



**AUDIT REPORT
TREASURER'S OFFICE**

**FOR THE PERIODS OF
JANUARY 1 THROUGH JUNE 30, 2018**

**Ernest Harvin, CIA
Internal Audit Function
Doña Ana County**

**Doña Ana County Internal Audit
Treasurer's Office
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August 31, 2018

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Cc: County Manager
Assistant County Managers (Administration & Operations)
County Treasurer
Internal Audit Advisory Committee

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Fernando Macias, County Manager
Eric Rodriguez, County Treasurer

EXECUTIVE SUMMARY

The Treasurer's Office is the property tax collector for the County of Doña Ana, City of Las Cruces, Las Cruces, Hatch and Gadsden Public Schools, the State of New Mexico and other taxing agencies within Doña Ana County. More than 100,000 property tax bills, plus approximately 13,500 delinquency notices are mailed by the County Treasurer's Office annually. The Treasurer's Office is also responsible for collecting all other money due to other county departments, including fees for services, licenses and revenues from bond issues and special assessments. The Treasurer invests surplus funds until they are needed for county operations. More details about the department can be found by accessing the following link: [Treasurer | Doña Ana County, NM \(donaanacounty.org\)](http://Treasurer.DonaAnaCounty.NM.donaanacounty.org)

The internal auditor started an internal audit of the Treasurer's Office on June 19, 2018, per guidance from Upper Management. The audit fieldwork ended on August 31, 2018. As with all internal audits, an Entrance Conference was conducted with the management team of the Treasurer's Office as a means of informing all involved, of an upcoming audit and its scope. The internal audit included a review of operations ranging from cash flow, to ACH and wire transfers, account reconciliations, investment collaterals, debt, and disbursements. While the initial audit program included a review of investments, a time limitation forced a consensus that investments would have to be audited at a later date (after the external audit; perhaps in October of the same year). Although the Treasurer's Office acts as the Banker for Doña Ana County, interacting with multiple departments, focus stayed upon the main functions of this office. The audit period covered the third and fourth quarters of Fiscal Year 2018.

The Treasurer's Office lacks the updated Standard Operating Procedures (SOPs) that govern its programs of operation. SOPs exist to give guidance to staff, current and future, and establish the standards to which management expects certain tasks to be performed. Other deficiencies noted during the audit were miscellaneous numerical misstatements, limited compliance issues, and a recordkeeping (storage) deficiency. While there were no discrepancies requiring immediate attention, I discussed with the Treasurer each finding or potential finding in efforts to recommend the most applicable controls to address such issues.

AUDIT SCOPE & OBJECTIVES

The purpose of the audit was to determine if controls associated with the following Treasury functions were in place and operating effectively to prevent, detect or mitigate risks:

- Account Reconciliations
- Accountability and Safeguarding of Monies received

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- Accountability of Monies disbursed
- Accountability of Investments and Collateral
- Accountability of Debts
- Segregation of Duties

The audit objectives were to:

- Assess the general performance of the department
- Assist in improving and strengthening controls in the operations of the Treasurer’s Office
- Assist the Treasurer in evaluating the adequacy of the existing controls
- Assess the accuracy of reconciliations, wires, investments, cash flow/liquidity records, and distribution/disbursements
- Recommend more appropriate controls as applicable within the Treasurer’s Office

OPERATING & INTERNAL CONTROL FINDINGS

This report contains six (6) findings and thirteen (13) recommendations; four (4) Low-level risks/findings and two (2) Moderate-level risks /findings. No High-level risks/findings were detected. This report also includes the auditor’s Recommendations, Management Responses, and Auditor Comments (as applicable).

DETAIL OF AUDIT FINDINGS

Risk ratings are based on professional judgment to assess the extent to which deficiencies could adversely affect the performance of systems and controls of a process. More details about the risk rating in this report can be found by accessing this link:

[Audit Risk Ratings | Doña Ana County, NM \(donaanacounty.org\)](http://donaanacounty.org/Audit-Risk-Ratings)

FINDINGS, RECOMMENDATIONS, MANAGEMENT RESPONSES AND AUDITOR COMMENTS

The evidence obtained provides a reasonable basis for the findings and conclusions below, based on audit objectives. As a result of interviews, observations, reviews of Treasurer’s Office SOPs, Regulatory Ordinances, and tests performed, the following results were recorded. While management responses are included within this report, the Audit takes no responsibility for the sufficiency of said responses, nor for the effective execution of corrective actions taken or to be taken by management. **NOTE:** Manager Responses below are written in *italics*.

