

**DEPARTMENT CONTROL REVIEW
COUNTY CLERK-RECORDER
CASH RECEIPTS
AND
TRUST FUND DISBURSEMENTS**

FOR THE PERIOD FROM JANUARY 1, 2002 THROUGH MARCH 31, 2003

**REPORT DATE:
September 2, 2003**

Audit Number #2324

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Deputy Director:	Eli Littner, CPA, CIA, CISA
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**INTERNAL AUDIT DEPARTMENT
COUNTY OF ORANGE**

**DEPARTMENT CONTROL REVIEW
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CASH RECEIPTS
AND
TRUST FUND DISBURSEMENTS
For the Period From January 1, 2002 Through March 31, 2003**

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Transmittal Letter

Audit No. 2324

September 2, 2003

TO: Tom Daly
County Clerk-Recorder

FROM: Peter Hughes, Ph.D., Director
Internal Audit Department

SUBJECT: Department Control Review of County Clerk-Recorder
Cash Receipts and Trust Fund Disbursements

We have completed our review of internal controls over cash receipts and trust fund disbursements processed by the County Clerk-Recorder's Office for the period from January 1, 2002 to March 31, 2003. The final report is attached along with your responses to our recommendations. We also attached a Customer Survey of Audit Services. Please complete the survey and return it to Eli Littner, Deputy Director of Internal Audit.

We appreciate the courtesy and cooperation of your staff during our review.

Attachment

Other recipients of this audit report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Foreman, Grand Jury
- Clerk of the Board of Supervisors
- James D. Ruth, Interim County Executive Officer
- Renee Aguilar-Ramirez, Assistant Clerk-Recorder
- Doug Wilson, Assistant Clerk-Recorder
- Lyn Cole, Manager, Clerk-Recorder/Financial Services



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INTERNAL AUDITOR'S REPORT

Audit No. 2324

September 2, 2003

Tom Daly
County Clerk-Recorder
12 Civic Center Plaza
Santa Ana, CA 92701

We have completed a review of internal controls over cash receipts and trust fund disbursements of the County Clerk-Recorder (Clerk-Recorder) for the period from January 1, 2002 through March 31, 2003. Our review was made in accordance with professional standards established by the Institute of Internal Auditors for the purpose of evaluating the adequacy of internal controls in the areas noted above. We believe our review provides a reasonable basis for our opinion.

Management of the Clerk-Recorder is responsible for establishing and maintaining a system of internal controls. The objectives of an internal control system are to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly. County Accounting Procedure (CAP) No. S-2 – *Internal Control Systems* prescribes the policies and standards to be followed by departments/agencies in establishing and maintaining internal control systems. Our review enhances and complements, but does not substitute for the Clerk-Recorder's continuing emphasis on control activities and self-assessment of control risks.

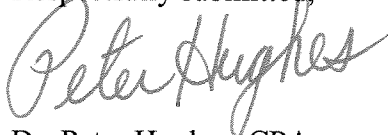
Because of inherent limitations in any system of internal controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate. Accordingly, our review made for the limited purpose described above would not necessarily disclose all weaknesses in the Clerk-Recorder's operating procedures, accounting practices and compliance with County policy.



Based upon our review, it is our opinion that internal controls need improvements to ensure cash receipts are properly collected, deposited, recorded and safeguarded; trust funds are properly safeguarded, and disbursements are properly authorized, accurate and supported in accordance with management's authorization and direction. Our substantive testing did not disclose any instances of monetary loss or misappropriation; however, we did observe opportunities where internal controls could be enhanced as detailed in the Observations, Recommendations and Management Responses section of this report. Responses from the Clerk-Recorder have been included for each recommendation and the complete text of responses has been appended to the report.

We appreciate the courtesy and cooperation extended to us by the personnel of the Clerk-Recorder during our review. If we can be of further assistance, please contact me directly or Eli Littner, Deputy Director at (714) 834-5899 or Michael Goodwin, Audit Manager at (714) 834-6066.

