

OC Board of Supervisors' Internal Audit Department

O R A N G E C O U N T Y



AUDIT HIGHLIGHT

August 5, 2008

INTERNAL AUDITOR'S REPORT TO THE BOARD OF SUPERVISORS

INTERNAL CONTROL REVIEW OF COUNTY EXECUTIVE OFFICE/ PUBLIC FINANCE ACCOUNTING – CASH RECEIPTS, CASH DISBURSEMENTS & SELECTED DEPARTMENT/TRUST FUNDS, AUDIT NO. 2722

WHAT WE FOUND?

We audited the internal controls over cash receipts, cash disbursements, and selected department/trust funds, where over **\$500 million was received** and **\$541 million was paid out** during FY 2006-07. We found that the internal controls and processes were adequate to ensure the funds were received, recorded, deposited, safeguarded, and disbursed in accordance with County Executive Office/Public Finance and Accounting's procedures and expectations. **No material weaknesses or significant issues were noted.** We noted **eight (8) audit findings and recommendations** to enhance controls and processes, and management concurred with all eight recommendations.

WHY WE DID THIS AUDIT?

We conducted this audit based upon our Annual Risk Assessment and input from Audit Oversight Committee members for audits of core, centralized business processes. The CEO/Public Finance Division manages the County's public debt programs. During FY 2006-07, CEO/PFA received over \$500 million in cash receipts and paid over \$541 million in cash disbursements, so it is of vital importance that the County ensure the Public Finance Division maintains the integrity and adequacy of internal controls over cash receipts and disbursements; complies with department and county policies; and carries out these functions efficiently and effectively.

WHY IS THIS AUDIT IMPORTANT?

The Board members and County executive management are accountable for the financial stewardship of the County. This audit provided an objective, independent evaluation of internal controls over the vital functions of cash receipts, cash disbursements, and selected department/trust funds in the CEO/Public Finance Division.

BACKGROUND & INFORMATION (SEE COMPLETE AUDIT REPORT FOR DETAIL)

The County's Auditor-Controller provides accounting services to CEO/Public Finance and provides accounting support for over 65 funds. Funds administered by CEO/Public Finance Accounting include: Construction and Debt Service funds for Assessment Districts and Community Facilities Districts; pension obligation funds; trust funds; Orange County Development Agency (OCDA) funds; the Orange County Special Financing Authority (Teeter) fund, and the Orange County Tobacco Settlement fund. Our testing included 22 funds with cash receipts totaling \$38 million; and 20 funds with \$314 million in cash disbursements. These funds comprised 80% of total receipts and disbursements processed in CEO/Public Finance Accounting.

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For more information, please contact Dr. Peter Hughes, CPA, Director of the Internal Audit Department at (714) 834-5475 or peter.hughes@iad.ocgov.com

Internal Audit Department

O R A N G E C O U N T Y

INTERNAL CONTROL REVIEW OF COUNTY EXECUTIVE OFFICE/ PUBLIC FINANCE ACCOUNTING - CASH RECEIPTS, CASH DISBURSEMENTS & SELECTED DEPARTMENT/TRUST FUNDS

We audited the internal controls over cash receipts, cash disbursements, and selected department/trust funds, where over \$500 million was received and \$541 million was paid out during FY 2006-07.

We found that the internal controls and processes were adequate to ensure the funds were received, recorded, deposited, safeguarded, and disbursed in accordance with County Executive Office/Public Finance Accounting's procedures and expectations.

For the Year Ending:
October 31, 2007

AUDIT NO: 2722
REPORT DATE: AUGUST 5, 2008

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Internal Audit Department

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Internal Audit Department

Providing Facts and Perspectives Countywide

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Letter from Director Peter Hughes

Transmittal Letter



AUDIT NO. 2722 August 5, 2008

TO: Thomas G. Mauk, County Executive Officer
David E. Sundstrom, Auditor-Controller

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

SUBJECT: Internal Control Review of
CEO/ Public Finance Accounting -
Cash Receipts, Cash Disbursements,
& Selected Department/Trust Funds

We have completed an Internal Control Review of the County Executive Office (CEO)/Public Finance Accounting's Cash Receipts, Cash Disbursements, & Selected Department/Trust Funds for the year ending October 31, 2007, in which CEO/Public Finance Accounting processed over \$500 million in cash receipts, \$541 million in cash disbursements, and monitors/reconciles over sixty-five (65) special department/trust funds. 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). As a matter of policy, 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 now 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 document 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.

Letter from Director Peter Hughes

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 recommendations.

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 Internal Auditor's Report on page 5.

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Cash Receipts, Cash Disbursements, & Selected Department/Trust Funds
Audit No. 2722***

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October 31, 2007

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OC Internal Auditor's Report

INTERNAL AUDITOR'S REPORT

AUDIT No. 2722

AUGUST 5, 2008

TO: Thomas G. Mauk, County Executive Officer
David E. Sundstrom, Auditor-Controller

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



SUBJECT: Internal Control Review of CEO/Public Finance Accounting -
Cash Receipts, Cash Disbursements & Selected
Department/Trust Funds

Audit Highlight

We audited the internal controls over CEO/Public Finance Accounting's cash receipts, cash disbursements, and selected department/trust funds, where over \$500 million in cash receipts were received and over \$541 million in cash disbursements were paid for FY 06/07.

We found the internal controls and processes were effective to ensure funds were received, recorded, deposited, safeguarded and disbursed in accordance with County Executive Office/Public Finance Accounting's procedures and expectations.

Our testing included 22 funds with cash receipts totaling \$38 million; and 20 funds with \$314 million in cash disbursements. These funds comprised 80% of total receipts and disbursements processed in CEO/Public Finance Accounting.

OBJECTIVES

The Internal Audit Department conducted an Internal Control Review of cash receipts, cash disbursements, and selected department/trust funds in CEO/Public Finance Accounting, which included an evaluation of the adequacy and integrity of internal controls; compliance with department and county policies, and evidence of process efficiencies and effectiveness. The objectives of our audit were to evaluate internal controls and determine if they are in place to ensure:

- ▶ Cash receipts are properly collected, recorded, deposited, reconciled, and safeguarded.
- ▶ Cash disbursements are accurate, adequately supported, processed timely, properly recorded, and authorized in compliance with management's directives.
- ▶ Department/trust funds are monitored and reconciled to County records; and are used in accordance with the designated fund purpose and management's authorization.
- ▶ Business processes are efficient and effective as related to CEO/Public Finance Accounting's processing of cash receipts, cash disbursements and administration of department/trust funds.

