



**“Loans at Work”
Emergency Loan Program**

**Office of the County Auditor
Report**

**Robert Melton, CPA, CIA, CFE, CIG
County Auditor**

Conducted by:
Jed Shank, CPA, CIA, Audit Manager
André Miller, CPA, CIA, CFE, Audit Senior

**Report No. 21-09
February 10, 2021**



OFFICE OF THE COUNTY AUDITOR

115 S. Andrews Avenue, Room 520 • Fort Lauderdale, Florida 33301 • 954-357-7590 • FAX 954-357-7592

February 10, 2021

Honorable Mayor and Board of County Commissioners

We conducted an assessment of potential fraud in payroll loans administered pursuant to the agreement between the County and BMG Money, Inc. (BMG) for its “Loans at Work” Emergency Loan Program (Agreement). The assessment was requested by County management who shared reports from employees indicating potential payroll loan fraud.

The objectives of our assessment were:

1. To determine whether payroll loan fraud occurred and identify the nature and extent of the fraud, including the number of affected employees, dollar amounts, and source of the fraud.
2. To determine whether the County’s and BMG’s internal controls are adequate to prevent and detect fraudulent loans taken out in the names of County employees.

We conclude that:

1. Thirteen fraudulent payroll loan applications were filed under the names of 10 County employees. Four of the 13 fraudulent loan applications were approved, resulting in \$862 in deductions from the paychecks of the four employees. The four employees were reimbursed by BMG. We could not identify the perpetrator of the fraud.
2. BMG’s internal controls were inadequate to prevent and detect the fraud.

This was not an audit. Therefore, the findings and recommendations presented herein may not be all-inclusive of areas where improvement may be needed; however, we believe implementing these recommendations will improve and strengthen controls over payroll loan deductions.

We hope you find this information helpful. If you have any questions, please do not hesitate to contact me.

Respectfully submitted,

A handwritten signature in blue ink that reads "Bob Melton". The signature is written in a cursive style with a prominent "B" and "M".

Bob Melton
County Auditor

cc: Bertha Henry, County Administrator
Andrew Meyers, County Attorney
Monica Cepero, Deputy County Administrator
Kevin Kelleher, Assistant County Administrator
George Tablack, Chief Financial Officer
David Kahn, Director, Human Resources Division

TABLE OF CONTENTS

- INTRODUCTION 1
 - Scope and Methodology 1
 - Overall Conclusion 1
 - Background 2
- SYNOPSIS 4
- DISCUSSION 5
- OPPORTUNITIES FOR IMPROVEMENT..... 8
 - 1. Requested Deductions from an Employee’s Compensation Should be Verified with the Employee Prior to Processing 8
 - 2. Privacy Protections Over Employee ID Numbers Need Strengthening..... 8
 - 3. BMG Needs Stronger Internal Controls 9
 - 4. Personal Information Should be Better Protected by BMG 11
 - 5. BMG Solicited County Employees in Violation of the Non-Solicitation Clause of the Agreement 11
- MANAGEMENT’S RESPONSE 12

INTRODUCTION

Scope and Methodology

The Office of County Auditor conducts audits of Broward County’s entities, programs, activities, and contractors to provide the Board of County Commissioners, Broward County’s residents, County management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted an assessment of potential fraud in payroll loans administered pursuant to the agreement between the County and BMG Money, Inc. (BMG) for its “Loans at Work” Emergency Loan Program (Agreement). The assessment was requested by County’s management who shared reports from employees indicating potential payroll loan fraud.

The objectives of our assessment were:

1. To determine whether payroll loan fraud occurred and identify the nature and extent of the fraud, including the number of affected employees, dollar amounts, and source of the fraud.
2. To determine whether the County’s and BMG’s internal controls are adequate to prevent and detect fraudulent loans taken out in the names of County employees.

To accomplish our assessment objectives, we reviewed the Agreement (contract) between BMG and the County; reviewed relevant documents and records pertaining to loans originated by BMG from January 2020 through July 2020; interviewed BMG and County personnel regarding their roles and responsibilities; examined policies and procedures; performed a walkthrough of BMG’s application process; conducted background research on the telephone numbers and names used in fraudulent applications; and contacted County employees with payroll loans by telephone to verify whether they applied for loans.

This was not an audit. Therefore, the findings and recommendations presented herein may not be all-inclusive of areas where improvement may be needed; however, we believe implementing the recommendations provided will improve and strengthen controls over payroll loan deductions.

