

Internal Audit Department

O R A N G E C O U N T Y
6th Largest County in the USA

Internal Control & Compliance Audit:

AUDITOR-CONTROLLER FIDUCIARY (AGENCY) AND SPECIAL REVENUE FUNDS

For the Period
July 1, 2013 through December 31, 2014

Fiduciary (Agency) Funds are used to account for assets held in a trustee or agent capacity that cannot be used by the government to support its own programs. Special Revenue Funds are used to account for proceeds of specific revenue sources that are legally restricted or committed to expenditure for specified purposes. As of June 30, 2014, the Auditor-Controller was responsible for Fiduciary (Agency) and Special Revenue Funds and processing \$1.9 billion in transactions during FY 13-14 with total year-end fund balance exceeding \$135 million.


We audited internal controls and compliance over fiduciary (agency) and special revenue funds at the Auditor-Controller to ensure receipts and disbursements are proper and in compliance with County and departmental procedures and used for the restricted purpose.

We found internal controls over Auditor-Controller fiduciary (agency) and special revenue fund processes are in place to ensure that the receipts and disbursements are compliant with County and department procedures and with the restricted purpose. We identified **two (2) Control Findings** to enhance Auditor-Controller’s internal controls and compliance over fiduciary (agency) and special revenue funds.

AUDIT NO. 1337
REPORT DATE: MAY 21, 2015

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Assistant Director/Senior Audit Manager: **Michael Goodwin, CPA, CIA**
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RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010, 2013
 Member of American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



2009 Association of Certified Fraud Examiners’ Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays



2008 Association of Local Government Auditors’ Bronze Website Award



2005 Institute of Internal Auditors’ Award to IAD for Recognition of Commitment to Professional Excellence, Quality, and Outreach



ORANGE COUNTY BOARD OF SUPERVISORS'
Internal Audit Department

GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010, 2013

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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OC Fraud Hotline (714) 834-3608



Transmittal Letter



Audit No. 1337 May 21, 2015

TO: Eric Woolery, CPA
Auditor-Controller

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: Internal Control & Compliance Audit:
Auditor-Controller Fiduciary (Agency) and
Special Revenue Funds

We have completed an Internal Control & Compliance Audit of Auditor-Controller Fiduciary (Agency) and Special Revenue Funds for the period July 1, 2013 through December 31, 2014. We performed this audit in accordance with our *FY 2014-15 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and the Board of Supervisors. Our final report is attached for your review.

Please note we have a structured and rigorous **Follow-Up Audit** process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). Our **First Follow-Up Audit** will begin at six months from the official release of the report. A copy of all our Follow-Up Audit reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution list.

The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our **Second Follow-Up Audit** will begin at six months from the release of the first Follow-Up Audit report, by which time **all** audit recommendations are expected to be addressed and implemented. At the request of the AOC, we are to bring to their attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for discussion.

We have attached a **Follow-Up Audit Report Form**. Your department should complete this template as our audit recommendations are implemented. When we perform our first Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed form to facilitate our review.

Each month I submit an **Audit Status Report** to the BOS where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

As always, the Internal Audit Department is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report or recommendation. Additionally, we will request your department complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

ATTACHMENTS

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 5.

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Auditor-Controller Fiduciary (Agency) and
Special Revenue Funds
Audit No. 1337*

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Audit No. 1337

May 21, 2015

TO: Eric Woolery, CPA
Auditor-Controller

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: Internal Control & Compliance Audit: Auditor-Controller
Fiduciary (Agency) and Special Revenue Funds

Audit Highlight

Fiduciary (Agency) Funds are used to account for assets held in a trustee or agent capacity that cannot be used by the government to support its own programs. Special Revenue Funds are used to account for proceeds of specific revenue sources that are legally restricted or committed to expenditure for specified purposes.

We found internal controls over the Auditor-Controller's fiduciary (agency) and special revenue fund processes are in place and provide reasonable assurance that receipts and disbursements are compliant with County and department procedures.