BACKGROUND

The mission of the **County Executive Office** is to support and implement Board policy and direction through corporate action and leadership, communication and coordination of strategic and regional planning, and to ensure effective service delivery through efficient management of the County's workforce and resources, and to identify and respond to needs in a proactive style focused on customer service.

OC Internal Auditor's Report

The **Public Finance Division** (CEO/Public Finance) is primarily responsible for managing the County's public debt programs, which are grouped into five major categories:

- Public enterprise revenue bond financing
- Single and Multifamily housing revenue bond financing
- Lease or installment sale financing
- Community Facilities and Assessment District bond financing
- Tax allocation (increment) bond financing

Funds administered by CEO/Public Finance include: Construction and Debt Service funds for Assessment Districts and Community Facilities Districts; pension obligation funds; trust funds; Orange County Development Agency (OCDA) funds; the Orange County Special Financing Authority (Teeter) fund, and the Orange County Tobacco Settlement fund.

The County's Auditor-Controller (A-C) provides accounting services to CEO/Public Finance (**CEO/Public Finance Accounting**) and consists of seven A-C employees that provide accounting support for over 65 funds. ***During Fiscal Year 2006/07, CEO/Public Finance Accounting received over \$500M in cash receipts and paid over \$541M in cash disbursements (excluding reserves) for funds they administered.***

Cash Receipts

CEO/Public Finance cash receipts consist of checks, wire transfers, and journal vouchers (JV) from other County departments. Cash receipts include tax revenues from Assessment Districts and Communities Facilities Districts; allocated interest from the Orange County Treasurer-Tax Collector; interest earnings from bond trustees; bond surpluses from trustees; tax revenue from the State; gains on bonds from trustees; waste revenues from OC Waste & Recycling; contributions from Orange County Development Agency; housing administrative fees from developers; and payments for staff charges.

Cash Disbursements

CEO/Public Finance makes disbursements by check, electronic fund transfers (wire), and journal vouchers. Cash disbursements consist of debt service payments (e.g., principal, interest, reserves, cost of issuance payments, and other miscellaneous costs) and construction fund payments (e.g., construction, developers, and/or engineers, other miscellaneous construction payments) for Assessment Districts and Community Facilities Districts; principal and interest payments on lease purchases; special departmental expenses; miscellaneous costs for consultants such as attorneys, and investment managers; publication costs, and staff charges.

OC Internal Auditor's Report

Department/Trust Funds

CEO/Public Finance Accounting monitors fund activity in over sixty-five (65) department/trust funds to account for cash receipts, disbursements and other fund activity. At the time of our audit, CEO/Public Finance maintained four trust funds, three of which are to be closed in the near future due to low or no activity.

The active trust fund, NDAPP Pass-Through Trust Fund 160, receives revenue annually via journal vouchers from the Orange County Development Agency (OCDA) Neighborhood Development and Preservation Project (NDAPP) – Debt Service fund. The NDAPP Pass-Through Trust Fund also receives monthly interest allocations via journal vouchers from the Treasurer-Tax Collector's pooled investments of which it is a component. Cash disbursements from the NDAPP Pass-Through Trust Fund consist of check payments to school districts to reimburse them for their capital project outlays. CEO/Public Finance Accounting monitors and reconciles all fund activity to the County General Ledger at least on a monthly basis.

SCOPE

Our audit evaluated controls and processes over cash receipts, cash disbursements and department/trust funds administered by CEO/Public Finance Accounting for the period from November 1, 2006 through October 31, 2007. Because of the large number of funds administered in CEO/Public Finance Accounting, our scope included a variety of funds with emphasis on receipts and disbursements in the Community Facilities Districts and Assessment Districts funds, and the OCDA NDAPP Pass-Through Trust Fund 160.

We did not include funds audited annually by the County's external auditors, which include the OCDA funds, the Orange County Tobacco Settlement fund, and the Special Financing Authority (Teeter Plan) fund. We also did not review CEO/Public Finance's compliance with the bond agreements or bond disclosure obligations. Our methodology included inquiry, auditor observation and testing of relevant documents. Our audit was conducted in accordance with professional standards established by the Institute of Internal Auditors.

RESULTS

We audited the internal controls over cash receipts, cash disbursements, and selected department/trust funds, where over \$500 million was received and \$541million was paid out during FY 2006-07. We found that the internal controls and processes were adequate to ensure the funds were received, recorded, deposited, safeguarded, and disbursed in accordance with County Executive Office/Public Finance and Accounting's procedures and expectations. We found CEO/Public Finance Accounting staff to be well-trained and knowledgeable of operations in their assigned functions.

OC Internal Auditor's Report

No material weaknesses or significant issues were identified. We noted five (5) control findings and two (2) efficiency and effectiveness issues for CEO/Public Finance Accounting and one (1) control finding for CEO/Administration resulting in eight recommendations to enhance controls and processes. These issues are discussed in the Detailed Observations, Recommendations and Management Responses section of this report. See Attachment A for a description of Report Item Classifications. Based upon the objectives of our audit, we noted:

- ▶ **Objective:** *Cash receipts are properly collected, recorded, deposited, reconciled, and safeguarded.*
- ▶ **Results:** Controls and processes are in place to ensure cash receipts are properly collected, recorded, deposited, reconciled, and safeguarded. We noted areas where enhancements should be made in reconciliations and reviews of deposit orders; timely check deposits; documented supervisory reviews; and reconciliations of staff charges. These are **Control Findings**.
- ▶ **Objective:** *Cash disbursements are accurate, adequately supported, processed timely, properly recorded, and authorized in compliance with management's directives.*
- ▶ **Results:** Controls and processes are in place to ensure cash disbursements are accurate, adequately supported, processed timely, properly recorded, and authorized in compliance with management's directives. We noted areas where enhancements can be made with the *Payment Review and Approval Form* and written procedures. These are **Control Findings**.
- ▶ **Objective:** *Department/trust funds are monitored and reconciled to County records; and are used in accordance with the designated fund purpose and management's authorization.*
- ▶ **Results:** Controls are in place for the NDAPP Pass-Through Trust Fund to ensure funds are regularly monitored and reconciled to County records; and are maintained in accordance with the designated fund purpose and management's authorization.
- ▶ **Objective:** *Business processes are efficient and effective as related to CEO/Public Finance Accounting's processing of cash receipts, cash disbursements and department/trust funds.*
- ▶ **Results:** No inefficient or ineffective procedures such as backlogs or duplication of work were noted or came to our attention concerning cash receipts and cash disbursements. We noted two issues concerning the NDAPP Pass-Through Trust Fund interest expense that may be a cost savings opportunity. These are **Efficiency/Effectiveness Issues**.