Respectfully submitted,



Dr. Peter Hughes, CPA
Director, Internal Audit

Attachment

Distribution: Pursuant to Audit Oversight Committee Procedure No. 1
Members, Board of Supervisors
Members, Audit Oversight Committee
Foreman, Grand Jury
Clerk of the Board of Supervisors
James. D. Ruth, Interim County Executive Officer
Renee Aguilar-Ramirez, Assistant Clerk-Recorder
Doug Wilson, Assistant Clerk-Recorder
Lyn Cole, Manager, Clerk-Recorder/Financial Services
Gloria Rivera, Accounting Supervisor, Clerk-Recorder/Financial Services



OVERVIEW

OBJECTIVE

The Internal Audit Department conducted a review of the Clerk-Recorder for the purpose of evaluating internal controls and whether they are functioning adequately in the area of cash receipts and trust fund disbursements to ensure:

- ◆ Cash receipts are properly collected, recorded, deposited, and reconciled.
- ◆ Cash receipts are adequately safeguarded to minimize occurrence of loss or theft.
- ◆ Trust fund disbursements are authorized, accurate, supported and processed timely in accordance with management's authorization.

BACKGROUND

The Clerk-Recorder's mission is "to provide efficient service to the public in a way that exemplifies the highest standards of courtesy, cost effectiveness, and ethical performance as well as to make public records readily accessible to citizens and taxpayers in a convenient manner while safeguarding confidentiality and the security of those records." The Clerk-Recorder has two divisions. The Recorder Division records and processes real property documents and supports office wide automation. The Clerk Division primarily issues marriage licenses; files fictitious business statements; provides birth, death, and marriage certificates; handles official records request; maintains the county archives and provides office wide administrative support. In 2002, the Clerk-Recorder received a record number of business transactions and met this challenge while increasing its contribution to the County General Fund, maintaining the lowest document fees in the State, responding with minimal staffing, and still continuing its commitment to develop and implement state-of-art technology. The Clerk-Recorder projects the contribution to the County General Fund will be about \$6 million for FY 2002-03.

Cash receipts processed by the Clerk-Recorder's Office consist of fees for a variety of services provided as listed above. Clerk-Recorder (C-R) has five locations where cash receipts are collected and recorded in the subsidiary cashier system. The collections are transferred to C-R/Financial Services who prepares the Deposit Order and deposits the monies with the County Treasury. The Deposit Order is submitted to the Auditor-Controller for recording into the County financial system. The total cash receipts processed during the fiscal year ended 6/30/2003 was approximately \$67 million.



Trust funds processed by the Clerk-Recorder consist of service fees collected and disbursed primarily pertaining to real property document recordings (property transfer tax); marriage licenses; birth, marriage and death certificates; environmental impact reports; and refunds on overpayments. Property transfer tax is disbursed to the local cities. A portion of marriage license fees, birth and death certificate fees, and environmental impact report filing fees are disbursed to state agencies as required by California Government codes and regulations. A majority of disbursements is attributed to the property transfer tax payments. CR/Financial Services processes the trust fund disbursements and submits them to the Auditor-Controller's Office where the trust fund check is issued. The total trust fund disbursements processed by the Clerk-Recorder was approximately \$15.7 million for the calendar year ended 12/31/2002.

SCOPE

Our review was limited to internal controls over cash receipts and trust fund disbursements for the period from January 1, 2002 to March 31, 2003. Our review included inquiry, auditor observation and limited testing of relevant documentation for the purpose of assessing the adequacy of internal controls over these processes in the Clerk-Recorder's office. We did not specifically review information systems or system controls used in these processes. However, we did review whether user access to the Cashiering System was appropriate based on staff's assigned duties, and the accuracy of data in system-generated cashiering reports.

Our review did not include an evaluation of compliance with laws or regulations for the trust funds or evaluation of the CAPS information systems or system controls in the Auditor-Controller's Claims & Disbursing Section.

CONCLUSION

It is our opinion that internal controls over cash receipting and trust fund processes need improvements to ensure cash receipts are properly collected, recorded, deposited, and safeguarded, and trust fund disbursements are properly authorized, accurate, supported and processed timely in accordance with management's authorization. Our testing did not disclose any instances of monetary loss or misappropriations in the areas we reviewed. We did observe the following areas where internal controls should be enhanced:

- I. Accountability Over Cash Receipts
- II. Segregation of Duties
- III. Physical Safeguards
- IV. Supervisory Review & Approval
- V. Reconciliation of Deposit Orders
- VI. Trust Funds
- VII. Cashiering System Controls



Our observations and recommendations are discussed in the Observations, Recommendations and Management Responses section of this report. In the observations, we indicate the unit/s where improvements are needed. However, management should ensure the recommendations identified in this report are considered in all units of the Clerk-Recorder.

We want to express our appreciation for the level of cooperation provided by the staff of the Clerk-Recorder. As issues were identified during our review, the Clerk-Recorder's Office has been responsive and has begun taking corrective actions to address many of these recommendations. We were informed that some of these recommendations have been implemented.



OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

I. Accountability Over Cash Receipts

Accountability over cash receipts should be established when monies are initially collected, and when transferred between employees during the collection and deposit process. This internal control practice helps ensure that all monies received are completely and properly deposited. We found certain controls were not in place and should be added to strengthen accountability over cash receipts.

1. Maintain a list of unprocessed checks that may be received occasionally in Financial Services.
2. Restrictively endorse checks immediately upon opening the mail at the Help Desk in the Document Examining Unit.
3. Use counterfeit detector pens consistently on large currency bills.
4. Document consistently the transfer of accountability between employees and Financial Services of cashier starting banks.

Recommendation No. 1

Clerk-Recorder management take additional measures to ensure accountability is properly established by maintaining list of unprocessed checks, restrictively endorsing checks immediately upon receipt, using counterfeit detector pens on large bills, and documenting the transfer of cashier starting banks.

Clerk-Recorder Response:

Concur. Recommendation implemented April, 2003.

II. Segregation of Duties

Segregation of duties is a critical element of effective internal control, reducing the risk of both erroneous and inappropriate actions. The duties of receipting, recording, approval, reconciling, and asset custody should generally be separated among employees to the extent possible. When these functions cannot be adequately separated, prudent supervisory review of these activities is encouraged to help mitigate risk and to help compensate for the lack of segregation of duties. The following are areas where further segregation of duties is necessary or, as an alternative, supervisory review could be enhanced:

1. An individual in the Official Records mailroom opens mail receipts and is also a back up cashier.
2. The Accounting Specialist in Financial Services records adjustments in the cashing system and also prepares daily deposits.
3. An Accounting Assistant in Financial Services has access to the title company checks, processes manual adjustments, and posts payments for house charges in the cashier system.



Recommendation No. 2

Clerk-Recorder management take additional measures to ensure the duties of receipting, recording, depositing, and asset custody are properly segregated to the extent possible. If segregation is not possible, adequate supervisory review should be implemented for duties not properly segregated.

Clerk-Recorder Response:

Concur. Recommendation will be implemented as of September 1, 2003.

III. Physical Safeguards

Assets such as cash receipts, critical forms like handwritten receipts, Bank Note Paper (used to issue certified copies of birth, death, and marriage certificates), Vital Chek forms (used to process credit card transaction), and title company checks (used to process house charge payments) must be safeguarded against unauthorized acquisition, use, or disposition. Access controls help to safeguard these assets and forms. Also, periodic counts of cash receipts and critical forms should be performed and documented, the results compared to internal records, and variances immediately investigated. The following are areas where controls can be enhanced to improve the physical safeguarding objective.

1. Ensure cash receipts are transferred to Financial Services for depositing in a secure manner. (Fictitious Business Name and Marriage License Units)
2. Ensure keys to cash drawers are secured when cashiers are away from their workstations. (Fictitious Business Name)
3. A written record of key and safe combination holders should be maintained.
4. Limit the access to the blank/unused Bank Note Paper and Vital Chek forms to the custodians of these documents. (Vital Records and Official Records)
5. Maintain an inventory record of handwritten receipt books, Bank Note Paper, Vital Chek forms, and title company checks.
6. An independent person should perform periodic physical inventories of these forms and the physical inventories should be documented.

Recommendation No. 3

Clerk-Recorder management ensure controls are in place to safeguard cash receipts and critical forms including transferring cash receipts securely, securing keys to cash drawers, maintaining inventory records of handwritten receipts, Bank Note Paper, Vital Chek forms, and title company checks, and performing documented independent physical inventories of these forms.

Clerk-Recorder Response:

Concur. Recommendation will be implemented as of September 1, 2003.



IV. Supervisory Review & Approval

An important preventive control activity is supervisory approval. Approval of a transaction means the approver has reviewed the supporting documentation and is satisfied the transaction is appropriate, accurate, and compliant with applicable policies and procedures before the transaction is processed. Supervisory review of reports, reconciliations, and other information is an important detective control activity. Management should review such information for propriety, consistency, and reasonableness. The review should be documented, as well as the resolution of items noted for follow-up. We noted the following areas where supervisory review and approval should be implemented to strengthen accuracy and completeness of cash receipts:

1. A complete supervisory review and approval of Deposit Orders to collection records (i.e. system reports) should be performed to ensure accuracy and completeness of deposits. (Financial Services)
2. The Accounting Supervisor in Financial Services should review supporting schedules maintained by the Accounting Assistant for house charges to ensure accuracy. (Financial Services)
3. Since the counter clerks in Vital Records issue birth, death, and marriage certificates and record cash receipts in the cashiering system, the Supervisor should ensure all cash receipts are recorded in the cashier system by tracing the number of certificates (i.e. Bank Note Paper) used from the inventory record to the number of certificates recorded in the system.
4. Since the counter clerks in Official Records provide copies of documents and record cash receipts for these documents, the Supervisor should ensure all cash receipts received are recorded in the cashier system by spot checking the total fees on the forms used to request copies to the total amount recorded in the cashiering system.

