

EMERY COUNTY

Improper Wire Transfer by County Treasurer

Findings and Recommendations
For the Period July 2015 through June 2016

Report No. EMCO-16-SP



OFFICE OF THE STATE AUDITOR

AUDIT LEADERSHIP:

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OFFICE OF THE
UTAH STATE AUDITOR

REPORT NO. EMCO-16-SP

August 16, 2016

Emery County Commission
75 East Main Street
P.O. Box 629
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Dear Commissioners:

We have completed our investigation related to an improper wire transfer made by the Emery County (County) Treasurer. This investigation was performed at the request of the County Sheriff. As part of this investigation we: (1) briefly reviewed charges to/debits from certain County bank accounts occurring between July 2015 and June 2016; (2) reviewed the bank statement reconciliations for the main checking account and certain other bank accounts from July 2015 through June 2016; (3) reviewed the internal controls over cash receipting and disbursing, including separation of duties; and (4) performed a walkthrough of cash receipting controls related to property tax collections.

On June 13, 2016, the County Treasurer received an email that appeared to be from the Chair of the County Commission (Chair). The email stated that a wire transfer needed to be sent, inquired as to the balance of the General Fund, and stated to reply as soon as possible. However, this email was a spear phishing¹ scam that spoofed the Chair's name and email address so that it appeared the email was sent by him. The County Treasurer responded to the email and fell victim to this spear phishing attempt. Over the course of 91 minutes, with 7 emails back and forth between the County Treasurer and the scammer, \$38,700 was wire transferred to a fictitious consultant in Florida.

During our investigation we noted the following weaknesses which we want to bring to your attention:

1. Deviation from Established Policy and Law

The County Treasurer, feeling a sense of urgency, made a decision to deviate from the normal cash disbursement procedures, sending a \$38,700 wire transfer without receiving notice from the County Auditor and approval of the County Commission. Under established policies and procedures (also see finding No. 2 below) and in accordance with *Utah Code 17-*

¹ Spear phishing is a targeted scam that thrives on familiarity and often uses information publicly available on an entity's website such as names, titles, or other references. This familiarity often makes the recipient of the email less vigilant in verifying the request. The scam also thrives on urgency, indicating that the payment must be made immediately.

24-1(4), the County Treasurer should not make a disbursement from County funds until after the County Treasurer has received notice for the payment from the County Auditor in accordance with *Utah Code* 17-19a-301. Each expenditure should be adequately supported by appropriate documentation verifying the payee and amount to be disbursed. *Utah Code* 17-36-20 also requires that expenditures be approved by the County Commission or their designee prior to the disbursement of funds and that the method of approval be defined in policy and followed in all situations.

The County Treasurer did not make a request for documentation supporting the wire transfer until nearly 24 hours after the wire transfer had been completed. The County Treasurer, believing this wire transfer request to be from the Chair, trusted that the Chair would provide the supporting documentation shortly after the transfer request.

Deviating from established cash disbursement processes creates a significant risk for error or fraud. Established internal controls and processes should be followed in all situations by all individuals.

Recommendation:

We recommend that the County Treasurer comply with statute and with established policies and procedures for internal controls, including receiving adequate supporting documentation and approval prior to the disbursement of any funds.

Commission Chair's Response:

The Treasurer has not previously deviated from the normal cash disbursement procedures. As a result of this incident, alerts about such schemes have been sent to all treasurers from Utah Association of Counties, Utah State Auditor's Office, Utah Counties Insurance Pool (UCIP), as well as in-house about imposter fraud.

2. Lack of Formal Written Policies and Procedures

The County does not have formal written policies and procedures establishing internal controls over cash receipt and disbursement processes. Formal written policies facilitate continuity and the consistent application of internal controls over time. Continuity and consistency is particularly difficult in county government with the periodic turnover of elected officials.

The term "internal controls" is used to describe processes put in place by the governing body, management, or others, to provide consistent and efficient operations, including reasonable assurance that funds will be properly safeguarded. Proper internal controls include separating certain responsibilities so that no one person has the ability to improperly use money without detection (see Finding No. 3 below).

Recommendation:

We recommend that the County prepare and adopt formal written policies and procedures over cash receipts and disbursements.

Commission Chair's Response:

Although the Treasurer's office does maintain written procedures for processes, there are no written policies. We have adequately followed unwritten policies for at least the last 19 years and have never run into this type of problem. We don't believe there are any controls you can put in place that would completely prevent this if the controls are not followed which is what happened here.

