SECOND FOLLOW-UP AUDIT:

INTERNAL CONTROL REVIEW OF TREASURER-TAX COLLECTOR’S INTEREST APPORTIONMENT PROCESS

ORIGINAL AUDIT NO. 2634

AS OF JUNE 18, 2009

Our Second Follow-Up Audit found that the Treasurer-Tax Collector fully implemented the remaining two (2) recommendations from our original audit report containing ten (10) recommendations. Eight (8) of the recommendations were implemented in our First Follow-Up Audit dated October 22, 2008. The Treasurer-Tax Collector processed $317 million in interest apportionments during the original audit period.

AUDIT NO: 2830-B
REPORT DATE: JUNE 24, 2009

County Internal Auditor: Dr. Peter Hughes, CPA
Deputy Director: Eli Littner, CPA, CIA
Senior Audit Manager: Michael Goodwin, CPA, CIA
Audit Manager: Kenneth Wong, CPA, CIA
Internal Audit Department


Providing Facts and Perspectives Countywide

RISK BASED AUDITING

Dr. Peter Hughes  Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE
County Internal Auditor  Certified Compliance & Ethics Professional (CCEP)
Certified Information Technology Professional (CITP)
Certified Internal Auditor (CIA)
Certified Fraud Examiner (CFE)
E-mail: peter.hughes@iad.ocgov.com

Eli Littner  CPA, CIA, CFE, CFS, CISA
Deputy Director  Certified Fraud Specialist (CFS)
Certified Information Systems Auditor (CISA)

Michael Goodwin  CPA, CIA
Senior Audit Manager

Alan Marcum  MBA, CPA, CIA, CFE
Senior Audit Manager

Autumn McKinney  CPA, CIA, CISA, CGFM
Senior Audit Manager  Certified Government Financial Manager (CGFM)

Hall of Finance & Records
12 Civic Center Plaza, Room 232
Santa Ana, CA  92701

Phone: (714) 834-5475                  Fax: (714) 834-2880

To access and view audit reports or obtain additional information about the OC Internal Audit Department, visit our website:  www.ocgov.com/audit

OC Fraud Hotline (714) 834-3608
Transmittal Letter

Audit No. 2830-B  June 24, 2009

TO: Chriss W. Street
    Treasurer-Tax Collector

FROM: Dr. Peter Hughes, CPA
      County Internal Auditor


We have completed a Second Follow-Up Audit of internal controls over the Treasurer-Tax Collector’s interest apportionment process. Our audit was limited to reviewing, as of June 18, 2009 actions taken to implement two recommendations remaining from our First Follow-Up Audit dated October 22, 2008 (Audit No. 2829-E). We conducted this Second Follow-Up Audit in accordance with the FY 08-09 Audit Plan approved by the Audit Oversight Committee.

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

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

Other recipients of this report are listed on the County Internal Auditor’s Report on page 4.
# Table of Contents

*Second and Final Close Out Follow-Up Audit of Internal Control Review of Treasurer-Tax Collector’s Interest Apportionment Process Audit No. 2830-B*

As of June 18, 2009

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transmittal Letter</td>
<td>i</td>
</tr>
<tr>
<td>County Internal Auditor’s Report</td>
<td>1</td>
</tr>
</tbody>
</table>
Scope of Review
We have completed a Second Follow-Up Audit of the Treasurer-Tax Collector’s Interest Apportionment process. Our audit was limited to reviewing actions taken as of June 18, 2009 to implement the two remaining recommendations from our First Follow-Up Audit reported dated October 22, 2008, Audit No. 2829-E.

Background
The original audit assessed controls over the Treasurer-Tax Collector’s processing of $317 million in interest apportionments during the audit period. The original audit identified ten (10) recommendations involving reconciliations of interest receivable; interest apportionment worksheets; expenditures made from unapportioned interest; proof of earnings; operational policies and procedures; cross-training; and spreadsheet controls. Eight (8) recommendations were implemented in our First Follow-Up Audit.