OC Internal Auditor's Report

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 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. Internal Audit's review enhances and complements, but does not substitute for the CEO/Public Finance'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, and 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 CEO/Public Finance Accounting's operating procedures, accounting practices and compliance with County policy.

Acknowledgment

We appreciate the courtesy extended to us by CEO/Public Finance Accounting and Administration. If we can be of further assistance, please contact me; or Eli Littner, Deputy Director, at (714) 834-5899; or Michael Goodwin, Senior Audit Manager, at (714) 834-6066.

Attachments

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
Rob Richardson, Assistant to the CEO, CEO/Administration
Bob Franz, Deputy CEO, Chief Financial Officer
Thomas Beckett, Manager, CEO/Public Finance
Shirley Charity, Manager, CEO/Administration and Accounting
Shaun Skelly, Senior Director, A/C Accounting and Technology
Bill Castro, Director, A-C Satellite Accounting
Suzanne Luster, Manager, CEO/Public Finance Accounting
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors

OC Internal Auditor's Report

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

CASH RECEIPTS

CEO/Public Finance Accounting (CEO/PFA) receives cash receipts in the form of checks, electronic transfers (wires), journal vouchers, and trustee bank statements. The table below summarizes the funds and cash receipts processed by CEO/PFA during FY 2006-07*:

Fund No.	Fund Name	07/06-06/07 Revenue Amount
100-016	2005 Lease Revenue Refunding Bonds	\$74,213,802
017	Housing Admin Fees for Multi-family Housing Bond Programs	859,202
017	Housing Admin Fees for Single-family Housing Bond Prog.	585
017	Housing Administration Fees for Southern California Home Financing Authority (SCHFA) Bond Program	57,648
017	Mortgage Credit Certificate Program	8,525
017	Reimbursement of Publication Charges for Bond Issues	668
017	Public Fin. Program Staff Charges	273,039
017	Public Fin. Accounting Staff Charges	367,551
017	County Counsel Staff Charges	38,127
017	Staff Charges on Multi-family Housing	-
100-019	Capital Acquisition Financing	5,710,243
100-021	2005 Refunding Recovery Bonds	397,147
100-022	Prepaid Pension Obligation	211,065,000
13N	Orange County Tobacco Settlement	29,555,855
2BC	CFD No. 87-8 Special Tax Subsidy	-
15B	CEO Single Family Housing	262,407
15J	Pension Obligation Bonds Debt Service	8,069,884
599	O.C. Special Financing Authority (Teeter Plan)	54,187,209
	Assessment District Construction Title:	
431	Special Assessment – Top of the World Improvement	2,695
522	Newport Coast AD 01-1 Group 2	106,015
531	Newport Coast AD 01-1 06 Variables	749,140
550	Assessment District 92-1 Newport Ridge	15,147
552	Assessment District 92-1 Newport Ridge (B)	139,717
	Public Facility Improvements:	
112	County Infrastructure Project	246,422
424	Aliso Viejo CFD 88-1 (A of 1992) Construction	291,914
480	CFD 99-1 Series A of 1999 Ladera	17,960
481	Rancho Santa Margarita CFD 86-2 (A of 1998)	76,959
483	Rancho Santa Margarita CFD 86-1 (A)	9,850
486	Ladera CFD 2002-01	916,664
497	Lomas Laguna CFE 88-2	18,950
510	Baker Ranch CFE 87-6	25,421
514	Santa Teresita CFE 87-9	3,202
524	Assessment District 01-1 Newport Coast IV	99,474
528	Mission Viejo CFE 87-3 (A of 1990)	826
529	CFD 2004-1 Ladera	3,271,141
532	CFD 01-1 Ladera	240,189
542	Santa Teresita CFD 87-9 (A of 1991)	6,051
546	CFD 00-1 (Series A of 2000) Ladera	76,962
553	Foothill Ranch CFD 87-4 (A of 1994)	20,123
554	CFD 2003-1 Ladera	1,953,656
556	Rancho Santa Margarita CFD 87-5C (A of 1994)	3,463
558	Coto de Caza CFD 87-8 (A of 1994)	3,643
429	Arbitrage Rebate	75,428

OC Internal Auditor's Report

Fund No.	Fund Name	07/06-06/07 Revenue Amount
172	OCDA Debt Service (Santa Ana Heights)	9,992,391
427	OCDA (NDAPP) Debt Service	19,317,509
	Assessment Districts:	
433	Golden Lantern Reassessment District 94-1	87,813
507	Irvine Coast Assessment District 88-1	5,456,563
516	Assessment District 01-1 Ziani Project	586,554
523	Newport Coast AD 01-1 Group 2	923,771
525	Assessment Dist 01-1 Newport Coast IV	249,655
52T	Newport Coast AD 01-1 Conversion #1	1,498,155
551	Assessment District 92-1 Newport Ridge	803,930
	Community Facility Districts:	
479	CFD 99-1 Series A of 1999 Ladera	1,387,293
482	Special Mello-Roos Reserve	441,829
484	Rancho Santa Margarita CFD 86-2	1,768,983
487	Ladera CFD 2002-01	4,233,481
488	Rancho Santa Margarita CFD 86-1	3,032,709
490	Dimensions/Serrano Creek CFD 87-1	774,475
492	Mission Viejo CFD 87-3 (A)	4,639,650
494	Aliso Viejo CFD 88-1	16,901,931
496	Lomas Laguna CFD 88-2	207,077
501	Rancho Santa Margarita CFD 87-5 (A)	837,424
503	Portola Hills CFD 87-2 (A)	2,259,637
505	Foothill Ranch CFD 87-4	7,380,781
509	Rancho Santa Margarita CFD 87-5 (B)	2,403,154
511	Baker Ranch CFD 87-6	835,443
513	Coto de Caza CFD 87-8	2,704,739
515	Santa Teresita CFD 87-9	664,192
517	Rancho Santa Margarita CFD 87-5 ©	1,390,743
519	Los Alisos CFD 87-7	1,794,077
521	Rancho Santa Margarita CFD 87-5D(A)	1,111,729
530	CFD 2004-1 Ladera	4,631,292
533	CFD 01-1 Ladera	1,878,356
547	CFD 001-1 (series A of 2000) Ladera	1,743,747
549	Rancho Santa Margarita CFD 87-5E (A of 1993)	1,161,485
555	CFD 2003-1 Ladera	3,522,167
	Grand Total	\$500,060,639

*Most of amounts obtained from the Revenue Budget to Actual Report for Fiscal Year 2006/07.