Recommendation No. 4

Clerk-Recorder management ensure supervisory review and approval of pertinent documents is performed and documented to ensure cash receipts are accurate, complete and recorded properly.

Clerk-Recorder Response:

Concur. Recommendation will be implemented as of September 1, 2003.

V. Reconciliation of Deposit Orders

Reconciliation is a comparison of one set of data to another, identifying and investigating differences, and taking corrective action when necessary to resolve those differences. This internal control activity helps ensure the accuracy and completeness of transactions. Reconciling monthly general ledger reports to departmental deposit orders and collection records is an example of reconciling one set of data to another.



The following is an area where controls should be implemented:

- Reconciliation of validated Deposit Orders to system reports and to the general ledger should be performed and documented. Differences should be investigated and resolved timely.

Recommendation No. 5:

Clerk-Recorder management take appropriate measures to reconcile deposits to the general ledger monthly and investigate and resolve differences timely.

Clerk-Recorder Response:

Concur. Recommendation implemented April, 2003.

VI. Trust Funds

The Clerk-Recorder's office receives, holds and disburses a portion of service fees, such as property transfer tax to local cities and birth certificate fees to state agencies. There are five trust funds under the control of the Clerk-Recorder. Within these funds, there are sub-account balances (i.e. reporting categories) that represent a specific type of service fee. The Clerk-Recorder has fiduciary responsibility to maintain adequate controls over these funds to ensure assets are safeguarded, disbursements are properly authorized, and funds are reconciled. We noted the following areas where trust fund controls should be implemented:

A. Reconciliation

A complete monthly reconciliation of each trust fund should be performed that reconciles cash receipt and disbursement transactions between the Clerk-Recorder's subsidiary ledger and the County general ledger. Comprehensive departmental subsidiary records should also be maintained to support the balance in the trust funds to ensure monies are credited to an appropriate party.

The following are areas where controls over reconciliation should be enhanced:

1. Financial Services performed a reconciliation for the following trust funds; however, the reconciliation only included deposits and did not include disbursements:
 - Vital Records Improvement Program (VRIP) Trust (300-356-9200-0001)
 - Marriage Surcharge Trust (300-356-9200-0003)
 - Health Statistics Trust (300-356-9200-0004)
 - Marriage License Trust (300-319-9200)
2. A monthly reconciliation to the general ledger was not performed for the following trust funds.
 - Fish & Games Trust (300-333-9340-0002)
 - DOJ Process Server Fingerprints Trust (300-333-9340-0030)



- Property Transfer Tax Trust (300-318-9200)
 - Notary Public Registration Trust (300-314-9200-0100)
 - 3rd Party Refund Trust (300-356-9200)
3. There were some sub-account balances within the trust fund general ledgers for which the Clerk-Recorder management was not aware of. Some account balances existed due to coding errors, and we were informed that they have been corrected.

Recommendation No. 6a:

Clerk-Recorder management ensure complete reconciliations are performed for all trust funds and identify and resolve any differences in a timely manner.

Clerk-Recorder Response:

Concur. Recommendation implemented April, 2003. In addition: The Clerk-Recorder will work with Internal Audit staff to identify a process by which monthly reconciliations can be performed on the 3rd Party Refund Trust (300-356-9200).

B. Segregation of Duties

We noted that the Financial Services Accounting Supervisor had incompatible trust fund duties. She is the custodian of the Request for Trust Fund Check forms, prepares the request, and reconciles the deposits for four trust funds. She is also on the authorized signature list to authorize disbursement requests. We were informed that procedurally the manager would authorize the request if it was prepared by the supervisor.

Recommendation No. 6b:

Clerk-Recorder management take measures to ensure trust fund duties of custodianship, preparation of check request, and reconciliation are properly segregated. If segregation is not possible, adequate supervisory review of these activities should be established.

Clerk-Recorder Response:

Concur. Recommendation implemented April, 2003.