Overall Conclusion

We conclude that:

1. Thirteen fraudulent payroll loan applications were filed under the names of 10 County employees. Four of the 13 fraudulent loan applications were approved, resulting in \$862 in

deductions from the paychecks of the four employees. The four employees were reimbursed by BMG. We could not identify the perpetrator of the fraud.

2. BMG’s internal controls were inadequate to prevent and detect the fraud.

Background

BMG is a for-profit corporation that provides emergency loans to benefit-eligible employees of Broward County through their “Loans at Work” program. The “Loans at Work” program was established on June 30, 2017 and is governed by the provisions of the Agreement. According to BMG, the program is designed to help employees borrow responsibly and improve their financial quality of life. The company touts its superior customer satisfaction rate and easy online application process, which does not rely on credit score checks.

In accordance with the Agreement, employees may borrow between \$500 to \$5,000; however, they must be benefit-eligible and have at least one year or more of continuous employment. The loan repayment period ranges from 6 to 24 months and BMG charges a fixed simple interest rate of up to 23.99%. Employees have the option of repaying their loans through automatic biweekly payroll deductions, which cannot exceed 10% of an employee’s biweekly gross salary.

The program is administered, supervised, and directed by BMG. BMG is specifically responsible for managing all loan accounting, payroll deduction calculations, enrollment, and fulfillment. Pursuant to the Agreement between the County and BMG, the County has absolutely no costs, liability, or risk from BMG’s implementation or operation of the Emergency Loan Program.

The program was suspended on July 22, 2020 and reopened on September 14, 2020 after BMG and the County implemented the safeguards recommended by the Office of the County Auditor.

Loan Application Process

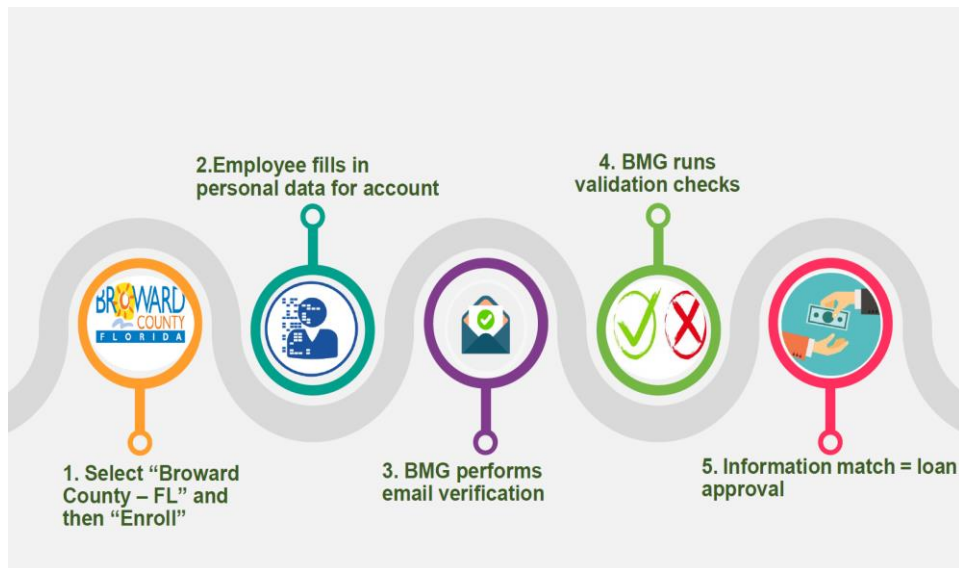
According to BMG, the entire application process is completed online and by email except in situations where BMG directly contacts an employee to clarify flagged information. Below is a summary of the process previously used.

1. County employees apply for a loan online.
2. Employee selects Broward County as their employer and creates a new account.
3. Email verification is sent to the email address entered by employee.
4. Employee enters their personal information, including employee ID number and gross salary.

