



PUBLIC INFORMATION

INTERNAL AUDIT DEPARTMENT



Internal Control Audit: Treasurer-Tax Collector Cash Receipts

For the Year Ended
April 30, 2024

Audit No. 2301
Report Date: September 30, 2024

Number of Recommendations

0

Critical Control
Weaknesses

1

Significant Control
Weakness

6

Control Findings

OC Board of Supervisors

CHAIRMAN DONALD P. WAGNER
3rd DISTRICT

VICE CHAIRMAN DOUG CHAFFEE
4th DISTRICT

SUPERVISOR ANDREW DO
1st DISTRICT

SUPERVISOR VICENTE SARMIENTO
2nd DISTRICT

SUPERVISOR KATRINA FOLEY
5th DISTRICT



INTERNAL AUDIT DEPARTMENT

Internal Control Audit:
Treasurer-Tax Collector Cash Receipts

September 30, 2024

AUDIT HIGHLIGHTS

SCOPE OF WORK	Perform an internal control audit of Treasurer-Tax Collector's (T-TC) Cash Receipts process for the year ended April 30, 2024.
RESULTS	<ul style="list-style-type: none"> We concluded that T-TC's internal control over the cash receipts process is generally effective to ensure cash receipts are properly collected, recorded, deposited, and safeguarded. We concluded that T-TC's cash receipts process is generally efficient.
RISKS IDENTIFIED	<p>As a result of our findings, potential risks include:</p> <ul style="list-style-type: none"> Misappropriation or theft of County assets. Inconsistent procedures being followed and/or impacting the ability to continue business processes in the event of an emergency or other disruption. Potential loss of interest by not depositing funds until the next day. Undetected control weaknesses and undetected errors.
NUMBER OF RECOMMENDATIONS	Opportunities for enhancing internal control include:
0	<p>CRITICAL CONTROL WEAKNESSES</p> <ul style="list-style-type: none"> Ensuring the business continuity plan is updated and includes detailed written procedures for cashiering in the event of an emergency or other disruption. Minimizing cash overnight by implementing later cash pick-ups during peak periods.
1	<p>SIGNIFICANT CONTROL WEAKNESS</p> <ul style="list-style-type: none"> Enhancing monitoring activities by performing ongoing and separate evaluations of cash receipt controls, including reviewing the cashiering system's cash limit. Ensuring policies and procedures are finalized/updated and reviewed periodically to ensure accurate and relevant information.
6	<p>CONTROL FINDINGS</p> <ul style="list-style-type: none"> Ensuring periodic documented inventories of handwritten cash receipt books are performed by an employee with no custodial or cashiering duties, or consider eliminating handwritten receipt book inventory and implementing an alternative method to providing customer receipts in special circumstances. Exploring options to enhance physical security of the cashiering area.

Report suspected fraud, or misuse of County resources by vendors, contractors, or County employees to (714) 834-3608



INTERNAL AUDIT DEPARTMENT

Audit No. 2301

September 30, 2024

To: Shari Freidenrich, CPA
Treasurer-Tax Collector

From: Aggie Alonso, CPA, CIA, CRMA
Internal Audit Department Director

A handwritten signature in blue ink, appearing to read "A. Alonso".

Digitally signed by Agripino
Alonso
Date: 2024.09.30 18:07:09
-07'00'

Subject: Internal Control Audit: Treasurer-Tax Collector Cash Receipts

We have completed an internal control audit of Treasurer-Tax Collector's (T-TC) Cash Receipts process for the year ended April 30, 2024. Due to the sensitive nature of specific findings (restricted information), results are redacted from public release. Additional information including background and our objectives, scope, and methodology is included in Appendix A.

T-TC concurred with all our recommendations and the Internal Audit Department considers management's response appropriate to the recommendations in this report.

We will include the results of this audit in a future status report submitted quarterly to the Audit Oversight Committee and the Board of Supervisors. In addition, we will request your department complete a Customer Survey of Audit Services, which you will receive shortly after the distribution of our final report.

We appreciate the courtesy extended to us by T-TC personnel during our audit. If you have any questions regarding our audit, please contact me at (714) 834-5442 or Senior Audit Manager Gianne Morgan at (714) 834-3436.