C. Authorization

Our review found that three clerical staff in Financial Services are on the authorized signature list to approve requests for trust fund checks. Two of these individuals also have the duty of preparing the requests for trust fund checks. These staff should be removed from the list as these requests should be signed by supervisory or managerial personnel.



Recommendation No. 6c:

Clerk-Recorder management update the Authorized Signature List to ensure authorization is given to appropriate individuals.

Clerk-Recorder Response:

Concur. Recommendation will be implemented as of September 1, 2003.

D. Documentation of Work Performed

We noted that staff who prepare spreadsheets/schedules for trust funds in Financial Services did not document their work by initialing or dating the documents, and the supervisor who reviews these documents did not initial or date them to indicate the review was performed. Maintaining documentation of work performed establishes accountability over financial transactions, the means for tracing transactions, and for monitoring adherence of policies and procedures.

Recommendation No. 6d:

Clerk-Recorder management ensure the preparers and reviewers document their work performed.

Clerk-Recorder Response:

Concur. Recommendation implemented April, 2003.

E. Supervisory Review

We found that an overpayment of administrative fees have been inadvertently disbursed to the State for the Fish & Game Trust environmental impact report (EIR) filing. Based on our review of supporting schedules, the administrative fee of \$43 collected for each EIR filing was disbursed to the State in 2002 for a period of four months resulting in an overpayment of approximately \$11,000. The supervisory review performed in Financial Services did not detect this error. The supervisory review also did not detect account coding errors that existed in this fund.

Recommendation No. 6e:

Clerk-Recorder management ensure adequate supervisory review of trust fund disbursements is performed before payment is authorized and take measures to resolve the issue of overpayment.

Clerk-Recorder Response:

Concur. Recommendation implemented April, 2003.



VII. Cashiering System Controls

Computer information systems should include appropriate internal controls so that accurate data is produced, assets are safeguarded, sensitive information is protected and operations performed as directed by management. The Clerk-Recorder's office uses an application system (Cashiering System) to record daily cash receipts transactions. Users of the system are given access on a "need-to-know" basis according to their assigned duties.

There are three levels of access: Level 1, Level 2, and Level 3. Level 1 is set up for the front-end cashiers with access limited to inputting cash receipt transactions. Level 2 is set up for the unit supervisors who have Level 1 access and limited back office duties that allows supervisors to retrieve daily tender reports to balance cashier's collections. Level 3 is given to Financial Services personnel allowing full access to front end and back office duties. This level allows the users to retrieve various system reports, void transactions, process adjustments, post house charges and invoice payments, and re-print document labels. We tested the appropriateness of access levels given to the users.

We observed the following areas where access to the cash receipt data in the system was not properly controlled and accuracy of system documentation not ensured:

1. Five individuals have active user status that was not aligned with their assigned duties since these users did not have cashiering duties.
2. The supervisor in the Marriage License who had Level 2 access was also able to retrieve other system reports which were intended for Level 3 users. We were informed that management took immediate action and corrected the discrepancy.
3. Occasionally, adjustments to cash receipts are necessary subsequent to the recording of the original transaction. We were informed by Financial Services that they cannot input all types of adjustments into the system due to a programming glitch. Moreover, we found that if an adjustment was recorded into the system, the Daily Tender Recap Report did not reflect the adjusted total. Therefore, a manual adjustment is made on the report. Adjustments should be recorded in the system to accurately reflect cash receipt activity.

We were informed that Information Systems was made aware of the adjustment issues and that they would be addressed by the vendor as part of the phase II implementation of accounts receivable module for the system.

Recommendation No. 7:

Clerk-Recorder ensure access to cash receipts data in the Cashiering System is adequately restricted and data related to cash receipt transactions is accurate.

Clerk-Recorder Response:

Concur. Recommendation implemented May 15, 2003.



ATTACHMENT: Management Responses:



TOM DALY
CLERK-RECORDER

ORANGE COUNTY
HALL OF RECORDS AND FINANCE
12 CIVIC CENTER PLAZA, ROOM 101, P.O. BOX 238, SANTA ANA, CALIFORNIA 92702-0238
PHONE (714) 834-2248 FAX (714) 834-2675

DATE: August 28, 2003
TO: Dr. Peter Hughes, CPA, Director, Internal Audit
FROM: Tom Daly, Orange County Clerk-Recorder *Tom Daly*
SUBJECT: Department Control Review

Attached are responses to the findings and recommendations of your audit of the internal controls of the Clerk-Recorder's Office. We concur with your recommendations.

