

VILLAGE OF MARTIN'S ADDITIONS

Results of Financial
Process and Procedures
Consultation

Village Council
Village of Martin's Additions
Chevy Chase, Maryland

We have performed the consulting services engagement requested by the Village Council of Martin's Additions (Village) as outlined in our engagement letter dated February 26, 2020. Our procedures were performed solely to assist the Village Council in their evaluation of the current policies and procedures in place, and to provide meaningful suggestions for implementation by the Council.

As part of our engagement, we documented current internal controls related to financial processes based on inquiries with the Village Council, staff, and the external accountant in the following areas: Cash Disbursements; Cash Receipts; Payroll Processing and the Holiday Fund. Based on the prescribed controls, we performed tests of transactions, and provided recommendations for each area. We were not engaged to, and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the internal controls associated with the financial processes of the Village. Accordingly, we do not express such an opinion or conclusion. Rather, we expressed recommendations to enhance the quality of internal control procedures regarding the areas mentioned above.

Cash Disbursements:

Current Control Process and Procedures - The Village holds contracts with each vendor. Bills are paid by the external accountant (Dan Baden) using Bill.com. When bills are received (by mail or email), the Village staff date stamps the bills. Village staff scan all bill pages including the *Village of Martin's Additions Invoice & Reimbursement Payment Form* (VMA Cover Sheet) and emails the packet to Bill.com using the preprogrammed email address. The external accountant then receives a notification from Bill.com to review the invoice packet and code the invoices into Bill.com. The Council Chair and Treasurer approve the bills online through Bill.com after the invoices are coded by the external accountant. Once invoices are approved, the external accountant releases payments to the Vendors via electronic funds transfer from the Suntrust (Truist) checking account. All payments run through Bill.com are presented as ACH withdrawals on the bank statements. Check numbers are recorded in the general ledger based on check numbers generated by Bill.com. The checks generated by Bill.com are signed by two of the Village's authorized check signers. All members of the Village Council are authorized to sign checks.

Procedure Performed - We examined 30 cash disbursement transactions for the period July 1, 2019 through March 7, 2020 for the following criteria:

- a. Accompanied by appropriate supporting documentation with Council approval indicated.
- b. Checks were signed by two authorized check signers
- c. Expenditure coded properly in the general ledger as to expense classification and period
- d. Payment cleared the bank statement in a timely manner
- e. WCS selected a sample of five vendors to check if the Village had approved contracts in place.

Findings: For the sample of 30 cash disbursements selected, we noted the following:

- a. 29 transactions were accompanied by appropriate supporting documentation with Council approval indicated. However, there were 14 instances where the VMA Cover Sheet was not submitted with the invoices. The Village implemented the use of the VMA Cover Sheet during 2019. Therefore, transactions taking place prior to implementation, but included in the sample were not accompanied by the VMA Cover Sheet.

There was one instance (a component of check #1072 to Global Industrial) where the invoice was not included, but a description of services provided was properly approved.

- b. All 29 checks were signed by two authorized check signers.

In one instance, there was no check to be signed as the payment selected in the sample was an automatic withdrawal for analysis fees to Truist Bank and ADP. No exceptions noted for this attribute.

- c. All disbursements were properly recorded in the general ledger to expense classification and period.
- d. All payments cleared the bank statement in a timely manner. No exceptions noted for this attribute.
- e. The Village does not have a vendor contract in place for one of the vendors selected in the sample. The Village pays this vendor as invoices are received.

Recommendations – In general, the disbursement control procedures appear to be operating effectively and as management intended. However, we recommend stricter adherence to the use of the VMA Cover Sheet. Utilization of the VMA Cover Sheet provides written documentation of the authorization, budgetary categorization, description and disposition of each expenditure. We also recommend stricter adherence to the use of vendor contracts. If a scenario arises where the Council deems the formal vendor contract unnecessary, formal documentation of the Council's decision should be stored in place of the vendor contract. To maintain continued control of a process, every transaction should require the same documentation procedures. Exceptions to the rule may undermine the integrity of the control.

We also discussed credit card usage with the current Village Manager. We want to emphasize the importance of the review and approval process for credit card payments. By their very nature, credit card purchases may occur without prior authorization of the Council

and are susceptible to abuse if not properly monitored. Currently, credit card statements are paid using the same approval process as other invoices. We recommend that credit card statements be attached to all invoices or receipts for charges included on the statement, indicating their review of all the charges listed on the statement took place prior to the Bill.com payment. Simply approving the statement balance is insufficient to monitor activity. Transactions, including all charge slips, should also continue to be reviewed for appropriateness. Inclusion of the receipts and invoices with the statement upon submission to Bill.com will provide documentation that the details of the statement were reviewed in addition to the approval to pay the balance. In addition, the Council may want to consider the available credit for each card so that unauthorized purchases may be limited to a set amount and activating automatic notifications for transactions over a set amount greater than the typical purchase.

