



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

AUDITOR-CONTROLLER

I N T E R N A L A U D I T

**COUNTYWIDE AUDIT OF
FIDUCIARY FUNDS:
REGISTRAR OF VOTERS**

**For the Period
July 1, 2014 through
June 30, 2015**



**Audit Number 1519
Report Date: April 29, 2016**



O R A N G E C O U N T Y
AUDITOR-CONTROLLER
I N T E R N A L A U D I T

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Transmittal Letter

Audit No. 1519

April 29, 2016

TO: Neal Kelley
Registrar of Voters

SUBJECT: Countywide Audit of Fiduciary Funds:
Registrar of Voters

We have completed our audit of internal controls over fiduciary funds in the Registrar of Voters for the period July 1, 2014 through June 30, 2015. Our final report is attached for your review.

I submit an **Audit Status Report** quarterly to the Audit Oversight Committee (AOC) and a monthly report to the Board of Supervisors (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 AOC and BOS.

Additionally, we will request your department to complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

Toni Smart, CPA, Director
Auditor-Controller Internal Audit Division

Attachments

- Other recipients of this report:
- Members, Board of Supervisors
 - Members, Audit Oversight Committee
 - Eric Woolery, Auditor-Controller
 - Frank Kim, County Executive Officer
 - Mylinh Tu, Accounting Coordinator, ROV
 - Foreperson, Grand Jury
 - Robin Stieler, Clerk of the Board of Supervisors
 - Macias Gini & O'Connell LLP, County External Auditor



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Registrar of Voters
Audit No. 1519*

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Internal Auditor's Report

Audit No. 1519

April 29, 2016

TO: Neal Kelley
Registrar of Voters

FROM: Toni Smart, CPA, Director
Auditor-Controller Internal Audit Division

SUBJECT: Countywide Audit of Fiduciary Funds:
Registrar of Voters

OBJECTIVES

As part of a Countywide Audit of Fiduciary Funds, we have completed our audit of internal controls over fiduciary funds in the Registrar of Voters (ROV) for the period July 1, 2014 through June 30, 2015. We conducted this audit to ensure fiduciary funds are properly administered and maintained in compliance with County policy, procedures, and fund requirements. Our audit objectives were to:

1. Evaluate internal controls to ensure fiduciary fund transactions are accurate, valid, adequately supported, processed timely, properly recorded, and that fund receipts and disbursements are made in accordance with the established fund purpose and uses.
2. Evaluate internal controls to ensure fiduciary fund reconciliations are accurate, complete, and timely in compliance with County policy and departmental policy.
3. Evaluate for proper segregation of duties and management reviews and approvals related to the administration of fiduciary funds.
4. Determine if administration of fiduciary funds is effective and efficient (e.g., no backlogs, duplication of work, benefit in automating manual process).

RESULTS

Objective #1: Our audit found that internal controls are in place to ensure fiduciary fund transactions are accurate, valid, adequately supported, processed timely, properly recorded, and transactions were made in accordance with the established fund purpose and uses. We have **no audit findings under this objective.**

Objective #2: Our audit found that internal controls over fund reconciliations are in place to ensure fiduciary fund reconciliations are accurate, complete, and timely in compliance with County policy and departmental policy. We have **no audit findings under this objective.**

Objective #3: Our audit found that internal controls are in place regarding segregation of duties and management reviews and approvals of fiduciary fund transactions and fund reconciliations. We have **no audit findings under this objective.**

Objective #4: Our audit did not disclose any instances concerning duplication of work or backlogs; however, we did find that documentation for establishing fiduciary funds, known as the Chart of Accounts (COFAs), was based on a memo from 1970 prior to the implementation of the Auditor-Controller policy and had limited information based on current COFA requirements and format. We identified **one (1) Control Finding** to work with the Auditor-Controller to update the COFA for Fund 336.



Internal Auditor's Report

BACKGROUND

We conducted a Countywide Audit of Fiduciary Funds to ensure funds are properly administered and maintained in compliance with County policy, procedures, and fund requirements. This report is on our audit of selected fiduciary funds administered by the Registrar of Voters. We are issuing separate reports for our audits of fiduciary funds in the County Executive Office, Child Support Services, Clerk-Recorder, District Attorney/Public Administrator, Health Care Agency/Public Guardian, OC Community Resources, OC Public Works, Probation, Sheriff-Coroner, and Treasurer-Tax Collector.