Formal policies and procedures over cash receipts and disbursements will be developed.

3. Inadequate Separation of Duties

The County has inadequate separation of duties. Separation of duties weaknesses exist when the same individual has the ability to authorize transactions, adjust the accounting records, prepare reconciliations, and access assets such as cash/checks. Inadequate separation of duties could allow errors and fraud to occur without detection. We noted several separation of duties weaknesses as follows:

- a. The County Clerk/Auditor and one of the deputy clerk/auditors have access to cash, are authorized check signers (County's General Account), have access to electronic signatures and blank checks (County's General Account), and have the ability to record transactions in the general ledger or subsidiary ledger that feeds into the general ledger. The other two deputy clerk/auditors have access to cash and blank checks (County's General Account) and have the ability to record transactions in the general ledger or subsidiary ledger that feeds into the general ledger.
- b. The County Treasurer and deputy treasurers have access to cash and investments, have access to blank checks (County's Tax Account), mail or handle signed checks (County's General and Tax Account), and have the ability to record transactions in the general ledger or subsidiary ledger that feeds into the general ledger. The County Treasurer also reviews and approves disbursements as they pertain to the Tax Account, is an authorized check signer (County's Tax Account), and handles the activities for the County's investment accounts. In addition, the deputy treasurers reconcile receipt records to the validated deposit slip and perform bank reconciliations.

Inadequate separation of duties could allow employees to steal cash and conceal the theft by adjusting the accounting records, manipulating the receipt or disbursement, and/or concealing the misappropriation through the bank reconciliation. If separating these duties is not feasible, weaknesses can often be mitigated with compensating controls such as a secondary review or approval.

Recommendation:

We recommend that the County Commission work with the County Auditor and the County Treasurer to ensure that the County has adequate separation of duties, including separating the ability to authorize transactions, adjust the accounting records, prepare reconciliations, and access cash/checks. In situations where it is not practical to separate these duties, we recommend that the County Commission implement compensating controls, such as independent reviews or approvals.

County Treasurer's Response:

Whenever possible, responsibility for cash receipts for a day will be assigned to one of the Deputy Treasurers (one doing General Fund receipts and one doing Tax receipts); the other will reconcile those cash receipts.

A Deputy Treasurer will prepare tax distribution checks for the Treasurer's review and signature. The second Deputy Treasurer will process those checks for mailing and verify the total checks processed by payee.

Deputy Treasurers will rotate reconciling the bank statements. The Deputy Treasurer not reconciling a bank statement will reconcile the Tax general ledger for the period. Entries made by the Deputy Treasurer into the Tax general ledger will be reviewed and approved by the Treasurer; entries made by the Deputy Treasurer into the General Fund general ledger will be reviewed and approved by the Clerk/Auditor. At least annually, the Treasurer will perform an audit of the Tax general ledger as he prepares the Cash and Disbursements report for audit by the independent external auditors.

All Treasurer's office reports, reconciliations etc. are filed electronically on an in-house, on-line file making the information transparent for an independent review by the Clerk/Auditor.

The Treasurer will ask the Clerk/Auditor and the Commissioners to attend the quarterly review of its investments. That review is made by the County's Certified (by the Utah Money Management Council) Investment Advisor.

County Auditor's Response:

A receipt is written at the time any money is brought in and one copy is given to the person bringing in the money, a copy stays at the auditor's office and a copy goes to the Treasurer's office. The Treasurer's office then enters the receipt into the financial system. In the accounts payable and payroll systems after the checks are generated they are given to the Treasurer's office for verification and mailing. One clerk enters accounts payable and one clerk enters payroll. Those clerks don't have access to make entries into the subsidiary ledgers. If entries were made to the subsidiary ledgers then the Treasurer's office would not be able to reconcile at the end of the month. The County Auditor's office has implemented going through all journals at the end of each month and making sure all cash receipt entries match the receipt copy that is on file in the County Auditor's office and reviewing all entries that are not automatically generated from the financial system.

Commission Chair's Response:

If these separation of duties are inadequate we will work with the County Auditor and Treasurer to make them adequate.

This report is intended to provide the County Commission with information to address weaknesses in the County's financial practices that led to an improper wire transfer being made. We appreciate the courtesy and assistance extended to us by the personnel of Emery County during the course of this investigation and we look forward to a continuing professional relationship. If you have any questions, please contact Jason Allen, Audit Supervisor, at 801-808-0716 or jasonallen@utah.gov.

Sincerely,



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