



INTERNAL AUDIT DEPARTMENT
COUNTY OF ORANGE

*Integrity
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Independence*

**FOLLOW-UP AUDIT
OF DEPARTMENT CONTROL REVIEW
AUDITOR-CONTROLLER
TRUST AND AGENCY FUND DISBURSEMENTS,
ORIGINAL AUDIT No. 2429**

AS OF APRIL 30, 2005

AUDIT NUMBER: 2532

REPORT DATE: May 31, 2005

Audit Director:	Peter Hughes, Ph.D., CPA
Deputy Director:	Eli Littner, CPA, CIA
Audit Manager:	Michael Goodwin, CPA, CIA
Senior Auditor:	Winnie Keung, CPA

**Follow-Up Audit of Department Control Review
Auditor-Controller
Trust and Agency Fund Disbursements, Audit No. 2429**

As of April 30, 2005

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**COUNTY OF ORANGE
INTERNAL AUDIT DEPARTMENT**

OFFICE OF THE DIRECTOR

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Transmittal Letter

Audit No. 2532

May 31, 2005

TO: David E. Sundstrom
Auditor-Controller

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

SUBJECT: Follow-Up Audit of Department Control Review
Auditor-Controller Trust and Agency Fund Disbursements, Audit No. 2429

We have completed a follow-up audit of Auditor-Controller trust and agency fund disbursements. Our audit was limited to reviewing, as of April 30, 2005, actions taken to implement the recommendations made in our original audit report dated June 24, 2004. The results of our follow-up audit are discussed in the **Internal Auditor's Report** following this transmittal letter.

At the request of the Audit Oversight Committee (AOC), we are to bring to their attention any audit recommendations we find still not addressed, resolved or implemented after our second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for their discussion.

In addition, as the Director of Internal Audit Department, effective December 14, 2004, I make a monthly audit status presentation to the Board Of Supervisors (BOS) where I detail any significant and material audit findings released in reports during the prior month and the status of audit recommendations implementation as disclosed by Follow-Up Audits. Accordingly, the results of this Follow-Up Audit will be included in a future summary to the BOS.

Because of these visible changes to our follow-up process, the Internal Audit Department is available to partner with all departments and agencies so that they can successfully implement or address difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report, recommendations or follow-up process.

Other recipients of this report:

Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
Foreman, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors
John Nakane, Chief Assistant Auditor-Controller
Jim McConnell, Assistant Auditor-Controller, Central Operations
Jan Grimes, Manager, A-C/Central Operations/General Accounting
Bob Leblow, Manager, A-C/Central Operations/Claims & Disbursing



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INTERNAL AUDITOR'S REPORT

Audit No. 2532

May 31, 2005

David Sundstrom
Auditor-Controller
12 Civic Center Plaza
Santa Ana, CA 92701

We have completed a follow-up audit of internal controls and processes over trust and agency fund disbursements of the Auditor-Controller/Central Operations Division (Auditor-Controller). Our audit was limited to reviewing actions taken as of April 30, 2005 to implement the recommendations made in our original audit report dated June 24, 2004.

The original audit report contained three (3) recommendations. Our follow-up audit indicated two recommendations were in process of being fully implemented and one recommendation was partially implemented. We believe the recommendations are still appropriate and further efforts should be made to fully implement them. The audit report recommendations that have not been fully implemented are noted below along with a comment on the current status. The item number from the June 24, 2004 report is shown in parentheses after each heading.

Note: the three items contained in this follow-up audit report are considered as “**reportable conditions.**” See *Attachment A* for a description of audit report items.

1. Outstanding Reconciling Items (Item I.A.)

Recommendation No. 1: The Auditor-Controller research and resolve the above reconciling items. (Items totaling \$3,939.98 were noted in Accounts #300-309-9200-0200, #300-309-9200-0300 & #300-309-9200-0500.)

Current Status: **Partially Implemented.** Auditor-Controller/Claims & Disbursing researched and resolved the items noted in Accounts #300-309-9200-0200 & #300-309-9200-0300; however, a reconciling item for \$164.00 in account #300-309-9200-0500 remains unresolved.

