



**INTERNAL AUDIT DEPARTMENT
COUNTY OF ORANGE**

**Recipient of the Institute of Internal Auditors
Award for Excellence**

Integrity ♦ Objectivity ♦ Independence

**INTERNAL CONTROL REVIEW
OF
ASSESSOR DEPARTMENT**

REVOLVING FUND

**For the Period
May 1, 2005 through April 30, 2006**

AUDIT NUMBER: 2596

REPORT DATE: AUGUST 21, 2006

Audit Director:	Peter Hughes, Ph.D., CPA
Deputy Director:	Eli Littner, CPA, CIA
Audit Manager:	Michael Goodwin, CPA, CIA
In-Charge Auditor:	Susan Nestor, CPA, CIA

**Internal Control Review of
Assessor Department Revolving Fund**

**For the Period
May 1, 2005 through April 30, 2006**

TABLE OF CONTENTS

Transmittal Letter	i
INTERNAL AUDITOR’S REPORT	1
EXECUTIVE SUMMARY	3
OBJECTIVES	3
BACKGROUND.....	3
SCOPE	3
CONCLUSION	3
DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES	4
FUND RECONCILIATIONS	4
TRAVEL CASH ADVANCES.....	4
Mileage and Other Expenses Claim Form Submission.....	4
Cancellation of Supporting Documentation	5
ATTACHMENT A: Report Item Classifications.....	6
ATTACHMENT B: Assessor Department Management Responses.....	7



COUNTY OF ORANGE
INTERNAL AUDIT DEPARTMENT
Recipient of the Institute of Internal Auditors
Award for Excellence

Integrity ♦ Objectivity ♦ Independence

ELI LITTNER
CPA, CIA, CFE, CFS, CISA
DEPUTY DIRECTOR

MICHAEL J. GOODWIN
CPA, CIA
AUDIT MANAGER

ALAN MARCUM
MBA, CPA, CIA, CFE
AUDIT MANAGER

AUTUMN MCKINNEY
CPA, CIA, CGFM
AUDIT MANAGER

Office of the Director
DR. PETER HUGHES
Ph.D., MBA, CPA, CIA, CFE, CITP

MAILING ADDRESS:
400 CIVIC CENTER DRIVE WEST
BUILDING 12, ROOM 232
SANTA ANA, CALIFORNIA 92701

TELEPHONE: (714) 834-5475
FAX: (714) 834-2880

EMAIL: peter.hughes@ocgov.com
WEBSITE: www.ocgov.com/audit/

Transmittal Letter

Audit No. 2596

August 21, 2006

TO: Webster J. Guillory
Assessor

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

SUBJECT: Internal Control Review of the Assessor Department Revolving Fund

We have completed a review of internal controls over revolving fund processes of the Assessor Department for the period May 1, 2005 through April 30, 2006. The final **Internal Auditor's Report** is attached along with your responses to our recommendations.

Please note we have implemented a more 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). As a matter of policy, our first Follow-Up Audit will begin no later than six months upon the official release of the report. 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 12 months from the release of the original 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 Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed document to facilitate our review.

As the Director of Internal Audit, I now submit a monthly audit status report to the Board of Supervisors 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 Board of Supervisors.

As always, the Internal Audit Department is available to partner with you so that you 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 recommendations.

Additionally, we will request your department to complete a Customer Survey of Audit Services. You will receive the survey shortly after the distribution of our final audit report.

Attachment

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Shaw Lin, Project Manager, Assessor/Management Services
- Foreperson, Grand Jury
- Darlene J. Bloom, Clerk of the Board of Supervisors



COUNTY OF ORANGE
INTERNAL AUDIT DEPARTMENT
Recipient of the Institute of Internal Auditors
Award for Excellence