1. **Investment Compliance Discrepancies, Moderate.**

A. **Condition:** Per the Doña Ana County (DAC) Investments spreadsheet, as of 04/30/2018, the Treasurer currently has 43.7% of the County’s investment portfolio in Certificates of Deposit.

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Effect: Having such a large portion of the County's investment portfolio invested in one type of security puts the County out of compliance with Doña Ana County's investment policy.

Criteria: The Concentration of Credit Risk portion of Doña Ana County's investment policy purports the following: "With the exception of U.S. Treasury securities, securities backed by the full faith and credit of the United States government and authorized pools, no more than 35% of the total investment portfolio will be invested in a single security type..."

Cause: *The Treasurer invested heavily in Certificates of Deposit to take advantage of their higher returns that are available in the current market vs other investment options.*

Recommendation: My recommendation is that adjustments be made to our current investment portfolio to bring it into compliance with the current policy. As such, the Doña Ana County Board of Finance has entrusted funds to the Doña Ana County Treasurer; thus, if the Treasurer deems an adjustment is necessary to the current policy, I would recommend that approval be sought from the Doña Ana County Board of Finance.

Management's Response: *Accept: The increase in CD investments was due to favorable market rates for this asset class vs other traditional investment classes like U.S. Treasuries or bonds. The purpose of the 'Concentration of Credit Risk' safeguard in the investment policy is to ensure diversification of the county's portfolio. This measure ensure that county funds are not invested in a single asset, however investing heavily into a single asset class that is insured does not increase risk to the portfolio. All CD investments are either FDIC insured or collateralized by the holding bank. Therefore, exposing the county to minimal risk.*

As CD's reach maturity, new investment options can be explored to decrease concentration. However, a change/update of an investment policy is currently being considered to have flexibility of investment when investment opportunity is beneficial to the portfolio.

B. **Condition:** Testing of documentation for Collaterals revealed the following discrepancy:
January 2018 – Wells Fargo Sweep-Repo account was under collateralized by \$326,229.45.

Effect: When an account is under collateralized, there exists the risk of a forfeiture of public funds in the event of a default.

Criteria: Per the Doña Ana Count Deposit and Investment Policy, "The County shall obtain from each bank that is a depository for public funds pledged collateral in the aggregate amount equal to one half (50%) of the public money to be received for deposit (Section 6-10-17)."

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Cause: *Wells Fargo reported collateral for January 30th vs 31st. The collateral amount for the 30th matches the sweep balance of that day. While this amount was collateralized, staff did not note the missing date on statement.*

Recommendation: Review the collateral report as of January 31st for the full pledged amount. In addition, it is recommended that the necessary steps be taken to prevent a reoccurrence of the same error.

Management's Response: *Agree: Wells Fargo reported collateral for January 30th vs 31st. The collateral amount for the 30th matches the sweep balance of that day. Request for collateral report as of 31st will show full pledged amount. While this amount was collateralized, staff should have noticed the missing date on statement. Will follow up with bank to ensure error does not happen again.*

2. **Numerical Misstatements, Moderate.**

Condition: Testing of documentation for Collaterals revealed inconsistencies during the six-month period reviewed. Findings were as follows:

- The Pledged Collateral Under State Requirements report contains misstatements for the months of January – April 2018.
- The Collateral report contains misstatements for the months of February, March, May, and June 2018.

Effect:

- The Pledged Collateral Under State Requirements report is an internal document utilized to indicate whether the required amount of collateral exists for County financial instruments. While this report indicated misstatements in its amounts, all of the instruments affiliated with the misstatements were in an over collateralized status. Thus, the misstatements in the report did not affect actual collateral amounts.
- Like the aforementioned report, the Collateral report is also an internal informational document, which does not affect the actual collateral amounts.

Criteria: Reports such as the Pledged Collateral Under State Requirements and the Collateral are support documents that indicate the County's position as it pertains to proper collateralization. While these reports are not published to the public, they still serve the purpose of informing the Treasurer if he is in compliance with Policy, and therefore should be maintained as accurately as possible.

Cause: The Pledged Collateral Under State Requirements and the Collateral reports are support documents constructed by Treasurer Office staff, who is very familiar with the status

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(under/over) of collaterals. Herein, in most cases the staff member is aware of when collaterals are up to standard even without these supporting documents.