Due to the large number of funds receiving cash receipts (over 65 funds) and for purposes of audit coverage, we judgmentally selected funds that comprised at least 80% of the total cash receipts for FY 2006/07. Our sample included **22 funds of which 65 transactions totaling over \$38 million were tested.** We noted the following based on our testing of cash receipts:

CEO/PFA has controls and processes are in place to ensure cash receipts are properly collected, accurately recorded, deposited, reconciled, and safeguarded. Although the nature of the work is complex, CEO/PFA staff is competent, well trained, and provided with written procedures for each fund they maintain. We did note where enhancements could be made in the areas of reconciliations and reviews of deposit orders; timely check deposits; documented supervisory reviews; and reconciliations of staff charges as discussed below.

OC Internal Auditor's Report

Observation No. 1 – Reconciliations and Reviews of Deposit Orders

When CEO/PFA receives checks in the mail, they are logged into initial collection records, such as a Check Register, and copies of the checks are made for purposes of recording and preparing the Deposit Orders. Deposit Orders are prepared by staff in CEO/PFA and are sent to CEO/Administration for review and approval.

We noted that a supervisory review and reconciliation between initial collection records and Deposit Orders is not performed in CEO/PFA prior to sending the Deposit Orders to CEO/Administration. An individual in CEO/Administration reviews and signs the Deposit Orders, but there is no reconciliation between Deposit Orders back to CEO/PFA's initial collection records. This reconciliation ensures that all cash receipts received were deposited completely, and supervisory reviews help ensure propriety, consistency, and completeness of work.

Because supervisors in CEO/PFA are familiar with the nature of the work, the funds, and account codings, we believe the reconciliation between deposits and collection records, and supervisory reviews of Deposit Orders should occur in CEO/PFA prior to sending the deposits to CEO/Administration.

Recommendation No. 1

CEO/Public Finance Accounting perform supervisory reviews and approval of all Deposit Orders, and include in their review the initial collection records to ensure all checks are deposited. The supervisory review and approval should be documented on the Deposit Orders.

Public Finance Accounting/Auditor-Controller Response:

Concur. All Public Finance check deposits and associated Deposit Orders are now reviewed and approved by a PFA manager. The review does include examination of the Deposit Order against the initial collection record. Cash receipt procedures have been revised to reflect this change.

Observation No. 2 – Documented Supervisory Reviews

Documented supervisory reviews establish accountability and ensure the propriety, consistency, and completeness of work performed by staff. We noted the following areas where there was no documentation of supervisory review of key documents; however, we were informed the reviews were performed:

- Nineteen (19) of twenty-four (24) journal voucher transactions tested had no supervisory review documented on key supporting documents (i.e., Trustee Activity spreadsheets).
- Eight (8) out of ten (10) wire receipts tested had no supervisory review documented on key supporting documents for Deposit Orders (i.e., bond surplus calculations).

OC Internal Auditor's Report

- All twenty-two (22) of the Statement of Sources & Uses of Funds tested did not contain a documented supervisory review.

Note: Trustee Activity spreadsheets, Statement of Sources and Uses and monthly reconciliations for Community Facilities District funds and Assessment District funds are considered the key supporting documents for Journal Vouchers and Deposit Orders.

Recommendation No. 2

CEO/Public Finance Accounting ensure that supervisory reviews of key support documents for cash receipts are documented by the reviewer.

Public Finance Accounting/Auditor-Controller Response:

Concur. Although supervisory reviews of key support documents were performed during the audit period, they were not initialed and dated in every instance. PFA management has reminded staff to ensure that all support documents reviewed, including trustee activity spreadsheets, statements of sources and uses and monthly reconciliations for Community Facilities District funds, are initialed and dated, in all instances. PFA management is now conducting spot checks and documenting these to ensure compliance with this recommendation.

Observation No. 3 – Reconciliations

Reconciliations are a method of monitoring the recording of transactions and can be effective in maintaining accountability for functions. We noted there is no reconciliation prepared for CEO/PFA staff charges to the trustees, which included checks received totaling over \$27,700.

Recommendation No. 3

CEO/Public Finance Accounting perform reconciliations of staff charges to trustees on a regular basis, as determined by management, and include documented supervisory reviews of the reconciliations.

Public Finance Accounting/Auditor-Controller Response:

Concur. CEO/PFA will implement procedures by October 31, 2008, to reconcile staff charges to trustee activity statements quarterly to ensure full cost recovery. Supervisory review of the reconciliations will be documented.

OBSERVATION FOR CEO/ADMINISTRATION

During fieldwork of CEO/PFA cash receipts, we noted Public Finance checks were not always deposited timely by CEO/Administration. As mentioned in Observation No. 1 above, CEO/PFA prepares the Deposit Orders and delivers them to CEO/Administration. CEO/Administration is responsible for the check deposits.

Observation No. 4 – Timeliness of Deposits

Our testing of check deposits indicated that 5 out of 8 checks deposited by CEO/Administration were 1 to 11 days late as follows:

OC Internal Auditor's Report

Check No.	Check Amt.	Check Received	Check Deposited	No. of Days Late
2685003	\$21,718.75	9/4/07	9/20/07	11
102120459	7,536.73	7/23/07	7/31/07	5
805978	20,000.00	1/17/07	1/24/07	4
102287325	53,750.00	10/18/07	10/22/07	1
101994992	35,762.37	5/15/07	5/17/07	1
Total	\$138,767.85			

County Accounting Manual (CAM) Procedure No. C-4 on Deposits requires "All monies collected or received by County departments/agencies be deposited, whenever practical, with the County Treasurer-Tax Collector, or other legal depository, no later than the working day following the date received . . . If it is not practical to deposit monies by the working day following the date received, then deposits should be made whenever \$100 is accumulated." Because CEO/PFA receives and processes large dollar checks on a frequent basis, it is important all receipts get deposited timely to minimize the risk of loss or misuse.

