Investment Process Audit

September 30, 2016

Audit Report 201516-25

Executive Summary

Section 17.57(1), Florida Statutes (F.S.), states that the Chief Financial Officer (CFO), or other parties with the permission of the CFO, shall deposit the money of the State or any money in the Division of Treasury (State Treasury) in such qualified public depositories of the State as will offer satisfactory collateral security for such deposits. It is the duty of the CFO, consistent with the cash requirements of the State, to keep such money fully invested or deposited in order that the State may realize maximum earnings and benefits.

The Department of Highway Safety and Motor Vehicles (Department) is primarily funded by driver licensing, registration and titling fees, civil penalties, and the sales of driver transcripts and records. The revenue received from these transactions is deposited into the State Treasury and immediately credited to the appropriate fund. The Department investment process is comprised of investing excess cash over the minimum thresholds for the following trust funds:

- The Highway Safety Operating Trust Fund
- Federal Law Enforcement Trust Fund
- State Law Enforcement Trust Fund

Approximately 104 investment transactions totaling $272,900,000 and 53 divestment transactions totaling $249,775,000 were processed between the period of July 2015 and May 2016.

The purpose of this audit was to review and evaluate the Department's investment process and determine compliance with applicable laws, and Department policy and procedure.

Our review of the components of the investment process, interviews with management and members, and auditor observations determined that overall the Department has adequate internal controls over the investment process. However, the following items require management attention:

- While the Bureau of Accounting has developed reconciliation procedures, further improvements can be made to strengthen the procedures, such as requiring reconciliations be performed monthly; requiring management oversight and approval; and requiring a timeframe for completion.

- Although controls are in place to detect over investing or divesting, further improvements could be made to maximize investment earnings such as reevaluating and documenting the criteria for established minimum cash balances for Department trust funds and developing a formal process to communicate when funds should be held in anticipation of future expenditures.

Management generally agreed with the findings and recommendations and has begun implementing corrective action.

Background and Introduction

Section 17.57(1), F.S., states that the CFO, or other parties with the permission of the CFO, shall deposit the money of the State or any money in the State Treasury in such qualified public depositories of the State as will offer satisfactory collateral security for such deposits. It is the duty of the CFO, consistent with the cash requirements of the State, to keep such money fully invested or deposited in order that the State may realize maximum earnings and benefits.

The Department is primarily funded by driver licensing, registration and titling fees, civil penalties, and the sales of driver transcripts and records. The revenue received from these transactions are deposited in to the State Treasury and immediately credited to the appropriate fund. The Department investment process is comprised of investing excess cash over the minimum thresholds for the following trust funds:

- The Highway Safety Operating Trust Fund (HSOTF)
- Federal Law Enforcement Trust Fund (FLETF)
- State Law Enforcement Trust Fund (LETF)

The Department's investment process is a dual process shared between two units: the Office of Financial Management (OFM) and the Financial Accounting, Fixed Assets and Reconciliation Section, within the Bureau of Accounting (BOA). The OFM and the BOA are responsible for performing cash management services, processing receipts and disbursements, and investing available funds with the State Treasury. Specifically, the OFM is responsible for determining the daily liquidity needs of the Department and performing actions to liquidate or invest monies as needed. Subsequently, the BOA is responsible for the approval, transfer, recording, and reconciliation of these funds.

Investment Process

The Department's investment process consists of a daily trust fund cash analysis for the HSOTF based on transactions, receipts, expenditures, and anticipated bills obtained from Florida Accounting Information Resource (FLAIR), FLAIR generated reports, and communications with relevant Department members. The analysis is done in a

spreadsheet that contains formulas to ensure the accuracy of the information entered and to easily detect discrepancies. Due to the low amount of transaction activity in the LETF and FLETF accounts, no analyses are conducted on these funds.
A minimum cash balance of $1.1 million - $1.5 million for the HSOTF and around $250 thousand for both the LETF and FLETF is retained in the State Comptroller's cash control account for the Department's daily cash needs. However, on occasion, and based on the discretion of the OFM, a cash minimum of $1 million for the HSOTF and $200 thousand for both the LETF and FLETF is retained. All excess cash over the threshold is transferred to State Treasury investment accounts.

Investment transfers are made approximately two to three times each week. An interoffice memorandum containing all transaction information, including the amount to be transferred, the cash analysis spreadsheet and other necessary information is submitted to the BOA for processing. BOA personnel prepare a manual voucher schedule using the information from the memorandum. The manual voucher schedule is then submitted to the Department of Financial Services (DFS), Bureau of Auditing by email to transfer the funds to the appropriate investment account. All investment vouchers are posted by DFS on the date of receipt. Once the voucher is posted, BOA members process the necessary FLAIR entry using the investment account information obtained from the memorandum received from the OFM.

