



# County of Allegheny

## Office of the Controller

Allegheny County  
Department of Administrative Services  
Report on Internal Controls Over  
Off-Book Cash Accounts  
For the Period  
January 1, 2012 through June 30, 2013  
*(Non-Audit Service)*

January 20, 2014

**Chelsa Wagner**  
Controller

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CHELSEA WAGNER  
CONTROLLER

# COUNTY OF ALLEGHENY

## OFFICE OF THE CONTROLLER

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December 17, 2013

Mr. Jerry Tyskiewicz  
Director  
Dept. of Administrative Services  
436 Grant Street, Room 202 Courthouse  
Pittsburgh, PA 15219

Allegheny County Department of Administrative Services  
Report on Internal Controls Over Off-Book Cash Accounts  
for the Period January 1, 2012 through June 30, 2013

Dear Mr. Tyskiewicz:

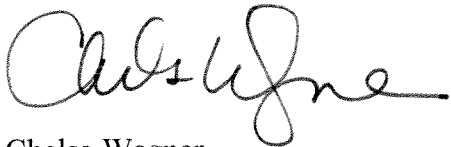
The Allegheny County Controller's Office performed procedures to identify and assess the effectiveness of the implementation of internal controls currently in place over the Department of Administrative Services' administration of off-book cash accounts. Our procedures covered the period from January 1, 2012 to June 30, 2013. Our engagement was performed as a non-audit service. Therefore, our engagement was not performed in accordance with *Government Auditing Standards*.

The procedures we performed resulted in the identification of performance improvement opportunities for the Department of Administrative Services. The results of our procedures are included in the attached report.

Mr. Jerry Tyskiewicz  
December 17, 2013

We would like to thank the management and staff of the Department of Administrative Services for their courtesy and cooperation during our engagement.

Kind regards,



Chelsa Wagner  
Controller



Lori A. Churilla  
Assistant Deputy Controller, Auditing

CW/lc

cc: Honorable Charles Martoni, President, County Council  
Honorable Nicholas Futules, Vice-President, County Council  
Honorable Rich Fitzgerald, Allegheny County Executive  
Mr. William McKain, County Manager, Allegheny County  
Ms. Jennifer Liptak, Chief of Staff, County Executive  
Mr. Warren Finkel, Budget Director, Allegheny County  
Mr. Joseph Catanese, Director of Constituent Services, County Council  
Mr. Walter Szymanski, Budget Director, County Council

## *Executive Summary*

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### **Purpose**

The Controller's Office has identified bank accounts and petty cash accounts that are maintained by certain County Departments for which the cash transactions that occur are not recorded in the County's JD Edwards accounting software package ("off-book" accounts). For the year ended December 31, 2012, the Controller's Office identified a total of 191 such off-book accounts, comprised of 167 bank accounts and 24 petty cash funds. The aggregate bank balance of these off-book accounts at December 31, 2012 was \$21,329,697. Having the transaction activity in most of these cash accounts recorded in JDE and having as many of these accounts administered by the County Treasurer as possible would be beneficial to the County. In addition to providing for greater transparency and reducing the risks of fraud and abuse, such a transition would facilitate timely and accurate County financial reporting.

The objectives of our engagement included accumulating and reporting information that will enable those charged with governance to determine whether the off-book cash accounts administered by the Department of Administrative Services can and should be brought "on-book", which would entail the recording of the transaction activity in JDE and the cash accounts being administered by the County Treasurer. We attempted to identify the purposes of the off-book cash accounts, and identify and assess the effectiveness of the internal controls currently in place over the Department's administration of the off-book cash accounts. We also considered any other advantages or disadvantages of bringing those accounts on-book that came to our attention.

### **Background**

The Department of Administrative Services manages an array of services to enhance daily County operations such as computer support, mailing, printing, purchasing, and document storage. Administrative Services is also responsible for telecommunications and property assessments. In addition, the department oversees the election process to ensure that all government laws and requirements are upheld, and provides services and support to military veterans throughout the County. The Department of Administrative Services includes the following divisions: Administration, Bureau of Weights and Measures, Management Information Services, Elections, Internal Services, Property Assessments, Purchasing & Supplies, and Veterans' Services.

The Department of Administrative Services entered into a contract with Robb Real Estate Company on April 1, 2010 for the management and lease of various County rental properties. Robb Real Estate is responsible for leasing the 32 properties to tenants, collecting and remitting the rent to the Department of Administrative Services, and performing routine maintenance of the properties. All rents collected are first deposited into the County of Allegheny Operating Account in which Robb Real Estate deducts a management fee of 8% of the gross rental receipts collected. Seventy percent of the rent collected, after deduction for fees and expenditures due Robb Real Estate, is remitted to the County. The 30% remaining balance of rent receipts is transferred to the County Capital Fund Money Market account held by Robb Real Estate which is used for property improvements, general maintenance and professional management of the County rental properties.