Results
Our Second Follow-Up Audit indicated that the Treasurer-Tax Collector fully implemented the two (2) remaining recommendations. As such, this report represents the final close-out of the original audit. Based on the two Follow-Up Audits we conducted, the following is the implementation status of the ten original recommendations:

1A. Timeliness of Reconciliations (Significant Issue)
Recommendation: We recommend the Treasurer-Tax Collector timely prepare and review interest receivable reconciliations on a monthly basis.

Implemented. (First Follow-Up Audit) The Treasurer-Tax Collector’s office now prepares and reviews interest receivable reconciliations within two weeks of the preceding month. Our review of interest receivable reconciliations for the months March through August 2008 disclosed that the monthly reconciliations were prepared and had a supervisory review within two weeks of the preceding month. Because the interest receivable reconciliations were prepared and reviewed timely, we consider this recommendation implemented.
1B. Identifying and Resolving Reconciling Items ( Significant Issue )
Recommendation: We recommend the Treasurer-Tax Collector ensure that all reconciling items for interest receivable are adequately identified, supported, and promptly resolved.

Implemented. ( First Follow-Up Audit ) During our original audit, it was noted that the interest receivable reconciliation for June 2007 disclosed the Treasurer-Tax Collector’s records for interest receivable exceeded the Auditor-Controller’s General ledger balances by over $3 million due to 117 reconciling items. Our review of interest receivable reconciliations for the months March through August 2008 disclosed that the reconciliations did not have more than eight reconciling items per month and the larger reconciling amounts were less than a month old. Because efforts were made to identify and resolve most of the long outstanding reconciling items, and processes are in place to resolve items more promptly, we consider this recommendation implemented.

2. Interest Apportionment Worksheets ( Significant Issue )
Recommendation: We recommend the Treasurer-Tax Collector establish procedures to ensure the accuracy of interest apportionment worksheets.

Implemented. ( First Follow-Up Audit ) The Treasurer-Tax Collector’s office established procedures for preparing and reviewing interest apportionment worksheets to ensure their accuracy. There is now a managerial review that includes verifying the accuracy of the interest apportionment worksheet data. Our review of interest apportionment worksheets for the months March through August 2008 disclosed evidence of managerial review with a signature and date by the reviewer, and that no errors were identified on the worksheets during the reviews. Because procedures were established to ensure accuracy of the interest apportionment spreadsheets, we consider this recommendation implemented.

3A. Expenditures Made From Unapportioned Interest ( Significant Issue )
Recommendation: We recommend the Treasurer-Tax Collector evaluate the process for paying purchase interest and determine an appropriate practice. As options, the Treasurer-Tax Collector either could request an amendment to the documentation supporting Unapportioned Interest Fund No. 691, or could request a separate fiduciary fund to use and account for purchased interest.

Implemented. ( Second Follow-Up Audit ) The Treasurer-Tax Collector received approval from the Auditor-Controller on revising the use of the fund holding unapportioned interest. Our review noted the amended trust documentation authorized Fund No. 691 to additionally hold and record expenditures for purchased interest on securities bought subsequent to the last coupon payment date. Because the Treasurer-Tax Collector obtained an authorization for monies held in Fund 691 to include purchased interest, we consider this recommendation implemented.
3B. **Expenditures Made From Unapportioned Interest** *(Significant Issue)*
Recommendation: We recommend the Treasurer-Tax Collector evaluate interest apportionment practices and determine the appropriate disclosure method for pool participants and other interested parties.

**Implemented. (Second Follow-Up Audit)** The Treasurer-Tax Collector disclosed interest apportionment practices in the May 2009 Treasurer’s Monthly Management Report. It was noted that the Treasurer’s Monthly Management Report was distributed to pool participants, including voluntary participants and other interested parties. Therefore, we consider this recommendation implemented.