5. BMG conducts a cross-check of employee’s ID number, gross salary, hire date etc. to information provided by the County.
6. BMG utilizes the services of two companies, GIACT and DecisionLogic, to verify bank account status and ownership.
7. BMG utilizes Transunion, a credit reporting agency, to verify social security numbers, names, addresses (past and current), criminal records, email addresses, phone numbers, and date of birth. In addition, employees have to respond to knowledge-based verification questions, and checks are performed to identify individuals on U.S. sanctions and watch lists.
8. Approval or denial of loan by BMG based on information obtained from the checks and processes above.
9. If approved, employee electronically signs Payroll Deduction Promissory Note, Electronic Consent Form and Payroll Deduction Authorization Form.
10. BMG sends secure email to County’s Payroll Division with Payroll Authorization Forms identifying employees who enrolled for loans and the corresponding payroll deductions.
11. The Payroll Division processes Payroll Authorization Forms and biweekly payroll deductions are remitted to BMG.

This original loan application process is shown in Figure 1 below.

Figure 1: BMG Loan Origination Process



Source: Information provided by BMG personnel

SYNOPSIS

Our assessment has determined that payroll loan fraud occurred. Based on available information, we could not identify the perpetrator of the fraud. We identified the following:

- **Thirteen** fraudulent loan applications were filed under the names of **10 employees**.
- **Four** of the 13 fraudulent loan applications were approved by BMG, resulting in **\$862** deducted from the paychecks of the four employees.
 - Two of the four fraudulent loan applications approved were submitted from the same browser fingerprint (IP Address). A browser fingerprint (IP Address) is used to identify and collect information about a computing device when it accesses a website.
- BMG was defrauded out of at least **\$18,000**, which was deposited in two banks – Sutton Bank & Central National Bank & Trust.
- Two County employees, who had fraudulent loan applications filed, stated that fraudulent applications were also submitted in their names for Pandemic Unemployment Assistance benefits in the states of Pennsylvania and Massachusetts. Pandemic Unemployment Assistance is the component of the CARES Act that provides benefits to the self-employed, independent contractors, gig workers, part-time employees, and other workers ordinarily ineligible for state unemployment insurance. It is intended to help those who are unemployed or underemployed as a result of the coronavirus.
- BMG could not acquire full account holder identification information from the banks used in the fraudulent applications. As a result, we were unable to identify the account owner and related identifying information including any identification provided. We also could not determine whether the perpetrator(s) withdrew the funds in person or transferred them to another bank account. Having this information may have assisted in identifying the perpetrator(s).

DISCUSSION

Initial Fraudulent Loan Applications

On July 16, 2020, we were informed by County management of fraudulent payroll loans and deductions affecting four County employees. The identified employees work in Parks & Recreation Division (Parks), and specifically at Central Broward and Easterlin parks. Payroll staff within the Accounting Division was first notified of the potential fraud by a Manager in Parks who claimed that a \$4,500 loan proceeds check was mailed to him on June 18, 2020. He contacted BMG and was instructed by BMG to mail the check to them. No money was deducted from this employee’s paycheck. Initially, the loan proceeds were scheduled to be deposited in an account at MetaBank; however, a check with the loan proceeds was mailed to him instead. MetaBank is headquartered in South Dakota and has branches in South Dakota and Iowa.

The second Parks employee, a Maintenance Worker I, contacted the Human Resources Division (HR) on July 14, 2020, when he observed a \$170.10 deduction from his July 3, 2020 paycheck. HR personnel contacted BMG, and upon further review, BMG determined that a fraudulent loan, valued at \$3,500, was direct deposited by BMG in an account at Sutton Bank, which is not the employee’s bank on file with Payroll. Sutton Bank is headquartered in the state of Ohio and has no branches outside the state.

The third Parks employee, a Parks Supervisor, contacted the Payroll Division on July 16, 2020, when he observed a \$121.43 deduction on his forthcoming paycheck. Payroll personnel notified BMG who confirmed that a fraudster impersonated the employee and BMG direct deposited \$5,000 into an account at Central National Bank & Trust. This bank is headquartered in Oklahoma and has branches in Oklahoma and Utah.

The fourth Parks employee, a Maintenance Worker II, was identified by HR after noting that Sutton Bank was used to accept \$5,000 in loan proceeds. Two deductions, totaling \$242.06, were made from the employee’s paycheck. Direct deposits of payroll loans to accounts at MetaBank, Sutton Bank and Central National Bank & Trust were flagged for additional scrutiny because these banks were previously used to accept fraudulent loan proceeds.

Additional Fraudulent Loan Applications

In order to identify additional potential fraudulent loan applications including the number of affected employees, dollar amounts, and source of the fraud, we obtained and reviewed BMG’s records containing the population of active payroll loans issued to County employees. Our office contacted County employees with current loans by telephone to verify whether they applied for loans. BMG and HR identified and called employees with current loans that were funded and then direct deposited in the banks previously flagged.