We were informed by CEO/Administration that the Deposit Orders are received timely from CEO/PFA, but due to absences in CEO/Administration, the checks were not deposited timely. CEO/Administration should develop a process to ensure checks are deposited timely.

Recommendation No. 4

CEO/Administration take the necessary steps to ensure cash receipts are deposited in accordance with requirements of CAM Procedure C-4.

CEO/Administration Management Response:

Concur. All Public Finance check deposits and associated Deposit Orders are now prepared by PFA staff and reviewed by a PFA manager. Cash receipts are now deposited in accordance with requirements of CAM Procedure C-4. PFA cash receipt procedures have been amended to reflect this change.

OC Internal Auditor's Report

CASH DISBURSEMENTS

CEO/PFA makes their payments via Electronic Funds Transfer forms, Journal Vouchers, or Request for Check forms and supporting documentation. The table below summarizes the funds and cash disbursements processed by CEO/PFA during FY 2006-07*:

Fund No.	Fund Name	07/06-06/07 Cash Disbursements
100-016	2005 Lease Revenue Refunding Bonds	\$74,213,802
100-019	Capital Acquisition Financing (Juvenile Justice Center and Telecommunications)	6,560,548
100-022	Prepaid Pension Obligation	211,069,664
100-021	2005 Refunding Recovery Bonds	18,427,700
13N	Orange County Tobacco Settlement	29,392,309
15B	CEO Single Family Housing	3,259
15J	Pension Obligation Bonds Debt Service	14,887,623
599	O.C. Special Financing Authority	59,389,850
	Assessment District Construction Title:	
431	Special Assessment – Top of the World	186
522	Newport Coast AD 01-1 Group 2	1,812,500
531	Newport Coast AD 01-1 06 Variables	6,003,196
550	Assessment District 92-1 Newport Ridge	96
552	Assessment District 92-1 Newport Ridge (B)	2,590
172	OCDA Debt Service (Santa Ana Heights)	8,529,407
427	OCDA (NDAPP) Debt Service	14,033,351
	Public Facility Improvements:	
112	County Infrastructure Project	335
424	Aliso Viejo CFD 88-1 (A of 1992)	5,530
480	CFD 99-1 Series A of 1999 Ladera	195
	Public Facility Improvements Cont'd.:	
481	Rancho Santa Margarita CFD 86-2	1,635
483	Rancho Santa Margarita CFD 86-1 (A)	59
486	Ladera CFD 2002-01	2,689,018
497	Lomas Laguna CFE 88-2	4
510	Baker Ranch CFE 87-6	209
514	Santa Teresita CFE 87-9	4
524	Assessment District 01-1 Newport Coast IV	3,572,925
528	Mission Viejo CFE 87-3 (A of 1990)	15
529	CFD 2004-1 Ladera	4,377,904
532	CFD 01-1 Ladera	7,169,076
542	Santa Teresita CFD 87-9 (A of 1991)	180
546	CFD 00-1 (Series A of 2000) Ladera	1,793
553	Foothill Ranch CFD 87-4 (A of 1994)	633
554	CFD 2003-1 Ladera	1,886,572
556	Rancho Santa Margarita CFD 87-5C	205
558	Coto de Caza CFD 87-8 (A of 1994)	199
429	Arbitrage Rebate	25,393
	Assessment Districts:	
433	Golden Lantern Reassessment District 94-1	3,214,244
507	Irvine Coast Assessment District 88-1	5,197,483
516	Assessment District 01-1 Ziani Project	488,321

OC Internal Auditor's Report

Fund No.	Fund Name	07/06-06/07 Cash Disbursements
523	Newport Coast AD 01-1 Group 2	448,675
525	Assessment District 01-1 Newport Coast IV	869,929
52T	Newport Coast AD 01-1 Conversion #1	1,349,050
551	Assessment District 92-1 Newport Ridge	784,567
	Community Facility Districts:	
479	CFD 99-1 Series A of 1999 Ladera	1,882,432
482	Special Mello-Roos Reserve	290,329
484	Rancho Santa Margarita CFD 86-2	1,665,500
487	Ladera CFD 2002-01	3,909,415
488	Rancho Santa Margarita CFD 86-1	2,791,761
490	Dimensions/Serrano Creek CFD 87-1	743,159
492	Mission Viejo CFD 87-3 (A)	4,645,427
494	Aliso Viejo CFD 88-1	15,651,488
496	Lomas Laguna CFD 88-2	183,096
501	Rancho Santa Margarita CFD 87-5 (A)	827,575
503	Portola Hills CFD 87-2 (A)	2,169,599
505	Foothill Ranch CFD 87-4	6,954,314
509	Rancho Santa Margarita CFD 87-5 (B)	2,178,400
511	Baker Ranch CFD 87-6	932,039
513	Coto de Caza CFD 87-8	2,379,200
515	Santa Teresita CFD 87-9	644,289
517	Rancho Santa Margarita CFD 87-5 (C)	1,246,181
519	Los Alisos CFD 87-7	1,709,374
521	Rancho Santa Margarita CFD 87-5D (A)	1,043,996
530	CFD 2004-1 Ladera	4,056,001
533	CFD 01-1 Ladera	2,471,613
547	CFD 001-1 (series A of 2000) Ladera	2,377,144
549	Rancho Santa Margarita CFD 87-5E	1,050,548
555	CFD 2003-1 Ladera	3,249,803
	Grand Total	\$541,462,917

*Amounts obtained from the Expense Budget to Actual Report for Fiscal Year 2006/07.

Approximately 62 funds have some cash disbursement transactions. We judgmentally selected funds that comprised at least 80% of the total cash disbursements for FY 06/07. Our sample included **20 funds of which 60 transactions totaling over \$314 million were tested.**

We found CEO/PFA has controls and processes in place to ensure cash disbursements are accurate, adequately supported, processed timely, properly recorded, and authorized in compliance with management's directives. We noted where enhancements can be made with the *Payment Review and Approval Form* and written procedures as discussed below.

