

# Internal Audit Department

O R A N G E C O U N T Y  
6<sup>th</sup> Largest County in the USA

## Financial & Internal Control Audit: AUDIT OF TREASURY COST ALLOCATIONS TO POOL PARTICIPANTS

For the Period July 1, 2008  
through June 30, 2009

Critical  
Impact  
Audit

During the audit period, the Treasurer-Tax Collector allocated (charged) \$6.3 million of administrative costs to pool participants for services pertaining to investing, depositing, and handling of funds.

Our audit of the Treasurer-Tax Collector: (1) evaluated internal controls for the calculation and allocation of administrative costs to investment pool participants; (2) determined if administrative costs allocated to investment pool participants were properly authorized and processed completely, accurately, timely, and in accordance with relevant California Government Codes, and department policies and procedures; and (3) determined if the allocation processes were efficient and effective.

We found the internal controls were not adequate for reasons cited in our audit findings.

We identified six (6) **Critical Control Weaknesses**, five (5) **Significant Control Weaknesses**, and two (2) **Control Findings** where controls and processes needed to be improved. Management agreed with all 13 recommendations.

AUDIT NO: 2915  
REPORT DATE: OCTOBER 31, 2011

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Deputy Director: Eli Littner, CPA, CIA  
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**RISK BASED AUDITING**

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010



American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



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



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

 ORANGE COUNTY BOARD OF SUPERVISORS'  
**Internal Audit Department**

*GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010*

*Providing Facts and Perspectives Countywide*

**RISK BASED AUDITING**

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## Transmittal Letter



**Audit No. 2915    October 31, 2011**

**TO:** Shari L. Freidenrich, Treasurer-Tax Collector  
Thomas G. Mauk, County Executive Officer

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

**SUBJECT:** Financial and Internal Control Audit:  
Audit of Treasury Cost Allocations to Pool  
Participants

We have completed an Audit of Treasury Cost Allocations to Pool Participants by the Treasurer-Tax Collector for the period July 1, 2008 through June 30, 2009. We performed this audit in accordance with our *FY 2009-10 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and the Board of Supervisors. 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). 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 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 agency 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 critical 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.



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 **OC Internal Auditor's Report** on page 9.

# Table of Contents



*Financial & Internal Control Audit:  
Audit of Treasury Cost Allocations  
To Pool Participants  
Audit No. 2915*

For the Period *July 1, 2008 through June 30, 2009*

|  |    |
|--|----|
| Transmittal Letter   | i  |
| OC Internal Auditor's Report   |    |
| OBJECTIVES   | 1  |
| RESULTS  | 1  |
| BACKGROUND   | 6  |
| SCOPE AND METHODOLOGY  | 8  |
| SCOPE EXCLUSIONS   | 8  |
| Detailed Results, Findings, Recommendations and Management Responses   |    |
| Findings 1-3 – Lapse of Oversight for the T-TC’s Annual Cost Allocation Study<br>(Critical Control Weakness)   | 10 |
| Finding 4 – Incomplete Policies and Procedures<br>(Critical Control Weakness)  | 12 |
| Finding 5 – Process to Determine the Amount of Effort Spent on Either Treasury<br>or Tax Collection Activities Needs to be Improved<br>(Significant Control Weakness)  | 13 |
| Finding 6 – A Portion of Cash Shortage Expenses For Over the Counter<br>Property Tax Payments Were Allocated to the Treasury<br>(Control Finding)  | 14 |
| Finding 7 – Differences Between Estimated Administrative Costs Charged to<br>Pool Participants and Actual Administrative Costs have not been Adjusted<br>(Critical Control Weakness)                               | 15 |
| Finding 8 –T-TC’s Annual Cost Allocation Study was not Prepared on a Timely<br>Basis (Critical Control Weakness)   | 16 |
| Finding 9 – Several Business Travel Expenses Allocated to the Treasury Pool<br>Participants did not Clearly Appear to be “Necessary and Reasonable” as<br>Required by County Policy (Significant Control Weakness) | 16 |
| Finding 10–12 – County Travel Policy is Ambiguous and Internally Inconsistent<br>(Significant Control Weakness)  | 17 |
| Finding 13 – Investment Authority was Reassigned<br>(Control Finding)  | 20 |
| ATTACHMENT A: Report Item Classifications  | 21 |
| ATTACHMENT B: Treasurer-Tax Collector Management Responses   | 22 |
| ATTACHMENT C: County Executive Office Management Responses   | 26 |



**Audit No. 2915**

**October 31, 2011**

TO: Shari L. Freidenrich, Treasurer-Tax Collector  
Thomas G. Mauk, County Executive Officer

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

SUBJECT: Financial and Internal Control Audit: Audit of Treasury Cost Allocations to Pool Participants

## Audit Highlight

We conducted an Audit of the Treasurer-Tax Collector's allocation (charge) of \$6.3 million of administrative costs to pool participants for services pertaining to investing, depositing, and handling of funds.

We found the internal controls were not adequate for reasons cited in our audit findings.

We identified six (6) **Critical Control Weaknesses**, five (5) **Significant Control Weaknesses** and two (2) **Control Findings** where controls and processes needed to be improved.

## OBJECTIVES

In accordance with our *FY 2009/2010 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and the Board of Supervisors, the Internal Audit Department conducted an Audit of the Treasurer-Tax Collector's allocation (charge) of administrative costs to pool participants for services pertaining to investing, depositing, and handling of funds. Our audit was conducted in conformance with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. The objectives of our audit were to:

1. Evaluate internal controls for the calculation and charging of administrative costs to investment pool participants.
2. Determine if administrative costs charged to investment pool participants are properly authorized and processed completely, accurately, timely, and in accordance with relevant California Government Codes, and department policies and procedures.
3. Determine if the allocation processes are efficient and effective (e.g., no significant backlogs, duplication of work, or manual processes that could be automated).

## RESULTS

**Objective #1:** Evaluate internal controls for the calculation and charging of administrative costs to investment pool participants.

Results: We identified four (4) **Critical Control Weaknesses** where a lapse of oversight occurred for the Treasurer-Tax Collector's (T-TC) annual cost allocation study. First, the annual cost allocation study was not reviewed and approved by the executive manager with delegated authority at the time the study was completed. Secondly, the Treasury Oversight Committee did not review the annual cost allocation study since July 2006 as required by the County's Investment Policy Statement.



Thirdly, the County's Investment Policy Statement does not provide any guidance regarding the nature or extent of the required review. And fourthly, the policies and procedures providing guidance in the preparation of the cost allocation study are incomplete in several critical areas. We also identified one (1) **Significant Control Weakness** where the rationale and methodology need to be developed for determining the amount of effort spent on either treasury or tax collection activities. In addition, we identified one (1) **Control Finding** where tax collection cash shortage expenses should not be allocated to the treasury.