Subsequently, fraudulent loan applications were identified for **six** additional employees by BMG, our office, and HR. One of the six employees, a Skilled Trades Supervisor at Port Everglades, had three deductions from his paycheck totaling \$328.05, and the \$4,500 loan proceeds was deposited in a separate account in Sutton Bank.

A summary of all identified employees used to obtain fraudulent loans is shown in Figure 2.

Figure 2: Summary of Fraudulent Payroll Loans

	Employee Title	Division	# of Fraudulent Loan Applications	Amount of Loan Proceeds Distributed by BMG into Fraudulent Accounts	Banks where Distributed Loan Proceeds Were to Be Deposited	Amt of Total Fraudulent Payroll Deductions
Initial Fraudulent Loan Applications						
1	Parks Manager	Parks & Recreation (Central Broward Park)	1	-	MetaBank	-
2	Maintenance Worker I	Parks & Recreation (Easterlin Park)	1	\$3,500	Sutton Bank	\$170.10
3	Parks Supervisor	Parks & Recreation (Central Broward Park)	1	\$5,000	Central National Bank & Trust	\$121.43
4	Maintenance Worker II	Parks & Recreation (Central Broward Park)	1	\$5,000	Sutton Bank	\$242.06
Additional Fraudulent Loan Applications						
5	Skilled Trades Supervisor	Port Everglades	1	\$4,500	Sutton Bank	\$328.05
6	Maintenance Worker 3	Port Everglades	2	-	Sutton Bank	-
7	Parks Manager	Parks & Recreation (Vista View Park)	2	-	MetaBank	-
8	Program Project Coordinator	Environmental Planning and Community Resil.	2	-	Central National Bank & Trust	-
9	Toxicologist Senior	Medical Examiner/Trauma	1	-	Sutton Bank	-
10	Systems Network Analyst Senior	Enterprise Tech Services	1	-	Central National Bank & Trust	-
Total:			13	\$18,000		\$861.64

Source: Office of the County Auditor analysis of BMG payroll loan records and confirmation with County employees

Current Status of Program

BMG has undertaken measures to prevent future fraudulent activity, including requiring County employees applying for new loans to submit photographs of themselves (selfies) and both sides of their driver’s license or other state-issued ID. BMG then electronically scans the barcode information on the submitted ID, matches it to the applicant’s records in the state’s database, and then electronically matches the photograph on the ID to the submitted photograph of the applicant.

BMG has reimbursed the four employees who had money deducted from their paychecks. BMG has agreed to continue to enhance its internal controls and monitor its loan program for vulnerabilities that might expose County employees to fraud. In particular, BMG has agreed to continue its proactive anti-fraud measures by placing less emphasis on knowledge-based security questions, which could be easily circumvented through data breaches.

OPPORTUNITIES FOR IMPROVEMENT

Our assessment disclosed certain policies, procedures, and practices that could be improved. Our assessment was not designed nor intended to be a detailed study of every relevant system, procedure, or transaction. Accordingly, the Opportunities for Improvement presented in this assessment may not be all-inclusive of areas where improvement may be needed.

County Opportunities for Improvement

1. Requested Deductions from an Employee’s Compensation Should be Verified with the Employee Prior to Processing.

While BMG is ultimately responsible for the Emergency Loan Program, the County could implement additional controls to prevent fraud. County Benefits and/or Payroll personnel receiving payroll deduction requests from BMG should contact employees to verify whether they applied for a loan before approving payroll deductions. The County’s process should require County staff to obtain authorization for deductions directly from County employees rather than relying solely upon authorizations provided by BMG. Obtaining direct confirmations from the employee would likely prevent fraudulent deductions from employee pay. Inadequate internal controls by BMG played a substantial part in the fraud against County employees and additional safeguards by the County is necessary to further safeguard its employees from fraud. These additional controls and safeguards implemented by the County would not negate BMG’s absolute responsibility for any loans under the Agreement between the County and BMG.

We recommend Management:

- A. Implement procedures to contact applicants and confirm that they applied for a loan before processing payroll deductions.
- B. Continue to facilitate and assist with any further investigation.