Observation No. 5 – Payment Review and Approval Form

Cash disbursements are mainly composed of debt service payments, construction fund payments, and other miscellaneous costs. CEO/PFA utilizes a *Payment Review and Approval Form* when payments are to be made. The form provides a description of the payment, the legal authorization to make the payment, and a review and/or approval section for the initials and date for up to five levels of review.

OC Internal Auditor's Report

Our review of the *Payment Review and Approval Form* noted it does not include the amount of the payment, although the form is usually attached to other documents that state the payment amount. We also noted there is no policy or procedure that indicates the level of review/s required on the form. Our testing noted that all five reviews and approvals were not consistently documented.

Recommendation No. 5

CEO/Public Finance Accounting revise the *Payment Review and Approval Form* to include the amount reviewed and approved for payment, and establish policy and procedures specifying the required levels of reviews/approvals for cash disbursements to be documented on the *Payment Review and Approval Form*.

Public Finance Accounting/Auditor-Controller Response:

Concur. The *Payment Review and Approval Form* now includes the dollar amount approved for payment. Although there are currently policies and procedures in place that specify the review/approval required for debt service payments, such written procedures do not exist for construction funds. By October 31, 2008, PFA will review all debt service and construction fund files to ensure that there are documented payment review and approval procedures. For other disbursements, PFA will develop general review and approval level procedures. The *Payment Review and Approval Form* will be revised by October 31, 2008, to only include a line for each required approval initials and date. To avoid confusion, when appropriate, PFA will eliminate blank lines that may indicate additional levels of approval.

Observation No. 6 – Cash Disbursement Written Procedures

In CEO/PFA, the desk procedures for cash disbursements are not detailed to properly document the current practice of the entire cash disbursement process and staff responsibilities from receipt of invoice to submission to A-C for payment.

Recommendation No. 6

We recommend CEO/PFA detail the current practice of the entire cash disbursement process and make the procedures available to all employees to strengthen the control environment.

Public Finance Accounting/Auditor-Controller Response:

Concur. PFA will revise current desk procedures by September 30, 2008, for cash disbursements to provide more detail, documenting the entire cash disbursement process and staff responsibilities. The task to revise disbursement procedures is assigned to a PFA staff member as a current PIP goal.

OC Internal Auditor's Report

TRUST FUNDS

The active trust fund in CEO/PFA is the NDAPP Pass-Through Trust Fund 160. In 1988, the County acting as the Orange County Development Agency (OCDA) prepared a development plan for the Neighborhood Development and Preservation Project (NDAPP). Eight agreements exist with eight school districts affected by the development plan. Each fiscal year, OCDA makes pass-through payments to Fund 160 for the eight school districts. Funds are held in trust for capital improvements, construction and property taxes for the school districts. This fund also receives monthly interest allocations from the Treasurer-Tax Collector's pooled investments and makes payments to school districts to reimburse them for their capital project outlays.

In Fund 160, there were only five cash receipt transactions totaling \$1.5M and three cash disbursements totaling \$1.4M made during the audit period; accordingly, we tested 100% of the transactions. Based on our testing of cash disbursements, we noted the following:

Controls are in place to ensure funds are regularly monitored and reconciled to County records; and are maintained and used in accordance with the designated fund purpose and management's authorization. We noted two issues concerning requirements for paying interest expense to the NDAPP Pass-Through Trust Fund. These are considered **Efficiency/Effectiveness Issues** and are discussed below:

Observation No. 7 – Interest Expense for Late Payments

Pass-Through funds received from the development agency are held in Fund 160 until they are disbursed in annual payments to the school districts at the end of each fiscal year. For Fiscal Year 2006-07, we noted that OCDA paid interest expense in the amount of \$20,437 for annual payments not paid when due at fiscal year end. Currently, CEO/PFA waits for Auditor-Controller to provide the fiscal year-end information needed to calculate the annual payment due to the NDAPP Pass-Through Trust Fund, resulting in a late payment.

We believe there is a cost-savings opportunity in determining whether interest costs may be avoided or reduced if the required annual payment is made closer to its fiscal year-end due date.

Recommendation No. 7

CEO/Public Finance Accounting evaluate if annual payments can be made closer to their due date to avoid or reduce the amount of interest paid.

Public Finance Accounting/Auditor-Controller Response:

Concur. We examined the timing of tax increment revenue flow in the Orange County Development Agency, NDAPP Debt Service Fund No. 427. We determined that there are significant revenue receipts in accounting period 13 from the final fiscal year tax apportionment which prevents us from basing the pass-through calculation on accounting period 12 (June 30) records. Final fiscal year accounting records are

OC Internal Auditor's Report

forwarded to the County's redevelopment consultant to complete pass-through payment calculations as soon as they are available in the first week of August. For the FY 2007/08, and all future years' pass-through payment calculations, we will ask the consultant to complete the calculations as soon as possible and consider other ways to reduce the time between the June 30 pass-through payment due date and the actual payment processing date, thereby reducing interest cost.

Observation No. 8 – Contract Requirements for Interest Payments

We noted that two of the eight school district agreements do not include a clause to pay interest expense if annual payments are not paid when due. However, interest expense is being paid on the two agreements similar to the other agreements for past due payments. The total amount paid on the two school districts (Anaheim Union High School District and Magnolia Elementary School District) was \$7,788. These two agreements should be researched to determine if interest expense is appropriate in instances of past due annual payments to the school districts.

Recommendation No. 8

CEO/PFA research to determine if interest should be paid on the two school districts that do not have the payment of interest clause in their agreements.

Public Finance Accounting/Auditor-Controller Response:

Concur. We will consult with County Counsel and the County's redevelopment consultant to determine if there is a statutory or other reason to pay interest to these two school districts when pass-through payments are made past June 30. We will resolve this issue before FY 2007/08 pass-through payments are made in August/September 2008. If interest on late pass-through payments is not required for these two school districts, we will consult with County Counsel about the legality of recovering interest payments made in prior years.

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 address "Material Weaknesses" brought to their attention immediately.