**Objective #2:** Determine if administrative costs charged to investment pool participants are properly authorized and processed completely, accurately, timely, and in accordance with relevant California Government Codes, and department policies and procedures.

We identified two (2) **Critical Control Weaknesses**. First, the Treasurer-Tax Collector did not adjust the differences between estimated and actual administrative costs charged to pool participants. Our review of the differences disclosed a cumulative overcharge of \$905,002 not yet adjusted since Fiscal Year 2005/2006 and an overcharge totaling \$669,971 or 12% from estimated administrative costs exceeding actual costs for Fiscal Year 2008/2009. Secondly, the annual cost allocation study was not prepared timely.

**Objective #3:** Determine if the allocation processes are efficient and effective (e.g., no significant backlogs, duplication of work, or manual processes that could be automated).

We did not have any recommendations regarding efficiency and effectiveness of the T-TC allocation processes. However, we identified four (4) **Significant Control Weaknesses**. First, we noted several business travel expenses allocated to the treasury pool participants that did not clearly appear to be "necessary and reasonable" as required by County policy. In addition, we noted areas where the County's related policies were unclear and internally inconsistent making compliance and enforcement difficult. First, we found that some instances where lodging and meal expenses were as high as 195% and 250% over the United States General Services Administration (US GSA) per diem rate, respectively. Secondly, the County travel policy lacks formal guidance or definitions as to what constitutes "reasonable," "necessary" and "business related expenses." Thirdly, the County travel policy is not consistent with the County's Cal Card policy as to the method of reporting lodging expenses. And fourthly, the County travel policy is inconsistent in respect to the final authority for review and reimbursement of travel expenses. We also identified one (1) **Control Finding** dealing with the need to evaluate the impact of the reassignment of investment authority over the cost allocation study that occurred when the Board of Supervisors transferred authority from the Treasurer to the Chief Financial Officer.



# OC Internal Auditor's Report



The following table summarizes our findings and recommendations for this audit. See further discussion in the *Detailed Results, Findings, Recommendations and Management Responses* section of this report. See *Attachment A* for a description of Report Item Classifications.

| Finding No. | Finding Classification - see Attachment A | Finding and Page No. in Audit Report  | Recommendation  | Concurrence by Management? |
|-------------|---|---|---|----------------------------|
| 1.          | <b>Critical Control Weakness</b>          | T-TC's Annual Cost Allocation Study was not reviewed and approved by the executive manager with the delegated authority at the time when the cost allocation study was completed.<br><b>p.10-11</b>   | Treasurer-Tax Collector review and initial to authorize the annual cost allocation study.   | Concur                     |
| 2.          | <b>Critical Control Weakness</b>          | Treasury Oversight Committee (TOC) did not review administrative and overhead fees of \$6.3 million charged to pool participants in calendar year 2009 as required by the County's Investment Policy Statement. In addition, we found that the last review of administrative and overhead fees by the TOC was conducted on July 26, 2006.<br><b>p.10-11</b> | Treasurer-Tax Collector submit the cost allocation study to the Treasury Oversight Committee for their review as required by the County's Investment Policy Statement.  | Concur                     |
| 3.          | <b>Critical Control Weakness</b>          | County's Investment Policy Statement does not clearly communicate the depth of responsibilities for the Treasury Oversight Committee's review of the cost allocations to pool participants.<br><b>p.10-11</b>   | Treasurer-Tax Collector and the Treasury Oversight Committee review the requirements of the County's Investment Policy Statement and clarify the nature and extent of the review and whether or not the Treasury Oversight Committee's approval is warranted. | Concur                     |



# OC Internal Auditor's Report



| Finding No. | Finding Classification - see Attachment A | Finding and Page No. in Audit Report   | Recommendation  | Concurrence by Management? |
|-------------|---|--|---|----------------------------|
| 4.          | <b>Critical Control Weakness</b>          | Incomplete policies and procedures.<br><b>p.12-13</b>  | Treasurer-Tax Collector develop, complete or update policies and procedures to be followed for the annual cost allocation process. Documented policies and procedures should be reviewed and approved by the Treasurer-Tax Collector and management and current versions need to be readily accessible for reference by personnel responsible for the annual cost allocation process. | Concur                     |
| 5.          | <b>Significant Control Weakness</b>       | Process to determine the amount of effort spent on either treasury or tax collection activities needs to be improved.<br><b>p.13-14</b>                | Treasurer-Tax Collector review the process used to establish the amount (percent) of effort spent on treasury and tax collection activities and determine if a more specific methodology would be more appropriate.   | Concur                     |
| 6.          | <b>Control Finding</b>                    | A portion of cash shortages from the receipt of over the counter property tax payments were allocated to the Treasury.<br><b>p.14</b>                  | Treasurer-Tax Collector allocate all cash shortage expenses to the tax collection work function.  | Concur                     |
| 7.          | <b>Critical Control Weakness</b>          | Differences between estimated administrative costs charged to pool participants and actual administrative costs have not been adjusted.<br><b>p.15</b> | Treasurer-Tax Collector make the needed adjustments to the pool participant accounts for over/undercharge of administrative costs.  | Concur                     |
| 8.          | <b>Critical Control Weakness</b>          | T-TC's annual cost allocation study was not prepared on a timely basis.<br><b>p.16</b>   | Treasurer-Tax Collector ensure that the annual cost allocation study is prepared within six months following the year-end close.  | Concur                     |

# OC Internal Auditor's Report



| Finding No. | Finding Classification - see Attachment A | Finding and Page No. in Audit Report   | Recommendation   | Concurrence by Management? |
|-------------|---|--|--|----------------------------|
| 9.          | <b>Significant Control Weakness</b>       | Several business travel expenses allocated to the treasury pool participants did not clearly appear to be "necessary and reasonable" as required by County policy.<br><b>p.16-17</b> | Treasurer-Tax Collector ensure more complete and adequate explanation and justification for business related travel in the documentation submitted with the reimbursement request so as to enable a meaningful third party review.   | Concur                     |
| 10.         | <b>Significant Control Weakness</b>       | County travel policy lacks formal guidance as what constitutes "necessary, reasonable and business related" expenses.<br><b>p.17-19</b>  | County Executive Office evaluate the business travel policies and procedures and consider the benefits of the inclusion of thresholds or references to existing federal and state per diem rates as guidance and as a basis point for determining reasonable, necessary and business related. The evaluation should also consider the merits of establishing some thresholds requiring a second review and approval outside of the originating department. | Concur                     |
| 11.         | <b>Significant Control Weakness</b>       | County travel policy is not consistent with the County's Cal Card policy as to the method of reporting lodging expenses.<br><b>p.17-19</b>   | County Executive Office evaluate the business travel policies and Cal Card policies and procedures and assess whether the method of paying for lodging expenses should be consistent.  | Concur                     |
| 12.         | <b>Significant Control Weakness</b>       | County travel policy is not consistent in respect to the final authority for review and reimbursement of travel expenses.<br><b>p.17-19</b>  | County Executive Office evaluate the business travel policies and clarify whether the Auditor-Controller's review of travel expense claims is limited to verification of the department/agency head's signature for authorization as stated in Section 18.1.1 or meant to be an independent assessment of whether claims are adequately justified, necessary and reasonable per submitted documentation, as stated in Section 18.5.                        | Concur                     |