2. Privacy Protections Over Employee ID Numbers Need Strengthening.

Employee ID numbers are too readily available for unauthorized access. We identified the following scenarios in which employee identification numbers could be better protected:

- A. The County routinely shares employee ID numbers and identifying information for all employees with BMG, regardless of whether they were applying for a loan. Paragraph 3b of Exhibit “A” in the Agreement requires the County to provide a census data file to BMG on a monthly basis, which contains employee number and name, employment date, birth date, and annual salary of all County employees. BMG utilizes this information to verify applicants.

BMG’s loan application process requires applicants to provide their employee ID number which BMG verifies against the information provided by the County. Because the employee ID number is a unique piece of identifying information that is not typically found within data breaches and identify thefts, it is a good piece of unique information for BMG to use to verify employee identity. This information would be better protected if shared only for employees that applied for loans as requested by BMG (rather than distributions of information for all employees).

- B. Employees with access to the County’s intranet can obtain employee ID numbers through an internal leave balance look-up intranet page. This access is available to all employees and not limited by certain designations/job functions such as Payroll or HR employees. Therefore, this sensitive data should be removed from the network and be shared only as required and with those who have a need to have access to such information.
- C. Employee ID numbers may be included within public record requests. Employee ID numbers should be redacted from responses to public record requests, to the extent the County may legally withhold the information.

Best practices dictate that employees’ personal information should not be shared, disclosed, or transferred on a routine basis unless needed in order to mitigate the risk of unauthorized access or inappropriate use. A breach of personal information can lead to personal harm, loss of public trust, legal liability, or increased costs of responding to a breach. Without access to employee ID numbers, the perpetrator(s) would not have been able to successfully circumvent BMG’s internal controls.

We recommend Management take actions to better protect employee identification numbers including:

- A. Permanently discontinue providing census data to BMG for all County employees and instead provide it on an individual applicant basis as requested by BMG.
- B. Remove general access to obtaining employee ID numbers from intranet.
- C. Redact employee ID numbers and date of birth from responses to public record requests to the extent legally permissible.

BMG Opportunities for Improvement

3. BMG Needs Stronger Internal Controls

BMG approved four fraudulent loan applications (see Synopsis section) and did not maintain adequate internal controls to effectively prevent approval of fraudulent and otherwise unauthorized and unallowable loans, including:

- A. In one instance, BMG approved a fraudulent loan application even though the gross salary entered by the perpetrator(s) impersonating the employee did not match County records. As

a result, a fraudulent loan was issued, and money was deducted from the paycheck of the affected employee. This is a violation of BMG internal policies and procedures, which requires the verification of gross pay before approving a loan.

- B. In two instances, BMG approved fraudulent loan applications even though both were submitted with the same browser fingerprint (IP Address). As a result, a fraudulent loan was issued, and money was deducted from the paycheck of the affected employee.
- C. BMG internal policies require only two out of four security questions be answered correctly by loan applicants. This policy poses an unacceptably high risk due to the ease with which an attacker can discover answers to many of these knowledge-based questions, and the relatively small number of possible choices for many of them. The National Institute of Standards and Technology (NIST) Special Publication 800-63, states that security questions are no longer recognized as an acceptable method of verifying identity due their vulnerability to data compromise or “guess-ability”.
- D. Before the program was suspended, two ineligible employees received loans that should not have been approved because they lacked one year or more of continuous employment with the County. According to paragraph 2a of Exhibit “A” in the Agreement: “An eligible employee is a County employee who is eligible for benefits and has one (1) year or more of continuous employment with the County.”

We recommend Management require BMG to strengthen controls and ensure that existing controls are properly functioning including but not limited to the following:

- A. Ensure positive verification of employee number, gross salary and hire date provided in an application.
- B. Flag and perform additional verification procedures for applications submitted with the same browser fingerprint (IP Address) to deter digital identity theft. If possible, BMG should trace the IP addresses connected to fraudulent applications to identify the geographic locations where they were filed.
- C. Place less emphasis on knowledge-based authentication for identity verification and continue the use of newly created facial recognition controls.
- D. Determine length of employment for each applicant and ensure benefit eligibility status and one year or more of continuous employment with the County prior to approval of loans.

We further recommend Management require BMG to take the following actions:

- A. Provide employees impacted by the fraud with complimentary credit monitoring.
- B. Continue to facilitate and assist with any further investigation.

4. Personal Information Should be Better Protected by BMG

Subsequent to the fraud and during our assessment, BMG sent to our Office, via email, four unencrypted files containing personal information of County employees. Such information should be better protected. NIST 800-122 recommends that such information should be encrypted before being transmitted to protect its confidentiality and add an additional layer of security.

