

Internal Audit Department

FINAL CLOSE-OUT

SECOND FOLLOW-UP AUDIT:

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

ORIGINAL AUDIT No. 2722**AS OF JANUARY 19, 2010**

Our Second Follow-Up Audit found the CEO/Public Finance Accounting fully implemented the remaining two (2) recommendations from our original audit containing eight (8) recommendations. Six (6) of the recommendations were implemented in our First Follow-Up Audit report dated June 3, 2009. CEO/Public Finance Accounting received over \$500M in cash receipts and paid over \$541M in cash disbursements during the original audit in Fiscal Year 2006-07.

AUDIT NO: 2928-C
REPORT DATE: FEBRUARY 1, 2010

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Deputy Director: Eli Littner, CPA, CIA
Senior Audit Manager: Michael Goodwin, CPA, CIA
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 **Internal Audit Department**

RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007

2009 Association of Certified Fraud Examiners' Hubbard Award to
Dr. Peter Hughes for the Most Outstanding Article of the Year

2008 Association of Local Government Auditors' Bronze Website Award

2005 Institute of Internal Auditors' Award for Recognition of
Commitment to Professional Excellence, Quality, and Outreach



GAO & IIA Peer Review Compliant - 2001, 2004, 2007

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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Transmittal Letter



Audit No. 2928-C February 1, 2010

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

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

SUBJECT: **Second and Final Close-Out** Follow-Up
Audit of Internal Control Review of
CEO/Public Finance Accounting – Cash
Receipts, Cash Disbursements & Selected
Department/Trust Funds, Original Audit No.
2722, Issued August 5, 2008

We have completed a Second Follow-Up Audit of Internal Control Review of CEO/Public Finance Accounting – Cash Receipts, Cash Disbursements, & Selected Department/Trust Funds. Our audit was limited to reviewing, as of January 19, 2010 actions taken to implement two (2) recommendations remaining from our First Follow-Up Audit report dated June 3, 2009 (Audit No. 2829-M). We conducted this Second Follow-Up Audit in accordance with the *FY 08-09 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our Second Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Because satisfactory corrective action has been taken for the two remaining audit recommendations, **this report represents the close-out of the original audit.**

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 are listed on the **OC Internal Auditor's Report** on page 4.

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Internal Control Review of CEO/Public Finance
Accounting – Cash Receipts, Cash Disbursements, &
Selected Department/Trust Funds
(Original Audit No. 2722)
Audit No. 2928-C***

As of January 19, 2010

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OC Internal Auditor's Report



Audit No. 2928-C

February 1, 2010

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

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

A handwritten signature in blue ink that reads "Peter Hughes".

SUBJECT: **Second and Final Close-Out** Follow-Up Audit: Internal Control Review of
CEO/Public Finance Accounting – Cash Receipts, Cash Disbursements &
Selected Department/Trust Funds, Original Audit No. 2722, Issued August 5,
2008

Scope of Review

We have completed a Second Follow-Up Audit of Internal Control Review of CEO/Public Finance Accounting – Cash Receipts, Cash Disbursements, & Selected Department/Trust Funds. Our audit was limited to reviewing, as of January 19, 2010 actions taken to implement two (2) recommendations remaining from our First Follow-Up Audit report dated June 3, 2009 (Audit No. 2829-M).

Background

The **Public Finance Division** (CEO/Public Finance) is primarily responsible for managing the County's public debt programs. 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, including: Construction and Debt Service funds for Assessment Districts and Community Facilities Districts; pension obligation funds; trust funds; Orange County Development Agency (OCD) funds; the Orange County Special Financing Authority (Teeter) fund; and the Orange County Tobacco Settlement fund. 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. The original audit contained eight (8) recommendations. Six (6) recommendations were implemented, one (1) recommendation was partially implemented and one (1) recommendation was in process of being implemented during our First Follow-Up Audit.

Results

Our Second Follow-Up Audit indicated the CEO/Public Finance Accounting fully implemented the two (2) remaining recommendations. **As such, this report represents the final close-out of the original audit.** Based on the two Follow-Up Audits we conducted, the following is the implementation status of the eight (8) original recommendations:

1. **Reconciliations and Reviews of Deposit Orders** (Control Finding)

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.



Implemented (First Follow-Up Audit). In June 2008, CEO/PFA changed their Deposit Order procedures so that CEO/PFA management now approves and signs all Deposit Orders and reconciles them to the initial collection records – a Check Register which is where all checks are initially recorded. The reconciliations and supervisory reviews are documented on the Check Register. We reviewed the Check Register for evidence of reconciliations performed and selected five (5) Deposit Orders to see if they were agreed to the Check Register. The Check Register contained documented evidence of reconciliations by CEO/PFA management, and all five Deposit Orders were signed and approved by a CEO/PFA manager. Because of corrective actions taken, we consider this recommendation implemented.

2. Documented Supervisory Reviews (Control Finding)

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

Implemented (First Follow-Up Audit). CEO/PFA management reminded staff to document their reviews on key support documents. We selected twelve (12) key support documents, including trustee activity spreadsheets, statements of sources and uses, and other key documents, and noted all documents contained evidence of supervisory review. CEO/PFA management also implemented a spot check process to monitor the documentation of supervisory reviews, and three (3) documents in our sample were included in the spot check. Because of corrective actions taken, we consider this recommendation implemented.