We identified **two (2) Control Findings** to enhance internal controls and compliance over fiduciary (agency) and special revenue funds.

OBJECTIVES

In accordance with our *FY 2014-15 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and the Board of Supervisors, the Internal Audit Department conducted an Internal Control & Compliance Audit of Auditor-Controller Fiduciary (Agency) and Special Revenue Funds. This audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors. The objectives of this audit were to:

1. Evaluate Auditor-Controller's compliance and administration of fiduciary (agency) and special revenue funds to ensure the restricted funds are expended only for authorized purposes.
2. Evaluate internal controls and processes involving fund revenues (inflows) and expenditures (outflows) to ensure fiduciary (agency) and special revenue fund transactions are accurate, valid, adequately supported, processed timely, and are properly recorded in compliance with County and Auditor-Controller policy.
3. Evaluate internal controls over fiduciary (agency) and special revenue fund reconciliations to determine they are accurate, complete and timely in compliance with County and Auditor-Controller policy.
4. Determine if the Auditor-Controller's administration of fiduciary (agency) and special revenue funds is efficient and effective (e.g., no backlogs, duplication of work, manual processes that could benefit from automation).

RESULTS

Objective #1: The Auditor-Controller has internal controls in place to ensure that fiduciary (agency) and special revenue funds are administered in compliance with the established purposes of the restricted fund uses. We identified **one (1) Control Finding** concerning the administration of Fund 807.

Objective #2: The Auditor-Controller has internal controls in place that ensure fiduciary (agency) and special revenue fund transactions are accurate, valid, adequately supported, processed timely, and properly recorded. No findings were identified.

Objective #3: The Auditor-Controller has internal controls in place to ensure that reconciliations of fiduciary (agency) and special revenue funds are accurate, complete and timely in compliance with County and Auditor-Controller policy. We identified **one (1) Control Finding** concerning the resolution of long-outstanding reconciling items.

Objective #4: We did not note any backlogs or duplication of work in the Auditor-Controller's processes and administration over fiduciary (agency) and special revenue funds. No findings were identified.



The following table summarizes our findings and recommendations for this audit. See further discussion in the *Detailed Results, Findings, Recommendations and Management Responses* section of this report. See *Attachment A* for a description of Report Item Classifications.

Summary Table of Findings and Recommendations

Finding No.	Finding Classification (see Attachment A)	Finding and Page No. in Audit Report	Recommendation	Concurrence by Management?
1.	Control Finding	Administration of Bond Redemptions in Fund 807 (pg. 6)	A-C should consider seeking County Counsel guidance on the handling of future bond and coupon redemptions and enhance written procedures accordingly.	Yes
2.	Control Finding	Long Outstanding Reconciling Items (pg. 8)	A-C should continue to pursue resolution of long-outstanding reconciling items.	Yes

BACKGROUND

The primary mission of the Auditor-Controller is to promote public oversight, provide accountability, and support financial decision-making for the County. The Auditor-Controller is comprised of the following operations:

- Central Operations** – Performs the core services traditionally associated with the Auditor-Controller's Office such as, accounts payable services, financial reporting, and payroll. Most of the fiduciary (agency) and special revenue funds are administered and monitored in General Accounting, General Ledger, Claims and Disbursing, and Cost, Revenue and Budget.
- Satellite Accounting Operations** – Provides specialized accounting services to eight departments hosting out-stationed Auditor-Controller's Office accounting teams.
- Executive & Administrative Services** – Includes the executive management team that provides leadership and direction for the department.
- Systems Operations** – Keeps the Auditor-Controller and Countywide financial systems running accurately and timely.
- Internal Audit & Staff Services** – Performs the Auditor-Controller's mandated audits required by California Government Code and provides professional accounting support to areas of the department needing temporary assistance.
- Property Tax** – Performs the Auditor-Controller's statutorily mandated functions related to property tax. This unit processes transactions for two fiduciary funds where allocations are made from Educational Revenue Augmentation Fund (ERAF) property taxes to cities and counties.



