

Internal Audit Department

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

FIRST 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 MARCH 11, 2009

The original audit report contained eight (8) recommendations. Our Follow-Up Audit indicated that CEO/Public Finance Accounting took satisfactory corrective action to implement six (6) of the recommendations. For the remaining recommendations, one (1) is partially implemented and one (1) is in process. 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: 2829-M
REPORT DATE: JUNE 3, 2009

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Transmittal Letter



Audit No. 2829-M June 3, 2009

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

FROM: Dr. Peter Hughes, CPA
County Internal Auditor

SUBJECT: First 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

We have completed a First Follow-Up Audit of County Executive Office (CEO)/Public Finance Accounting's Cash Receipts, Cash Disbursements, & Selected Department/Trust Funds. Our audit was limited to reviewing, as of March 11, 2009, actions taken to implement eight (8) recommendations made in our original audit report. We are performing this Follow-Up Audit in accordance with our FY 2008-09 Audit Plan approved by the Audit Oversight Committee.

The results of our Follow-Up Audit are discussed in the **County 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*. County Executive Office/Public Finance Accounting should complete this template when our audit recommendations are implemented. When we perform our Second Follow-Up Audit, we will need to obtain the completed document to facilitate our review.

Each month I submit an **Audit Status Report** to the BOS where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

Attachment

Other recipients of this report listed on the **County Internal Auditor's Report** on page 5.

Table of Contents



*First Follow-Up Audit of Internal Control Review
CEO/Public Finance Accounting – Cash Receipts,
Cash Disbursements, & Selected Department/Trust Funds
(Original Audit No. 2722)
Audit No 2829-M*

As of March 11, 2009

Transmittal Letter	i
County Internal Auditor's Report	1

County Internal Auditor's Report



Audit No. 2829-M

June 3, 2009

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

FROM: Dr. Peter Hughes, CPA
County Internal Auditor *Peter Hughes*

SUBJECT: First 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 First Follow-Up Audit of CEO/Public Finance Accounting – Cash Receipts, Cash Disbursements, & Selected Department/Trust Funds. Our audit was limited to reviewing actions taken as of March 11, 2009 to implement the eight (8) recommendations made in our original audit report.

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 (OCDA) 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.

Results

The original audit report contained eight (8) recommendations. Our Follow-Up Audit indicated that CEO/Public Finance Accounting (CEO/PFA) took satisfactory corrective action to fully implement six (6) of the recommendations. For the remaining recommendations, one (1) is partially implemented and one (1) is in process. We believe the remaining two recommendations are still appropriate and further efforts should be made to fully implement them. All of the original recommendations from the August 5, 2008 report are noted below along with comments on each recommendation's status.



1. Recommendation No. 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.

Current Status: **Implemented.** 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. Recommendation No. 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.

Current Status: **Implemented.** 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. Recommendation No. 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.

Current Status: **Implemented.** 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. Recommendation No. 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.

Current Status: **Implemented.** 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. Recommendation No. 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*.

Current Status: **Implemented.** 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. Recommendation No. 6 – Cash Disbursement Written Procedures (Control Finding)

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

Current Status: **Implemented.** 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. Recommendation No. 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: **Partially Implemented.** 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; however, we did find opportunities still exist to shorten the processing time to reduce paying additional interest. We were informed that staffing issues occurred last fiscal year causing a delay in providing the districts' annual payment totals to the trust consultant, and a delay in payments made to the districts. In addition, the consultant made an error on one district's (Trabuco Canyon Water District) pass-through total and notified CEO/PFA of the error in early September 2008. The error was not rectified by CEO/PFA and the pass-through payment not made until mid-April 2009.

Because of the staffing issues and calculation error, processing and payments took additional time. Therefore, we consider this recommendation partially implemented. In our next audit follow-up, we will review the processing time for the pass-through payments for fiscal year 2008/09 to determine if CEO/PFA has shortened their payment process to avoid additional interest.

CEO/PFA Planned Action: PFA acknowledges that one pass-through payment was not made until April 2009. The remaining fourteen NDAPP pass-through payments were made in September 2008. PFA will continue to strive to reduce the time period between June 30 and the calculation and payment of NDAPP pass-through to minimize the amount of interest paid. The Accountant/Auditor II position responsible for the task has been vacant since September 2008. There are no plans to fill the position in fiscal year 2009/10. Tasks have been reprioritized and reallocated to remaining staff. It will be a significant challenge to reduce processing time for the fiscal year 2008-09 payments given this vacant position, the upcoming CAPS+ implementation, as well as concurrent fiscal year-end closing deadlines and financial statement preparation tasks.

8. Recommendation No. 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.

Current Status: **In Process.** 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

County Internal Auditor's Report



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; however, to date an opinion has not been provided. CEO/PFA did not make interest payments to the two school districts for fiscal year 2007/08. Because this item is still under study by County Counsel, we consider this recommendation in process.

CEO/PFA Planned Action: CEO/PFA received a County Counsel response subsequent to the distribution of the draft follow-up audit report. 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.

As far as recouping the prior year interest payments, Redevelopment Counsel recommends 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 concurs with this approach. Since CEO/PFA did not pay interest to the two school districts for fiscal year 2007/08, the interest to be recovered from future payments will only be for fiscal years 2006/07 and 2005/06. The total amount of interest to be 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 appreciate the cooperation extended to us by CEO/Public Finance Accounting 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.

Attachments

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
Rob Richardson, Assistant to the CEO, CEO/Administration
Bob Franz, Deputy CEO, Chief Financial Officer
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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