ITEM 10
5-10-11

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May 2, 2011

TO: Board of Supervisors

FROM: Craig Hufford, Financial Management Supervisor
Sarah Kautz, Budget Manager
Wes Rostenbach, Accounting and Tax Manager
Dee F. Bruemmer, County Administrator

SUBJ: Quarterly Status Report from the Financial Review Committee on Various Financial Management Improvements – 3rd Quarter FY11

The Financial Review Committee (FRC) consisting of Craig Hufford, Financial Management Supervisor in the Treasurer's Office, Sarah Kautz, Budget Manager, Wes Rostenbach, Accounting and Tax Manager in the Auditor's Office, and Dee F. Bruemmer, County Administrator reports quarterly to the Board on the status of various financial management improvements.

Attached to this memo are the following status reports:

- FY10 Audit Report on Internal Control

Please contact us should you have any questions regarding this memo or the attached status report.

Attachment

## Internal Control Over Financial Reporting

1) **Audit Comment:** County should maintain its books and records in such a condition that the auditor is not able to identify any material journal entries as a result of our audit procedures. Unrecorded payables of approximately $80,000 were identified relating to the Secondary Roads Fund and $119,000 relating to the Capital Projects Fund.
   ***County Response:*** *A report will be run before field work to see if any material amounts may have been applied to the wrong year. This report can be run several times. Training was provided to employees on the proper way to apply expenses. They were also instructed to call for clarification if needed.*

2) **Audit Comment:** County should maintain its books and records in such a condition that the auditor is not able to identify any error that would require the correction of a previously issued financial statement. A restatement of the prior year financial statements was necessary for the proper reporting of certain agency funds.
   ***County Response:*** *For many years, the County reported the County Assessor and City Assessor as Component Units of the County. In FY10, our new auditors recommended these units be reported as agency funds of the County. This change was made for FY10.*

3) **Audit Comment:** County should be capable of preparing a complete set of year-end financial statements for the auditor to test. This includes drafting the individual fund statements, making conversion entries, drafting the government-wide statements, and preparing footnote disclosures. Your staff would need to be capable of presenting the auditor with a set of complete financial statements in such a condition that the auditor is not able to identify any material changes as a result of the audit. Management prepared the fund financial statements, required supplementary information, supplementary information and statistical section of the report; however the management's discussion and analysis, government wide financial statements, related reconciliations of the fund statements to the government wide financial statements and the notes to the basic financial statements were prepared by the auditors.
   ***County Response:*** *In previous years, the County's financial statements were prepared by the County's audit firm. When the County changed audit firms in FY10, the County learned that it was required to prepare its own financial statements in their entirety (the Comprehensive Annual Financial Report or CAFR). Given the short notice of this new requirement, the County prepared approximately 70% of the CAFR, while the audit firm prepared the rest of the report. Preparing a CAFR is very complex and many local governments have specialized software that will assist with writing reports. The County doesn't own CAFR software, but it will be a requirement for our new ERP system. Going forward, the County will prepare more and more of the CAFR manually, until we have proper systems in place to automate this process.*

## Comments and Recommendations - General

1) **Audit Comment:** Cash Reconciliations – During our audit of various cash account reconciliations, we noted that there was no documentation of bank reconciliations being reviewed by someone separate from the receipting process. Bank reconciliations should be reviewed by someone independent of the processing of transactions in the account.
   ***County Response:*** *Bank Reconciliations will be reviewed by someone other than the person who prepared them. If someone from the FRC committee prepared the reconciliations, someone else from the FRC committee will review and sign off on those reconciliations.*
2) **Audit Comment:** Outstanding Checks – It was noted that there were a number of County departments with outstanding reconciling items on their outstanding check list over a year old.

Procedures should be in place to ensure that all reconciling items be addressed in a timely fashion.