▶ **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 and/or Efficiency/Effectiveness Issues:**

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

OC Internal Auditor's Report

ATTACHMENT B: Public Finance Accounting/ Auditor-Controller Management Responses



DAVID E. SUNDSTROM, CPA
AUDITOR-CONTROLLER

AUDITOR-CONTROLLER COUNTY OF ORANGE

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DIRECTOR
SATELLITE ACCOUNTING OPERATIONS

PHILLIP T. DAIGNEAU
DIRECTOR
INFORMATION TECHNOLOGY

July 24, 2008

TO: Thomas G. Mauk, County Executive Officer
County Executive Office

SUBJECT: Response to Internal Control Review of CEO/Public Finance Accounting -
Cash Receipts, Cash Disbursements & Selected Department/Trust Funds,
Audit No. 2722

RECEIVED
INTERNAL AUDIT DEPARTMENT
2008 JUL 28 AM 9:49

We reviewed the draft audit report prepared by the Internal Audit Department covering the Internal Control Review of Cash Receipts, Cash Disbursements & Selected Department/Trust Funds for the period of November 1, 2006, to October 31, 2007.

We concur with the recommendations made in the draft audit report that relate to Public Finance Accounting. Our responses to these recommendations are attached.

Please call Suzanne Luster, Public Finance Accounting Manager, at 834-3362 if you have any questions regarding this letter. Thank you.

David E. Sundstrom
Auditor-Controller

SL:lr (CEO Public Finance Audit Response 2722/agency)
Attachment

cc: Peter Hughes, Director, Internal Audit Department
Shaun Skelly, Senior Director, Accounting & Technology, Auditor-Controller
Bill Castro, Director of Satellite Accounting Operations, Auditor-Controller
Bob Franz, Chief Financial Officer
Thomas Beckett, Manager, CEO/Public Finance
Suzanne Luster, Manager, CEO/Public Finance Accounting

OC Internal Auditor's Report

ATTACHMENT B: Public Finance Accounting/ Auditor-Controller Responses (Continued)

**Internal Audit Department
Internal Control Review of CEO/Public Finance Accounting (PFA)
Cash Receipts, Cash Disbursements & Selected Department/Trust Funds**

Cash Receipts

Observation No. 1-Reconciliations and Reviews of Deposit Orders

We noted that a supervisory review and reconciliation between initial collection records and Deposit Orders is not performed in CEO/PFA prior to sending the Deposit Order to CEO/Administration. An individual in CEO/Administration reviews and signs the Deposit Orders, but there is no reconciliation between Deposit Orders back to CEO/PFA's initial collection records.

Recommendation No. 1

CEO/Public Finance Accounting perform supervisory reviews and approval of all Deposit Orders and include in their review the initial collection records to ensure all checks are deposited. The supervisory review and approval should be documented on the Deposit Orders.

Auditor-Controller Management Response

Concur. All Public Finance check deposits and associated Deposit Orders are now reviewed and approved by a PFA manager. The review does include examination of the Deposit Order against the initial collection record. Cash receipt procedures have been revised to reflect this change.

Observation No. 2-Documented Supervisory Reviews

Documented supervisory reviews establish accountability and ensure the propriety, consistency, and completeness of work performed by staff. We noted areas where there was no documentation of supervisory review of key documents; however we were informed the reviews were performed.

Recommendation No. 2

CEO/Public Finance Accounting ensure that supervisory reviews of key support documents for cash receipts are documented by the reviewer.

Auditor-Controller Management Response

Concur. Although supervisory reviews of key support documents were performed during the audit period, they were not initialed and dated in every instance. PFA management has reminded staff to ensure that all support documents reviewed, including trustee activity spreadsheets, statements of sources and uses and monthly reconciliations for Community Facilities District funds, are initialed and dated, in all instances. PFA management is now conducting spot checks and documenting these to ensure compliance with this recommendation.

OC Internal Auditor's Report

ATTACHMENT B: Public Finance Accounting/ Auditor-Controller Responses (Continued)

Observation No. 3-Reconciliations

We noted there is no reconciliation prepared for CEO/PFA staff charges to the trustees, which included checks received totaling over \$27,700.

Recommendation No. 3

CEO/Public Finance Accounting perform reconciliations of staff charges to trustees on a regular basis, as determined by management, and include documented supervisory reviews of the reconciliations.

Auditor-Controller Management Response

Concur. CEO/PFA will implement procedures by October 31, 2008, to reconcile staff charges to trustee activity statements quarterly to ensure full cost recovery. Supervisory review of the reconciliations will be documented.

Cash Disbursements

Observation No. 5-Payment Review and Approval Form

CEO/PFA utilizes a *Payment Review and Approval Form* when payments are to be made. The *Payment Review and Approval Form* provides a description of the payment, the legal authorization to make the payment, and a review and/or approval section for the initials and date for up to five levels of review.

Our review of the form noted it does not include the amount of the payment, although the form is usually attached to other documents that state the payment amount. We also noted that there is no policy or procedure that indicates the level of review/s required on the form.

Recommendation No. 5

CEO/Public Finance Accounting revise the *Payment Review and Approval Form* to include the amount reviewed and approved for payment, and establish policy and procedures specifying the required levels of reviews/approvals for cash disbursements to be documented on the *Payment Review and Approval Form*.

Auditor-Controller Management Response

Concur. The *Payment Review and Approval Form* now includes the dollar amount approved for payment. Although there are currently policies and procedures in place that specify the review/approval required for debt service payments, such written procedures do not exist for construction funds. By October 31, 2008, PFA will review all debt service and construction fund files to ensure that there are documented payment review and approval procedures. For other disbursements, PFA will develop general review and approval level procedures. The *Payment Approval and Review Form* will be revised by October 31, 2008, to only include a line for each required approval initials and date. To avoid confusion, when appropriate, PFA will eliminate blank lines that may indicate additional levels of approval.

OC Internal Auditor's Report

ATTACHMENT B: Public Finance Accounting/ Auditor-Controller Responses (Continued)

Observation No. 6-Cash Disbursement Written Procedures

In CEO/PFA, the desk procedures for cash disbursements are not detailed to properly document the current practice of the entire cash disbursement process and staff responsibilities from receipt of invoice to submission to A-C for payment.

Recommendation No. 6

We recommend CEO/PFA detail the current practice of the entire cash disbursement process and make the procedures available to all employees to strengthen the control environment.