## Executive Summary

The Department of Administrative Services initially advised us that it oversees the administration of one off-book account (County Capital Fund Money Market) which had a bank balance of \$67,499 at December 31, 2012, and that this account was established to serve as a revolving fund to pay for improvements, general maintenance, and professional management of the 32 park rental properties owned by the County. We subsequently determined that the Department of Administrative Services oversees the administration of three off-book accounts for the aforementioned purpose (see Finding #2).

The following are the off-book accounts associated with the Department of Administrative Services:

<u>Off-Book Account</u>	<u>Bank Balance @ 6/30/13</u>
County Operating	\$33,074.31
County Capital Fund Checking	6,956.34
County Capital Fund Money Market	<u>110,215.53</u>
Total	<u>\$150,246.18</u>

Monthly receipt transactions include rent collections from park property tenants. Monthly expenditure transactions include disbursements for routine and emergency property maintenance, property improvements, and other property-related expenses. The property manager, who administers the three off-book accounts, submits reporting packages to the County on a monthly basis. The reporting packages include bank account statements and reconciliations, an aged receivables summary, rent roll, and income and expense summaries by property.

### **Results in Brief**

The following is a listing of our findings and recommendations that resulted from the performance of our procedures:

**Finding #1: The Accounting for Off-Book Cash Account Transactions Should Be Transitioned to JD Edwards**

We noted that the Department of Administrative Services oversees the administration of three off-book cash accounts which had an aggregate bank balance of \$150,246.18 at June 30, 2013. The utilization of off-book accounts has resulted in a lack of transparency and increased risks of fraud and abuse. It has also resulted in more time being consumed in accumulating the accounting data necessary to generate complete and accurate County financial reports.

**Recommendation:** We recommend that the Department of Administrative Services work with the Controller's Office to transition the accounting for its off-book accounts to the County's JD Edwards accounting software. To facilitate the achievement of the County's property management objectives, alternative measures, such as the issuance of an advance to the property manager, could be utilized.



## *Executive Summary*

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### **Finding #2: Procedures for Review and Reporting of Off-Book Accounts Should be Strengthened**

The Department of Administrative Services has historically advised us that there was only one off-book bank account (County Capital Fund Money Market account) associated with the Department's activities. However, as we applied our procedures, we determined that there were (and still are) three off-book bank accounts associated with the Department. During the performance of our procedures, we determined that some of the provisions of the County's contract with the property manager pertaining to the maintenance and furnishing of records have not been strictly enforced. Copies of invoices for routine maintenance and emergency maintenance have not been included in the monthly reports submitted by the property manager. The property manager has not maintained copies of rent checks received from park property tenants to substantiate the property manager's assertions regarding rental income. The effects of the weaknesses in review procedures that we noted above is that the risks of fraud and accounting errors that may not be identified by the property manager's internal control structure have not been reduced to an acceptably low level, and that off-book account transaction activity has not been captured for inclusion in the County's Comprehensive Annual Financial Reports.

**Recommendations:** Until such time that the off-book accounts can be transitioned to the County Treasurer and the accounting for the account transactions transitioned to JD Edwards, we recommend that the Department of Administrative Services:

- Require that the property manager provide copies of rent checks received in its monthly submissions and compare the payers to the rent roll and the check amounts to the accounting records.
- Require that the property manager provide copies of invoices for work performed and compare the invoice amounts to the accounting records.
- Consider working with the County Executive and County Manager to transfer oversight responsibility for the management of the park properties to the newly-created Facilities Department.

## **I. Introduction**

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For Allegheny County (“County”) bank accounts maintained by the County Treasurer, cash transactions that occur are recorded in the County’s JD Edwards accounting software package (“JDE”). However, the County Controller’s Office has identified bank accounts and petty cash accounts that are maintained by certain County Departments for which the cash transactions that occur are not recorded in JDE. Since the transactions that occur in these accounts are not recorded in JDE, these accounts maintained by County Departments are often referred to as “off-book” accounts.

The transaction activity that occurs in off-book accounts must be included in the County’s Comprehensive Annual Financial Report (“CAFR”). To facilitate the inclusion of the transaction activity in the CAFR, the County Controller’s Office requests information about the off-book accounts annually from every County Department. The County Controller’s Office summarizes the account activity by reviewing the account statements, reconciliations, details of corresponding liabilities, and summaries of the monthly receipts and disbursements for the year.