I would like to take this opportunity to thank you and your staff for the time and effort spent reviewing our controls. It was of great benefit to the department and ultimately to the citizens of Orange County.

I would like to thank each member of the audit team for being so constructive in helping us improve our operations.

If you have any further questions, or if I can be of further assistance, please contact me at (714) 834-2222 or by email at tom.daly@rec.ocgov.com.

Thank you.

cc:
Doug Wilson, Admin. Manager Clerk-Recorder
Renee Ramirez, Assistant Clerk-Recorder
Lyn Cole, Chief Financial Officer
Susie Sullivan, IS Manager

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I. Accountability Over Cash Receipts

Accountability over cash receipts should be established when monies are initially collected, and when transferred between employees during the collection and deposit process. This internal control practice helps ensure that all monies received are completely and properly deposited. We found certain controls were not in place and should be added to strengthen accountability over cash receipts.

1. Maintain a list of unprocessed checks that may be received occasionally in Financial Services.
2. Restrictively endorse checks immediately upon opening the mail at the Help Desk in the Document Examining Unit.
3. Use counterfeit detector pens consistently on large currency bills.
4. Document consistently the transfer of accountability between employees and Financial Services of the cashier's starting banks.

Recommendation No. 1

Clerk-Recorder management take additional measures to ensure accountability is properly established by maintaining list of unprocessed checks, restrictively endorsing checks immediately upon receipt, using counterfeit detector pen on large bills, and documenting the transfer of cashier starting banks.

Clerk-Recorder Response:

Concur. Recommendation implemented April, 2003.

II. Segregation of Duties

Segregation of duties is a critical element of effective internal control, reducing the risk of both erroneous and inappropriate actions. The duties of receipting, recording, approval, reconciling, and asset custody should generally be separated among employees to the extent possible. When these functions cannot be adequately separated, prudent supervisory review of these activities is encouraged to help mitigate risk and to help compensate for lack of segregation of duties. The following are areas where further segregation of duties is necessary or, as an alternative, supervisory review could be enhanced:

1. An individual in the Official Records mailroom opens mail receipts and is also a back up cashier.
2. The Accounting Specialist in Financial Services records adjustment in the cashing system and also prepares daily deposits.
3. An Accounting Assistant in Financial Services has access to the title company checks, processes manual adjustments, and posts payments for house charges in the cashier system.

Recommendation No. 2

Clerk-Recorder management takes additional measures to ensure the duties of receipting; recording, depositing, and asset custody are properly segregated to the extent possible. If segregation is not possible, adequate supervisory review should be implemented for duties not properly segregated.



Clerk-Recorder Response:

Concur. Recommendation will be implemented as of September 1, 2003.

III. Physical Safeguards

Assets such as cash receipts, critical forms like handwritten receipts, Bank Note Paper (used to issue certified copy of birth, death, and marriage certificate), Vital Chek forms (used to process credit card transaction), and title company checks (used to process house charge payments) must be safeguarded against unauthorized acquisition, use, or disposition. Access controls help to safeguard these assets and forms. Also, periodic counts of cash receipts and critical forms should be performed and documented, the results compared to internal records, and variances immediately investigated. The following are areas where controls can be enhanced to improve the physical safeguarding objective.

1. Ensure cash receipts are transferred to Financial Services for depositing in a secure manner. (Fictitious Business Name and Marriage License Units)
2. Ensure keys to cash drawers are secured when cashiers are away from their workstations. (Fictitious Business Name)
3. Written record of key and safe combination holders should be maintained.
4. Limit the access to the blank/unused Bank Note Paper and Vital Chek forms to the custodians of these documents. (Vital Records and Official Records)
5. Maintain an inventory record of handwritten receipt books, Bank Note Paper, Vital Chek forms, and title company checks.
6. An independent person should perform periodic physical inventories of these forms and the physical inventories should be documented.

Recommendation No. 3

Clerk-Recorder management ensures controls are in place to safeguard cash receipts and critical forms including transferring cash receipts securely, securing keys to cash drawers, maintaining inventory record of handwritten receipts, Bank Note Paper, Vital Chek forms, and title company checks, and performing documented independent physical inventories of these forms.

Clerk-Recorder Response:

Concur. Recommendation will be implemented as of September 1, 2003.

IV. Supervisory Review & Approval

An important preventive control activity is supervisory approval. Approval of a transaction means the approver has reviewed the supporting documentation and is satisfied the transaction is appropriate, accurate, and compliant with applicable policies and procedures before the transaction is processed. Supervisory review of reports, reconciliation's, and other information is an important detective control activity.