| Finding No. | Finding Classification - see Attachment A | Finding and Page No. in Audit Report                | Recommendation  | Concurrence by Management? |
|-------------|---|---|---|----------------------------|
| 13.         | <b>Control Finding</b>                    | Investment authority was reassigned.<br><b>p.20</b> | Treasurer-Tax Collector ensure that the annual cost allocation studies for Fiscal Years 2009/2010 and 2010/2011 are adjusted to account for the reassignment of investment authority. | Concur                     |

## BACKGROUND

The mission of the Treasurer-Tax Collector's office is to conduct business in a fair, courteous and professional manner with a commitment to transparency, efficiency and creating value. According to the Treasurer-Tax Collector's business plan, the office strives to deliver the highest quality financial and public services at the lowest possible cost to the taxpayers of the County.

The Board of Supervisors reviews and approves an annual Orange County Treasurer's (County's) Investment Policy Statement (IPS). The County's IPS includes a section detailing how the costs of administering the investment pools are calculated and apportioned. County pools have many participants that share in the cost of administering the pools. The County's IPS broadly prescribes how the costs of investing, depositing, banking, auditing, reporting, handling, or managing funds should be calculated and apportioned among the pool participants. In addition, California Government Code Section 27013 allows the Treasurer to deduct administrative costs before distributing interest or income dividends to shareholders in County Treasury pools. Such cost reimbursement is required to be paid into the County General Fund.

On March 16, 2010, the Board of Supervisors revoked its investment authority from the County Treasurer-Tax Collector, Chriss W. Street. The Board repealed the delegation of investment authority due to the finding by a Federal court that the Treasurer-Tax Collector breached his fiduciary duty while serving as a bankruptcy trustee prior to him becoming the County Treasurer-Tax Collector. The Board directed the County Chief Financial Officer to exercise the Board of Supervisors' investment authority. On November 2, 2010 a new County Treasurer-Tax Collector, Shari L. Freidenrich was elected and on December 14, 2010 the Board of Supervisors delegated the Board's investment authority, effective January 14, 2011, to the new County Treasurer-Tax Collector.

The Treasurer-Tax Collector department is comprised of the following sections/divisions:

- **Administrative Services Division:** provides administrative functions such as budget, human resources, payroll and procurement. Business Process Improvement and Information Technology are also under this Section.
- **Treasurer Division:** includes Investments, Accounting, Cash Management, and Compliance sections. Under the former Treasurer-Tax Collector, this function was temporarily delegated to the Chief Financial Officer and returned to the newly elected Treasurer-Tax Collector by the Board of Supervisors.



- **Tax Collector Division:** includes cashiering operations for tax collections, the Remittance Processing Section for mail payments, a Bankruptcy section for taxpayers that have declared bankruptcy, a Redemption section for prior year's taxes, a Delinquent Collections section for pursuing past due taxes, and a Tax Information unit.

## Cost Allocation Process

### Billing for Investment Services

On a monthly basis, the Treasurer-Tax Collector's Accounting and Compliance Unit charges an administrative fee to each pool participant. The monthly administrative fee is an estimate of actual allocated costs. A formula for the monthly administrative costs for all pool participants is 10 basis points or one tenth of a percentage point (0.10%) multiplied by the pool participant's average daily balance on deposit with the Treasurer. The administrative fee is reported to each pool participant on their monthly Statement of Activity.

### Cost Study Process

On an annual basis, the T-TC office accumulates costs in pools through the County's official accounting records. The Treasurer-Tax Collector's Budget Unit analyzes these cost pools on an electronic spreadsheet and distributes costs between the treasury and tax collection functions through the use of a percentage of effort provided by department managers for each year under analysis. The percentages of effort provided by department managers is their best estimates of staff effort, and are used to charge salaries and benefits inclusive of the Countywide indirect costs, services, and supplies between the treasury and tax collection functions. After costs of all units are allocated between the treasury and tax collection functions, the data shown on the electronic worksheet is reconciled to the total expenses reported on the County's official accounting records to ensure completeness.

A subsequent analysis is prepared by the Treasurer-Tax Collector's Accounting and Compliance Unit. All revenues, transfers or reimbursements ("cost applied amounts") specifically attributed to the treasury or tax collection functions are deducted from allocated expenses. The annual allocated expenses net of cost applied amounts for the treasury function are compared to the administrative fee charged to pool participants for the respective year.

The Chief Assistant Treasurer-Tax Collector reviews the cost allocation analyses prepared by the Budget Unit Manager and Accounting and Compliance Unit Manager. The Chief Assistant Treasurer-Tax Collector verbally discusses the results of the analysis with the Treasurer-Tax Collector.

The IPS requires that the Treasury Oversight Committee review the administrative and overhead fees incurred from the investment services provided to pool participants on an annual basis. The Treasury Oversight Committee is comprised of the County Auditor-Controller, the County Executive Officer, the County Superintendent of Schools, and two Public Members.



The approved analysis of costs allocated to pool participants for services provided by the Treasurer-Tax Collector for the period July 1, 2008 through June 30, 2009 were the following:

|                              |                      |
|------------------------------|----------------------|
| Assessed Administrative Fees | \$6,215,100.62       |
| Actual Administrative Fees   | <u>5,545,129.88</u>  |
| Total Over Assessed          | <u>\$ 669,970.74</u> |

See Finding No. 7 on page 15 for a discussion of our audit finding pertaining to the over assessment.

## SCOPE AND METHODOLOGY

Our audit evaluated internal controls and processes over the Treasury cost allocations to investment pool participants for the period from July 1, 2008 through June 30, 2009. Our methodology included inquiry, auditor observation and testing of relevant documents.

## SCOPE EXCLUSIONS

Our audit did not include the Treasurer-Tax Collector's information technology controls over the Treasury cost allocations to investment pool participants.

## 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 by Management 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. Our Internal Control Audit enhances and complements, but does not substitute for T-TC'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, 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 T-TC's operating procedures, accounting practices, and compliance with County policy.