For the year ended December 31, 2012, the Controller’s Office identified a total of 191 such off-book accounts, comprised of 167 bank accounts and 24 petty cash funds. The aggregate bank balance of these off-book accounts at December 31, 2012 was \$21,329,697. The Department of Administrative Services maintained one of those off-book accounts (County Capital Fund Money Market account) which had a bank balance of \$67,499 at December 31, 2012.

The Department of Administrative Services manages an array of services to enhance daily County operations such as computer support, mailing, printing, purchasing and document storage. Administrative Services is also responsible for telecommunications and property assessments. In addition, the department oversees the election process to ensure that all government laws and requirements are upheld, and provides services and support to military veterans throughout the County. The Department of Administrative Services includes the following divisions: Administration, Bureau of Weights and Measures, Management Information Services, Elections, Internal Services, Property Assessments, Purchasing & Supplies, and Veterans' Services.

The Department of Administrative Services entered into a contract with Robb Real Estate Company on April 1, 2010 for the management and lease of various County rental properties. The contract was awarded based upon the results of competitive purchasing procedures, specifically a bid process, and has an annual cap on property management fees of \$35,000 per year. Robb Real Estate is responsible for leasing the 32 properties to tenants, collecting and remitting the rent to the Department of Administrative Services, and performing routine maintenance of the properties. All rents collected are first deposited into an account held by Robb Real Estate called the “County of Allegheny Operating Account”. Seventy percent of the rent collected, after deduction for 8% management fee, expenditures due Robb Real Estate for items such as utilities, is remitted to the County on a monthly basis. The 30% remaining balance of rent receipts is transferred to another account held by Robb Real Estate called the “County Capital Fund Money Market” account, which is used for property improvements, general maintenance, and professional management of the County rental properties.



## **I. Introduction**

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Information provided by Robb Real Estate indicates that annual property rental revenues approximate \$365,000 per year and property management fees approximate \$29,000 per year. The County's maintenance and improvement expenditures and other park property related expenditures vary from year to year based on needs. For 2012, maintenance expenditures were approximately \$157,000 and other related expenditures were approximately \$6,500.

We were initially advised that the Department of Administrative Services oversees the administration of one off-book cash account (County Capital Fund Money Market), which had a bank balance of \$67,499 at December 31, 2012, and that this account was established to serve as a revolving fund to pay for improvements, general maintenance, and professional management of the 32 park rental properties owned by the County. We subsequently determined that the Department of Administrative Services oversees the administration of three off-book accounts for the aforementioned purpose (see Finding #2).

The following table summarizes the off-book accounts associated with the Department of Administrative Services:

<u>Off-Book Account</u>	<u>Bank Balance @ 6/30/13</u>
County Operating	\$33,074.31
County Capital Fund Checking	6,956.34
County Capital Fund Money Market	<u>110,215.53</u>
Total	<u>\$150,246.18</u>

## **II. Scope and Methodology**

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We performed procedures to identify and assess the effectiveness of the implementation of internal controls currently in place over the Department of Administrative Services' administration of off-book cash accounts. Our procedures covered the period from January 1, 2012 through June 30, 2013.

Specifically, we performed the following procedures:

- Obtained a listing of all off-book cash accounts and documented the purpose of each account.
- Interviewed Department of Administrative Services' personnel to gain an understanding of and document the internal control policies and procedures pertaining to the administration of the off-book cash accounts. This included an analysis of the segregation of duties.
- Tested a sample of disbursement transactions for existence of appropriate supporting documentation.
- Reviewed supporting documentation relating to the custodians, authorized signers, reconcilers, and authorized amounts for each of the off-book accounts.
- Considered whether the off-book accounts should be brought on-book based on the results of our other procedures and other information that may have come to our attention.

We performed these procedures during December of 2013. We provided a draft copy of this report to the Director of the Department of Administrative Services. His response begins on page 12.

### **III. Findings and Recommendations**

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#### *Finding #1*

### **The Accounting for Off-Book Cash Account Transactions Should Be Transitioned to JD Edwards**

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Having the transaction activity in most of the County's cash accounts recorded in JDE and having as many of those accounts administered by the County Treasurer as possible would be beneficial to the County. In addition to providing for greater transparency and reducing the risks of fraud and abuse, such a transition would facilitate timely and accurate County financial reporting.