ATTACHMENT: Management Responses (con't):

Management should review such information for propriety, consistency, and reasonableness. The review should be documented, as well as the resolution of items noted for follow-up. We noted the following are areas where supervisory review and approval should be implemented to strengthen accuracy and completeness of cash receipts:

1. A complete supervisory review and approval of Deposit Order to collection records (i.e. system reports) should be performed to ensure accuracy and completeness of deposits. (Financial Services)
2. The Accounting Supervisor in Financial Services should review supporting schedules maintained by Accounting Assistant for house charges to ensure accuracy. (Financial Services)
3. Since the counter clerks in Vital Records issue birth, death, and marriage certificates and record cash receipts in the cashiering system, the Supervisor should ensure all cash receipts are recorded in the cashier system by tracing the number of certificates (i.e. Bank Note Paper) used from the inventory record to the number of certificates recorded in the system.
4. Since the counter clerks in Official Records provide copies of documents and record cash receipts for these documents, the Supervisor should ensure all cash receipts received are recorded in the cashier system by spot checking the total fees on the forms used to request copies to the total amount recorded in the cashiering system.

Recommendation No. 4

Clerk-Recorder management ensures supervisory review and approval of pertinent documents is performed and documented to ensure cash receipts are accurate, complete and recorded properly.

Clerk-Recorder Response:

Concur. Recommendation will be implemented as of September 1, 2003.

V. Reconciliation of Deposit Orders

Reconciliation is a comparison of one set of data to another, identifying and investigating differences, and taking corrective action when necessary to resolve those differences. This internal control activity helps ensure the accuracy and completeness of transactions. Reconciling monthly general ledger reports to departmental deposit orders and collection records is an example of reconciling one set of data to another.

The following is an area where controls should be implemented:

- Reconciliation of validated Deposit Orders to system reports and to the general ledger should be performed and documented. Differences should be investigated and resolved timely.

Recommendation No. 5:

Clerk-Recorder management takes appropriate measures to reconcile deposits to general ledger monthly and investigate and resolve differences timely.

Clerk-Recorder Response:

Concur. Recommendation implemented April, 2003.



VI. Trust Funds

The Clerk-Recorder's office receives, holds and disburses a portion of service fees, such as property transfer tax to local cities and birth certificate fees to state agencies. There are five trust funds under the control of the Clerk-Recorder. Within these funds, there are sub-account balances (i.e. reporting categories) that represent a specific type of service fee. The Clerk-Recorder has fiduciary responsibility to maintain adequate controls over these funds to ensure assets are safeguarded, disbursements are properly authorized, and funds are reconciled. We noted the following areas where trust fund controls should be implemented:

A. Reconciliation

A complete monthly reconciliation of each trust fund should be performed that reconciles cash receipt and disbursement transactions between the Clerk-Recorder's subsidiary ledger and the County general ledger. Comprehensive departmental subsidiary records should also be maintained to support the balance in the trust funds to ensure monies are credited to appropriate party.

The following are areas where controls on reconciliation should be enhanced:

1. Financial Services performed a reconciliation for the following trust funds; however, the reconciliation only included deposits and did not include disbursements:
 - Vital Records Improvement Program (VRIP) Trust (300-356-9200-0001)
 - Marriage Surcharge Trust (300-356-9200-0003)
 - Health Statistics Trust (300-356-9200-0004)
 - Marriage License Trust (300-319-9200)
2. A monthly reconciliation to the general ledger was not performed for the following trust funds.
 - Fish & Games Trust (300-333-9340-0002)
 - DOJ Process Server Fingerprints Trust (300-333-9340-0030)
 - Property Transfer Tax Trust (300-318-9200)
 - Notary Public Registration Trust (300-314-9200-0100)
 - 3rd Party Refund Trust (300-356-9200)
3. There were some sub-account balances within the trust fund general ledgers for which the Clerk-Recorder management was not aware of. Some account balances existed due to coding errors, and we were informed that they have been corrected.

Recommendation No. 6a:

Clerk-Recorder management ensure complete reconciliation's are performed for all trust funds and identify and resolve any differences in a timely manner.

Clerk-Recorder Response:

Concur. Recommendation implemented April, 2003. In Addition:



The Clerk-Recorder will work with Internal Audit staff to identify a process by which monthly reconciliations can be performed on the 3rd Party Refund Trust (300-356-9200).

