June 30, 2010.