The Department of Administrative Services oversees the administration of three off-book cash accounts (see also finding #2) which had an aggregate bank balance of \$150,246.18 at June 30, 2013. Monthly receipt transactions include rent collections from park property tenants. Monthly expenditure transactions include disbursements for routine and emergency property maintenance, property improvements, and other property-related expenses. The property manager, who administers the three off-book accounts, submits reporting packages to the County on a monthly basis. The reporting packages include bank account statements and reconciliations, an aged receivables summary, rent roll, and income and expense summaries by property.

The utilization of off-book accounts has resulted in a lack of transparency and increased risks of fraud and abuse. It has also resulted in more time being consumed in accumulating the accounting data necessary to generate complete and accurate County financial reports.

**Recommendation:** We recommend that the Department of Administrative Services work with the Controller's Office to transition the accounting for its off-book accounts to the County's JD Edwards accounting software. This would impact the process for both property income and expense:

#### Property Income:

Rather than depositing rent to a Robb Real Estate account and remitting the County's rent on a monthly basis, consideration should be given to Robb Real Estate depositing the rent to the County's bank account and then invoicing the County on a monthly basis for its management fee.

#### Property Expense:

To facilitate the achievement of the County's property management objectives consideration should be given to providing an advance to the property manager in order that repairs to property, particularly during off hours and on weekends, can be made timely. If funds are advanced in order to create a property maintenance account, a report of the expenditures by property shall be furnished by Robb Real Estate to the County employee responsible for reviewing and approving these transactions on a monthly basis. The report shall then be signed by the County employee and forwarded as support along with a voucher to replenish the property maintenance account and to appropriately record expenses and fixed assets in JDE.

### **III. Findings and Recommendations**

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#### *Finding #2*

### **Procedures for Review and Reporting of Off-Book Accounts Should be Strengthened**

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When an entity contracts with a service organization, such as a property manager, to act as its agent and engage in transactions on the entity's behalf, the entity should have procedures in place sufficient to help ensure that the service organization is fulfilling its obligation to act in the entity's best interest, and to ensure that any transactions initiated by the service organization are evidenced by adequate supporting documentation. The lack of such procedures would unnecessarily expose the entity to increased risks of fraud and errors that are not identified by the service organization's internal control system.

During the Controller's Office fiscal year-end process of gathering financial data about any off-book accounts administered by the various County Departments, the Department of Administrative Services has historically advised us that there was only one off-book bank account associated with the Department's activities. However, as we applied our procedures, we determined that there were and still are three off-book bank accounts associated with the Department. Robb Real Estate Company engaged by the Department of Administrative Services to manage the 32 park rental properties utilizes three bank accounts in performing its duties, not just one. All rent checks received are deposited in the County Operating account held by Robb Real Estate, from which certain direct expenses are paid. A check for 70% of the monthly rental receipts less direct expenses is to be issued to Allegheny County for deposit in the general fund. The other 30% is to be transferred to the County Capital Fund Money Market account held by Robb Real Estate to finance future maintenance of and improvements to the 32 park rental properties. When payments need to be issued for maintenance and improvements, the funds are to be transferred from the County Capital Fund Money Market account held by Robb Real Estate to the County Capital Fund Checking account held by Robb Real Estate, from which the checks are cut. The County Capital Fund Money Market account held by Robb Real Estate has previously been identified as an off-book account. Because the other two off-book bank accounts were not identified for us, the revenues and expenditures associated with the two off-book accounts have not been captured for inclusion in the County's Comprehensive Annual Financial Reports (CAFRs).

The Department of Administrative Services' Director of Purchasing and Supplies advised us that he reviews the account statements, cash reconciliations, aged receivables summary, rent roll, and summaries of income and expenses by property submitted by the property manager on a monthly basis. He also indicated that he has visited some of the park properties where the property manager asserted that costly improvements had been made to verify that the work had been performed and performed satisfactorily. However, during the performance of our procedures, we determined that some of the provisions of the County's contract with the property manager pertaining to the maintenance and furnishing of records have not been strictly enforced. For example, the contract stipulates that copies of invoices for routine maintenance and emergency maintenance are to be included in the monthly reports submitted by the property manager, but have not been included in the monthly reports.

### **III. Findings and Recommendations**

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The contract with the property manager contains a provision that permits the County to review or audit the property manager's records. Since copies of invoices have not been routinely reviewed by the County, we requested copies of certain property records from the property manager for testing. During our review of the records provided, we determined that the property manager has not maintained copies of rent checks received from park property tenants to substantiate the property manager's assertions regarding rental income. While the audit clause in the contract does provide a benefit to the County, it should not be considered justification for not receiving accounting records from the property manager, or as a rationalization for not performing a regular detailed review of the accounting data submitted by the property manager.