Cash Receipts:

Current Control Process and Procedures - Village staff will collect any checks received via mail or in person and make a copy of the check received. The copies are attached to either an email notification or other supporting documentation from the payer describing the purpose of the deposit. The original check is stamped "for deposit only" and stored in a lockbox in a locked drawer in the office until it is ready for deposit. Typically, within one week of receipt, Village staff take the checks to Suntrust (Truist) Bank for deposit. The Suntrust (Truist) deposit ticket is scanned and attached to the copy of the check(s) and supporting documentation. The deposit ticket, check copies, and support are all emailed to the external accountant, who records the transactions in the Village's general ledger to generate a deposit summary. The deposit summary totals deposits made on that date and is also attached to the packet.

Funds may also be received electronically. Electronic funds from the County such as property taxes are deposited into the Suntrust (Truist) account. The Village receives statements from the County detailing the deposit received by the Village. The statement is sent to the external accountant who records the deposit and attaches the generated deposit summary. Electronic funds received from the State of Maryland are tracked using the Village's online access to the Comptroller of Maryland website (Compnet – one stop vendor inquiry), which details all of the deposits the Village receives from the State. Deposits received from the State are deposited into the Village's MLGIP account.

Procedure Performed - We examined 30 deposits for the period July 1, 2019 through the date of fieldwork of March 7, 2020 for the following criteria:

- a. Traced each selected deposit to a supporting deposit slip.
- b. Traced through the general ledger, noting the deposit was recorded to the proper account and in the proper period.
- c. Traced the deposit to the bank statement in a timely manner.
- d. Traced to supporting documentation indicating the source and reason for the deposit.

Findings: For the sample of 30 deposits selected, we noted the following:

- a. We were able to trace each deposit to the associated deposit slip when applicable (there are no deposit slips associated with direct deposits to the MLGIP investment account from the State) with the exception of one permit fee. We were able to view that the permit fee was deposited to the bank account and recorded in the general ledger appropriately.
- b. We traced each deposit through the general ledger, noting the deposit was recorded to the proper account and in the proper period.
- c. We examined supporting documentation indicating the source and reason for 29 of the selected deposits. We noted one deposit recorded to permit fees where the source was not noted. The memo for the transaction indicated the source was unknown. This is the same transaction mentioned in finding "a."
- d. We traced each deposit to the bank statement and that the deposit was made in a timely manner.

Recommendations - In general, the cash receipt control procedures appear to be operating effectively and as management intended. Since cash is so readily subject to error and mishandling, effective control of checks, currency, and other cash items should begin at the time of receipt and continue through deposit, custody, and disbursement.

In an effort to formalize Village procedures regarding cash receipts, we recommend creating a receipt cover sheet, similar to the cover sheet for disbursements. The cover sheet should include the source of the deposit, the reasoning for the deposit, and the budget category where the receipt should be recorded. This will limit the number of instances where a check is received and deposited without knowing what the deposit is for.

Per discussion with the Village Manager and our review of receipt transactions, it appears that the Village rarely receives cash payments. Cash is the asset most vulnerable to misappropriation. Rather than documenting additional procedures to mitigate this increased risk, it could be advantageous for the Village to issue a public statement that cash payments will no longer be accepted.

In order to maintain adequate segregation of duties, bank deposits should be completed by an individual outside of the accounting and cash receipt process. This means that although the Village now employs a Manager, a Council member should continue depositing checks at the bank. This way, the person who receives the payment and issues the customer a receipt, the person who records the transaction to the general ledger, and the person depositing funds at the bank are separate individuals. This helps to limit the chance that one individual could commit fraud. Additional individuals involved in the process will increase internal oversight over cash receipts.

Payroll

Current Control Process and Procedures - The Village's payroll is administered by ADP. All employees are paid via direct deposit. Prior to the hiring of Mr. Anderegg (Village Manager), the external accountant initiated payroll processing with ADP. The Village Manager has resumed responsibility of initiating payroll processing. ADP payroll summaries are received by the external accountant who breaks down the summary to show the salary vs. payroll tax breakdown for both the general government and the police department (two officers on payroll). These are the amounts that correspond to the ACH withdrawals on the Suntrust (Truist) bank statement. The external accountant records the payroll entries using the ADP payroll report. Each payroll summary is initialed by the external accountant indicating their review and the date payroll was recorded to the general ledger. Pay rates are determined by the Council. Each employee's offer letter details their pay rate structure and is kept in the employee's personnel file. Timesheets for police officers are kept via an Outlook calendar. Time is assumed to align with the office employee's employment contract unless time-off is requested.

Procedure Performed - We examined 10 payroll transactions for the following criteria:

- a. Trace payroll recorded in general ledger to the ADP summary report, noting the transactions were recorded to the proper general ledger accounts and in the proper period.
- b. Reviewed ADP summary report for the external accountant's signature indicating his review.
- c. Traced pay rates per the ADP report to the authorized pay rate per the employee's personnel file.
- d. Traced payroll through the bank statement, noting payments cleared the bank statement in a timely manner.

Findings: We examined 10 payroll transactions during the period July 1, 2019 through the date of fieldwork of March 7, 2020 for the following criteria:

- a. We traced all 10 payroll transactions through the general ledger, noting payroll was recorded to the proper accounts and in the proper period.
- b. We traced all 10 payroll transactions to the ADP summary report, noting the report was signed by Mr. Baden indicating his review.
- c. We traced all pay rates per the ADP summary reports to payrate authorizations with the exception of police officers.