## Acknowledgment

We appreciate the courtesy extended to us by the Treasurer-Tax Collector's office during our audit. If we can be of further assistance, please contact me directly; or Eli Littner, Deputy Director at 834-5899; or Alan Marcum, Senior Audit Manager at 834-4119.

## Attachments



Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors  
Members, Audit Oversight Committee  
Paul Gorman, Chief Assistant Treasurer-Tax Collector  
Ray Silver, Chief of Staff, Treasurer-Tax Collector  
Rob Richardson, Assistant County Executive Officer  
Foreperson, Grand Jury  
Darlene J. Bloom, Clerk of the Board of Supervisors



**Objective #1:** Evaluate internal controls for the calculation and charging of administrative costs to investment pool participants.

## Findings No. 1–3 – Lapse of Oversight for the T-TC’s Annual Cost Allocation Study (Critical Control Weakness)

Qualified and continuous supervision is required to provide reasonable assurance that the requirements for the annual cost allocation study will be accomplished. This practice requires those with oversight responsibilities to review and approve the annual cost allocation study. It also requires that those with oversight responsibilities provide the necessary guidance to help ensure that all directives for costs allocated to the investment pool participants are achieved.

The review and approval of the annual cost allocation study should result in the proper charge of administrative costs to investment pool participants including: (1) following approved procedures and requirements; (2) detecting and eliminating errors, misunderstandings, and improper practices; and (3) discouraging wrongful acts from occurring or from recurring.

During our Audit of Treasury Cost Allocations to Pool Participants, we found the following:

- A. The Orange County Treasurer Investment Policy Statement (County’s IPS) approved by the Board of Supervisors on December 16, 2008 states that “The administrative fee will be subject to change; the administrative and overhead fees will be reviewed by the Treasury Oversight Committee on an annual basis.”

We noted during the Annual Audit of the Treasurer’s Investment Compliance (Audit No. 2953) that the Treasury Oversight Committee (TOC) did not review administrative and overhead fees of \$6.3 million charged to pool participants in calendar year 2009 as required by the County’s IPS. In addition, we found that the last review of administrative and overhead fees by the TOC was conducted on July 26, 2006.

We recommended the TOC ensure that administrative and overhead fees charged to pool participants are reviewed annually as required by the County’s IPS. The Chair of the TOC concurred with the recommendation and stated that he will place the review of administrative and overhead fees on the agenda of its next regular meeting on July 27, 2011. In addition, the Chair stated that he will work with the Treasurer-Tax Collector (T-TC) to ensure that departmental cost studies and the subsequent review by the Treasury Oversight Committee are completed in a timely fashion on an annual basis in compliance with the County’s IPS.

- B. The County’s IPS states that “The Treasurer shall annually prepare a proposed budget revenue estimate, providing a detailed itemization of all estimated costs which comprise the administrative fee charged in accordance with California Government Code Section 27013.”

We noted that the cost allocation study for fiscal year 2008/2009 was prepared by department’s Budget Manager, reviewed by the Accounting/Compliance Manager, and approved by the Chief Assistant T-TC in December 2010. However, the cost allocation study was not reviewed and approved by the executive manager with the delegated investment authority, the County Chief Financial Officer, at the time when the cost allocation study was completed.





Sound business practices mandate an effective system of internal review by a person with commensurate responsibilities. We believe that a cost allocation study supporting a charge of \$6.3 million of administrative costs to pool participants for services should be reviewed and approved by the Treasurer-Tax Collector or executive manager with the delegated investment authority.

- C. As noted above in Item A, the County's IPS requires the TOC to review the administrative and overhead fees charged to pool participants on an annual basis. However, the County's IPS does not provide any guidance regarding the nature, extent or purpose for the TOC's review of the cost allocations to pool participants.

### **Recommendation No. 1**

We recommend that the Treasurer-Tax Collector review and initial to authorize the annual cost allocation study.

#### **Treasurer-Tax Collector Management Response**

Concur. The Treasurer-Tax Collector will develop and update all policies and procedures for the annual cost allocation studies by June 30, 2012 and include a procedure to review and initial by the Treasurer-Tax Collector to authorize the annual cost allocation study.

### **Recommendation No. 2**

We recommend that the Treasurer-Tax Collector submit the cost allocation study to the Treasury Oversight Committee for their review as required by the County's Investment Policy Statement.

#### **Treasurer-Tax Collector Management Response**

Concur. The Treasurer-Tax Collector will submit a summary of the 2006-2009 annual cost allocation study to the Treasury Oversight Committee (TOC) as required per the County's Investment Policy Statement at the October 26, 2011 regular meeting of the TOC. However, since the TOC's objective in Government Code 27133(f) is on the review and monitoring of the IPS elements for compliance, we will be asking the TOC at this meeting whether a specific review of these fees should be added to the TOC By-laws or if they would like the Board to remove this from their required objectives and then update the appropriate documents based on their decision.

### **Recommendation No. 3**

We recommend that the Treasurer-Tax Collector and the Treasury Oversight Committee review the requirements of the County's Investment Policy Statement and clarify the nature and extent of the review and whether or not the Treasury Oversight Committee's approval is warranted.

#### **Treasurer-Tax Collector Management Response**

Concur. The Treasurer-Tax Collector will submit a summary of the 2006-2009 annual cost allocation study to the Treasury Oversight Committee (TOC) as required per the County's Investment Policy statement at the October 26, 2011 regular meeting of the TOC. However, since the TOC's objective in Government Code 27133(f) is on the review and monitoring of the IPS elements for compliance, we will be asking the TOC at this meeting whether a specific review of these fees should be added to the TOC By-laws or if they would like the Board to remove this from their required objectives and then update the appropriate documents based on their decision.



## Finding No. 4 – Incomplete Policies and Procedures (Critical Control Weakness)

During our audit, we found that written policies and procedures for the annual cost allocation study were either lacking, incomplete, or outdated in the following nine (9) areas:

1. Annual cost study calculations and allocation process, including samples of documents to support the cost study.
2. Process to derive the allocation percentage of effort for the staff (see Finding No. 5 at page 13).
3. Process to transfer costs between department units.
4. Process to apply revenues and reimbursements to reduce allocable costs.
5. Process for adjusting cost allocations to account for instances of under or over charged administrative costs when estimated costs are less or more than actual costs (see Finding No. 7 at page 15).
6. Schedule, calendar or due date to complete the annual cost allocation study (see Finding No. 8 at page 16).
7. Oversight roles and responsibilities for management (see Finding Nos. 1-3 at pages 10-11).
8. Requirement for the review and approval of the annual cost allocation study from the Treasurer-Tax Collector and Treasury Oversight Committee (see Finding Nos. 1-3 at pages 10-11).
9. Identification of annual cost allocation process objectives, risks and internal controls in place to mitigate or prevent the risks from occurring.