Integrity ♦ Objectivity ♦ Independence

Office of the Director
DR. PETER HUGHES
Ph.D., MBA, CPA, CIA, CFE, CITP

MAILING ADDRESS:
400 CIVIC CENTER DRIVE WEST
BUILDING 12, ROOM 232
SANTA ANA, CALIFORNIA 92701

TELEPHONE: (714) 834-5475
FAX: (714) 834-2880

EMAIL: peter.hughes@ocgov.com
WEBSITE: www.ocgov.com/audit/

ELI LITTNER
CPA, CIA, CFE, CFS, CISA
DEPUTY DIRECTOR

MICHAEL J. GOODWIN
CPA, CIA
AUDIT MANAGER

ALAN MARCUM
MBA, CPA, CIA, CFE
AUDIT MANAGER

AUTUMN MCKINNEY
CPA, CIA, CGFM
AUDIT MANAGER

INTERNAL AUDITOR'S REPORT

Audit No. 2596

August 21, 2006

Webster J. Guillory
Assessor
630 N. Broadway
Santa Ana, CA 92702

We have completed a review of internal controls over revolving fund processes of the Assessor Department for the period May 1, 2005 through April 30, 2006. Our audit was performed in accordance with professional standards established by the Institute of Internal Auditors.

Assessor Department management 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 of Orange Accounting Manual No. S-2 – *Internal Control Systems* prescribes the policies and standards the departments/agencies should follow in establishing and maintaining internal control systems. Our review enhances and complements, but does not substitute for, the Assessor Department'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. 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 that the degree of compliance with the procedures may deteriorate. Accordingly, our review performed for the limited purpose described above would not necessarily disclose all weaknesses in the Assessor's operating procedures, accounting practices, and compliance with County policy.

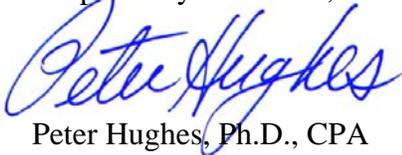
Based upon our audit, **no material weaknesses or significant issues were identified**. However, we did identify **3 control findings** resulting in **3 recommendations** to improve controls and processes as noted in the Detailed Observations, Recommendations and Management Responses section of this report. See *Attachment A* for description of Report Item Classifications.

While our report indicates the specific areas where our observations are directly applicable, **the Assessor Department should implement the recommendations in other business processes they find applicable to them.** An expectation of the Board of Supervisors is that departments and agencies will view this report as a “lessons learned” opportunity to guide them in proactively self-assessing other similar operations or processes.

We appreciate the courtesy and cooperation extended to us by the personnel of the Assessor’s Department during our review. As we identified issues during the review, Assessor Department personnel were very responsive in taking corrective actions.

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,



Peter Hughes, Ph.D., CPA
Director, Internal Audit

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Shaw Lin, Project Manager, Assessor/Management Services
- Foreperson, Grand Jury
- Darlene J. Bloom, Clerk of the Board of Supervisors

EXECUTIVE SUMMARY

OBJECTIVES

The Internal Audit Department conducted a review of internal controls over revolving fund processes of the Assessor Department. The objectives of our audit were to determine whether internal controls are in place and operating to ensure:

1. Revolving funds are adequately safeguarded.
2. Revolving fund transactions are processed in accordance with applicable County Accounting Manual (CAM) procedures.
3. Revolving fund transactions are properly authorized and recorded completely, accurately and timely.

Additionally, we would identify areas to improve efficiency and effectiveness related to the above processes as they came to our attention.

BACKGROUND

The mission of the Assessor Department is to serve the citizens of Orange County by valuing all legally assessable property, developing values with fairness and impartiality, producing property tax assessment rolls in accordance with laws of the State of California, assisting property owners in understanding their property valuations, and providing accurate information.

The Assessor Department maintains one revolving fund of **\$80,000** for general operations (Fund 100/Agency 002). The fund is allocated for travel cash advances (\$60,000) and for departmental petty cash expenditures (\$20,000) and consists of checking accounts and cash. During the period under review, the Assessor Department **incurred approximately \$64,000 in travel cash advances and \$29,000 in petty cash expenditures.**

SCOPE

Our audit was limited to internal controls and processes over revolving funds for the period from May 1, 2005 through April 30, 2006. Our methodology included inquiry, auditor observation, and examination and testing of relevant documentation.

CONCLUSION

No material weaknesses or significant issues were identified. Based upon the objectives of our audit, we noted the following:

1. Controls and processes are in place to ensure revolving funds are adequately safeguarded. We note in our report where enhancement is needed regarding the preparation of travel cash advance fund reconciliations. This is considered a **Control Finding** and is discussed in the Observations, Recommendations and Management Responses section of this report.
2. Controls and processes are in place to ensure revolving fund transactions are processed in accordance with applicable County Accounting Manual (CAM) procedures. We note in our report where enhancements are needed in areas of mileage claim submission and canceling supporting documentation for travel cash advances. These are considered **Control Findings.**
3. Controls and processes are in place to ensure revolving fund transactions are properly authorized and recorded completely, accurately and timely.



DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

FUND RECONCILIATIONS

CAM Procedure No. C-7, Section 2.4.5 states that a reconciliation of the revolving fund shall be performed *monthly* by a person with no other revolving fund duties. The revolving fund should reconcile to the checking account balance, the revolving fund cash balance, and the unreplenished balance as recorded on Revolving Cash Fund Vouchers and Revolving Cash Fund/Cash Advance Reimbursement requests. The Assessor Department performs separate fund reconciliations for petty cash and travel cash advances.

Finding No. 1

Revolving fund reconciliations of the Travel Cash Advance fund were not performed on a monthly basis. Instead, a reconciliation was prepared when the fund was replenished, which was done four times during the audit period.

Recommendation No. 1:

We recommend the Assessor Department ensure Travel Cash Advance fund reconciliations are performed on a monthly basis.

Assessor Department Management Response:

Concur. **Action taken:** Department has revised its “Bank Reconciliation” spreadsheet to include a separate column to reconcile the existing bank balance to the Travel Cash fund. The checkbook reconciliation to the bank statement and the checkbook reconciliation to the Travel Cash Fund are now being prepared on a monthly basis. However, please note that most of the Assessor Department’s travel activities are for out-of-state audits. These audits are typically conducted over four to five months of the year. Therefore, there has been no need to reconcile the fund and request replenishment on a monthly basis. **Completion date:** August 31, 2006

TRAVEL CASH ADVANCES

CAM Procedure No. C-1, Cash Advances – Revolving Funds, governs the use of travel cash advances.

Mileage and Other Expenses Claim Form Submission

CAM C-1, Section 2.2.1 requires the unused portion of travel cash advances to be returned, along with the Mileage and Other Expenses Claim form, within five (5) working days after the completion of the event for which the advance was made.

Finding No. 2

For 13 of 15 travel cash advances tested, the related mileage claim was not submitted within five (5) working days after the completion of the event for which the advance was made. The number of days in which the reimbursement claims were submitted ranged from 13 days to 116 days after completion of the event.

Recommendation No. 2

We recommend the Assessor Department ensure that employees who receive travel cash advances submit the Mileage and Other Expenses Claim form within five working days after the completion of the event for which the advance is made.



Assessor Department Management Response:

Concur. **Action taken:** An internal memo is being distributed to all Project Managers to ensure that staff complies with CAM C-1, Section 2.2.1 and returns the unused portion of travel cash advances along with Mileage and Other Expenses Claims forms, within five working days after the completion of the event for which the advance is made. Please also note that a five-working day turnaround is very tight, and it is often not practical to complete and submit all the necessary claim forms and paperwork as our auditor also needs to review and complete their audit reports. A ten (10) to fifteen (15) working days turnaround time would be more practical. **Completion date:** August 31, 2006

Cancellation of Supporting Documentation

To prevent duplicate payments from occurring, the revolving fund custodian should cancel (mark “paid”) documents supporting travel cash advance expenditures.

Finding No. 3

Documentation supporting travel cash advance expenditures (e.g., vouchers, invoices submitted by requestor) were not marked as “paid” by the custodian. It should be noted we did not find any instances of duplicate payments during our review.

Recommendation No. 3

We recommend the Assessor Department ensure that documents supporting travel advance cash expenditures are canceled upon payment by the custodian.

Assessor Department Management Response:

Concur. **Action taken:** The finding has been discussed with the custodian of the Travel fund. A new “PAID” stamp has been ordered to stamp the claims and supporting travel documents “PAID” when reimbursing the traveler. **Completion date:** August 31, 2006



ATTACHMENT A: Report Item Classifications

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

- **Material Weaknesses:**

Audit findings or a combination of Significant Issues that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to immediately address “Material Weaknesses” brought to their attention.

- **Significant Issues:**

Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.