We recommend Management require BMG improve its controls over personal information by ensuring that County employee records are appropriately encrypted prior to internal and external transmission.

5. BMG Solicited County Employees in Violation of the Non-Solicitation Clause of the Agreement

Several employees with active loans stated that they received automated emails from BMG encouraging them to (re)borrow the amount of their active loan that was already repaid. This activity is in violation of Paragraph 3a of Exhibit “A” in the Agreement which states: “BMG will not initiate contact with employees, except for the following periods designated by the County: (i) Open Enrollment; (ii) Financial Fairs; and (iii) other events where BMG is invited by the County.” Solicitation of loans by BMG may encourage employees to take on unnecessary debt, thus increasing the potential for continued reliance on debt and other negative financial consequences. We noted that many employees are repeatedly rolling their partially satisfied loans over into new loans. Employees stated that these loans are used to bridge a cash-flow shortage, but it is important to underscore that loans are expensive due to interest charges up to a rate of 23.99%.

We recommend Management require BMG to discontinue soliciting employees outside the specified periods outlined in the Agreement.

MANAGEMENT’S RESPONSE



BERTHA W. HENRY, County Administrator
115 S. Andrews Avenue, Room 409 • Fort Lauderdale, Florida 33301 • 954-357-7362 • FAX 954-357-7360

MEMORANDUM

DATE: February 9, 2021
TO: Robert Melton, County Auditor
FROM: Bertha W. Henry, County Administrator
SUBJECT: Management Response to Office of the County Auditor's Assessment of "Loans At Work" Emergency Loan Program

At the request of Management, the County Auditor's Office was requested to assess potential fraud in the emergency payroll loans administered pursuant to the agreement between the County and BMG Money, Inc. (BMG) for its "Loans At Work" program.

The Human Resources Division has reviewed the assessment and recommendations made by the County Auditor ("Auditor") and submits the following as Management's response. It should be noted that pursuant to the Agreement with BMG, BMG is solely responsible for managing all emergency loans and the County has absolutely no costs, liability or risk from BMG's implementation or operation of the Emergency Loan Program.

BACKGROUND

In 2013, the County was approached by a lobbyist on behalf of BMG, Inc. regarding offering an Emergency Loans at Work Program to County employees. One of the County's labor unions also supported implementing this program. The loan program would allow a maximum loan of \$5,000 with loan payback up to two years with a fixed interest rate of 29.75%. Based on the research of staff, County Administration and staff felt the interest rate on these loans was too high and would not be a financial benefit to our employees without the employee incurring significant risk. In addition, it also appeared that the interest rate being charged was not commensurate with the risk being taken by BMG for loans that would be paid back through automatic payroll deductions.

In 2015, the Broward County Public Schools adopted BMG, Inc's Loans At Work program with a pricing concession of 23.99% and a most-favored nation clause. This resulted in further communications from the lobbyist on behalf of BMG, Inc.

Although the interest rate was reduced from 29.75% to 23.99% for Broward County Public Schools, County Administration and staff felt the interest rate on these loans was still too high and researched other options. Staff contacted Wells Fargo (County's banking partner) and We Florida Financial Credit Union regarding other loan options for unsecured loans with a lower interest rate than that offered by BMG. Wells Fargo did not offer a similar loan product and We

Broward County Board of County Commissioners
Mark D. Bogen • Lamar P. Fisher • Beam Furr • Steve Geller • Dale V.C. Holness • Nan H. Rich • Tim Ryan • Barbara Sharief • Michael Udine
www.broward.org

February 9, 2021

To: Robert Melton, County Auditor
Management Response to Office of the County Auditor's
Assessment of "Loans At Work" Emergency Loan Program

Florida Financial required employee to have a bank account with the credit union for three months before applying for a loan at 18%.

At the May 3, 2016 Commission Meeting (Item No. 23), the Board directed the County Administrator to prepare a competitive procurement for a voluntary emergency loan program for County employees.

On September 16, 2016, RFP N2111734P1 was issued with two vendors responding (BMG Money, Inc. and Employee Loan Solutions, Inc.).

On January 19, 2017, the Evaluation Committee named BMG Money, Inc. as the first-ranked firm.