County of Orange Accounting Manual, Section S-2, *Internal Control Systems*, Section 3.4 states:

“All departments/agencies should have an established system of policies and procedures to be followed in the performance of duties and functions. Such a system shall include, but not be limited to, documentation of internal controls, accountability for resources and recording of financial transactions, and such documentation shall be communicated and made available to all employees and auditors.”

The development and use of policy and procedural manuals minimizes variation and promotes quality through consistent implementation of a process, reduced work effort, along with improved comparability and credibility, even if there are temporary or permanent personnel changes. Policy and procedural manuals can be used as a part of a personnel training program, since they should provide detailed work instructions. Also, it minimizes opportunities for miscommunication and can address quality control concerns. When historical data are being evaluated for current use, policy and procedural manuals can also be valuable for reconstructing project activities when no other references are available. In addition, properly documented and effectively communicated operational policies and procedures along with the identification of risks and internal controls will significantly enhance the annual cost allocation process.



## Recommendation No. 4

We recommend that the Treasurer-Tax Collector develop, complete or update policies and procedures to be followed for the annual cost allocation process. Documented policies and procedures should be reviewed and approved by the Treasurer-Tax Collector and management and current versions need to be readily accessible for reference by personnel responsible for the annual cost allocation process.

## Treasurer-Tax Collector Management Response

Concur. The Treasurer-Tax Collector will develop and update all policies and procedures for the annual cost allocation studies by June 30, 2012 and ensure the updated policies and procedures are readily accessible by personnel responsible for the process and that training is provided to appropriate personnel. Since the Administrative unit is now under the Treasury Division, all staff preparing this study will now all report under the Chief Assistant Treasurer-Tax Collector.

## Finding No. 5 – Process to Determine the Amount of Effort Spent on Either Treasury or Tax Collection Activities Needs to be Improved (Significant Control Weakness)

The Treasurer-Tax Collector determines the amount of effort spent on either treasury or tax collection activities on an annual ad hoc basis. The percentage of effort spent on treasury or tax collection services provides the basis for allocating actual costs between the two activities. Actual costs allocated between the treasury and tax collection activities totaled \$14.1 million in Fiscal Year 2008/2009.

We found that the Treasurer does not have a mechanism to determine or confirm how individuals actually expend effort during the specified time period. It was noted that the manager in the remittance unit prepared an analysis of staff activities and effort for one day. The managers in-charge of the administrative and information technology units during the audit period provided their "best estimate" of the percentage of effort between the treasury and tax collection activities. The costs for 15 staff members in the administrative and information technology units subject to the "best estimate" allocation totaled \$1,557,660.

County of Orange Accounting Manual, Section S-2, *Internal Control Systems*, Section 3.3 states: "Documentation shall provide an adequate audit trail."

The T-TC staff could not provide specific information, such as time charges or labor efforts, to support and justify the percentages used to allocate administrative costs between the treasury or tax collection activities.



## Recommendation No. 5

We recommend that the Treasurer-Tax Collector review the process used to establish the amount (percent) of effort spent on treasury and tax collection activities and determine if a more specific methodology would be more appropriate.

### Treasurer-Tax Collector Management Response

Concur. The Treasurer-Tax Collector will review the process used to establish the percentage of staff time spent on treasury and tax collection activities. As part of this process review the Treasurer-Tax Collector will contact other California counties to determine a best practices approach to the process. This process review will be performed when updating the policies and procedures for the annual cost allocation studies and will be also completed by June 30, 2012.

## Finding No. 6 – A Portion of Cash Shortage Expenses For Over the Counter Property Tax Payments Were Allocated to the Treasury (Control Finding)

During our test work of administrative expenses allocated to the investment pool participants, it was noted that 57% of cash shortages from the receipt of over the counter property tax payments totaling \$6,089 were allocated to the treasury. We believe that the charge for cash shortages should be a direct charge to tax collection.

County IPS Section XVI COMPENSATION AGREEMENT states: “As authorized by California Government Code Section 27013, the Treasurer will charge all pool participants for administrative and overhead costs. Costs include, but are not limited to, portfolio management, bank and custodial fees, software maintenance fees, and other indirect costs incurred from handling or managing funds. In addition, the costs of compliance with the Treasury Oversight provisions of Government Code §27130-27137 shall be included as administrative costs.”

California Government Code Section 27013 states: “Notwithstanding any other provision of law, any treasurer, or other authorized county officer, who invests, deposits or otherwise handles funds for public agencies for the purpose of earning interest or other income on such funds as permitted by law, may deduct from such interest or income, before distribution thereof, the actual administrative cost of such investing, depositing or handling of funds and of distribution of such interest or income. Such cost reimbursement shall be paid into the county general fund.”

When the pool participants (County, Educational, and voluntary participants) are charged for cash shortage expenses that are not for the purpose of investing, depositing or handling of funds, it results in receiving less income on their investments.

## Recommendation No. 6

We recommend that the Treasurer-Tax Collector allocate all cash shortage expenses to the tax collection work function.

### Treasurer-Tax Collector Management Response

Concur. Since the cashiers now fall under the Tax Collector unit, we will allocate all cash shortages to the tax collection work function and also will include this policy in the cost allocation study policies and procedures.

# Detailed Results, Findings, Recommendations and Management Responses



**Objective #2:** Determine if administrative costs charged to investment pool participants are properly authorized and processed completely, accurately, timely, and in accordance with relevant California Government Codes, and department policies and procedures.

**Finding No. 7 – Differences Between Estimated Administrative Costs Charged to Pool Participants and Actual Administrative Costs have not been Adjusted (Critical Control Weakness)**

We found that the Treasurer-Tax Collector has not made adjustments for the differences between estimated administrative costs charged to the pool participants and actual administrative costs since Fiscal Year 2004/2005.

It was noted that the following overcharges and undercharges were reported on the Treasurer-Tax Collector’s comparison between administrative costs charged to the pool participants and actual administrative costs:

| Fiscal Year  | Estimated Administrative Costs Charged | Actual Administrative Costs | Overcharge (Undercharge) | % Difference |
|--------------|--|-----------------------------|--------------------------|--------------|
| 2005/2006    | \$6,298,033                            | \$6,378,767                 | (\$80,734)               | (1.27%)      |
| 2006/2007    | \$6,119,884                            | \$6,035,917                 | \$83,967                 | 1.39%        |
| 2007/2008    | \$6,419,192                            | \$6,187,394                 | \$231,798                | 3.75%        |
| 2008/2009    | \$6,215,101                            | \$5,545,130                 | \$669,971                | 12.08%       |
| <b>Total</b> |  |                             | \$905,002                |              |

Treasurer Procedures Manual Number IV.G.2., Annual Review of Administrative and Overhead Fees, dated January 1, 2000, states “to the extent that the over/under charge exceeds \$100,000 a rebate or additional billing will be prepared using the actual dollar days and average balances for the period. Any amount less than \$100,000 will be carried forward to the next year and included in that computation in arriving at the net over/under charge for the next fiscal year.”