Special Revenue and Fiduciary (Agency) Funds

The purpose of a **special revenue fund** is to establish accountability over restricted monies to help ensure the monies are expended only for statutory purposes. Special revenue funds are used to account for and report the proceeds of specific revenue sources (other than debt service or capital projects) that are legally restricted or committed to expenditure for specific purposes.

The purpose of a **fiduciary (agency) fund** is to temporarily hold monies belonging to a person or entity other than the County. Fiduciary funds are used to account for assets held by a government in a trustee capacity or as an agent that therefore cannot be used by the government to support its own programs. These activities include:

- Pension (and Other Employee Benefit) Trust Funds – Used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, or other employee benefit plans.
- Investment Trust Funds – Used to report governmental external investment pools in separately issued reports.
- Private-Purpose Trust Funds – Used to report all trust arrangements, other than those properly reported in pension trust funds or investment trust funds, under which principal and income benefit individuals, private organizations, or other governments.
- Agency Funds – Used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities) that thus do not involve measurement of results of operations.

Note: The objectives and scope of this audit include only the Auditor-Controller's fiduciary (agency) and special revenue funds and does not include other Auditor-Controller fiduciary funds.

The special revenue and fiduciary (agency) funds administered by the Auditor-Controller during our audit reported the following fund inflows (revenues/receipts), outflows (expenditures/disbursements) for Fiscal Year 13/14, and fund balance as of June 30, 2014:

Fund	Fund Type	Name/Date Established	Purpose	FY 13/14 Revenues/Expenditures Receipts/Disbursements	Fund Balance at 6/30/14
14C	Special Revenue	Plan of Adjustment Class B-27 Disputed Claims Registered Warrants – July 1996	Records available revenues for payment of registered warrants under the County's Second Amended Plan of Adjustment (Bankruptcy related)	Revenues: (\$9) Expenditures: \$2	\$2,628
15Z	Special Revenue	Recovery Plan of Adjustments Available Cash – June 1996	Records annual excess of diverted revenues over 1996 Certificates of Participation (Bankruptcy related)	Revenues: (\$8,673,360) Expenditures: \$8,676,296	\$16,933,636
15Q	Fiduciary (Agency)	Pension Obligation Bond Amortization – July 1995	To account for the Pension Obligation Bond proceeds and the annual amortization of the related prepaid expense	Receipts: (\$14,085,663) Disbursements: \$14,085,663	\$109,985,545
211	Fiduciary (Agency)	Supplemental law Enforcement Services – August 1996	Funds to supplement existing law enforcement services expended exclusively on putting additional officers on the street	Receipts: (\$16,758,193) Disbursements: \$17,366,162	\$4,915,834
212	Fiduciary (Agency)	Public Safety Augmentation Fund – August 1993	Used to receive monthly disbursements from State Local Public Safety Fund to cities, Sheriff and DA	Receipts: (\$299,704,099) Disbursements: \$299,704,099	\$2,505,587