Fiduciary funds are used to account for assets held by the County in a trustee or agency capacity on behalf of outside parties, including employees, individuals, private organizations or other governments. These funds cannot be used to support the County's programs. Fiduciary funds are to be used and accounted for in accordance with applicable legal requirements; federal, state, and other governmental regulations; trust agreements, trust indentures, or other fiduciary agreements; and generally accepted accounting principles.

County Accounting Manual (CAM) Procedures F-3, *Requesting Establishment/Deletion of Funds/Agency* and F-4, *Fiduciary Funds* provide the policy, procedures and internal control requirements for establishing and maintaining fiduciary funds. Fiduciary funds are classified as one of the following: 1) Private-Purpose Trust Funds; 2) Pension and Other Employee Benefits Trust Funds; or 3) Agency Funds. For this audit, we are including only select Private-Purpose Trust Funds and Agency Funds as described below:

Public Administration Trust Funds (Fund Class U1) – This type of private-purpose trust fund is used to account for trust arrangements where the principal and income benefit individuals, private organizations, or other governments. Examples include unidentified funds, unclaimed prisoner funds, and decedents' property held for escheatment.

Agency Funds (Fund Class A5) – This type of agency fund is used by certain County departments to hold various types of cash receipts and deposits in a fiduciary capacity. Disbursements are made from these funds by checks issued by the Auditor-Controller upon requisition of the responsible department.

As of June 30, 2015, ROV had the following fiduciary fund:

Fund	Fund Class	Name/Date Established	Purpose	FY 2014-15 Receipts/Disbursements	Fund Balance at 6/30/15
336	A5	Elections (GSA) Established: Sept 1970	To account for election revenue deposits and refunds that include filing fees and candidate statements fees.	Receipts: \$403,272 Disbursements: \$403,272	\$0

Note: We performed disbursement testing on a sample of transactions in Fund 336 and tested the June 30, 2015 fund reconciliation.

SCOPE AND METHODOLOGY

Our audit of internal controls over fiduciary funds administered by the ROV was performed to ensure fiduciary funds are properly administered, safeguarded, and maintained in compliance with County policy, procedures, and specific fund requirements for the period from July 1, 2014 through June 30, 2015. Our audit included inquiry, auditor observation, and limited testing for assessing the adequacy of internal controls and compliance with established County and departmental procedures. We limited our scope for our Countywide Audit of Fiduciary Funds to select Public Administration Trust Funds (Fund Class U1) and Agency Funds (Fund Class A5).



Internal Auditor's Report

Scope Exclusions. We did not include the following funds in our Countywide Audit of Fiduciary Funds. These will be considered for future audits based on our risk assessment and audit planning process:

- Fund Class: A2 – Unapportioned Tax and Interest Funds
- Pension Trust & Other Employee Benefits (Fund Class P1, P2, P3, P4, P5, P6)
- Fund Class U2 – OCDA Redevelopment private purpose trust fund

FOLLOW-UP PROCESS

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. We bring to the AOC's attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. Such open issues appear on the AOC agenda at its next scheduled meeting for discussion.

We have attached a **Follow-Up Audit Report Form**. Your department should complete this template as our audit recommendation is 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 form to facilitate our review.

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 the ROV'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 the ROV's operating procedures, accounting practices, and compliance with County policy.

The Auditor-Controller Internal Audit Division is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations.



Internal Auditor's Report

ACKNOWLEDGEMENT

We appreciate the courtesy extended to us by the personnel of the Registrar of Voters during our audit. If you have any questions regarding our audit, please contact me directly at (714) 834-5442, or Scott Suzuki, Assistant Director at (714) 834-5509.