Attachments

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Treasurer-Tax Collector Distribution
- Robin Stieler, Clerk of the Board
- Foreperson, Grand Jury
- Eide Bailly LLP, County External Auditor

RESULTS

**BUSINESS PROCESS
& INTERNAL
CONTROL
STRENGTHS**

Business process and internal control strengths noted during our audit include:

- ✓ Over-the-counter cash collections and remittance receipt processing duties are adequately segregated.
- ✓ T-TC has security cameras to monitor cashiering and remittance activities.
- ✓ Access to the vault and remittance area is restricted to a limited number of authorized personnel through badge entry and requires dual custody at all times.
- ✓ The cashiering areas are secured through badge entry.
- ✓ The cashiering system has built-in controls to limit the amount of cash that can be stored in the tills.
- ✓ Cashiering staff utilize counting machines and visual review to detect counterfeit notes.
- ✓ Cash is counted through a currency counting machine twice for every transaction to ensure accuracy.
- ✓ Each cashier is assigned a separate till.
- ✓ T-TC tracks and maintains a courier deposit pickup log.
- ✓ Remittance staff maintain dual custody of mailed payments in a secured area.
- ✓ The remittance process requires minimal manual procedures and is automated by equipment that ensures accurate and secure processing of mailed payments.
- ✓ T-TC evaluated its current workload and organizational structure and is in process of implementing a reorganization that more equitably distributes the workload and closely aligns similar functions under management with the required subject-matter expertise.



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FINDING NO. 1	Content has been removed due to the sensitive nature of the finding.
FINDING NO. 2	<p>Business Continuity Plan</p> <p>While T-TC has established a written business continuity plan to ensure the continuation of operations in the event of an emergency or other business disruption, it has not been updated since 2015 and does not contain detailed procedures to follow should the cashiering system or remittance equipment become inoperable. Since the department is responsible for receiving, depositing, and processing a significant amount of public funds, having a detailed business continuity plan related to its cash receipts process is important.</p>
CATEGORY	Control Finding
RISK	Not having an updated business continuity plan could result in inconsistent procedures being followed and/or impacting the ability to continue business processes in the event of an emergency or other disruption.
RECOMMENDATION	T-TC management ensure the business continuity plan is updated and includes detailed written procedures for cashiering in the event of an emergency or other disruption.
MANAGEMENT RESPONSE	Concur. T-TC concurs with Finding No. 2 and will review and update the business continuity plan including additional written details for incoming cash. T-TC currently has over 74% of property taxes already received electronically and is working with Departments to increase the deposit of other public funds electronically further limiting this risk. T-TC did not experience any significant impact in depositing public funds with the COVID emergency shutdown in 2020 (County Service Center closed for three months) due to existing processes in place at that time and will continue to increase receipt of electronic payments, further limiting this risk.
FINDING NO. 3	<p>Cash Pick-Ups</p> <p>During peak seasons, T-TC schedules only one armored car pick-up per day typically in the morning, even though the armored car contract allows for later pick-ups.</p>
CATEGORY	Control Finding
RISK	Utilizing a morning deposit during peak times can lead to potentially large sums of cash being kept overnight in the vault and increases the risk of misappropriation or theft of County assets. In addition, there is a potential loss of interest by not depositing funds until the next day.



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RECOMMENDATION	T-TC management implement later cash pick-ups during peak periods to minimize cash kept overnight.
MANAGEMENT RESPONSE	<p>Concur. T-TC concurs with Finding No. 3 and had specifically added this later pick-up option into the contract to be used during peak periods of incoming cash. T-TC will ensure staff is aware going forward of these terms minimizing the risk of keeping cash on hand and to schedule later pick-ups with the armored car carrier during peak periods.</p> <p>T-TC is also planning on implementing internal processes for reporting of any suspicious cash or cash received over \$10,000, similar to the Form 8300 required to be filed to the IRS and FinCEN to combat money laundering (Governments are exempt from filing this IRS form). This should further limit the cash on hand received.</p>

