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April 19, 2013

The Honorable Elizabeth Steiner-Hayward, Co-Chair
The Honorable Greg Smith, Co-Chair
Joint Committee on Ways and Means General Government Subcommittee
900 Court Street NE, Room H-178
Salem, OR 97301

Re: Oregon State Treasury Financial Transaction Controls

Dear Co-Chairs:

At our Ways and Means hearing on April 2nd, 2013, you asked for an executive summary outlining the controls in place for financial transactions at Treasury, specifically as they relate to the movement of cash. It is important to note that ORS 293.875 designates the State Treasurer as the banking and cash management officer for the state. Via that designation, Treasury has broad authority to review, establish, and modify policies and procedures for the efficient handling of cash and cash equivalents under the control of all state agencies, including universities. Notably, Treasury acts as the bank for all state agencies, contracting with private banks and financial services providers to deliver a variety of cash management services to those agencies. In their use of these services, State agencies are directed to employ the principles, standards and related requirements for banking and cash management prescribed by the State Treasurer.

With that in mind, the Oregon State Treasury provides a *Cash Management Manual* and set of *Cash Management Policies* as guidance to state agencies regarding a variety of issues such as preparing deposits, accepting and making payments via debit/credit card or Automated Clearing House (ACH) transactions, sending and receiving wires, and protecting sensitive financial information. Both documents are currently in a review process for update, but can be found at: <http://www.oregon.gov/treasury>. Agencies also receive guidance regarding expected internal controls for cash handling from the Oregon Accounting Manual published by the Department of Administrative Services.

Treasury maintains a highly complex set of systems to facilitate cash management transactions via a secure technology infrastructure. On a daily basis Treasury staff interact with and support these systems to maintain and report customer account information, process and respond to requests from state

agencies, and protect public funds by ensuring compliance with statutory direction and industry technical and regulatory requirements. These systems also interact with each other, other state systems (SFMS), partner financial institutions, and other vendors. Data passing through these systems is time sensitive, often batch-oriented, and has high security demands. To ensure that transactions are processed in an accurate, complete and timely manner a variety of controls have been instituted within Treasury systems. A few examples are: pre-approval of agency and Treasury employees authorized to create and approve transactions, pre-approved dollar limit thresholds for individual and total transaction activity, dual-control authorization processes, encryption of data transmitted between Treasury and the ACH provider, and more.

Treasury maintains a robust and active internal audit program with broad authority to review any area of activity within Treasury's purview. The Chief Audit Executive reports directly to the Deputy State Treasury and is accountable to an audit oversight committee made up of both internal and external members. In addition, the Secretary of State Audits Division typically reviews controls in place over the Treasury banking function annually, as part of the Statewide Single Audit.

For your convenience, additional detailed information is provided below regarding cash handling and processing activities at state agencies and Treasury.

Cash Handling at State Agencies

Agencies receive cash for a variety of purposes such as in payment for goods or services, to settle fines or other legal assessments, or to cover fees or purchase licenses. Most agencies develop internal procedures, based on the guidance identified above, to ensure that staff have sufficiently detailed instructions to accurately process and record payments. The cash receipting process generally works as follows:

1. Cash is received by agency personnel, who issue the payer a receipt.
2. Cash is stored securely until the day's deposit is prepared.
3. The staff member preparing the deposit sorts and counts all cash and checks, prepares a calculator tape to verify the deposit balance, and records the amounts on a pre-numbered deposit slip. The deposit is then reviewed by a second staff member for accuracy and completeness.
4. State agencies that handle a significant amount of cash, or have ready access to a bank location to make their deposit, will normally deposit daily. Agency staff may be responsible for delivering a deposit to the bank, but more often the agency will contract with an armored car service to perform this function. Agencies with few cash receipts, or locations that are a significant distance from a bank location, can choose to secure daily deposits and deliver them less often (must be at least weekly). Per ORS 293.265 and Treasury Policy 02.18.01, this can only be done after notification is provided to the Secretary of State Audits Division and the Oregon State Treasury Finance Division.