OC Internal Auditor's Report



Fund	Fund Type	Name/Date Established	Purpose	FY 13/14 Revenues/Expenditures Receipts/Disbursements	Fund Balance at 6/30/14
213	Fiduciary (Agency)	Sales and Use Tax Compensation Fund – June 2004	For reallocating property taxes from the Educational Revenue Augmentation Fund to cities and counties	Receipts: (\$151,779,098) Disbursements: \$151,776,531	\$3,168
216	Fiduciary (Agency)	Vehicle License Fee Property Tax Compensation Fund – December 2004	Property tax transferred from Educational Revenue Augmentation Fund to cities and counties	Receipts: (\$529,777,801) Disbursements: \$529,771,917	\$7,387
249	Fiduciary (Agency)	Retirement Contributions – July 2008	For retirement contributions received on behalf of OCERS	Receipts: (\$567,792,166) Disbursements: \$567,692,587	\$164,666
309	Fiduciary (Agency)	Attached Salary – early 1980s	For salary withholdings other than retirement	Receipts: (\$336,708,877) Disbursements: \$336,765,271	\$78,274
353	Fiduciary (Agency)	County Auditor-Controller's Trust Fund – August 1962	A suspense account to hold monies until accounting treatment is determined	Receipts: (\$0) Disbursements: \$0	\$6,075
355	Fiduciary (Agency)	Equipment Violation Penalty Owed to State – September 1999	Funds from parking and equipment violations	Receipts: (\$5,097,944) Disbursements: \$4,897,216	\$584,966
807**	Fiduciary (Agency)	Accounts Payable Revolving – November 1963	Used as an AP Check Disbursement Clearing Account and for redemption of bearer bonds and coupons.	Receipts: (\$0) Disbursements: \$0	\$366,953
808**	Fiduciary (Agency)	County Payroll Revolving – sometime in 1960s	Used as a Payroll Check/EFT Clearing Account	Receipts: (\$0) Disbursements: \$0	\$0
809**	Fiduciary (Agency)	Payroll Revolving – sometime in 1960s	Used as a Welfare Check Clearing Account	Receipts: (\$0) Disbursements: \$0	\$0
810**	Fiduciary (Agency)	Electronic Fund Transfer Clearing Account – July 2007	A clearing account for EFT status.	Receipts: (\$0) Disbursements: \$0	\$0
Totals				Revenues/Receipts – (\$1,930,377,210) Expenditures/Disbursements- \$1,930,735,744	Fund Balance - \$135,554,719

**Clearing accounts reconciled monthly to the Treasurer's Fund Accounting Cash Balance per GC 26905.

SCOPE AND METHODOLOGY

Our audit covered the period July 1, 2013 through December 31, 2014, and included the Auditor-Controller's (A-C) administration and processes over fiduciary (agency) and special revenue funds. Our scope and methodology included:

1. Evaluating processes and internal controls over the A-C's administration of thirteen (13) fiduciary (agency) and two (2) special revenue funds with fund balances exceeding \$136 million to ensure compliance with County and A-C policies and procedures.
2. Obtaining an understanding of the nature, purpose and fund requirements concerning sources and uses of fiduciary (agency) and special revenue funds. We accomplished this by obtaining documentation from A-C General Ledger for the establishment of the funds, known as COFAs.
3. Testing a sample of fund revenues/receipts and expenditures/disbursements to determine whether the transactions are accurate, valid, adequately supported, properly recorded and processed timely in compliance with County and A-C policies and procedures.
4. Testing a sample of fund reconciliations to determine if they are performed accurately, completely and timely in accordance with County and A-C policies and procedures.



SCOPE EXCLUSIONS

Our audit did not include a review of the information technology controls for any Auditor-Controller systems used in the administration of special revenue or fiduciary (agency) funds. We also did not evaluate any information technology or system controls involving CAPS+ (except for reviewing certain user roles in CAPS+ for segregation of duties).

Management's Responsibilities for Internal Controls

In accordance with the Auditor-Controller's County Accounting Manual section S-2 *Internal Control Systems*, "All County departments/agencies shall maintain effective internal control systems as an integral part of their management practices. This is because management has primary responsibility for establishing and maintaining the internal control system. All levels of management must be involved in assessing and strengthening internal controls...". Control systems shall be continuously evaluated (by Management) and weaknesses, when detected, must be promptly corrected. The criteria for evaluating an entity's internal control structure is the Committee of Sponsoring Organizations (COSO) control framework. Our Internal Control Audit enhances and complements, but does not substitute for the Auditor-Controller's continuing emphasis on control activities and self-assessment of control risks.

Inherent Limitations in Any System of Internal Control

Because of inherent limitations in any system of internal controls, 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 Auditor-Controller's operating procedures, accounting practices, and compliance with County policy.

Acknowledgment

We appreciate the courtesy extended to us by the Auditor-Controller during our audit. If we can be of further assistance, please contact me directly at 834-5475 or Michael Goodwin, Assistant Director at 834-6066.