We found that undercharge of \$80,734 and overcharge of \$83,967 for Fiscal Years 2005/2006 and 2006/2007, respectively, were not included in the computation for the net over/under charge in the subsequent fiscal year. In addition, the overcharges of \$231,798 and \$669,971 for Fiscal Years 2007/2008 and 2008/2009, respectively, were not rebated to the pool participants. As of June 15, 2011, the pool participant accounts were not adjusted for the net overcharge rebate of \$905,002.

Not adjusting for over charges of administrative costs results in a loss of income for the pool participants.

**Recommendation No. 7**

We recommend that the Treasurer-Tax Collector make the needed adjustments to the pool participant accounts for over/undercharge of administrative costs.

**Treasurer-Tax Collector Management Response**

Concur. The Treasurer-Tax Collector will process the 2006-2009 adjustments to participant accounts by November 30, 2011.



## **Finding No. 8 – T-TC’s Annual Cost Allocation Study was not Prepared on a Timely Basis (Critical Control Weakness)**

The Treasurer-Tax Collector’s annual cost allocation study was not prepared on a timely basis. We found that the cost allocation for Fiscal Year 2008/2009 was not completed, reviewed, and approved until December 2010 or more than 17 months after the end of the fiscal year under study.

County of Orange Accounting Manual, Number S-2, *Internal Control Systems*, Section 3.3 states: “Transactions shall be accurate, timely, properly recorded, and properly classified.”

There is a risk that information may not be as readily available, key facts may not be remembered and needed transactions and adjustments made.

### **Recommendation No. 8**

We recommend that the Treasurer-Tax Collector ensure that the annual cost allocation study is prepared within six months following the year-end close.

### **Treasurer-Tax Collector Management Response**

Concur. The Treasurer-Tax Collector will develop and update all policies and procedures for the annual cost allocation studies by June 30, 2012 and ensure the updated policies and procedures include a provision for the completion of the annual cost allocation study within six months following the year-end close starting with the 2012 year-end close.

**Objective #3:** Determine if the allocation processes are efficient and effective (e.g., no significant backlogs, duplication of work, or manual processes that could be automated).

## **Finding No. 9 – Several Business Travel Expenses Allocated to the Treasury Pool Participants did not Clearly Appear to be “Necessary and Reasonable” as Required by County Policy (Significant Control Weakness)**

During the course of our audit, we identified expenses for business travel that were allocated to the pool participants that did not clearly appear to be “necessary and reasonable.” We found that the Treasurer-Tax Collector’s office accurately recorded, supported, and properly approved expenditures. In addition, all expenses were reviewed by the Auditor-Controller’s office as required, prior to payment. However, the County travel policy leaves the definition of a “necessary and reasonable” travel expense completely up to the judgment of the department head.

We compared the Treasurer-Tax Collectors’ charges for business lodging and meals to the United States General Services Administration (US GSA) authorized per diem rate. We found that lodging and meal expenses were as much as 195% and 250% over the US GSA per diem rate, respectively.

The County’s Administrative Procedure 017-02, dated March 16, 1999, titled COUNTY BUSINESS TRAVEL AND REIMBURSEMENT OF RELATED EXPENSES provides the following guidance regarding lodging and meals expenses:





- Section 12.1: “Reimbursement of lodging is based on actual reasonable and necessary costs incurred for the business purpose of the trip.”
- Section 13.1: “This policy provides for reimbursement of actual necessary and reasonable expense of meals, excluding alcoholic beverages, including customary gratuity/tips, while conducting official County business.”

The US GSA is an independent agency established by Congress to oversee the business of the federal government. Policies from the US GSA include travel practices to promote efficient government operations. The US GSA establishes per diem rates for destinations within the Continental United States. The per diem rates for areas traveled by the federal community are reviewed on an annual basis. Per diem lodging rates for areas traveled by the federal community are set based upon contractor-provided average daily rate data of fire-safe properties in the local lodging industry. The per diem rates for meals and incidental expenses also differ by travel location. The US GSA provides the breakdown of continental breakfast/breakfast, lunch, and dinner components of the maximum daily reimbursement (per diem) rates for meals and incidental expenses while on travel.

Exercising prudence in business travel fulfills administrative duties over the investment pool in an economic manner.

### **Recommendation No. 9**

We recommend that the Treasurer-Tax Collector ensure more complete and adequate explanation and justification for business related travel in the documentation submitted with the reimbursement request so as to enable a meaningful third party review.

### **Treasurer-Tax Collector Management Response**

Concur. The Treasurer-Tax Collector has already expanded the documentation required prior to approving business travel. In addition, the Treasurer-Tax Collector has communicated to staff revised internal guidelines for authorized business travel to utilize the appropriate U.S. GSA per diem rates as a guideline and deviations from this guideline would need approval from the Treasurer or authorized designee.

### **Finding Nos. 10–12 – County Travel Policy is Ambiguous and Internally Inconsistent (Significant Control Weakness)**

During our review of the County’s Administrative Procedure 017-02, dated March 16, 1999, titled COUNTY BUSINESS TRAVEL AND REIMBURSEMENT OF RELATED EXPENSES, we found that the policy is inconsistent. The following policy requirements were noted:

1. Section 4.1: “County Business shall mean activities which an agency/department head determines are directly related to or in support of the governmental or proprietary functions of Orange County government.”





2. Section 4.2: “Reimbursable Expenses shall mean actual travel expenses which are **reasonable** and **necessary** to accomplish County business purposes and are eligible for reimbursement. They include, but are not limited to the cost of transportation, meals, lodging, and other incidental expenses incurred while traveling on County business.”

**However, the County’s travel policy does not provide any examples, instances or guidance as to how one is to determine whether an expense is reasonable, necessary or County business.**

3. Section 5.1: “It is the County’s policy to reimburse individuals for those reasonable, actual, and necessary expenses incurred by them on behalf of the County in carrying out their official duties.”
4. Section 6.1: “Agency/department heads or their designees will authorize activities related to County business, including travel for County business purposes and reimbursement of related expenses within the guidelines identified in this policy.”
5. Section 6.2: “Agency/department procedures for obtaining approval of travel and reimbursement of related expenses are to be established in accordance with the policy set forth herein. **Agency/department heads will be responsible for ensuring compliance with County policy within their respective agencies/departments.**”
6. Section 12.2: “Lodging shall be reserved at the standard room rate whenever practicable.”
7. Section 12.3: “Lodging expenses must be documented with a paid itemized original bill to be submitted with a Mileage and other Expenses Claim Form for reimbursement purposes.”