3. Reconciliations (Control Finding)

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.

Implemented (First Follow-Up Audit). CEO/PFA established written procedures to ensure their staff charges are reconciled to trustee staff charges reports on a quarterly basis. We selected two (2) separate bonds (Irvine Coast and Newport Coast) that were subject to staff charges and noted the reconciliations were performed and supervisory reviews were documented. Because of corrective actions taken, we consider this recommendation implemented.

4. Timeliness of Deposits (Control Finding)

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

Implemented (First Follow-Up Audit). At the time of the original audit, CEO/Administration was responsible for depositing checks received in CEO/PFA. In that audit, we noted some checks were not deposited timely. In June 2008, CEO/PFA changed their Deposit Order procedures and now CEO/PFA prepares their own deposits. Our review of the Check Register indicated checks were consistently deposited timely. We selected five (5) Deposit Orders and related check copies to verify timely deposits and the accuracy of the Check Register. In all five cases, the Check Register was accurate and the checks were deposited timely. Because of corrective actions taken, we consider this recommendation implemented.



5. Payment Review and Approval Form (Control Finding)

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*.

Implemented (First Follow-Up Audit). We judgmentally selected six (6) cash disbursements from six (6) separate debt service and construction files and saw evidence the *Payment Review and Approval Form* included the amount reviewed and approved for payment, and the required levels of reviews/approvals were documented. We also reviewed the Payment Review and Approval Procedures and noted they specified the required levels of reviews/approvals to be documented on the *Payment Review and Approval Form*. Because of corrective actions taken, we consider this recommendation implemented.

6. Cash Disbursement Written Procedures (Control Finding)

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.

Implemented (First Follow-Up Audit). CEO/PFA has documented the current practice of the cash disbursement process, including different steps outlined for payments that are to be paid by a Trustee or by A-C Claims & Disbursing Unit. We also determined, through inquiries with staff, that the procedures were provided and can be viewed on the CEO/PFA's server. Because of corrective actions taken, we consider this recommendation implemented.

7. Interest Expense for Late Payments (Efficiency/Effectiveness Issue)

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.

Current Status: **Implemented (Second Follow-Up Audit).** CEO/PFA determined that there are significant revenue receipts in accounting period 13 from the final fiscal year tax apportionment which prevents them from basing the NDAPP pass-through calculations for the districts on accounting period 12 (June 30) records. We validated CEO/PFA's assertion that significant revenues are received in period 13. We also reviewed the processing time for the pass-through payments for fiscal year 2008/09 and determined that CEO/PFA has shortened their payment process to avoid additional interest. Because of corrective actions taken, we consider this recommendation implemented.

8. Contract Requirements for Interest Payments (Efficiency/Effectiveness Issue)

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.

OC Internal Auditor's Report



Current Status: Implemented (Second Follow-Up Audit). In January 2009, CEO/PFA contacted County Counsel to determine if interest should be paid to the two school districts (Anaheim Union High School District and Magnolia Elementary School District) that do not have payment interest clauses in their agreements. They also inquired if the County can recover the interest paid in prior years if interest payments should not have been paid. County Counsel forwarded the inquiries to a law firm that specializes in redevelopment law. CEO/PFA received a County Counsel response in May 2009. Redevelopment Counsel reviewed the two school district pass-through agreements and noted that neither agreement contains a provision for an interest payment. Counsel also stated that there is not a requirement to pay interest on the payments under redevelopment law. Both Redevelopment Counsel and County Counsel concur that interest is not owed on the pass-through payments to Anaheim Union High School District and Magnolia Elementary School District.

For recouping the prior year interest payments, Redevelopment Counsel recommended withholding interest paid for the past three years from future payments. Redevelopment Counsel stated that if Orange County Development Agency were to pursue litigation to recover previous interest payments, they could only collect the last three years of payments. CEO/Public Finance concurred with this approach. Since CEO/PFA did not pay interest to the two school districts for fiscal year 2007/08, the interest recovered from future payments is only for fiscal years 2006/07 and 2005/06. The total amount of interest recovered and withheld from fiscal year 2008/09 pass-through payments is \$6,649.48 for Anaheim Union High School District and \$9,906.41 for Magnolia Elementary School District. We validated interest received and withheld from fiscal year 2008/09 pass-through payments. CEO/PFA did not make interest payments to the two school districts for fiscal year 2007/08. Because of corrected actions taken, we consider this recommendation implemented.

We appreciate the cooperation and assistance extended to us by the personnel of the CEO/Public Finance Accounting during our Second 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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Members, Audit Oversight Committee
Rob Richardson, Assistant to the CEO, CEO/Administration
Bob Franz, Deputy CEO, Chief Financial Officer
Shaun Skelly, Senior Director, A/C Accounting and Technology
Bill Castro, Director, A/C Satellite Accounting
Suzanne Luster, Manager, CEO/Public Finance Accounting
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