Attachments

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Frank Kim, County Executive Officer
- Mark Denny, Chief Operating Officer
- Claire Moynihan, Director, A-C Central Operations
- Toni Smart, Section Manager, A-C Accounting and Financial Reporting
- Cindy Wong, Senior Manager, A-C General Accounting
- Scott Suzuki, Senior Manager, A-C Claims and Disbursing Unit
- Lisa Poma, Senior Manager, A-C Disbursing Unit
- Sarah Quach, Manager, A-C Cost, Revenue and Budget
- Foreperson, Grand Jury
- Robin Stieler, Interim Clerk of the Board of Supervisors
- Macias Gini & O'Connell LLP, County External Auditor

Detailed Results, Findings, Recommendations and Management Responses



Objective #1: Evaluate Auditor-Controller's compliance and administration of fiduciary (agency) and special revenue funds to ensure the restricted funds are expended only for authorized purposes.

AUDIT STEPS AND RESULTS

To accomplish this objective, we performed the following audit steps:

- ✓ Reviewed pertinent County policies for special revenue and fiduciary (agency) funds including the Auditor-Controller's County Accounting Manual Procedures *F-3 – Requesting Establishment/Deletion of Funds/Agencies* and *F-4 – Fiduciary Funds*.
- ✓ Obtained and reviewed documentation showing the establishment and purpose of the special revenue and fiduciary (agency) funds. These documents are referred to as COFAs.
- ✓ Held meetings and reviewed documentation provided by Auditor-Controller management and staff responsible for the administration of special revenue and fiduciary (agency) funds.
- ✓ Evaluated written policies and procedures for special revenue and fiduciary (agency) funds.
- ✓ Evaluated internal controls by testing a sample of fund inflows, outflows and reconciliations (under Objectives #2 and #3) for each of the 15 funds included in our audit.

CONCLUSION

Our audit found the Auditor-Controller has internal controls in place to ensure that fiduciary (agency) and special revenue funds are administered in compliance with the established purposes of the restricted fund uses. We found that the fiduciary (agency) and special revenue funds have documentation that shows the establishment and purpose of each fund, known as a COFA, except for two fiduciary (agency) funds that were established sometime in the 1950s and 1960s. In those instances, other documentation was provided. We also found that the Auditor-Controller had developed written policies and procedures for processing and reconciling each fund. Based on our audit, we identified **one (1) Control Finding** concerning the administration of Fund 807. The finding and recommendation is discussed below:

Finding No. 1 – Administration of Fiduciary (Agency) Fund 807 (Control Finding)

Summary

Fund 807 is used to account for monies held for outstanding bond and coupon redemptions. The fund has very little activity, with the most recent bond redemption processed in 2010. As such, County Counsel should be consulted as to the legal obligations of maintaining this fund for bond and coupon redemptions.

Details

Fund 807 - *Accounts Payable Revolving* is primarily used as a clearing account for A/P checks; however, the fund holds a small balance consisting of proceeds resulting from the sale of bearer bonds originally issued by various government entities, with some issuances dating back to the 1940's. The use of these proceeds is for payment of principal and interest to holders of these outstanding bearer bonds, with the County of Orange Treasurer being listed on the bonds as the paying agent. The balance of outstanding bonds and coupons was **\$366,953.39** as of June 30, 2014. The fund has infrequent activity, with the last redemption processed in 2010.

Auditor-Controller staff provided legal documentation dating back to 1976 which appears to indicate a statute of limitations on bond redemptions; meaning that the County may potentially deny payment where a bond or coupon is presented for redemption ten years after the maturity date of the bond. As such, we believe the A-C should consult with County Counsel on the current legal obligations of maintaining this fund. As a result of our finding, we were informed that A-C is in the process of obtaining legal guidance on this issue.



In addition, Auditor-Controller should enhance their written procedures for Fund 807 to include the handling of future bond and coupon redemptions. The absence of properly documented and effectively communicated procedural and/or operational policies and procedures increases the risk of deficient internal controls and inconsistent application of procedures.