Auditor-Controller Management Response

Concur. PFA will revise current desk procedures by September 30, 2008, for cash disbursements to provide more detail, documenting the entire cash disbursement process and staff responsibilities. The task to revise disbursement procedures is assigned to a PFA staff member as a current PIP goal.

Trust Funds

Observation No. 7-Interest Expense for Late Payments

Pass-Through funds received from the development agency are held in Fund No. 160 until they are disbursed in annual payments to the school at the end of each fiscal year. For fiscal year 2006-07, we noted that OCDA paid interest expense in the amount of \$20,437 for annual payments not paid when due at fiscal year end. Currently CEO/PFA waits for Auditor-Controller to provide the fiscal year-end information needed to calculate the annual payment due to the NDAPP Pass-Through Trust Fund, resulting in a late payment.

We believe there is a cost-savings opportunity in determining whether interest costs may be avoided or reduced if the required annual payment is made closer to its fiscal year-end due date.

Recommendation No. 7

CEO/Public Finance evaluate if annual payments can be made closer to their due date to avoid or reduce the amount of interest paid.

Auditor-Controller Management Response

Concur. We examined the timing of tax increment revenue flow in the Orange County Development Agency, NDAPP Debt Service Fund No. 427. We determined that there are significant revenue receipts in accounting period 13 from the final fiscal year tax apportionment which prevents us from basing the pass-through calculation on accounting period 12 (June 30) records. Final fiscal year accounting records are forwarded to the County's redevelopment consultant to complete pass-through payment calculations as soon as they are available in the first week of August. For the FY 2007/08, and all future years' pass-through payment calculations, we will ask the consultant to complete the calculations as soon as possible and consider other ways to reduce the time between the June 30 pass-through payment due date and the actual payment processing date, thereby reducing interest cost.

OC Internal Auditor's Report

ATTACHMENT B: Public Finance Accounting/ Auditor-Controller Responses (Continued)

Observation No. 8-Contract Requirements for Interest Payments

We noted that two of the eight school district agreements do not include a clause to pay interest expense if annual payments are not paid when due. However, interest expense is being paid on the two agreements similar to the other agreements for past due payments. The total amount paid on the two school districts (Anaheim Union High School and Magnolia Elementary School District) was \$7,788. These two agreements should be researched to determine if interest expense is appropriate in instances of past due annual payments to the school districts.

Recommendation No. 8

CEO/PFA research to determine if interest should be paid on the two school districts that do not have the payment of interest clause in their agreements.

Auditor-Controller Management Response

Concur. We will consult with County Counsel and the County's redevelopment consultant to determine if there is a statutory or other reason to pay interest to these two school districts when pass-through payments are made past June 30. We will resolve this issue before FY 2007/08 pass-through payments are made in August/September 2008. If interest on late pass-through payments is not required for these two school districts, we will consult with County Counsel about the legality of recovering interest payments made in prior years.

OC Internal Auditor's Report

ATTACHMENT C: CEO/Administration Management Response



County of Orange
California

Thomas G. Mauk
County Executive Officer

July 29, 2008

RECEIVED
INTERNAL AUDIT DEPARTMENT
2008 JUL 31 PM 3:21

TO: Peter Hughes, Director
Internal Audit Department

SUBJECT: Response to Internal Control Review of
CEO/Public Finance Accounting-Cash Receipts,
Cash Disbursements & Selected Department/Trust Funds

We reviewed the draft audit report prepared by the Internal Audit Department covering the Internal Control Review of Cash Receipts, Cash Disbursements & selected Department/Trust Funds for the period of November 1, 2006, to October 31, 2007.

We concur with the recommendation made in the draft audit report directed to the County Executive Office Administrative Section. Our response to the recommendation is attached.

The Auditor-Controller provided a response to the recommendations made in the draft audit report that relate to Public Finance Accounting. We concur with the Auditor-Controller Management response and have attached it along with the County Executive Office Management response.

Please call Suzanne Luster, Public Finance Accounting Manager, at 834-3362 if you have any questions regarding this letter. Thank you.

A handwritten signature in black ink, appearing to read "T. Mauk", written over a horizontal line.

Thomas G. Mauk
County Executive Officer

Attachments

cc: Bob Franz, Chief Financial Officer
David E. Sundstrom, Auditor-Controller
Thomas Beckett, Manager, CEO/Public Finance
Shaun Skelly, Senior Director, Accounting & Technology, Auditor-Controller
Bill Castro, Director of Satellite Accounting Operations
Suzanne Luster, Manager, CEO/Public Finance Accounting

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OC Internal Auditor's Report

ATTACHMENT C: CEO/Administration Management Response (continued)

**Internal Audit Department
Internal Auditor's Report
Review of CEO/Public Finance Accounting (PFA)
Cash Receipts, Cash Disbursements & Selected Department/Trust Funds**

Cash Receipts

Observation No. 4-Timeliness of Deposits

During fieldwork of CEO/PFA cash receipts, we noted Public Finance checks were not always deposited timely by CEO/Administration. CEO/PFA prepares the Deposit Orders and delivers them to CEO/Administration. CEO/Administration is responsible for check deposits.

Our testing of check deposits indicated that 5 out of 8 checks deposited by CEO/Administration were 1 to 11 days late. County Accounting Manual (CAM) Procedure No. C-4 on Deposits requires "All monies collected or received by County departments/agencies be deposited, whenever practical, with the County Treasurer-Tax Collector, or other legal depository, no later than the working day following the date received... If it is not practical to deposit monies by the working day following the date received, then deposits should be made whenever \$100 is accumulated." Because CEO/PFA receives and processes large dollar checks on a frequent basis, it is important all receipts get deposited timely to minimize the risk of loss or misuse.

We were informed by CEO/Administration that the Deposit Orders are received timely from CEO/PFA, but due to absences in CEO/Administration, the checks were not deposited timely. CEO/Administration should develop a process to ensure checks are deposited timely.

Recommendation #4

CEO/Administration take the necessary steps to ensure cash receipts are deposited in accordance with requirements of CAM Procedure C-4.

CEO Administration Management Response

Concur. All Public Finance check deposits and associated Deposit Orders are now prepared by PFA staff and reviewed and approved by a PFA manager. Cash receipts are now deposited in accordance with requirements of CAM Procedure C-4. PFA cash receipt procedures have been amended to reflect this change.