**However, the method of reporting lodging expenses is inconsistent with the County’s Cal Card Policies and Procedures. Section III.B in the County’s Cal Card Policies and Procedures permits cardholders to pay for lodging expenses on a County purchasing card (in Section III.B) and does not require submission of a Mileage and other Expenses Claim Form.**

8. Section 18.1: “Claims for reimbursement will require agency/department head or designee review and approval before submitting to the Auditor-Controller for review and payment. This approval certifies that the claimed amount is correct and the expense is reasonable, necessary, and incurred for the benefit of the County.”
9. Section 18.1.1: “While signature authority for claims can be delegated, the agency/department head is responsible to ensure that all claims are reviewed and verified to be necessary and reasonable expenses incurred for the benefit of the County.

**The Auditor-Controller makes payment in reliance on the certification of the County officer.**

10. Section 18.4: “Justification for reimbursement for travel-related expenses must include adequate information to justify payment, including identification and cost of the various items (i.e., meals, parking, lodging, etc.), and the County business involved.”



11. Section 18.5: “The Auditor-Controller performs a general review to determine that the amount and items are reasonable and in compliance with County policies. If there are any unresolved questions, the Auditor-Controller may return the claim for further justification or correction to the County officer who originally approved the claim.”

**This section appears to be inconsistent with the delegation of authority already granted to the agency/department head in Section 18.1.1 in Item 9 above, see yellow highlight.**

12. Section 18.5.1: “If the Auditor-Controller finds that the resubmitted claim is greater than amount than is justly due or is not a proper County charge, the amount will be adjusted or the claim will be rejected.”

**However, this policy component is inconsistent with Section 18.1.1 in Item 9 above which requires the Auditor-Controller to make payment for reimbursement for travel-related expenses by relying on the certification of the agency/department head or designee.**

#### **Recommendation No. 10**

We recommend that the County Executive Office evaluate the business travel policies and procedures and consider the benefits of the inclusion of thresholds or references to existing federal and state per diem rates as guidance and as a basis point for determining reasonable, necessary and business related expenses. The evaluation should also consider the merits of establishing some thresholds requiring a second review and approval outside of the originating department.

#### **Recommendation No. 11**

We recommend that the County Executive Office evaluate the business travel policies and Cal Card Policies and Procedures and assess whether the method of paying for lodging expenses should be consistent.

#### **Recommendation No. 12**

We recommend that the County Executive Office evaluate the business travel policies and clarify whether the Auditor-Controller’s review of travel expense claims is limited to verification of the department/agency head’s signature for authorization as stated in Section 18.1.1 or meant to be an independent assessment of whether claims are adequately justified, necessary and reasonable per submitted documentation, as stated in Section 18.5.

#### **County Executive Office Management Response**

Concur with Recommendations Nos. 10-12 above. The County Executive will work in conjunction with the Internal Audit Department to revise the “County Business Travel and Reimbursement of Related Expenses” policy and make recommendations for revision to the Board of Supervisors.



## **Finding No. 13 – Investment Authority was Reassigned (Control Finding)**

On March 16, 2010, the Board of Supervisors revoked its investment authority from the County Treasurer-Tax Collector, Chriss W. Street and directed the Chief Financial Officer to exercise the Board of Supervisors' investment authority. The elected County Treasurer-Tax Collector, Chriss W. Street term ended December 31, 2010, and from March 17, 2010 through December 31, 2010 he maintained his elected Tax Collector duties.

It is important that the annual cost allocation studies for Fiscal Years 2009/2010 and 2010/2011 be adjusted for the reassigned investment authority from the former elected Treasurer-Tax Collector to the Chief Financial Officer.

County of Orange Accounting Manual, Number S-2, *Internal Control Systems*, Section 3.3 states: "Transactions shall be accurate, timely, properly recorded, and properly classified."

The effect of not properly adjusting for the reassignment of investment authority is that annual cost allocation to the pool participants would not be accurate.

## **Recommendation No. 13**

We recommend that the Treasurer-Tax Collector ensure that the annual cost allocation studies for Fiscal Years 2009/2010 and 2010/2011 are adjusted to account for the reassignment of investment authority.

## **Treasurer-Tax Collector Management Response**

Concur. The Treasurer-Tax Collector will ensure the annual cost studies for 2009/2010 and 2010/2011 are adjusted to account for the reassignment of the previous Treasurer-Tax Collector's investment authority for the period March 16, 2010 through January 13, 2011.



## ATTACHMENT A: Report Item Classifications

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

▶ **Critical Control Weaknesses:**

Audit findings or a combination of Significant Control Weaknesses that represent serious exceptions to the audit objective(s), policy and/or business goals. Management is expected to address Critical Control Weaknesses brought to their attention immediately.

▶ **Significant Control Weaknesses:**

Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses require prompt corrective actions.

▶ **Control Findings:**

Audit findings concerning internal controls, compliance issues, or efficiency/effectiveness issues 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: Treasurer-Tax Collector Management Responses



**OFFICE OF THE TREASURER-TAX COLLECTOR  
SHARI L. FREIDENRICH, CPA, CCMT, CPFA, CPFIM**

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### INTERDEPARTMENTAL COMMUNICATION

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To: Dr. Peter Hughes, CPA, Director

From: Shari L. Freidenrich, CPA, CCMT, CPFA, CPFIM *SWF*

Date: October 25, 2011

Subject: Response to Draft Report on Audit of Treasury Cost Allocations to Pool Participants

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**Recommendation No. 1**

We recommend that the Treasurer-Tax Collector review and initial to authorize the annual cost allocation study.

**Treasurer-Tax Collector Management Response**

Concur. The Treasurer-Tax Collector will develop and update all policies and procedures for the annual cost allocation studies by June 30, 2012 and include a procedure to review and initial by the Treasurer-Tax Collector to authorize the annual cost allocation study.

**Recommendation No. 2**

We recommend that the Treasurer-Tax Collector submit the cost allocation study to the Treasury Oversight Committee for their review as required by the County's Investment Policy Statement.

**Treasurer-Tax Collector Management Response**

Concur. The Treasurer-Tax Collector will submit a summary of the 2006-2009 annual cost allocation study to the Treasury Oversight Committee (TOC) as required per the County's Investment Policy Statement at the October 26, 2011 regular meeting of the TOC. However, since the TOC's objective in Government Code 27133 (f) is on the review and monitoring of the IPS elements for compliance, we will be asking the TOC at this meeting whether a specific review of these fees should be added to the TOC By-laws or if they would like the Board to remove this from their required objectives and then update the appropriate documents based on their decision.