Recommendation: The position that maintains these reports is due to be vacant at the end of this calendar year, and the next person may not be as familiar as current staff with the status (under/over) of collaterals. While the inherent risk of human errors exists, there are steps that can be taken to alleviate or eliminate many of the ones noted in this finding, via the use of technology. While the Pledged Collateral Under State Requirements and the Collateral reports are unpublished, they still contain critical data.

The amount of some of the misstatements were material in size, and I therefore recommend that the excel spreadsheets containing errors be reviewed in 'Formula Auditing Mode' to reveal cells that are missing calculation formulas, so that these formulas can be added. For cells that should never contain a particular type of data, such as negative results, I recommend inputting IF THEN formulas {such as =IF (P5<0, "False", "True")} to alert the preparer. In addition, a quarterly review should be conducted as a means of auditing the numerical data of these reports.

Management's Response: *Numbers used in the collateral report for CRRUA were from Doña Ana County's collateral statement. CRRUA account is nevertheless over collateralized. Staff did not update the CD in the report, however correct CD is reported in Cash to be collateralized report and Treasurer's reports which are posted to the public.*

For the findings accepted, we have identified an action plan to ensure correct reporting and minimization of input errors. Monthly collateral reports will be reviewed by a second party and approved by Treasurer.

3. **Lack of SOPs. Low.**

Condition: The Cash Operations Supervisor, Accountant III, and Accountant II perform a number of critical tasks in the Treasurer's Office. Only the Accountant II has chronicled her duties in an SOP, however this SOP is in need of updates as systems have changed since its genesis. In addition, interviews with the Treasurer revealed common or best practices, which he employs, but are not yet written in a guideline or departmental procedural manual.

Effect: A well-written SOP can stem the learning curve for new employees, as well as aid others from making common errors that are inherent to the particular function being performed. Without SOPs, when knowledgeable staff eventually move on, the years of knowledge they acquired can be lost in a form of a departmental brain drain. When common or best practices are not written as guidance, future and less knowledgeable Treasurers could find themselves learning such practices anew or failing to learn or employ them at all. This leaves the department vulnerable to errors not being realized or curtailed.

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Criteria: SOPs set standards for conducting procedures. Herein, staff is made aware to what standard a particular function must be performed. Without such guidance, there may be a lack of uniformity in performances as well as in performance expectations, not allowing for fair evaluations; this can be viewed as discriminatory. Thus, Standard Operating Procedures serve to direct the actions of both management and staff, allowing for uniformity when plausible.

Cause: Management has not established a level of detail necessary in current SOPs to fully address the many duties and functions of the Cash Operations Supervisor, Accountant III, nor Accountant II. The Treasurer also has sound practices that could continue to benefit the County after his tenure, however such practices have not yet been chronicled.

Recommendation(s): While the work environment (staff) in the Treasurer's Office appear to be rather stable currently, at least one of the aforementioned positions is due to become vacant in the near future. It is therefore recommended that the Treasurer stress the importance of, and direct staff to construct SOPs as soon as possible. These SOPs should be in electronic format where they can be updated as necessary. This matter is particularly urgent for the position that is to be vacated soon, as this person has served the County in the current capacity for a number of years and has a great deal of knowledge in this position.

Management's Response: *Disagree: Staff is already on an SOP action plan for the year. We have set a deadline of December 31st to submit SOP's per position. Since this was identified and addressed prior to the internal audit, we do not feel that a finding is justifiable until staff has time to complete SOP's by set deadline.*

Auditor's Comments: Although the deficiency is known, it is no less a deficiency and should be noted by the internal auditor. To the credit of the Treasurer's Office, staff was already aware of the need for SOPs and pending the conclusion of the current external audit, is expected to fully address this matter and correct the deficiencies.

4. **Storage Deficiency, Low.**

Condition: The Treasurer currently has years of documentation and important records, shelved in cardboard boxes in a storage closet. However, these boxes do not have a water-resistant coating for protection, in the event the sprinkler (water) system is activated.

Effect: While normal cardboard boxes offer some protection from dampness, encountering the amount of water that could be employed by a fire suppression (sprinkler) system could saturate the boxes as well as their contents, causing a great loss of documented data.

Criteria: Per the County Treasurer, it is mandatory that some of the boxed records be maintained for up to 6 or even 10 year periods. In the event of a fire, the water sprinkler

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system could ruin such documentation.

Cause: Management has not housed paper records in an environment that would allow protection from water saturation in the event of a fire.

