



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:

TREASURER-TAX COLLECTOR

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



Audit Number 1519
Report Date: April 29, 2016



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Eric H. Woolery, CPA
Orange County Auditor-Controller

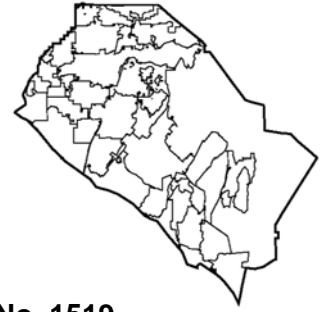
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ERIC H. WOOLERY, CPA
AUDITOR-CONTROLLER



Transmittal Letter

Audit No. 1519

April 29, 2016

TO: Shari L. Freidenrich, CPA
Treasurer-Tax Collector

SUBJECT: Countywide Audit of Fiduciary Funds:
Treasurer-Tax Collector

We have completed our audit of internal controls over fiduciary funds in the Treasurer-Tax Collector 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
- Paul Gorman, Chief Assistant Treasurer-Tax Collector
- JC Squires, Financial Manager, Treasurer-Tax Collector
- Foreperson, Grand Jury
- Robin Stieler, Clerk of the Board of Supervisors
- Macias Gini & O'Connell LLP, County External Auditor



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Treasurer-Tax Collector
Audit No. 1519*

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

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Internal Auditor's Report

Audit No. 1519

April 29, 2016

TO: Shari L. Freidenrich, CPA
Treasurer-Tax Collector

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

SUBJECT: Countywide Audit of Fiduciary Funds: Treasurer-Tax Collector

OBJECTIVES

As part of our Countywide Audit of Fiduciary Funds, we have completed an audit of internal controls over fiduciary funds in the Treasurer-Tax Collector (T-TC) 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 there are internal controls in place to ensure fiduciary fund transactions are accurate, valid, adequately supported, processed timely, properly recorded, and transactions were made in accordance with established fund purpose and uses. We have **no audit findings under this objective.**

Objective #2: Our audit found there are internal controls over fund reconciliations in place to ensure fiduciary fund reconciliations are accurate, complete and timely in compliance with County policy, with some exceptions. We found two fiduciary funds (Funds 226 and 350) that had no activity and as a result did not have monthly fund reconciliations prepared. We identified **one (1) Control Finding** to evaluate whether the funds can be closed; or if kept open, to perform fund reconciliations as required by County policy.

Objective #3: Our audit found there are internal controls 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.**



Internal Auditor's Report

Objective #4: Our audit did not disclose any instances concerning duplication of work or backlogs; however, we did find that there was no Chart of Accounts (COFA) documentation for establishing Funds 350 and 354. We also found that the COFAs for Funds 205, 302, and 357 were based on memos from 1975 and the 1990s, that were prior to the implementation of the Auditor-Controller policy, and had limited information compared to the current COFA format requirements. We identified **one (1) Control Finding** to work with the Auditor-Controller to establish and/or update the COFAs. We also identified **one (1) Control Finding** to establish written procedures for processing transactions and reconciling certain fiduciary funds.

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 T-TC. 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, Registrar of Voters, and Sheriff-Coroner.

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, T-TC had the following fiduciary funds:

Fund	Fund Class	Name/Date Established	Purpose	FY 2014-15 Receipts/Disbursements	Fund Balance at 6/30/15
203	A5	San Diego Creek Mitigation - Campus Drive Established: Dec. 2011	In coordination with OC Public Works/OC Flood, this is an escrow fund to demonstrate financial assurance for mitigation services per agreement with State Department of Fish & Game.	Receipts: \$0 Disbursements: \$0 Note: This fund is allocated interest expense and income which goes directly into OC Flood Fund per fund COFA.	\$262,405* *Required amount per Escrow Agreement