We noted that since the Department of Administrative Services is not otherwise involved with maintaining or managing County real property, the Facilities Department may be better suited to overseeing the property manager's activities.

The effects of the weaknesses in review procedures we noted above are that the risks of fraud and accounting errors that may not be identified by the property manager's internal control structure have not been reduced to an acceptably low level, and that off-book account transaction activity has not been captured for inclusion in the County's Comprehensive Annual Financial Reports.

**Recommendations:** Until such time that the off-book accounts can be transitioned to the County Treasurer and the accounting for the account transactions transitioned to JD Edwards, we recommend that the Department of Administrative Services:

- Require that the property manager provide copies of rent checks received in its monthly submissions and compare the payers to the rent roll and the check amounts to the accounting records.
- Require that the property manager provide copies of invoices for work performed and compare the invoice amounts to the accounting records.
- Consider working with the County Executive and County Manager to transfer oversight responsibility for the management of the park properties to the newly-created Facilities Department.



COUNTY OF



ALLEGHENY

RICH FITZGERALD  
COUNTY EXECUTIVE

January 17, 2014

The Honorable Chelsa Wagner  
Controller, County of Allegheny  
104 County Courthouse  
436 Grant Street  
Pittsburgh, PA 15219

Dear Controller Wagner:

Thank you for your response to the County Manager's request for a review of all bank accounts external to J.D. Edwards. I appreciate you sharing and discussing the results of your team's procedures completed in identifying performance improvement opportunities relative to the internal controls currently in place for off-book cash accounts associated with County rental properties.

I agree that having these off-book accounts transitioned to JDE would benefit the County by providing greater transparency and most importantly, would reduce the risks of fraud and abuse.

I agree in principle with the two performance improvement findings included in your report and will comment on each of these findings below:

Finding #1 – The Accounting for Off-Book Cash Account Transactions Should Be Transitioned to JDE Edwards.

The Department of Administrative Services work with the Controller's Office to transition the accounting for it's off –book accounts to the County JD Edwards accounting software.

- **Property Income – consideration should be given to Robb Real Estate depositing the rent to the County's bank account and then invoicing the County on a monthly basis for its management fee.**
- **Property Expense – consideration should be given to providing an advance to the property manager in order that repairs to property, particularly during off hours and weekends, can be made timely.**

While we understand the benefits of the increased control provided by the aforementioned recommendations, the proposed changes conflict with the parameters and terms of the current Property Management solicitation and contract. Therefore, we suggest the Division of Purchasing and Supplies meet with representatives from Robb Real Estate to determine if they are agreeable to the recommended changes.

Finding #2 – Procedures for Review and Reporting of Off-Book Accounts Should be Strengthened.

Until such time that the off-book accounts can be transitioned to the County Treasurer and the accounting for account transactions transitioned to JD Edwards, we recommend that the Department of Administrative Services:

- **Require that the property manager provide copies of rent checks received in its monthly submissions and compare the payers to the rent roll and the check amounts to the accounting records.**

The recommendation of requiring the property manager to provide us with copies of rent checks is not a contractual requirement. However, we will ask Robb to include these going forward so we may compare amounts and names to the rent roll and accounting records.

- **Require that the property manager provide copies of invoices for work performed and compare the invoice amounts to the accounting records.**

The current agreement requires the property management company to provide copies of invoices which are currently provided upon request. However, there is no reason why the property management company cannot provide invoice copies with the monthly reports as recommended.

- **Consider working with the County Executive and County Manager to transfer oversight responsibility for management of the park properties to the newly – created Facilities Department.**

I am in total agreement with transferring the oversight of the County rental properties to Facilities. Better oversight would be realized by the County by transferring this function to Facilities since most of the operating matters of the rental properties relate to the expertise of Facilities personnel.

I want to again thank you and your staff for the professionalism exercised during the engagement.

Sincerely



Jerry Tyskiewicz, Director  
Department of Administrative Services

cc: The Honorable Rich Fitzgerald, Allegheny County Executive  
The Honorable John DeFazio, President – Allegheny County Council  
The Honorable Nicholas Futules, Vice-President – Allegheny County Council  
Mr. William McKain, Allegheny County Manager  
Ms. Jennifer Liptak, Chief of Staff – Allegheny County Executive  
Mr. Warren Finkel, Director – Allegheny County Department of Budget & Finance  
Mr. Walter Szymanski, Budget Director – Allegheny County Council  
Mr. Joseph Catanese, Constituent Services Director – Allegheny County Council  
Ms. Lori A. Churilla, Assistant Deputy Controller, Auditing