Recommendation: While the possibility of a fire may not be great, the probability of a fire may even be smaller. Even though an initial review reveals that most (but not all) of the documentation has been chronicled electronically and thus can be recovered, it may be worth the Treasurer's time to forego the mass amount of reprinting that could be required to recover water drenched paperwork, by utilizing boxes that can better protect current paper data.

The sheer amount of documentation reviewed leads to a recommendation that the Treasurer consider conducting a cost-benefit analysis, to determine if installing fronts to the shelves that hold the current boxes, or utilizing some form of waterproofing or waterproofed boxes would be cost effective.

Management's Response: *Accept: We accept this finding and even recommended it to be included in this report as a finding. Auditor recommendation will be used as justification for budget request.*

Auditor's Comments: I concur with the observation in the Management's Response above.

5. **Withholding of State Property. Low.**

Condition: The Reconciliation Reports for January – June 2018 indicate outstanding check balances totaling \$4,171.54; the checks are dated from 2012 – 2016.

Effect: Per the New Mexico Taxation and Revenue Department's Unclaimed Property Office, "A holder who fails to report, pay or deliver property within the time prescribed by the Uniform Unclaimed Property Act [7-8A-1 to 7-8A-31 NMSA 1978] shall pay to the administrator interest at the computed daily rate established by the U.S. Internal Revenue Code (IRC) on the property or value thereof from the date the property should have been reported, paid or delivered." Although an initial calculation of possible penalty interest indicated an immaterial amount, the County is still out of compliance with State Statute.

Criteria: According to New Mexico Statute 7-8A-2. Presumptions of abandonment, "wages or other compensation for personal services" are "presumed abandoned if it is unclaimed by the apparent owner...one year after compensation becomes payable."

Cause: The Treasurer's Office has yet to complete the due diligence process purported by the New Mexico Unclaimed Property Act, in attempting to contact and notify the owners not

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more than 120 days before filing an Unclaimed Property Report with the State of New Mexico.

Recommendation: I recommend that the Treasurer's Office undertake the process given in the Unclaimed Property Report Holder's Filing Kit, so that the monies are remitted either to the rightful owners or to the State of New Mexico. However, the monies are not the rightful property of Doña Ana County and the County should not be holding on to nor paying penalties for these monies.

Management's Response: *Accept: Previous administration in Treasurer's office had a directive to re-apply uncashed checks to the corresponding property's taxes. As time passed this directive was postponed due to the difficulty of tracking and recording. This issue came to my attention in June 2018. After meeting with Finance and my staff, we have annulled the prior directive and mandated that all checks considered abandoned by law be sent to the state. A list of checks is currently being prepared to be sent in November. This is a new directive that will bring us back to compliance.*

6. **Improper Signature Authority. Low.**

Condition: The Treasurer's Office currently reviews signature authority when a new signer is authorized. However, it was recently discovered for the Detention Center that some signors on bank accounts were no longer employed at the Detention Center.

Effect: When those who are no longer authorized remain as signors on DAC bank accounts, this could pose a risk of loss if an unauthorized signor successfully makes a withdrawal.

Criteria: Only current DAC and Commissary Contractor staff, with proper authority should remain as signors on DAC bank accounts.

Cause: Controls are not in place that would notify the Treasurer's Office of bank signor-staff who leave County service.

Recommendation: The Audit recommends:

- At least annually, the Treasurer's Office review all bank signatory agreements for accuracy.
- The Treasurer should consult with all DAC departments who have signors on a DAC account, to set up a notification process for when employees or supporting contractor staff leave County service.

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- The Treasurer should notify HR of all signors on the account, requesting that HR inform the Treasurer's Office when any of that staff (to include contractors) leave DAC employment or remits a notice of employment termination.

Management's Response: *Accept: In the beginning of 2018, my staff and I audited bank signers on all county bank accounts. Some of these signers were challenged by me to management and legal to ensure proper authority. As for the Detention Center account, the current account was managed by the vendor, Aramark. As of 10-01-2018, a new vendor will begin services at the Detention center. I have mandated ownership and signature authority of the bank account via their contract. Moving forward, the new contract will afford the county the opportunity to rectify any signature authority concerns that this finding may come with. However I still agree that communication will need to be managed to ensure updated signers on the account. This will be an action plan to identify a proper procedure for this communication.*

Auditor's Comments: Upon notification of termination, the 'Department' that has an account signor has an inherent responsibility to take the required steps (those steps may be to notify the Treasurer) to have account signature authority revoked for that employee(s).



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