Internal Auditor's Report

Fund	Fund Class	Name/Date Established	Purpose	FY 2014-15 Receipts/Disbursements	Fund Balance at 6/30/15
204	A5	San Diego Creek Mitigation – Maintenance & Monitoring Established: Dec. 2005	In coordination with OC Public Works/OC Flood, this is an escrow fund to demonstrate financial assurance for the mitigation services per agreement with State Department of Fish & Game.	Receipts: \$0 Disbursements: \$0 Note: This fund is allocated interest expense and income which goes directly into OC Flood Fund per fund COFA.	\$1,061,562* *Required amount per Escrow Agreement
205	A5	Treas/EMA-US Army Escrow Acct Established: May 1990	In coordination with OC Public Works/OC Flood, this is an escrow fund to pay for OC Flood's cash contributions for the Santa Ana River Project per agreement with Army Corp of Engineers.	Receipts: \$1,972,655 Disbursements: \$1,866,412	\$476,830
226	A5	Unidentified Bank Deposit Suspense Acct. Established: Apr. 2005	Clearing fund for unidentified bank deposits as recommended by County external auditors.	Receipts: \$0 Disbursements: \$0 Note: Fund was cleared out in March 2013 and has had no activity.	\$0
302	A5	Guarantee Deposit (Tax Collector) Established: Jun. 2009	Monies are deposited in this fund in accordance with Subdivision Map Act. These deposits are received as surety for property taxes for the upcoming fiscal year. Once the taxes have been paid the deposit is returned to the payee.	Receipts: \$2,888,570 Disbursements: \$1,234,660	\$2,996,570
350	A5	Tax Collector Refund (Treas/TC) Established: Unknown	For restitution payments from an ex-T-TC employee. No restitution payments have been received in over 10 yrs.	Receipts: \$0 Disbursements: \$0	\$2,695
354	A5	Treasurer-Tax Coll, Treas Division Established: Jun. 2009	Used to track monies from deceased estates held in trust based on Probate Code requirements.	Receipts: \$165,720 Disbursements: \$382,366	\$189,376
397	A5	Treasurer-Tax Collector Established: Jun. 2009	Landlord Sales Surplus monies are usually received from a company such as Public Storage. When property is abandoned, the Landlord sells the property and remits the net proceeds to the T-TC. These proceeds go through the County escheatment process if not claimed within 3 years of deposit.	Receipts: \$33,576 Disbursements: \$4,799	\$56,989

Note: We performed detailed testing of disbursements only for Fund 302 – Guarantee Deposit. We also tested fund reconciliations as of June 30, 2015 for Funds 203, 204, 205, 302, 354, and 397. We did not test the reconciliation for Funds 226 and 350 as monthly reconciliations are not being performed. Because we only performed testing on select fiduciary funds in the T-TC, **it is important that the T-TC determine if the findings and recommendations contained in this report are applicable to other fiduciary funds under its administration.**

SCOPE AND METHODOLOGY

Our audit of internal controls over fiduciary funds administered by the T-TC 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.



Internal Auditor's Report

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).

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:

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

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 Treasurer-Tax Collector'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 Treasurer-Tax Collector's operating procedures, accounting practices, and compliance with County policy.



Internal Auditor's Report

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

ACKNOWLEDGEMENT

We appreciate the courtesy extended to us by the personnel of the Treasurer-Tax Collector 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 No. 1 – No Activity and Reconciliations for Funds 226 and 350 (Control Finding)

Criteria

County Accounting Manual (CAM) Procedure F-4, Section 2.6.5 *Reconciliation of Fiduciary Funds* states that departments and agencies are responsible for reconciling, at least monthly, each fiduciary fund balance per the department's or agency's subsidiary ledger records or other detailed records to the Auditor-Controller's General Ledger balance shown for the fiduciary fund.

CAM Procedure F-4, Section 2.6.1 *Deletion of Funds/Agencies* states that funds/agencies that are no longer required and which were originally created by action of the Board must be deleted by the Board on an AIT explaining the reasons for the deletion of the funds/agencies. Funds/Agencies which were originally created by request to the Auditor-Controller and CEO must be deleted by a letter to the Auditor-Controller, signed by the department/agency head, with a copy to the appropriate CEO analyst, explaining the reasons for deletion of the fund/agency. The Auditor-Controller will obtain CEO concurrence on all fund/agency deletions.

Details

Fund 226 – Unidentified Bank Deposit Suspense Account is a clearing account set up to account for unidentified bank deposits as recommended by the County's external auditors. Fund receipts are from unidentified bank deposits and fund disbursements are the transfers to the identified funds. The Treasurer-Tax Collector (T-TC) cleared out the fund during March 2013 by transferring the funds to the identified accounts. There was no activity during the audit period. We also found that the monthly reconciliation is no longer performed because the fund balance is zero.

Fund 350 – Tax Collector Refund was originally established for restitution payments to be received from a former T-TC employee that was convicted of stealing property tax payments during the bankruptcy. The T-TC indicated that there have been multiple name changes for this fund and it has had no activity for over 10 years. The T-TC is in the process of determining the best way to close the fund. We found that monthly reconciliations are not currently being performed due to the inactivity in the fund.

The T-TC should evaluate whether it can close the above funds. If it is decided to keep them open, the T-TC should establish a process to reconcile the funds to the General Ledger as required by CAM Procedure F-4.