Detailed Findings, Recommendations and Management Responses

Finding 1 – Fiduciary Fund Documents Lacking Required Elements (Control Finding)

Criteria

County Accounting Manual procedure F-3, *Requesting Establishment/Deletion of Funds/Agencies*, Section 2.3 states:

“The AIT or request letter must contain the following information: (A) The legal authority for establishing the new fund or agency; (B) If no legal authority, the policy/administrative reason or other authority for establishing the fund or agency; (C) Whether or not the fund or agency is a budgeted fund or agency, and if available, the Activity Code to be used for this budget; (D) A description of the revenue sources for the fund or agency, and the uses of the fund or agency; (E) Any expiration date for the fund or agency; (F) Whether the fund will earn its own interest, or if it does not, which other fund should receive the interest earned on balances in the new fund (this does not apply to new agencies); (G) If the fund will not earn its own interest, the reason for the redirection of interest: legal or contractual provision, or management decision; (H) The specific account codings and dollar amounts of appropriations and estimated revenues to be established for the fund or agency, if the fund or agency is being established pursuant to 2.2.3 above; and (I) The responsible controlling department for the new fund or new agency; (J) For funds with separate cash accounts, the planned disposition of any residual account balances when the fund is closed. Include legal or other authority for the distribution.”

Details

Chart of Accounts (COFAs) are documents used to establish or modify various funds in the County. Our audit found that ROV had an old COFA document from 1970 for Fund 336, which was a memo that occurred prior to the implementation of the above Auditor-Controller policy. Because this fund was established prior to the existing policy, the memo lacks certain elements as required by the current policy, such as citing legal or other authority for fund distributions, expiration dates, whether it is interest bearing, and the planned disposition of any account residual balances when the fund is closed.

Auditor-Controller General Accounting is responsible for establishing and maintaining COFA documents. They are aware of the fact that some of the fund establishment documents are old and lack the elements that are required. Currently, if a department/agency requests a revision to a COFA that is not in the current format, the Auditor-Controller will require them to use the current COFA format that includes all required elements. We were informed by Auditor-Controller General Accounting that it is a goal to eventually have all COFAs in the current format. ROV should work with Auditor-Controller General Accounting to update the COFA for Fund 336. Our audit did not note any issues arising from the old COFA document.

The absence of complete written fiduciary fund documentation increases the risk of misunderstandings and miscommunication regarding rights, responsibilities and authorized uses for the department or agency holding the fiduciary funds in a trustee capacity.

Recommendation No. 1:

Registrar of Voters work with the Auditor-Controller to update the COFA for Fund 336 that includes all the required elements.

Registrar of Voters Management Response:

Concur. The Registrar of Voters concurs with the results of objective #4 on the recommendation to update the Chart of Accounts (COFAs). We worked with the Auditor-Controller General Accounting unit to update the COFA for Fund 336 that includes all the required elements. The original COFA form was submitted to the Auditor-Controller General Accounting on April 18, 2016.



Detailed Findings, Recommendations and Management Responses

ATTACHMENT A: Report Item Classifications

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

▶ **Critical Control Weaknesses:**

These are Audit Findings or a combination of Auditing Findings that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise the Department's or County's reputation for integrity. Management is expected to address Critical Control Weaknesses brought to their attention immediately.

▶ **Significant Control Weaknesses:**

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

▶ **Control Findings:**

These are 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.



Detailed Findings, Recommendations and Management Responses

ATTACHMENT B: Registrar of Voters Management Response



REGISTRAR OF VOTERS

MEMO

NEAL KELLEY
Registrar of Voters

Mailing Address:
P.O. Box 11298
Santa Ana, California 92711

April 18, 2016

TO: Toni Smart, CPA, Director
Auditor-Controller Internal Audit Division

FROM: Neal Kelley 
Registrar of Voters

SUBJECT: Audit of Fiduciary Funds for the period July 1, 2014 through June 30, 2015
Management Response

The response is intended to ensure the Registrar of Voters fully complies with the recommendation made in the Countywide Audit of Fiduciary Funds, Audit No. 1519.

The County Executive Office has reviewed and approved of the Registrar of Voters response to the recommendation.

Recommendation No. 1: Registrar of Voters work with the Auditor-Controller to update the COFA for Fund 336 that includes all the required elements.

Registrar of Voters Response: Concur.

The Registrar of Voters concurs with the results of objective #4 on the recommendation to update the Chart of Accounts (COFAs). We worked with the Auditor Controller General Accounting unit to update the COFA for Fund 336 that includes all the required elements. The original COFA form was submitted to the Auditor-Controller General Accounting on April 18, 2016.

If you have any questions, you may contact me at 714-567-5107.

cc: Mark Denny, COO