Recommendation No. 1

Auditor-Controller should pursue County Counsel guidance in determining the legal obligations of maintaining Fund 807 for the purpose of redeeming bearer bonds and coupon redemptions. Based on County Counsel's guidance, written procedures should be enhanced accordingly for the handling of future bond and coupon redemptions.

Auditor-Controller's Management Response:

Concur. The Auditor-Controller has received guidance from County Counsel to pursue reimbursement to the issuers and will update procedures by July 31, 2015.

Objective #2: Evaluate internal controls and processes involving fund revenues (inflows) and expenditures (outflows) to ensure fiduciary (agency) and special revenue fund transactions are accurate, valid, adequately supported, processed timely, and are properly recorded in compliance with County and Auditor-Controller policy.

AUDIT STEPS AND RESULTS

To accomplish this objective, we performed the following:

- ✓ Held meetings and conducted walkthroughs of the processes and controls for receipts and expenditures with Auditor-Controller staff and management responsible for processing the transactions and records.
- ✓ Evaluated internal controls by testing a sample of fund inflows (receipts/revenues), judgmentally selected from fiduciary (agency) and special revenue funds.
- ✓ Evaluated internal controls by testing a sample of outflows (disbursements/expenditures), judgmentally selected from fiduciary (agency) and special revenue funds.

CONCLUSION

Our audit found the Auditor-Controller has internal controls in place that ensure fiduciary (agency) and special revenue fund transactions are accurate, valid, adequately supported, processed timely, and properly recorded in compliance with County and Auditor-Controller policy. Our audit found adequate segregation of duties and management reviews and approvals in the transactions we tested. **No findings came to our attention under this objective.**

Detailed Results, Findings, Recommendations and Management Responses



Objective #3: Evaluate internal controls over fiduciary (agency) and special revenue fund reconciliations to determine they are accurate, complete and timely in compliance with County and Auditor-Controller policy.

AUDIT STEPS AND RESULTS

To accomplish this objective, we performed the following audit steps:

- ✓ Held meetings and conducted walkthroughs of the reconciliation processes for special revenue and fiduciary (agency) funds with Auditor-Controller staff and management.
- ✓ Evaluated internal controls (accuracy, adequately supported, segregation of duties, review/approvals, timeliness, and resolution of long-outstanding reconciling items) by testing a sample of fund reconciliations from each special revenue and fiduciary (agency) fund.

CONCLUSION

Our audit found the Auditor-Controller has controls and processes in place to ensure that fund reconciliations are prepared accurately, completely and timely. We identified **one (1) Control Finding** concerning timely resolution of reconciling items, which is discussed below:

Finding No. 2 – Timely Resolution of Reconciling Items (Control Finding)

Summary

Reconciling items were not always resolved in a timely manner. We noted two funds with reconciling differences that were not identified and resolved timely. One reconciling difference in the amount of \$6,074 has not yet been resolved. The other reconciling differences are \$776 in unidentified interest and \$20,807 in unidentified unreserved/undesignated fund balance.

Details

Our testing of fiduciary (agency) and special revenue fund reconciliations noted the following:

1. Fund 353 – County Auditor-Controller’s Trust Fund. Fund 353 is a suspense account used for the purpose holding monies until the Auditor-Controller can determine the appropriate coding for recording in the general ledger or other appropriate disposition. We noted one reconciling difference in the amount of **\$6,074** which has not yet been resolved. The item resulted from an IRS refund check (net adjusted credit) dated 5/14/13, recorded in the general ledger on 5/20/13. We were informed that Auditor-Controller staff has attempted to work with the IRS to identify the origin of this refund in order to properly resolve the item, but have been unsuccessful in obtaining the necessary information. The Auditor-Controller is currently considering the most appropriate resolution of this item given the information available.
2. Fund 807 – Accounts Payable Clearing. Fund 807 had a cash balance of \$366,953 which was held to redeem outstanding bearer bonds and coupons. Of this balance, the fund reconciliation noted **\$776** in unidentified interest and **\$20,807** in unidentified unreserved/undesignated fund balance, which cannot be attributed to a specific outstanding bond issuance. Auditor-Controller staff attempted to research the details of this balance in old records and microfiche; however, it appears to have originated prior to early 1990’s.