On June 30, 2017, the Agreement between BMG Money, Inc. and the County was executed through the Director of Purchasing and the program was opened to employees. Terms of the Agreement were:

- Unsecured, fixed simple interest loan with a fixed rate of 23.99% with most favored-nation clause.
- Loans from a minimum of \$500 to a maximum of \$5,000.
- Bi-weekly payroll deduction not to exceed 10% of employee's biweekly base gross salary.
- Loan period for pay back of 6, 12, 18 or 24 months.
- No credit report or bank account required.
- Aside from the interest rate paid by employees, no fees or costs to the employee or the County.
- Loan performance reported to at least one nation-wide credit bureau to help employee build credit.
- BMG would provide employee with free literacy training and counseling.
- Employees apply for a loan directly through BMG's web portal.

Currently, there are 291 employees with active loans with an average bi-weekly loan payment of \$119.13 and an average annual base salary of \$49,671.00.

POTENTIAL FRAUD

On June 18, 2020, staff received an email from Payroll containing information from a Parks employee regarding receipt of a check at his home address from BMG Money in the amount of \$4,500. Upon contacting BMG to find out what the check was for, employee was advised that a loan had been applied for in his name on May 24, 2020. Employee checked his pay statement for pay date June 19, 2020 and saw a deduction for Loans at Work and sent an email to Payroll.

February 9, 2021

To: Robert Melton, County Auditor
Management Response to Office of the County Auditor's
Assessment of "Loans At Work" Emergency Loan Program

Staff immediately contacted BMG and reported the situation and requested the loan be researched for potential fraud.

On July 14, 2020 a second employee from Parks contacted staff to question a deduction on his pay statement for Loans at Work. Employee advised he did not apply for a loan through BMG. Staff immediately contacted BMG regarding the potential of a second fraudulent loan.

On July 16, 2020, a third employee from Parks contacted Payroll regarding a Loans at Work deduction on his pay statement. Staff immediately escalated the issues internally, contacted BMG and put a hold on all pending loans until a thorough investigation could be completed and new security protocols put in place.

After review and discussion of the three potential frauds with staff, Chief Financial Officer George Tablack contacted the County Auditor and requested his staff's assistance with assessing the situation.

During this review, a total of thirteen fraudulent loans for ten employees were identified by staff and BMG, four of which were approved and funded. BMG refunded all payroll deductions taken due to the fraudulent loans directly to the four impacted employees. The remaining nine loan applications were either not approved by BMG at time of application or found and stopped during the investigation.

Please find detailed responses below to each of the Auditor's opportunities for improvement and recommendations.

COUNTY OPPORTUNITIES FOR IMPROVEMENT

Opportunity 1: Requested Deductions from an Employee's Compensation Should be Verified With the Employee Prior to Processing.

Recommendations:

- A. Implement procedures to contact applicants and confirm that they applied for a loan before processing payroll deductions.
- B. Continue to facilitate and assist with any further investigation.

Management Response:

- A. **Agree and implemented.** Benefits staff contacts employee prior to verifying information for BMG. Loan process cannot move forward until County verifies with employee. While this level of involvement was not contemplated in implementing this emergency loan program, the County will seek to recover any additional administrative costs not currently covered in the Agreement with the vendor.

It is further noted that this new protocol appear to be effective as Benefits staff has identified another potential fraud on February 3, 2021 and immediately contacted BMG to investigate and notify proper law enforcement.

February 9, 2021

To: Robert Melton, County Auditor
Management Response to Office of the County Auditor’s
Assessment of “Loans At Work” Emergency Loan Program

- B. **Agree.** Staff has and will continue to work closely with the Office of the County Auditor.

Opportunity 2: Privacy Protections Over Employee ID Numbers Need Strengthening.

Recommendations: Management take actions to better protect employee identification numbers including:

- A. Permanently discontinue providing census data to BMG for all County employees and instead provide it on an individual applicant basis as requested by BMG.
- B. Remove general access to obtaining employee ID numbers from intranet.
- C. Redact employee ID numbers and date of birth from responses to public record requests to the extent legally permissible.