FINDING NO. 4	<p>Monitoring Activities</p> <p>COSO, the internal control framework adopted by the County, requires ongoing monitoring activities, including conducting separate evaluations to ascertain whether the components of internal control are present and functioning.</p> <p>T-TC does not conduct internal compliance reviews related to cash receipts. However, the department indicated that it is in the process of forming an independent, Risk Management and Compliance unit to perform these reviews.</p> <p>In addition, T-TC’s policy is to change the cashiering system cash limit during specific periods, such as peak season. The limits are a system control to prevent the accumulation of cash in the tills. However, based on a review of the most recent change request, the limit had not been adjusted since at least 2020, indicating that T-TC does not monitor compliance with this policy.</p>
CATEGORY	Control Finding
RISK	Not performing ongoing or separate evaluations of internal controls could lead to undetected control weaknesses.
RECOMMENDATION	T-TC enhance monitoring activities by performing ongoing and separate evaluations of cash receipts controls, including reviewing the cashiering system’s cash limit.
MANAGEMENT RESPONSE	<p>Concur. T-TC concurs with Finding No. 4 and has established a Risk Management and Compliance Unit that will review internal controls under COSO related to incoming cash deposits and cash till limits. As the receipt and deposit of cash into a County bank account is one of the main Treasurer’s duty by law, T-TC will work internally to develop a procedure, and then, as part of training all County employees on Cash Handling duties, incorporate these best practices in all Departments that accept and deposit cash in a bank account designated by T-TC.</p>



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FINDING NO. 5	Policies and Procedures
CATEGORY	Control Finding
RISK	Outdated policies and procedures could cause inconsistencies that lead to errors or inefficiencies.
RECOMMENDATION	T-TC management ensure policies and procedures are finalized/updated and reviewed periodically to ensure accurate and relevant information.
MANAGEMENT RESPONSE	Concur. T-TC concurs with Finding No. 5 and will review and update outdated policies and procedures in the cash receipts process. T-TC is actively working to finalize and update these documents while also centralizing our procedures and establishing a review schedule. This will help ensure consistency and efficiency in our operations. T-TC is committed to implementing the recommendation and will monitor progress regularly.

FINDING NO. 6	Inventory of Handwritten Cash Receipt Books
CATEGORY	Control Finding
RISK	Handwritten receipt books could be used to perpetuate theft if used to fraudulently process cash receipts transactions when not stored and issued under dual custody.
RECOMMENDATION	T-TC management ensure periodic documented inventories of handwritten cash receipt books are performed by an employee with no custodial or cashiering duties, or consider eliminating its handwritten receipt book inventory and implementing an alternative method for providing customer receipts in special circumstances.



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MANAGEMENT RESPONSE	Concur. T-TC concurs with Finding No. 6 and will review and update best practices for cash handling when software is not available to provide automated cash receipts to customers and produce electronic deposit lists for the bank deposit. T-TC will work internally to develop a procedure, and then, as part of training all County employees on Cash Handling duties, incorporate these best practices in all Departments that accept and deposit cash in a bank account designated by T-TC.
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FINDING NO. 7	Physical Security of the Cashiering Area T-TC's cashiering area is situated in a shared space with another County department. Although access to the area is restricted via badge access to authorized County employees, staff from the other department do not have a direct business need to enter the T-TC section. T-TC handles large volumes of cash and check payments and should limit exposure to their cashiering area.
CATEGORY	Control Finding
RISK	Not restricting the cashiering area to those with a direct business need increases the risk of misappropriation or theft of County assets.
RECOMMENDATION	T-TC management explore options to enhance the physical security of the cashiering area due to the large amount of incoming public funds.
MANAGEMENT RESPONSE	Concur. T-TC concurs with Finding No. 7. T-TC previously had the OC Sheriff and the T-TC's depository bank review the area and make recommendations to secure and protect cash after moving into the County Service Center in 2019. T-TC did not receive approval to move forward with the changes to limit access to only authorized personnel in the Cashiering area to those with a direct business need. T-TC will reconvene the appropriate parties and work with the CEO and OC Public Works to implement the final approved security changes to minimize access to public funds by unauthorized users.

