

County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Mercy Grieco, Deputy Director Auditor-Controller

Date: September 27, 2006

From: Barbara Beatty

Subject: **AUDIT OF NON-INVESTMENT WIRE TRANSFER VERIFICATION AND AUTHORIZATION PROCEDURES**

INTRODUCTION: This audit was performed in conjunction with our audit of the Statement of Money in the County Treasury as of June 30, 2005, and assessment of internal controls over non-investment wire transfers.

BACKGROUND:

The Auditor-Controller's Financial Management Division provides general accounting functions to all departments and agencies whose funds are maintained in the County Treasury. Financial Management's Trust Section (Trust Section) performs daily, monthly, and year-end reconciliations of Auditor-Controller to Treasury records. Further, in accordance with California Government Code 27005, all non-investment wire transfers are approved by the Auditor-Controller's Trust Section prior to being forwarded to Treasury for processing.

Trust uses the "Authorized Signature for Wire Transfers" (ASWT) form to verify information on the "Wire Transfer Request" (WTR), such as authorized signature and receiving bank information. The ASWT form is completed by the requesting departments/entities, approved by the department/entity head, and filed with the Auditor-Controller. The ASWT form lists bank accounts permitted to receive wired money, department personnel authorized to request wire transfers, and required number of authorized signatures on the WTR.

SCOPE:

Our overall objective was to evaluate the adequacy of internal controls over non-investment wire transfer activity. Specifically, we determined whether internal controls were sufficient to prevent unauthorized wire transfers and ensure transfers were properly initiated, verified, and approved prior to processing by Treasury.

The audit was conducted in accordance with auditing standards generally accepted in the United States of America contained in *Government Auditing Standards*, issued by the Comptroller of the United States. We performed audit tests and evaluations using documents processed from November 28 to December 30, 2005, provided by the Trust Section.

In connection with the report contained herein, there are certain disclosures that are necessary pursuant to *Government Auditing Standards* Amendment 3.

During our audit of the Statement of Money in the County Treasury, internal control weaknesses relating to the Trust Section's wire transfer request process were identified. As a result, we performed audit procedures to test and evaluate the Trust Section's internal controls. These activities, in themselves, necessarily impair *Government Auditing Standards'* independence standard. Specifically, auditors "should not audit their own work" and should be "located organizationally outside the staff or line management function of the unit under audit." Although Internal Audit and Trust are part of the Auditor-Controller's Office, both are stand alone units and do not share responsibilities. Therefore, the reader of this report can rely on the information contained herein.

FINDINGS: Overall, our audit disclosed risk areas and weaknesses in the non-investment wire transfer verification/approval process. We also noted the potential to automate the wire transfer process. Summarized below are the details of the areas where improvements were needed. Management initiated corrective action during the audit as noted.

1. **Authorization.** Internal controls over authorization of non-investment wire transfers were in need of improvement to ensure proper wire transfer activity.
 - A. **Dual Authorization.** Trust Section procedures did not require a second signature when wire transfers were requested by the same person who approved the ASWT form that included the receiving bank account numbers. Our audit disclosed that on November 30, 2005, a \$37 million wire transfer was performed based on the sole authorizing signature of the same person who approved the ASWT form. Although established procedures were followed, detection would not have been made if the wire transfer was sent to an unauthorized bank account. Requiring a second signature would provide additional oversight to mitigate the risk of improper wire transfer activity.

Management Action. Auditor-Controller management stated:

"We wish to clarify that the wire transfer referenced above was, in fact, made to an authorized bank account listed in the entity's ASWT form.

"In compliance with procedures effective during the audit, the wire transfer was authorized by the requesting entity's director who also approved the ASWT form. We agree that a second signature would provide additional oversight and have incorporated this requirement in revised wire transfer procedures conveyed to Fiscal Officers and Special Districts in May 2006."

- B. **Written Authorization.** Trust Section procedures did not require adequate written authorization from requesting departments/entities prior to approving wire transfers to accounts not listed on the ASWT form. Our review disclosed that two wire transfers totaling \$5.7 million to bank accounts not listed on the ASWT form were approved by the Trust Section without a second authorizing signature from the requesting entity. Trust Section management indicated telephone authorization

was obtained from the person who initiated the wire transfer request prior to approval of the transfers. However, obtaining written approval from a second authorized signatory before approving wire transfers to accounts not previously authorized mitigates the risk of transfers to unauthorized accounts.

Management Action. Auditor-Controller management stated:

"Although the wire transfers referenced above were made to a bank account not listed on the ASWT, the wired funds were payable to the authorizing entity, as noted in the 'Funds Payable To (Account Name)' field, mitigating the risk of transfer to an unauthorized payee. Both Wire Transfer Requests were properly signed by one authorized signer, in accordance with the entity's ASWT and established procedures effective during the period under audit. As an added precaution, Trust staff contacted an authorized signer of the requesting entity because the requested transfer named an entity bank account which was not on the ASWT form.

"However, we concur that additional oversight is prudent and have incorporated in the revised wire transfer procedures the requirement for a second signature when a request authorizes the transfer of funds to a bank account not named in the entity's ASWT form."

- C. **Completion of the ASWT Form.** The Trust Section did not require departments/entities to fully complete the ASWT form prior to being filed with the Trust Section. For example, 5 of the 11 ASWT forms reviewed did not have a "valid period" indicating an effective or expiration date for the information on the form. As a result, the Trust Section could not verify that the listed signatories on the ASWT form were authorized to request wire transfers. Further, one ASWT form did not indicate the number of authorized signatures required for wire transfer requests. Consequently, the Trust Section assumed that only one authorized signature was required on the wire transfer when that may not have been the case. Missing or incomplete information on the ASWT form prevents equal application of verification procedures and may allow individuals to circumvent internal controls.

Management Action. Auditor-Controller management stated:

"It should be noted that the authorizing entity's signature on the ASWT is generally dated, resulting in a reasonable presumption as to the valid period for the authorization.

"However, we agree that all sections on the ASWT must be completed to improve internal controls. Revised wire transfer procedures clearly state that all fields on the ASWT form must be completed and that incomplete forms will be returned. Trust Section staff has been instructed to review for the completion of all fields."

2. **Automation.** Opportunities were available to automate the wire transfer process and mitigate the internal control weaknesses associated with the Trust Section's paper-based process. For example, Wells Fargo Bank's *Commercial Electronic Office* (CEO) permits users to request and execute wire transfers online using user-specific identification numbers and encrypted passwords. While County

departments have had access to CEO's other financial services since 2003, wire transfer privileges have been limited to Treasury. The use of Wells Fargo Bank's CEO system would significantly reduce the risks associated with the above noted problems and would strengthen controls over the wire transfer process.

Management Action. Auditor-Controller management stated: "Trust Section staff can initiate discussions with Treasury staff about the feasibility of using the CEO system to process wire transfers. However, it should be reiterated that the Treasury has sole authority over the CEO system and its application to the wire transfer process."

OVERALL EVALUATION OF MANAGEMENT ACTION: We believe that management actions taken were responsive to the audit findings. Management completed corrective action during the course of the audit.

We appreciate the cooperation and assistance extended by you and your staff during this audit.

cc: Honorable Linda Parks, Chair, Board of Supervisors
Honorable Judy Mikels, Vice Chair, Board of Supervisors
Honorable Steve Bennett, Board of Supervisors
Honorable Kathy Long, Board of Supervisors
Honorable John K. Flynn, Board of Supervisors
Honorable Lawrence Matheney, Treasurer-Tax Collector
John F. Johnston, County Executive Officer
Depositors in County Treasury