Per discussion with the Village Manager, the Village was aware of the payrate increase from \$45.00 per hour to \$60.00 per hour and the Council approved the increase. We were able to view email correspondence approving the rate increase. However, formal documentation of the pay rate increase was missing.

- d. We traced all 10 payroll transactions to the bank statement, noting payments cleared the bank statement in a timely manner.

Recommendations - In general, the payroll procedures appear to be operating effectively and as management intended. Employee/Police officer personnel files should be kept for each individual and contain the offer letter as well as any pay increases or changes to pay structure with documentation of approval by the Village Council. Although the Council was aware of the increase to Police officer wages, it is important to have the increase documented with approval. Per discussion with the Village Manager, he intends to draft a letter for the employed police officers stating their wage for the calendar year as it will be re-evaluated each year in regards to duties performed and comparison to other municipalities in the area.

Currently, there are no timesheets to accompany the payroll summary reports. Hours worked for police officers are documented via an outlook calendar. Due to the size of the Village, it is assumed employees are working the agreed upon hours unless otherwise stated. We recommend that timesheets be maintained for all employees and attached to each payroll summary report prior to Council approval for that period. Timesheets may be kept electronically (such as via Outlook Calendar), but digitally signed by the employee attesting to their hours worked and sent to either the Village Manager or Council for their approval prior to processing.

Currently, all payroll payments are electronically deducted from the main checking account of the Village. Since the Village relies on a third party to process payroll, it is possible that fraudulent payroll of a large magnitude could be processed and electronically transferred to another bank account before the Village Council was aware of the transaction. To combat this potential threat, the Village should consider opening a payroll bank account with an imprest balance no larger than the typical payroll run. This would limit the Village's exposure to a fraudulent payroll transaction to the balance of the account.

As part of each payroll run, the Village Council should request and review a "payroll change report" which would document any changes to employees (added or deleted) or their pay rates as a way to monitor any unauthorized changes to the system. When payroll changes appear on the report, this report should be signed by the reviewing Council member and maintained in the Villages records.

Additional Considerations

Bonding of Employees - The Village should continue to bond all employees who have access to cash and other liquid assets. This will add an additional layer of protection against employee theft and dishonesty, while providing the Village with compensation in the event of property loss due to acts of the employee. Policies are typically inexpensive and readily available from insurance carriers. Currently, all employees are bonded with exception to the newly hired Village Manager.

Formal Documentation of Policies and Procedures - We recommend that the Village institute a program to methodically identify and document its significant operational and accounting processes. Processes include activities and procedures involved in repeatable operational or accounting transactions or events, such as hiring new employees, paying invoices, processing payroll, recording cash receipts, preparing journal entries, etc. Documenting a process involves identifying and gaining an understanding of the events or transactions that

trigger performance of the process, the automated or manual procedures used in performing the process, the person or position responsible for performing the procedures, the source documents used or generated, the procedures for approval and review and correction of any errors detected, and the financial or operational entries or reports summarizing the result of the process. Documentation may include policy manuals, process models, flowcharts, job descriptions, documents, and forms, and can be in paper form or electronic files.

Holiday Funds – During the Winter holiday season, residents contribute funds to the Village’s Holiday Fund. These checks are deposited into the Suntrust (Truist) checking account to be held until the Winter Holidays. The deposits are tracked using a separate general ledger account (this account appears as a revenue account in the general ledger but is appropriately reported as a liability account on the financial statements). In December, the Village disburses these contributions directly to Waste Management employees working for the Village. The Village uses a predetermined allocation schedule to determine the percentage of total holiday contributions received throughout the year for each employee based on the Waste Management employee’s job title. This allocation is approved by the Village Council. Direct payments to Waste Management employees are paid via checks written directly from the Suntrust (Truist) checking account rather than Bill.com. These checks are signed by two authorized check signers. Since Holiday Fund disbursements are not accompanied by an invoice, the approval for Holiday Fund disbursements is limited to approval of the allocation schedule on file and the physical signing of the checks. A more formalized procedure which ensures that appropriate funds are directed to appropriate parties should be put in place.

Refundable Construction Bonds – Throughout the year, various construction projects may disrupt the Village’s right-of-way (ROW). The Village collects bonds from the construction companies that are refundable when the Village building inspector certifies that the ROW has been restored. When bond funds are received, they are deposited into the Suntrust (Truist) checking account. These funds are appropriately recorded to “Refundable Deposits” liability account in the general ledger. The refundable bond receipts follow the same procedures as ordinary receipts. When the building inspector certifies the ROW has been restored, the Village Manager sends the certification to the external accountant, accompanied by the VMA cover sheet. Payment is made via Bill.com where it is approved by Council members. The Village should continue to take care that appropriate funds are held and refunded.

This report is intended solely for the information and use of the Village Council of the Village of Martin’s Additions and is not intended to be and should not be used by anyone other than those specified parties.

Weylich, Cronin & Serra, LLC

May 6, 2020
Hunt Valley, MD