Funds are divested or liquidated from investment accounts back to the Department's cash control account on an as needed basis (e.g. to cover monthly payroll expenses). The decision to divest is based on the Department's daily cash account balances and communications between the OFM and the BOA concerning projected expenditures. The process of divesting is prepared through the State Treasury website and can only be completed between the hours of 6:00 a.m. and 11:00 a.m. Funds are transferred immediately once the correct information has been entered into the website by OFM members. An interoffice memorandum is submitted to the BOA to initiate an entry (TR96) to be processed in FLAIR for reconciliation purposes.

Findings and Recommendations

During our review of the Department's investment process, we identified the following issues which require management attention:

Reconciliations

Finding No. 1: The Bureau of Accounting has developed a reconciliation procedure; however, further improvements would strengthen the process.

Reconciling an account is a process that explains the difference between the account balance shown in an organization's bank statement, as supplied by the bank, and the corresponding amount shown in the organization's own accounting records at a particular point of time. Prior to audit inquiry, proper monthly reconciliations for Department investment accounts were not being documented. What the Bureau considered as completed reconciliations were actually the recording of journal entries (TR10s) to post the monthly interest received and administrative fees applied to the accounts. Although posting the journal entries to the general ledger are necessary to reconcile the accounts, proving or documenting that the investment account balance corresponded to the general ledger account balance was not completed.

After audit inquiry, the BOA developed a procedure, effective April 2016, which include a requirement to perform reconciliations on the ending balances for each account; however, the procedure does not state that reconciliations should be performed monthly or require supervisory oversight.

Recommendation

We recommend the Bureau of Accounting revise the reconciliation procedure to require reconciliations to be performed monthly, require management oversight and approval, and require a timeframe for completion.

Management Response

The current investment reconciliation process is completed on a monthly basis and requires the accountant to reconcile the fund balances in order to determine the correct amount for the FLAIR interest posting. However, the Department procedure does not specify this process. By October 1, 2016, the Bureau of Accounting will update the procedure to clarify that the reconciliation process will be completed on a monthly basis, with a due date on or before the 15th of every month, and require management's review and approval in order to be finalized.

Investing or Divesting Funds

Finding No. 2: Although controls are in place to detect over investing or divesting, further improvements could be made to maximize investment earnings.

The Department's Daily Cash desk procedure – Investing and Divesting, currently require a minimum cash balance of $1.1 million - $1.5 million for the HSOTF and around $250 thousand for both the LETF and FLETF to be retained in the State Comptroller's cash control account for the Department's daily cash needs. The minimum cash balance amounts have been in place over several years and staff within the OFM and the BOA were unaware of the source or reasoning for trust fund account minimum balances.

We observed in the cash analysis process that anticipated or projected HSOTF expenditures were being deducted from the available cash balance identified on the analysis spreadsheet sometimes weeks before payment. With investing and divesting processes occurring several times per week, cash may unnecessarily be retained for future expenditures that could be invested.

Recommendations

We recommend the Office of Financial Management reevaluate and document the criteria for established minimum cash balances for Department trust funds.

We also recommend the Office of Financial Management in coordination with the Bureau of Accounting develop a formal process to communicate when funds should be held in anticipation of future expenditures.

Management Response

The Office of Financial Management reevaluated and documented the criteria for establishing the minimum cash balances for Department trust funds. After evaluating the amounts needed for disbursements over the last three years, the Office of Financial Management found that in order to ensure that the Department has cash on hand for large transactions and daily operations, investing and divesting will require a minimum cash balance of $800 thousand - $1 million for the Highway Safety Operating Trust Fund and $250 thousand for both the Law Enforcement Trust Fund and the Federal Law Enforcement Trust Fund to be retained in the State Comptroller's cash control account for the Department's daily cash needs. This will ensure that the Department does not delay payment to any vendor. These amounts have been updated in the Department's Daily Cash desk procedures.

The Office of Financial Management in coordination with the Bureau of Accounting developed a formal process to communicate when funds should be held in anticipation of future expenditures. The Bureau of Accounting will send an email requesting authority to pay an anticipated or projected expenditure in the amount of $250,000 or more for the Highway Safety Operating Trust Fund and $50,000 or more for both the Law Enforcement Trust Fund and the Federal Law Enforcement Trust Fund.

Every day the Bureau of Accounting will send a disbursement spreadsheet showing all of the disbursements for all of the trust funds from the previous day. The Office of Financial Management will monitor the anticipated or projected expenditures being deducted from the available cash balance and notify the Bureau of Accounting if the expenditure has not been paid within two business days. This process has been updated in the Department's Daily Cash desk procedures.