AUDIT TEAM	Gianne Morgan, CIA, CISA Alejandra Luna Thuy Luu	Senior Audit Manager Audit Manager Staff Specialist
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APPENDIX A: ADDITIONAL INFORMATION

OBJECTIVES	<p>Our audit objectives were to:</p> <ol style="list-style-type: none"> 1. Evaluate the effectiveness of internal control over the cash receipts process to ensure cash receipts are properly collected, recorded, deposited, and safeguarded. 2. Review the cash receipts process for efficiency.
SCOPE & METHODOLOGY	<p>Our audit scope was limited to internal controls over Treasurer-Tax Collector’s (T-TC) cash receipts process for the year ended April 30, 2024. Our methodology included inquiry, observation, examination of documentation, and testing of relevant transactions.</p>
EXCLUSIONS	<p>Our audit scope did not include a review of the accounts receivable process. In addition, we did not perform a comprehensive review of IT general controls or application controls over T-TC’s information systems used to process cash receipts.</p>
PRIOR AUDIT COVERAGE	<p>We have not issued any audit reports for T-TC with a similar scope within the last ten years.</p>
BACKGROUND	<p>The mission of the T-TC is to ensure the safe and timely receipt, deposit, collection, investment, and paying out of public funds. As the Treasurer and banker for the County, T-TC is responsible for depositing public funds from taxes, fees, grants, and bond proceeds to the bank. As the Tax Collector, T-TC is responsible for the billing and collecting of all property taxes in Orange County.</p> <p>During the audit period, T-TC recorded approximately \$18.5 billion in cash receipts, of which \$9.4 billion (51%) was related to property tax collections.</p> <p>The Tax and Central Collections Division is comprised of the Tax Collection Services Unit and the Remittance Unit, among others. The Tax Collection Services Unit is responsible for performing cashing for property tax bills and other County invoices paid by customers over the counter. The Remittance Unit provides automated remittance processing for all mailed property tax payments and receipt processing for some County departments and outside government agencies.</p>



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PURPOSE & AUTHORITY	We performed this audit in accordance with the FY 2023-24 Audit Plan and Risk Assessment approved by the Audit Oversight Committee (AOC) and Board of Supervisors (Board).
PROFESSIONAL STANDARDS	Our audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.
FOLLOW-UP PROCESS	<p>In accordance with professional standards, the Internal Audit Department has a process to follow up on its recommendations. A first follow-up audit will generally begin six months after release of the initial report.</p> <p>The AOC and Board expect that audit recommendations will typically be implemented within six months or sooner for significant and higher risk issues. A second follow-up audit will generally begin six months after release of the first follow-up audit report, by which time all audit recommendations are expected to be implemented. Any audit recommendations not implemented after the second follow-up audit will be brought to the attention of the AOC at its next scheduled meeting.</p> <p>A Follow-Up Audit Report Form is attached and is required to be returned to the Internal Audit Department approximately six months from the date of this report to facilitate the follow-up audit process.</p>
MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL	In accordance with the Auditor-Controller's County Accounting Manual Section S-2 Internal Control Systems: "All County departments shall establish effective internal controls as department management is responsible for internal control. Department management shall also continuously assess and strengthen internal control by evaluating internal control systems and promptly correcting weaknesses when detected." The criteria for evaluating internal control is the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework. Our audit enhances and complements, but does not substitute for department management's continuing emphasis on control activities and monitoring of control risks.
INTERNAL CONTROL LIMITATIONS	Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in the department's operating procedures, accounting practices, and compliance with County policy.



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APPENDIX B: FINDING TYPE CLASSIFICATION

Critical Control Weakness	Significant Control Weakness	Control Finding
<p>These are audit findings or a combination of audit findings that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise the department's or County's reputation for integrity. Management is expected to address Critical Control Weaknesses brought to its attention immediately.</p>	<p>These are audit findings or a combination of audit findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses require prompt corrective actions.</p>	<p>These are audit findings concerning the effectiveness of internal control, compliance issues, or efficiency issues that require management's corrective action to implement or enhance processes and internal control. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.</p>



APPENDIX C: TREASURER-TAX COLLECTOR MANAGEMENT RESPONSE

The Treasurer-Tax Collector responded to our recommendations by embedding their management response indicating their planned corrective action within each of the findings noted above. As a result, a separate attachment is not included.