4. **Proof of Interest Earnings** *(Control Finding)*
Recommendation: We recommend the Treasurer-Tax Collector take appropriate actions to ensure a monthly proof of earnings is performed, reviewed and maintained on file for third party confirmation.

**Implemented. (First Follow-Up Audit)** In the original audit, we noted that Treasurer management discontinued preparing the “Proof of Interest” which compared the portfolio yield to the apportionment yield and highlighted known differences between the two. In lieu of preparing a “Proof of Interest,” the Treasurer-Tax Collector formalized and documented the process of reconciling portfolio earnings with interest apportionment earnings. Internal Audit concurred that the controls to ensure all interest earnings are apportioned to pool participants, and that any differences are promptly investigated and resolved, addresses the intent of the recommendation.

Our follow-up audit noted the Treasurer-Tax Collector’s office updated procedures for reconciling portfolio interest earned and interest apportionments. Our review of reconciliations for the months March through August 2008 found they were prepared, reviewed and supported with adequate documentation. Because these reconciliations were prepared, we consider this recommendation implemented.

5. **Operational Policies and Procedures** *(Control Finding)*
Recommendation: We recommend the Treasurer-Tax Collector review, document, and communicate interest apportionment policies and procedures that reflect management’s expectations and department practices.

**Implemented. (First Follow-Up Audit)** The Treasurer-Tax Collector’s office established written interest apportionment procedures for: (1) Interest Apportionment – County Pool; (2) Interest Apportionment – School Pool; (3) X-Fund Interest Receivable & Wire Transfer; and (4) Monthly Interest Reconciliation. These procedures are available to staff involved in the process. Because these procedures were created, we consider this recommendation implemented.
6. **Cross-Training (Control Finding)**

**Recommendation:** We recommend the Treasurer-Tax Collector continue cross-training for interest apportionment processing and ensure that another individual is fully trained for interest apportionment.

**Implemented. (First Follow-Up Audit)** The Treasurer-Tax Collector’s office completed cross-training for another individual to process interest apportions. Therefore, we consider this recommendation implemented.

7A. **Access Controls to Spreadsheets (Control Finding)**

**Recommendation:** We recommend the Treasurer-Tax Collector evaluate access controls over spreadsheets supporting interest apportionment processes and determine the appropriate controls to decrease the risk of unauthorized access and modification.

**Implemented. (First Follow-Up Audit)** The Treasurer-Tax Collector’s office enhanced spreadsheet access, password and formula locking controls. Also, spreadsheets are now stored in electronic files with access limited to the Treasurer-Tax Collector’s Accounting Unit. Because interest apportionment spreadsheet controls were enhanced, we consider this recommendation implemented.

7B. **Documentation for Spreadsheets (Control Finding)**

**Recommendation:** We recommend the Treasurer-Tax Collector maintain documentation for the noted areas and implement monitoring controls to ensure the long-term usefulness of spreadsheets supporting interest apportionment.

**Implemented. (First Follow-Up Audit)** The Treasurer-Tax Collector’s office analyzed the risks in regards to ensuring long-term usefulness of spreadsheets supporting interest apportionment and determined that the risks are adequately managed through the access controls that were established for the electronic files. They also evaluated if there were companion software products that would automate an audit log function and document input, output, and calculation cells as well as formatting changes to spreadsheets. Based on management’s actions and analysis, we consider this recommendation implemented.

We appreciate the cooperation and assistance extended to us by the personnel of Treasurer-Tax Collector’s office during our Second Follow-Up Audit. If you have any questions, please contact me directly or Eli Littner, Deputy Director at 834-5899, or Michael Goodwin, Senior Audit Manager at 834-6066.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Thomas G. Mauk, County Executive Officer
- Paul C. Gorman, Chief Assistant Treasurer-Tax Collector
- Foreperson, Grand Jury
- Darlene J. Bloom, Clerk of the Board of Supervisor