Purpose, Scope, and Methodology

The purpose of this audit was to review and evaluate the Department's investment process and determine compliance with applicable laws, and Department policy and procedure.

The scope of this audit included reviewing the overall investment and divestment processes, internal controls, access controls, monthly reconciliations performed between the period of January 2016 through April 2016, FLAIR reports, and manual voucher packets for the current fiscal year.

The methodology included:

- Reviewing applicable statutes, rules, manuals, and procedures;
- Reviewing Department policies and procedures;
- Observing the investment and divestment processes;
- Reviewing internal controls over the investment and divestment processes;
- Reviewing the reconciliation process;
- Reviewing FLAIR transactions for proper documentation and accuracy;
- Reviewing the adequacy of access controls over the investment and divestment processes; and
- Interviewing appropriate Department members.

Distribution, Statement of Accordance, and Project Team

Distribution

Terry L. Rhodes, Executive Director
Diana Vaughn, Deputy Executive Director
Jamie DeLoach, Chief of Staff
Kelley Scott, Director of Administrative Services
Susan Carey, Chief Financial Officer
Steve Burch, Chief of Accounting
Mike Alexander, Deputy Chief of Accounting

Melinda M. Miguel, Chief Inspector General
Sherrill F. Norman, Auditor General

Statement of Accordance

Section 20.055, Florida Statutes, requires the Florida Department of Highway Safety and Motor Vehicles' Inspector General to review, evaluate, and report on policies, plans, procedures, accounting, financial, and other operations of the Department and to recommend improvements. This audit engagement was conducted in accordance with applicable *International Standards for the Professional Practice of Internal Auditing* published by the Institute of Internal Auditors and *Principles and Standards for Offices of Inspector General* published by the Association of Inspectors General.

Project Team

Engagement conducted by:
Vanessa Williams, Auditor
Kyle Tolbert, Auditor

Under the supervision of:
David Ulewicz, Audit Director

Approved by:

Julie M. Leftheris

Julie M. Leftheris, Inspector General

ATTACHMENT - Management Response

Terry L. Rhodes
Executive Director

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Tallahassee, Florida 32399-0500
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MEMORANDUM

DATE: September 29, 2016

TO: David Ulewicz, Audit Director

FROM: Steve Burch, Bureau Chief of Accounting

SUBJECT: Management Response to the Investment Process Audit (201516-25)

The following is our response to the findings and recommendations presented in the report:

Finding 1- ***Reconciliations***

The Bureau of Accounting has developed a reconciliation procedure; however, further improvements would strengthen the process.

Recommendations

We recommend the Bureau of Accounting revise the reconciliation procedure to require reconciliations to be performed monthly, require management oversight and approval, and require a timeframe for completion.

Management Response

The current investment reconciliation process is completed on a monthly basis and requires the accountant to reconcile the fund balances in order to determine the correct amount for the FLAIR interest posting. However, the Department procedure did not specify this process. By October 1, 2016, the Bureau of Accounting will update the procedures to clarify that the reconciliation will be completed on a monthly basis, with a due date on or before the 15th of every month, and require management's review and approval in order to be finalized.

Terry L. Rhodes
Executive Director

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HIGHWAY SAFETY AND MOTOR VEHICLES

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Tallahassee, Florida 32399-0500
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MEMORANDUM

DATE: September 29, 2016

TO: David Ulewicz, Audit Director

FROM: Suzie Carey, Chief Financial Officer

SUBJECT: Management Response to the Investment Process Audit (201516-25)

The following is our response to the findings and recommendations presented in the report:

Finding 2- ***Investing or Divesting Funds***

Although controls are in place to detect over investing or divesting, further improvements could be made to maximize investment earnings.

Recommendation

We recommend the Office of Financial Management reevaluate and document the criteria for established minimum cash balances for Department trust funds.

We also recommend the Office of Financial Management in coordination with the Bureau of Accounting develop a formal process to communicate when funds should be held in anticipation of future expenditures.

Management Response

The Office of Financial Management reevaluated and documented the criteria for establishing the minimum cash balances for Department trust funds. After evaluating the amounts needed for disbursements over the last three years, the Office of Financial Management found that in order to ensure that the Department has cash on hand for large transactions and daily operations, investing and divesting will require a minimum cash balance of $800 thousand - $1 million for the Highway Safety Operating Trust Fund and $250 thousand for both the Law Enforcement Trust Fund and the Federal Law Enforcement Trust Fund to be retained in the State Comptroller's cash control account for the Department's daily cash needs. This will ensure that the Department