*Mission: Ensure safe and timely receipt, deposit, collection and investment of public funds.*



## ATTACHMENT B: Treasurer-Tax Collector Management Responses (continued)

October 25, 2011  
Page 2

### **Recommendation No. 3**

We recommend that the Treasurer-Tax Collector and the Treasury Oversight Committee review the requirements of the County's Investment Policy Statement and clarify the nature and extent of the review and whether or not the Treasury Oversight Committee's approval is warranted.

#### **Treasurer-Tax Collector Management Response**

Concur. The Treasurer-Tax Collector will submit a summary of the 2006-2009 annual cost allocation study to the Treasury Oversight Committee (TOC) as required per the County's Investment Policy Statement at the October 26, 2011 regular meeting of the TOC. However, since the TOC's objective in Government Code 27133 (f) is on the review and monitoring of the IPS elements for compliance, we will be asking the TOC at this meeting whether a specific review of these fees should be added to the TOC By-laws or if they would like the Board to remove this from their required objectives and then update the appropriate documents based on their decision.

### **Recommendation No. 4**

We recommend that the Treasurer-Tax Collector develop, complete or update policies and procedures to be followed for the annual cost allocation process. Documented policies and procedures should be reviewed and approved by the Treasurer-Tax Collector and management and current versions need to be readily accessible for reference by personnel responsible for the annual cost allocation process.

#### **Treasurer-Tax Collector Management Response**

Concur. The Treasurer-Tax Collector will develop and update all policies and procedures for the annual cost allocation studies by June 30, 2012 and ensure the updated policies and procedures are readily accessible by personnel responsible for the process and that training is provided to appropriate personnel. Since the Administrative unit is now under the Treasury Division, all staff preparing this study will now all report under the Chief Assistant Treasurer-Tax Collector.

### **Recommendation No. 5**

We recommend that the Treasurer-Tax Collector review the process used to establish the amount (percent) of effort spent on treasury and tax collection activities and determine if a more specific methodology would be more appropriate.

#### **Treasurer-Tax Collector Management Response**

Concur. The Treasurer-Tax Collector will review the process used to establish the percentage of staff time spent on treasury and tax collection activities. As part of the process review the Treasurer-Tax Collector will contact other California counties to determine a best practices approach to the process. This process review will be performed when updating the policies and procedures for the annual cost allocation studies and will be also completed by June 30, 2012.

### **Recommendation No. 6**

We recommend that the Treasurer-Tax Collector allocate all cash shortage expenses to the tax collection work function.





## ATTACHMENT B: Treasurer-Tax Collector Management Responses (continued)

October 25, 2011  
Page 3

### **Treasurer-Tax Collector Management Response**

Concur. Since the cashiers now fall under the Tax Collector unit, we will allocate all cash shortages to the tax collection work function and also will include this policy in the cost allocation study policies and procedures.

### **Recommendation No. 7**

We recommend that the Treasurer-Tax Collector make the needed adjustments to the pool participant accounts for over/undercharge of administrative costs.

### **Treasurer-Tax Collector Management Response**

Concur. The Treasurer-Tax Collector will process the 2006-2009 adjustments to participant accounts by November 30, 2011.

### **Recommendation No. 8**

We recommend that the Treasurer-Tax Collector ensure that the annual cost allocation study is prepared within six months following the year-end close.

### **Treasurer-Tax Collector Management Response**

Concur. The Treasurer-Tax Collector will develop and update all policies and procedures for the annual cost allocation studies by June 30, 2012 and ensure the updated policies and procedures include a provision for the completion of the annual cost allocation study within six months following the year-end close starting with the 2012 year-end close.

### **Recommendation No. 9**

We recommend that the Treasurer-Tax Collector ensure more complete and adequate explanation and justification for business related travel in the documentation submitted with the reimbursement request so as to enable a meaningful third party review.

### **Treasurer-Tax Collector Management Response**

Concur. The Treasurer-Tax Collector has already expanded the documentation required prior to approving business travel. In addition, the Treasurer-Tax Collector has communicated to staff revised internal guidelines for authorized business travel to utilize the appropriate U.S. GSA per diem rates as a guideline and deviations from this guideline would need approval from the Treasurer or authorized designee.

### **Recommendations No. 10, 11, and 12 require responses from the County Executive Office Management**

### **Recommendation No. 13**

We recommend that the Treasurer-Tax Collector ensure that the annual cost allocation studies for Fiscal Years 2009/2010 and 2010/2011 are adjusted to account for the reassignment of investment authority.





## ATTACHMENT B: Treasurer-Tax Collector Management Responses (continued)

October 25, 2011  
Page 4

**Treasurer-Tax Collector Management Response**

Concur. The Treasurer-Tax Collector will ensure the annual cost studies for 2009/2010 and 2010/2011 are adjusted to account for the reassignment of the previous Treasurer-Tax Collector's investment authority for the period March 16, 2010 through January 13, 2011.



## ATTACHMENT C: County Executive Office Management Responses



County of Orange  
California

Thomas G. Mauk  
County Executive Officer

October 13, 2011

Dr. Peter Hughes, CPA, Director  
Internal Audit Department  
12 Civic Center Plaza, Room 232  
Santa Ana, California 92701

In connection with the audit of Treasury Cost Allocations to Pool Participants for the period ending June 30, 2009, the management response for Recommendation Nos. 10-12 is the following:

Recommendation No. 10

We recommend that the County Executive Office evaluate the business travel policies and procedures and consider the benefits of the inclusion of thresholds or references to existing federal and state per diem rates as guidance and as a basis point for determining reasonable, necessary and business related expenses. The evaluation should also consider the merits of establishing some thresholds requiring a second review and approval outside of the originating department.

Recommendation No. 11

We recommend that the County Executive Office evaluate the business travel policies and Cal Card Policies and Procedures and assess whether the method of paying for lodging expenses should be consistent.

Recommendation No. 12

We recommend that the County Executive Office evaluate the business travel policies and clarify whether the Auditor-Controller's review of travel expense claims is limited to verification of the department/agency's head signature for authorization as stated in Section 18.1.1 or meant to be an independent assessment of whether claims are adequately justified, necessary and reasonable per submitted documentation, as stated in Section 18.5.

Management Response

Concur with Recommendations Nos. 10-12 above. The County Executive will work in conjunction with the Internal Audit Department to revise the "County Business Travel and Reimbursement of Related Expenses" policy and make recommendations for revision to the Board of Supervisors.

Sincerely,

Thomas G. Mauk  
County Executive Officer

cc: Bob Franz, Deputy CEO/Chief Financial Officer  
Rob Richardson, Assistant County Executive Officer

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