Our review of the April 2005 reconciliation for all three accounts disclosed there were other unidentified, reconciling differences that occurred since our original audit. The Auditor-Controller should continue to research and resolve these new unidentified differences. They are as follows:

Account #	Amount (\$)	Type of Differences
300-309-9200-0200	105.86	Unidentified difference since June 2004
300-309-9200-0300	394.56	Unidentified difference since July 2004
300-309-9200-0500	1,186.00	Six reconciling items since August 2003. (Note: These items were checks received from Orange County Credit Union)
300-309-9200-0500	30,514.03	Unidentified differences since January 2004

Auditor-Controller Planned Action:

These items are being researched and will be cleared as appropriate. If we are unable to resolve these items, we will transfer the unidentified amounts to the General Fund.

2. Unreconciled Difference (Item I.B.)

Recommendation No. 2: Auditor-Controller Claims & Disbursing ensure the unreconciled difference is identified and resolved.

Current Status: **In Process.** Auditor-Controller/Claims & Disbursing identified and reduced the unreconciled difference of \$909.50 stated in our original audit to \$584.26. This amount involves payroll withholdings for employee purchases of US Savings Bonds. In January 2004, the Auditor-Controller issued some US Savings Bonds refund checks to non-active employees, which reduced the unidentified difference to its current balance. They are in the process of identifying the remaining differences. Our review of the April 2005 reconciliation determined there were no other unreconciled differences occurring since our original audit.

Auditor-Controller Planned Action:

This item has been researched and we are unable to identify which employees this is attributable to. When we are satisfied that we have exhausted all possibility to identify the source of this money, this item will be cleared by transferring to the General Fund.

3. Reconciliation Procedure (Item I.C.)

Recommendation No. 3: The Auditor-Controller take measures to ensure responsibility and accountability of the funds are clearly communicated to appropriate personnel, trust funds are reconciled completely, and differences are identified and resolved timely.

Current Status: **In Process.** Auditor-Controller/Claims & Disbursing revised its reconciliation format to include all balance sheet accounts and reporting categories of Fund #300-309. They also resolved two of the four unreconciled balances identified in the original audit and are in process of resolving the remaining balances noted in Accounts #300-309-8210 & #300-309-9000. The remaining items totaling \$1,089.70 and \$21,584.11, respectively, require supporting documentation from the Internal Revenue Services (IRS) and we were informed Claims & Disbursing was communicating with the IRS on this matter. We noted there were no new unreconciled balances in these two accounts.



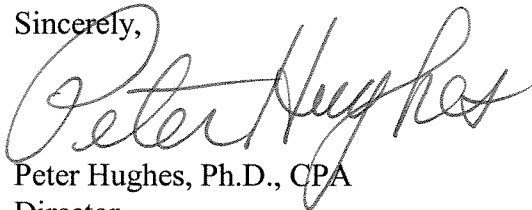
Our review of the April 2005 reconciliation of Account #300-309-9200-0901 (formerly #300-309-9200-0152) disclosed that there were two new reconciling items totaling \$1,144.44 since our original audit. The Auditor-Controller should continue to research and resolve these new reconciling items.

Auditor-Controller Planned Action:

The new items will be researched and cleared as soon as we complete positive identification of their source. The other item was a receivable from the IRS and as soon as they provide document that this was paid, we will post the correcting entry. If we are unable to get the documentation, we will seek to discharge the receivable.

We appreciate the cooperation and assistance extended to us by the personnel of the Auditor-Controller during our audit.

Sincerely,



Peter Hughes, Ph.D., CPA
Director

cc: Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
Foreman, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors
John Nakane, Chief Assistant Auditor-Controller
Jim McConnell, Assistant Auditor-Controller, Central Operations
Jan Grimes, Manager, A-C/Central Operations/General Accounting
Bob Leblow, Manager, A-C/Central Operations/Claims & Disbursing



Attachment A

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

- **Material Weaknesses:**
Audit findings that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to address “Material Weaknesses” brought to their attention immediately.
- **Significant Issues:**
Audit findings that represent a deficiency in the design or operation of processes or internal controls. Significant issues do not present a material exposure throughout the County; yet generally will require more immediate attention and corrective action by management than expected with a “Reportable Condition.”
- **Reportable Conditions:**
Audit findings that require management’s corrective action to implement or enhance processes and internal controls.