Recommendation No. 1:

The T-TC evaluate if they can close Funds 226 and 350. If the T-TC determines the funds should remain open, they should be reconciled monthly to the General Ledger to ensure the funds are accounted for and safeguarded.

Treasurer-Tax Collector Management Response:

Concur. The T-TC will work with the Auditor-Controller to close Fund 226. The T-TC will work with the Probation Department to close the restitution case and then the Auditor-Controller to transfer the proceeds to the General Fund and then close Fund 350. T-TC will reconcile each account monthly until it is closed.



Detailed Findings, Recommendations, and Management Responses

Finding 2 – Fiduciary Fund Documents Lacking Required Elements (Control Finding)

Criteria

CAM 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; (I) The responsible controlling department for the new fund or new agency; and (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 T-TC had COFAs for all fiduciary funds except for Funds 350 and 354. For Funds 205, 302, and 397, instead of a COFA, we were provided memos dating back from 1975 (Fund 397) and from the 1990s (Funds 205 and 302) establishing the fund, which occurred prior to the implementation of the Auditor-Controller policy. Because these funds were established prior to the existing policy, the memos lack certain elements as required by the 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. T-TC should work with the Auditor-Controller in determining which COFAs can be updated. Our audit did not note any other issues arising from the old COFAs.

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. 2:

The T-TC work with the Auditor-Controller to prepare COFAs for Funds 205, 302, 350, 354, and 397 that include all the required elements.

Treasurer-Tax Collector Management Response:

Concur. The T-TC will work with the Auditor-Controller to determine which COFA's should be updated and complete the appropriate documentation.



Detailed Findings, Recommendations, and Management Responses

Finding 3 – No Written Policies & Procedures for Certain Fiduciary Funds (Control Finding)

Criteria

Policies and procedures should be updated to reflect current processes to ensure consistency in work by current and new staff members.

Details

The T-TC has written policies and procedures for processing transactions and performing fund reconciliations for certain fiduciary funds (primarily the escrow account funds) that include steps to take for processing transactions; however, we found there were no written procedures for processing transactions and reconciling Funds 226, 302, 350, or 397. As noted earlier in this report, there has been no activity or reconciliations performed for Funds 226 and 350 due to fund inactivity. Written desk procedures will help ensure fiduciary funds are processed in accordance with T-TC management's expectations.

Recommendation No. 3:

The T-TC establish written policies and procedures for processing transactions and reconciling Funds 226, 302, 350, and 397 that are approved by management and that reflect the current processes.

Treasurer-Tax Collector Management Response:

Concur. The T-TC will prepare desk procedures for processing transactions and reconciling all Fiduciary Fund accounts.



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: Treasurer-Tax Collector Management Responses



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SHARI L. FREIDENRICH, CPA
TREASURER-TAX COLLECTOR

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April 28, 2016

Toni Smart, CPA, Director
Auditor-Controller Internal Audit Division
County of Orange, California

SUBJECT: MANAGEMENT RESPONSES - AUDIT 1519 FIDUCIARY FUNDS

We are pleased to submit the Treasurer-Tax Collector's (TTC) management responses to FY 2014-2015 Fiduciary Fund Audit (1519). Thank you for your assistance in improving the TTC's operations. Should you have any questions related to these responses, please contact JC Squires, Financial Manager, at 714-834-5508.

Recommendation No. 1:

The T-TC evaluate if they can close Funds 226 and 350. If the T-TC determines the funds should remain open, they should be reconciled monthly to the General Ledger to ensure the funds are accounted for and safeguarded.

Treasurer-Tax Collector Management Response:

Concur. The T-TC will work with the Auditor-Controller to close Fund 226. The T-TC will work with the Probation Department to close the restitution case and then the Auditor-Controller to transfer the proceeds to the General Fund and close Fund 350. T-TC will reconcile each account monthly until it is closed.

Recommendation No. 2:

The T-TC work with the Auditor-Controller to prepare COFAs for Funds 205, 302, 350, 354, and 397 that include all the required elements.

Treasurer-Tax Collector Management Response:

Concur. The T-TC will work with the Auditor-Controller to determine which COFA's should be updated and complete the appropriate documentation.

Recommendation No. 3:

The T-TC establish written policies and procedures for processing transactions and reconciling Funds 226, 302, 350 and 397 that are approved by management and that reflect the current processes.

Treasurer-Tax Collector Management Response:

Concur. The T-TC will prepare desk procedures for processing transactions and reconciling all Fiduciary Fund accounts.

Sincerely,

Shari L. Freidenrich, CPA
Treasurer-Tax Collector

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