Management Response:

- A. **Agree and implemented.** Staff implemented recommendation on August 19, 2020. Individual applicants are verified by Staff as requested by BMG.
- B. **Agree in part.** The Office of the County Attorney reviewed this recommendation and advises employee ID numbers are not confidential or exempt from disclosure under 507.171, Florida Statutes. Notwithstanding, with the implementation of PeopleSoft, Payroll files with leave balances, etc. are no longer posted on the internet. Each Agency has a designated person or persons who can pull reports related only to their Agency.
- C. **Disagree.** Staff has reviewed this recommendation with the Office of the County Attorney and have been advised that employee ID numbers and dates of birth are not confidential or exempt from disclosure under 119.071 and 501.171, Florida Statutes and cannot be redacted from disclosure under public record requests unless there is a specific exemption.

BMG OPPORTUNITIES FOR IMPROVEMENT

Opportunity 3. BMG Needs Stronger Internal Controls

Recommendation: Management require BMG to strengthen controls and ensure that existing controls are properly functioning including but not limited to the following:

- A. Ensure positive verification of employee number, gross salary and hire date provided in an application.

February 9, 2021

To: Robert Melton, County Auditor

Management Response to Office of the County Auditor’s

Assessment of “Loans At Work” Emergency Loan Program

- B. Flag and perform additional verification procedures for applications submitted with the same browser fingerprint (IP Address) to deter digital identity theft. If possible, BMG should trace the IP addresses connected to fraudulent applications to identify the geographic locations where they were filed.
- C. Place less emphasis on knowledge-based authentication for identity verification and continue the use of newly created facial recognition controls.
- D. Determine length of employment for each applicant and ensure benefit eligibility status and one year or more of continuous employment with the County prior to approval of loans.

Further recommendation: Management require BMG to take the following actions:

- A. Provide employees impacted by the fraud with complimentary credit monitoring.
- B. Continue to facilitate and assist with any further investigation.

Management Response:

- A. **Agree and implemented.** Individual applicants are verified by Staff as requested by BMG.
- B. **Agree and implemented.** BMG has advised that they are following this underwriting protocol.
- C. **Agree and implemented.** BMG has advised that they have changed their process and now require employees requesting a loan to submit the front and back of their drivers' license. The address on the drivers' license is verified by Staff and if it does not match the address in the County's payroll system, loan is denied until employee updates address with the County.
- D. **Agree and corrected.** BMG has advised that they made an internal change to their “Loans At Work” program for all employers by moving loan approvals after nine months of employment instead of twelve months. County was not made aware of the internal change and has advised BMG that they cannot change the terms of our Agreement without discussing with the County first. Staff reviews each loan request and verifies employee has been employed by County for a minimum of twelve months.

Management Response Further Recommendation:

- A. **Agree and being implemented.** BMG has advised that it has purchased a Norton LifeLock Credit Monitoring plan for the impacted members and are in the process of contacting employees to get them set up.
- B. **Agree. In Progress.** BMG has advised that they are continuing their investigation and will provide updates to the County as applicable. On January 8, 2021, BMG

February 9, 2021

To: Robert Melton, County Auditor
Management Response to Office of the County Auditor's
Assessment of "Loans At Work" Emergency Loan Program

advised that Sutton Bank, one of the two banks is cooperating with the investigation; Central National Bank & Trust is not. BMG is waiting on an update from the detective involved with the case.

Opportunity 4. Personal Information Should be Better Protected by BMG

Recommendation:

Management require BMG improve its controls over personal information by ensuring that County employee records are appropriately encrypted prior to internal and external transmission.

Management Response:

Agree and implemented. Verification requests from BMG, and responses from Staff, are sent through encrypted email.

Opportunity 5. BMG Solicited County Employees in Violation of the Non-Solicitation Clause of the Agreement

Recommendation: Management require BMG to discontinue soliciting employees outside the specified periods outlined in the Agreement.

Management Response:

Agree and implemented. Management has notified BMG that soliciting employees outside the specified periods outlined in the Agreement is not allowed and needs to be discontinued immediately. This includes any communications regarding refinancing or applying for a new loan regardless whether the individual is a current or prior loan holder.

Thank you for the opportunity to respond and provide Management's comments to the assessment. If there are any additional, deletions/omissions, or other changes or modifications to Management's response, please provide us the opportunity to review prior to issuance. Should you have any questions or require additional information, please do not hesitate to contact me.

BH

- c. Mayor and Board of County Commissioners
Monica Cepero, Deputy County Administrator
Kevin Kelleher, Assistant County Administrator
Andrew Meyers, County Attorney
George Tablack, Chief Financial Officer
David Kahn, Director, Human Resources Division
Lisa Morrison, Employee Benefits Manager, Human Resources Division