Criteria

Auditor-Controller County Accounting Manual Section F-4, *Fiduciary Funds*, §2.6.5 Reconciliation of Fiduciary Funds states: “Departments and agencies are responsible for reconciling, at least monthly, each fiduciary fund balance per the department’s or agency’s subsidiary ledger records or other detailed records to the Auditor-Controller’s General Ledger balance shown for the fiduciary fund. This reconciliation must identify the differences between the department’s or agency’s detailed or subsidiary records and the General Ledger balance of the fund, **the reasons for those differences, and the planned disposition of any reconciling items.**”



Recommendation No. 2

Auditor-Controller should continue to pursue identification and resolution of the long-outstanding reconciling items in Fund 807 and Fund 353.

Auditor-Controller's Management Response:

Concur. Regarding Fund 807, the Auditor-Controller has attempted to reconcile this amount several times by General Ledger and Central Disbursing; however, supporting documentation has not been found and it is unknown when this entry was first recorded. While Auditor-Controller agrees reconciling items should be resolved in a timely manner, we believe no additional information is forthcoming and will return the money to the General Fund by July 31, 2015. As to Fund 353, the Auditor-Controller was unable to obtain any additional information from the IRS. On April 16, 2015, \$6,074.99 was transferred from Fund 353 to the General Fund.

Objective #4: Determine if the Auditor-Controller's administration of fiduciary (agency) and special revenue funds is efficient and effective (e.g., no backlogs, duplication of work, manual processes that could benefit from automation).

CONCLUSION

Based on our audit, we did not note any instances of backlogs or duplicated work in the Auditor-Controller's processes and administration of fiduciary (agency) and special revenue funds. **No findings came to our attention under this objective.**



ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit observations and recommendations, we will classify audit report items into three distinct categories:

▶ **Critical Control Weaknesses:**

These are Audit Findings or a combination of Auditing 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 their attention immediately.

▶ **Significant Control Weaknesses:**

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.

▶ **Control Findings:**

These are Audit Findings concerning internal controls, compliance issues, or efficiency/effectiveness issues that require management's corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.



ATTACHMENT B: Auditor-Controller Management Responses



ERIC H. WOOLERY, CPA
AUDITOR-CONTROLLER



May 13, 2015

TO: Peter Hughes, Director
Internal Audit Department

SUBJECT: Confidential Draft Report of Report on Internal Control & Compliance Audit: Auditor-Controller Fiduciary (Agency) and Special Revenue Funds, Audit No. 1337

Following is our response to the recommendations contained in the subject report:

Recommendation No. 1. Seek County Counsel Guidance on handling Future Bond & Coupon Redemptions and Enhance Written Procedures.

Auditor-Controller should pursue County Counsel guidance in determining the legal obligations of maintaining Fund 807 for the purpose of redeeming bearer bonds and coupon redemptions. Based on County Counsel's guidance, written procedures should be enhanced accordingly for the handling of future bond and coupon redemptions.

Auditor-Controller Management Response:

Concur. The Auditor-Controller has received guidance from County Counsel to pursue reimbursement to the issuers and will update procedures by July 31, 2015.

Recommendation No. 2. Timely Resolution of Reconciling Items

Auditor-Controller should continue to pursue identification and resolution of the long outstanding reconciling items in Fund 807 and Fund 353.

Auditor-Controller Management Response:

Concur. Regarding Fund 807, the Auditor-Controller has attempted to reconcile this amount several times by General Ledger and Central Disbursing; however, supporting documentation has not been found and it is unknown when this entry was first recorded. While Auditor-Controller agrees reconciling items should be resolved in a timely manner, we believe no additional information is forthcoming and will return the money to the General Fund by July 31, 2015. As to Fund 353, the Auditor-Controller was unable to obtain any additional information from the IRS. On April 16, 2015, \$6,074.99 was transferred from Fund 353 to the General Fund.

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Auditor-Controller

EHW:CM

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