

Internal Audit Department

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

FIRST FOLLOW-UP AUDIT:

INTERNAL CONTROL REVIEW OF TREASURER-TAX COLLECTOR'S INTEREST APPORTIONMENT PROCESS ORIGINAL AUDIT No. 2634

AS OF AUGUST 31, 2008

The original audit report contained ten (10) recommendations. Our Follow-Up Audit indicated that Treasurer-Tax Collector staff took satisfactory corrective action to fully implement eight (8) recommendations and partially implement two (2) recommendations. The Treasurer-Tax Collector processed \$317 million in interest apportionments during the original audit period.

AUDIT No: 2829-E
REPORT DATE: OCTOBER 22, 2008

Audit Director: [Peter Hughes, Ph.D., MBA, CPA](#)
Deputy Director: [Eli Littner, CPA, CIA](#)
Sr. Audit Manager: [Michael Goodwin, CPA, CIA](#)
Audit Manager: [Kenneth Wong, CPA, CIA](#)



Internal Audit Department

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Dr. Peter Hughes Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE
Office of The Director Certified Compliance & Ethics Professional (CCEP)
Certified Information Technology Professional (CITP)
Certified Internal Auditor (CIA)
Certified Fraud Examiner (CFE)
E-mail: peter.hughes@iad.ocgov.com

Eli Littner CPA, CIA, CFE, CFS, CISA
Deputy Director Certified Fraud Specialist (CFS)
Certified Information Systems Auditor (CISA)

Michael Goodwin CPA, CIA
Senior Audit Manager

Alan Marcum MBA, CPA, CIA, CFE
Senior Audit Manager

Autumn McKinney CPA, CIA, CISA, CGFM
Senior Audit Manager Certified Government Financial Manager (CGFM)

Hall of Finance & Records

12 Civic Center Plaza, Room 232
Santa Ana, CA 92701

Phone: (714) 834-5475

Fax: (714) 834-2880

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OC Fraud Hotline (714) 834-3608

Letter from Director Peter Hughes



Transmittal Letter



Audit No. 2829-E October 22, 2008

TO: Chriss W. Street
Treasurer-Tax Collector

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

SUBJECT: First Follow-Up Audit of Treasurer-Tax
Collector's Interest Apportionment
Process, Original Audit No. 2634,
Issued February 20, 2008

We have completed a First Follow-Up Audit of the Treasurer-Tax Collector's Interest Apportionment Process. Our audit was limited to reviewing, as of August 31, 2008, actions taken to implement ten recommendations made in our original audit report in which the Treasurer-Tax Collector processed **\$317 million** in interest earnings and apportionments from the County's **\$6.1 billion** investment pools during the audit period.

The results of our Follow-Up Audit are discussed in the **Internal Auditor's Report** following this transmittal letter. Because there are two recommendations pending implementation, we have attached a *Second Follow-Up Audit Report Form*. Your department should complete this template as our audit recommendations are implemented. When we perform our Second Follow-Up Audit, we will 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.

Attachment

Other recipients of this report listed on the Internal Auditor's Report on page 3.

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(Original Audit No. 2634)
Audit No 2829-E*

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INTERNAL AUDITOR'S REPORT

Audit No. 2829-E

October 22, 2008

TO: Chriss W. Street
Treasurer-Tax Collector

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

A handwritten signature in blue ink, reading "Peter Hughes", is placed over the "FROM:" line.

SUBJECT: First Follow-Up Audit of Treasurer-Tax Collector's
Interest Apportionment Process,
Original Audit 2634, Issued February 20, 2008

Scope of Review

We have completed our First Follow-Up Audit of the Treasurer-Tax Collector's Interest Apportionment Process. Our audit was limited to reviewing actions taken as of August 31, 2008 to implement the ten recommendations made in our original audit report.

Background

The interest apportionment process is a centralized, core function of the Treasurer-Tax Collector that involves the accounting and distribution of annual interest earnings to pool participants from the County's investment pools. Interest earnings to investment pool participants are received and apportioned through the Unapportioned Interest Fund 691. In our original audit, we identified five Significant Issues, two Control Findings, and three Efficiency/Effectiveness Issues resulting in ten recommendations to improve controls and processes. The recommendations pertained to reconciliations of interest receivable, interest apportionment worksheets, expenditures made from unapportioned interest, proof of interest earnings, operational policies and procedures, cross-training, and spreadsheet controls.

Results

Our First Follow-Up Audit indicated that Treasurer-Tax Collector staff took satisfactory corrective action to **fully implement eight (8) recommendations** and **partially implement two (2) recommendations**. We commend Treasurer-Tax Collector Accounting on their responsiveness to taking corrective action on the recommendations for this critical process. We believe the remaining two recommendations concerning Unapportioned Interest Fund 691 and purchased interest are still appropriate and further efforts should be made to fully implement them. The recommendations not fully implemented are noted below along with a comment on their current status. The item number from the February 20, 2008 report is shown in parentheses after each heading.



1. Expenditures Made From Unapportioned Interest (Recommendation No. 3A)

Recommendation: We recommend the Treasurer-Tax Collector evaluate the process for paying purchased interest and determine an appropriate practice. As options, the Treasurer-Tax Collector either could request an amendment to the documentation supporting Unapportioned Interest Fund No. 691, or could request a separate fiduciary fund to use and account for purchased interest.

Current Status: **Partially Implemented.** The Treasurer-Tax Collector evaluated the process for paying purchased interest and drafted a request to amend the documentation supporting Unapportioned Interest Fund No. 691. The draft request amends the criteria for the use of funds from unapportioned interest earnings and permits using the fund for purchased interest resulting from the sales of bonds. However, we noted that the request to amend the documentation had not yet been submitted to the Auditor-Controller for approval.

Treasurer-Tax Collector Planned Action:

The final Request to Amend Fund 691-Unapportioned Interest was finalized and forwarded to the Auditor-Controller for approval on October 21, 2008.

2. Expenditures Made From Unapportioned Interest (Recommendation No. 3B)

Recommendation: We recommend the Treasurer-Tax Collector evaluate interest apportionment practices and determine the appropriate disclosure method for pool participants and other interested parties.

Current Status: **Partially Implemented.** The Treasurer-Tax Collector evaluated interest apportionment practices and drafted disclosures for pool participants and other interested parties. The draft disclosures describe the methodology surrounding interest calculations, distributions, and the impact of purchased interest on the monthly distributions. However, we noted that the disclosures for interest apportionment practices have not yet been distributed to pool participants and other interested parties.

Treasurer-Tax Collector Planned Action:

The interest apportionment practices for current voluntary and involuntary pool participants will be incorporated in the November Treasurer's Monthly Management Report. For new voluntary participants, similar relevant disclosures will be made as part of the official agreements made with the Treasurer-Tax Collector's office. These disclosures will be finalized and distributed as part of the November 2008 Treasurer's Monthly Management Report.

OC Internal Audit Report



We appreciate the cooperation and assistance extended to us by the personnel of the Treasurer-Tax Collector during our Follow-Up Audit. If you have any questions, please contact me directly or Eli Littner, Deputy Director at 834-5899, or Michael Goodwin, Senior Audit Manager at 834-6066.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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