**County Response**: *A review of outstanding warrants or checks is to be conducted by all issuing departments during the month of June. Any warrant or check outstanding for more than one year will be canceled by the issuing department and the amount of the warrant or check will be credited to the fund upon which it was drawn. A person may file a claim with the issuing department for the amount of the cancelled instrument within one year of the date of the cancellation, and upon showing of proper proof that the claim is true and unpaid, the department will issue a warrant or check drawn upon the fund from which the original cancelled instrument was drawn.*

3) **Audit Comment:** Internal Controls – As part of our risk assessment process, it was noted that the County did not maintain original documentation of internal controls over its major transaction cycles but prepared such documentation upon our request. The County should maintain and update this documentation annually as part of its internal control structure.

   ***County Response:*** *In previous years, our auditing firm maintained our internal control documentation. As a result of the change in audit firms, the County didn't have access to this information. For our FY10 audit, the County was required to create new internal control documentation. Going forward, the County will maintain this documentation, and it will be updated at the end of each fiscal year.*

4) **Audit Comment:** Documentation of Internal Controls – Our testing identified that there is no documentation that journal entries and related documentation are reviewed and approved by an appropriate individual who is not the original preparer. The green sheet for journal entries contains a place for reviewer to initial and date their review of the journal entry but is not used. Journal entries are an area of greater risk to conceal intentional errors, therefore a proper review and approval process is important. Procedures to review all journal entries by an appropriate individual other than the preparer should be implemented.

   ***County Response:*** *There are three individuals at the County who enter journal entries into our financial system. Beginning in FY11, these three individuals will not enter journals that they have prepared themselves, unless the entry has first been reviewed for accuracy/completeness and signed off on by another member of the FRC committee (Wes Rostenbach, Sarah Kautz, Dee Bruemmer, Craig Hufford).*

**<u>Comments and Recommendations – Computer Controls</u>**

1) **Audit Comment:** The County should consider implementing formal change management process to ensure that all program changes, system changes, and maintenance are documented and approved. Additionally, a form should be used to authorize, facilitate, and document all changes. These forms should remain on file throughout the systems life.

   **County Response:** *The County will track changes using the IT work order system. Planned changes will be approved prior to implementation.*

2) **Audit Comment:** Best Practices states that passwords should be changed every 90 days require a minimum of 6 characters, require strong passwords, and passwords should be remembered so users can't reuse recent passwords. Scott County is in the process of implementing a policy change that will introduce better security control in this area. Scott County's IT department experienced push back from end users when trying to enforce the new system security policy. We recommend management to be involved in this process.

**County Response:** *The County will implement the following Password/Pass Phrase Policy, "Employees are responsible for the selection and security of account password(s). Passwords will be at least eight (8) characters in length and should consist of a combination of upper and lower case letters, and numbers. Employees should avoid using variations of the user login or the same password as other accounts. Employees will be required to change the login password every 120 days. Employees will be unable to repeat the previous three passwords. "*

*County administration fully supports this policy.*

3) **Audit Comment:** We recommend that Scott County formulate a formal process to modify existing employee access, and removing access for terminated employees. Normally a form is used with approval granted by management before any changes occur, on which IT would record the completion of the process and who completed it.

   **County Response:** *The County will track account security changes using the IT work order system. Separated employees' system access is already removed as part of formal exit procedures. Security changes will be approved prior to implementation.*

4) **Audit Comment:** We recommend that user access be reviewed once a year by management to ensure that users do not have access beyond their job responsibilities. Segregation of duties conflicts should also be reviewed.

   **County Response:** *County Information Technology will review user access to IT supported systems on a regular basis. Administration is considering a formal policy requiring user access to all systems be reviewed on a regular basis. Such a policy would include systems administered in all offices and not just those administered by IT.*

5) **Audit Comment:** We recommend that the server room be locked and only a select few personnel to have access to the server room. All people entering the building should be required to be identified before entering the premises. It is recommended that the list be maintained by the security team, and other than the facility manager, all facility personnel be removed from the access list. Non OT personnel with physical access to the server room/data center could result in disclosure, modification, damage or loss of data intentional or unintentionally.

   **County Response:** *County server rooms, main distribution facilities, and intermediate distribution facilities are locked with access limited to Information Technology Department members and select Facilities and Support Services Department members as required. Room access is electronic badge controlled and auditable. Other access will be logged.*