B. Segregation of Duties

We noted that the Financial Services Accounting Supervisor had incompatible trust fund duties. She is the custodian of the Request for Trust Fund Check forms, prepares the request, and reconciles the deposits for four trust funds. She is also on the authorized signature list to authorize disbursement requests. We were informed that procedurally the manager would authorize the request if the supervisor prepares it.

Recommendation No. 6b:

Clerk-Recorder management takes measures to ensure trust fund duties of custodianship, preparation of check request, and reconciliation are properly segregated. If segregation is not possible, adequate supervisory review of these activities should be established.

Clerk-Recorder Response:

Concur. Recommendation implemented April, 2003.

C. Authorization

Our review found that three clerical staff in Financial Services is on the authorized signature list to approve requests for trust fund checks. Two of these individuals also have the duty of preparing the requests for trust fund checks. These staff should be removed from the list, as supervisory or managerial personnel should sign off these requests.

Recommendation No. 6c:

Clerk-Recorder management update the Authorized Signature List to ensure authorization is given to appropriate individuals.

Clerk-Recorder Response:

Concur. Recommendation will be implemented as of September 1, 2003.

D. Documentation of Work Performed

We noted that staff who prepare spreadsheets/schedules for trust funds in Financial Services did not document their work by initialing or dating the documents, and the supervisor who reviews these documents did not initial or date them to indicate the review was performed. Maintaining documentation of work performed establishes accountability over financial transactions, the means for tracing transactions, and for monitoring adherence of policies and procedures.



ATTACHMENT: Management Responses (con't):

Recommendation No. 6d:

Clerk-Recorder management ensures the preparers and reviewers document their work performed.

Clerk-Recorder Response:

Concur. Recommendation implemented April, 2003.

E. Supervisory Review

We found in our review that an overpayment of administrative fees have been inadvertently disbursed to the State for the Fish & Game Trust environmental impact report (EIR) filing. Based on our review of supporting schedules, the administrative fee of \$43 collected for each EIR filing was disbursed to the State in 2002 for a period of four months resulting in an overpayment of approximately \$11,000. The supervisory review performed in Financial Services did not detect this error. The supervisory review also did not detect account-coding errors that existed in this fund.

Recommendation No. 6e:

Clerk-Recorder management ensure adequate supervisory review of trust fund disbursements is performed before payment is authorized and take measures to resolve the issue of overpayment.

Clerk-Recorder Response:

Concur. Recommendation implemented April, 2003.

VII.

Cashiering System Controls

Computer information systems should include appropriate internal controls so that accurate data is produced, assets are safeguarded, sensitive information is protected and operations performed as directed by management. The Clerk-Recorder's office uses an application system (Cashiering System) to record daily cash receipts transactions. Users of the system are given access on a "need-to-know" basis according to their assigned duties.

There are three levels of access: Level 1, Level 2, and Level 3. Level 1 is set up for the front-end cashiers with access limited to inputting cash receipt transactions. Level 2 is set up for the unit supervisors who have Level 1 access and limited back office duties that allows supervisors to retrieve daily tender reports to balance cashier's collections. Level 3 is given to Financial Services personnel allowing full access to front end and back office duties. This level allows the users to retrieve various system reports, void transactions, process adjustments, post house charges and invoice payments, and re-print document labels. We tested the appropriateness of access levels given to the users.

We observed the following areas where access to the cash receipt data in the system was not properly controlled and accuracy of system documentation not ensured:

1. Five individuals have active user status that was not aligned with their assigned duties since these users did not have cashiering duties.



ATTACHMENT: Management Responses (con't):

2. The supervisor in the Marriage License who had Level 2 access was also able to retrieve other system reports, which were intended for Level 3 users. We were informed that management took immediate action and corrected the discrepancy.
3. Occasionally, adjustments to cash receipts are necessary subsequent to recording of the original transaction. Financial Services informed us that they couldn't input all types of adjustment into the system due to programming glitch. Moreover, we found that if an adjustment was recorded into the system, the Daily Tender Recap Report did not reflect the adjusted total. Therefore, a manual adjustment is made on the report. Adjustments should be recorded in the system to accurately reflect cash receipt activity.

We were informed that Information Systems unit were made aware of the adjustment issues and that they would be addressed by the vendor as part of phase II implementation of accounts receivable module for the system.

Recommendation No. 7:

Clerk-Recorder management ensures access to cash receipts data in the Cashiering System is adequately restricted and data related to cash receipt transactions is accurate.

Clerk-Recorder Response:

Concur. Recommendation implemented May 15, 2003.