Note: when agencies hold multiple days' deposits there is the possibility that cash could be removed from a deposit and replaced with cash from a later deposit or replaced with a staff

member check. Spot checks of deposits, to ensure that each deposit is whole and unaltered, should be performed by internal or external auditors, or management if audit staff are not available.

5. Staff not assigned responsibility for cash handling will perform the following reconciliation procedures to ensure that all cash has been accounted for and recorded: 1) reconcile daily receipt copies to deposited amounts; 2) reconcile transaction entries in the agency's accounting system to deposited amounts; and, 3) reconcile deposits in the accounting system to deposit amounts reported within Treasury account statements. These reconciliations may be reviewed by the Audits Division, during their Statewide Audit activities or an agency-specific audit, and should be reviewed and signed off by agency management on a regular basis.

Cash Processing Activities

The Oregon State Treasury provides a centralized banking function for state agencies. To ensure that agencies have sufficient locations at which to deposit public funds, Treasury contracts with 18 Oregon depositories across the state to receive and process deposits. Funds are regularly swept from these depositories to the State's central bank account at US Bank, and amounts not needed to cover daily expenses are invested by Treasury through the Oregon Short-Term Fund. Cash processing typically progresses as follows:

1. Using pre-encoded deposit slips obtained through Treasury's contract with Check Printing Company of Portland, state agencies deliver deposits to one or more of the 18 Oregon depositories authorized by Treasury.
2. Deposits are processed by bank personnel and recorded to Treasury's account at the bank. Under this method, agencies do not have to contract for services with each bank they deposit with. Treasury contracts for, and pays for, all services provided by these banks.
3. The state agency's account at Treasury is credited for the deposit as soon as notification is received. Larger banks typically provide deposit information electronically; allowing Treasury to update the agency's account the day after the physical deposit is made. Otherwise, the agency's account is updated on the day Treasury staff receive a copy of the deposit slip from the agency.
4. Treasury produces daily and monthly bank statements for each state agency account that are readily accessible via an easy-to-use web portal. Daily deposit activity recorded in Treasury's central banking application, Phoenix, is interfaced with the State's accounting system. The accounting system identifies unmatched transactions, which are researched and corrected by agency staff with the assistance of Treasury personnel.
5. At month end Treasury's banking application applies fees to each agency account based on services provided, as detailed in the State's price list. Agency staff perform a month-end reconciliation between their Treasury account and agency accounting records to ensure that all outstanding transactions have been identified and resolved. These reconciliations are normally reviewed by management, and audited during the Statewide Single Audit or other audit engagements.

6. Throughout the month, and at month-end, Treasury staff complete a variety of activities to maintain the relationships and technology that are critical to providing state agencies with a centralized banking function. This work allows agencies to access funds swiftly, but still earn a rate of return on those funds (currently .54 percent) that far exceeds what most banks can offer to their customers. Fees are kept low through careful negotiation and economies of scale, and state agencies can rely on Treasury expertise for questions regarding cash management and controls.

The Subcommittee also asked for a review of the *Reading as an Investment* past winners and their continued involvement in the 529 College Savings Program. The linkage of the *Reading as an Investment* program and the 529 Program dates back to 2007. Data from 2008, the second year the two programs worked together, tells us the following information about the winners of the 529 scholarships:

- 31 of the 50 winners were new account owners.
- Of the 31 original accounts, 29 remain open active accounts today.
- Of the 29, additional contributions to the accounts were made by 9 people.
- The total additional contributions to the accounts since they were established are nearly \$25,000.
- Total value of all 29 open accounts is nearly \$50,000.

The linkage of the *Reading is an Investment* program and the 529 Program is part of a broader campaign to increase awareness and participation in the 529 program. While the *Reading is an Investment* program is run through elementary school libraries throughout the state, a similar program that the 529 Program works with is the Summer Reading program, which is conducted through community libraries.

In 2011, there were nearly 5,300 entrants in that program and over 2,000 requests for 529 program literature were received. The campaign also received 10 media mentions. It is through these partnerships and others that the 529 Program seeks to get the word out and increase the number of college savings accounts for Oregonians.

Please let me know if you have any additional questions.

Sincerely,



Scott L. Harra
Chief Administrative Officer
Oregon State Treasury