- **Control Findings:**

Audit findings 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: Assessor Department Management Responses

Civic Center Plaza Entrance
630 N. Broadway
P.O. Box 149
Santa Ana, CA 92702-0149



ESTABLISHED 1889

OFFICE OF THE ASSESSOR

WEBSTER J. GUILLORY
COUNTY ASSESSOR

Telephone: (714) 834-2727
FAX: (714) 558-0681
WWW.OC.CA.GOV/Assessor

August 14, 2006

To: Peter Hughes, Ph.D., CPA
Director, Internal Audit

Re: Draft Report – Internal Control Review of the Assessor Department Revolving Fund

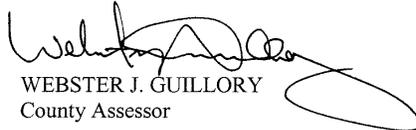
Dear Mr. Hughes:

We have reviewed the Internal Audit Department's Draft Report for Audit Number 2596 - Internal Control Review of Assessor Department Revolving Fund. The findings in the report are self-explanatory; and, at this time, we believe it is not necessary to schedule an exit interview.

As you requested, please find the Assessor Department's Management Representation Letter and the Assessor Department Management Responses to the Draft Report.

Please contact me at (714) 834-2734 if you have any questions.

Sincerely,



WEBSTER J. GUILLORY
County Assessor

Attachment: 1. Assessor Department Management Representation Letter
2. Attachment B: Assessor Department Management Response

ct: Michael Goodwin, Audit Manager, Internal Audit Department-



AUDIT NO. 2596 – Internal Control Review Of The Assessor Department Revolving Fund

ATTACHMENT B: Assessor Department Management Response

Finding No. 1:

Revolving fund reconciliations of the Travel Cash Advance fund were not performed on a monthly basis. Instead, reconciliation was prepared when the fund was replenished, which was done during the audit period.

Recommendation No. 1:

We recommend the Assessor Department ensure Travel Cash Advance fund reconciliations are performed on a monthly basis.

Department response to Finding No. 1: Concur

Action taken: Department has revised its “Bank Reconciliation” spreadsheet to include a separate column to reconcile the existing bank balance to the Travel Cash fund. The checkbook reconciliation to the bank statement and the checkbook reconciliation to the Travel Cash Fund are now being prepared on a monthly basis. However, please note that most of the Assessor Department’s travel activities are for out-of-state audits. These audits are typically conducted over four to five months of the year. Therefore, there has been no need to reconcile the fund and request replenishment on a monthly basis.

Completion Date: August 31, 2006

Finding No. 2:

For 13 of 15 travel cash advances tested, the related mileage claim was not submitted within five (5) working days after the completion of the event for which the advance was made. The number of days in which the reimbursement claims were submitted ranged from 13 to 116 days after completion of the event.

Recommendation No. 2

We recommend the Assessor Department ensure that employees who receive travel cash advances submit the Mileage and Other Expense Claim forms within five working days after the completion of the event for which the advance is made.

Department response to Finding No. 2: Concur

Action taken: An internal memo is being distributed to all Project Managers to ensure that staff complies with CAM C-1, Section 2.2.1 and returns the unused portion of travel cash advances along with Mileage and Other Expenses Claims forms, within five working days after the completion of the event for which the advance is made. Please also note that a five-working day



ATTACHMENT B: Assessor Department Management Responses (Continued)

AUDIT NO/ 2596 – Internal Control Review of the Assessor Department Revolving Fund
ATTACHMENT B: Assessor Department Management Response

turnaround is very tight, and it is very often not practical to complete and submit all the necessary claim forms and paperwork as our auditor also needs to review and complete their audit reports. A ten (10) to fifteen (15) working days turnaround time would be more practical.

Completion date: August 31, 2006

Finding No. 3:

Documentation supporting travel cash advance expenditure (e.g. vouchers, invoices submitted by requestor) was not marked as “paid” by the custodian.

Recommendation No. 3:

We recommend the Assessor Department ensure that documents supporting travel advance cash expenditures are canceled upon payment by the custodian.

Department response to Finding No. 3: Concur

Action taken: The finding has been discussed with the custodian of the Travel fund. A new “PAID” stamp has been ordered to stamp the claims and supporting travel documents “PAID” when reimbursing the traveler.

Completion date: August 31, 2006

2 of 2

August 14, 2006

