

THE BOARD OF SUPERVISORS OF THE COUNTY OF STANISLAUS  
ACTION AGENDA SUMMARY

DEPT: Auditor-Controller

BOARD AGENDA # B-9

Urgent

Routine

AGENDA DATE July 22, 2008

CEO Concur with Recommendation YES  NO   
(Information Attached)

4/5 Vote Required YES  NO

SUBJECT:

Acceptance of Internal Audit Reports Prepared by the Internal Audit Division of the Auditor-Controller's Office

STAFF RECOMMENDATIONS:

Accept Internal Audit Reports Prepared by the Internal Audit Division of the Auditor-Controller's Office

FISCAL IMPACT:

Auditing has become an integral element of government accountability. The internal audit function is critical to ensuring that policies and procedures adopted by the Board of Supervisors and County management are adhered to. Without an effective and comprehensive internal audit program, errors and irregularities could go undetected and the County's exposure to inefficiencies, loss and misuse of public funds would be increased.

Continued on Page 2

BOARD ACTION AS FOLLOWS:

No. 2008-544

On motion of Supervisor Grover, Seconded by Supervisor O'Brien  
and approved by the following vote,

Ayes: Supervisors: O'Brien, Grover, Monteith, DeMartini and Chairman Mayfield

Noes: Supervisors: None

Excused or Absent: Supervisors: None

Abstaining: Supervisor: None

1) X Approved as recommended

2) \_\_\_\_\_ Denied

3) \_\_\_\_\_ Approved as amended

4) \_\_\_\_\_ Other:

MOTION:

Christine Ferraro

ATTEST: CHRISTINE FERRARO TALLMAN, Clerk

File No.

Acceptance of Internal Audit Reports Prepared by the Internal Audit Division of the Auditor-Controller's Office

FISCAL IMPACT (continued):

The audits presented in the agenda item represent approximately one year of service performed by the Internal Audit Division. The financial/compliance reviews consisted of reviewing an average balance of \$919,634,957 of Treasury assets for four quarters along with a review of the annual Property Tax Administrative Cost Calculation in the amount of \$6,291,129. Testing of internal control receipts included cash with an average bank balance of \$909,182. A separate engagement was performed to mitigate any potential cash losses for a department that handles a large volume of cash. In addition, \$307,907 of payroll reimbursement transactions and \$1,652,698 of purchasing card transactions were audited for compliance with the County Travel and Purchasing Card Policies. The Internal Audit Division also performed one engagement at the request of the Chief Executive Office, performing cycle testing of the revenue and expense cycle at one of the Health Services Agency clinics.

Included in the Internal Audit Division's services are engagements that are required by the State of California to ensure compliance with state law. The cost to the County for services provided by the Internal Audit Division for this time period was \$423,464 in salaries. If these audits had been performed by a Public Accounting Firm the cost of the audits would have significantly increased as Public Accounting Firms generally charge from \$75 to \$300 an hour for their various audit personnel. The benefit of the services provided by the Internal Audit Division to the County clearly out weighs the costs for these services.

DISCUSSION:

The Internal Audit Division provides services to the County by evaluating the adequacy of controls and the efficiency and effectiveness of processes resulting in improvements for the County. The Internal Audit Division also performs, on a limited basis, financial audits of County Departments and related Agencies, along with mandated engagements and special requests.

During the course of our work we must remain objective and consistent in our treatment of the various audits and departments thereby ensuring the results of our audit reports are accurately determined. The Internal Audit Division follows professional standards promulgated by the American Institute of Certified Public Accountants (AICPA), and the Government Accounting Office (GAO).

89 engagements are presented today as follows:

- Two compliance examinations
- Five financial and/or compliance reviews
- Two non-audit engagements of internal controls over cash handling procedures
- One non-audit request from the Chief Executive Office
- Fifty-one payroll reimbursement performance audits

## Acceptance of Internal Audit Reports Prepared by the Internal Audit Division of the Auditor-Controller's Office

### DISCUSSION (continued):

- Twenty-eight purchasing card performance audits

#### Additional Work Performed

The Internal Audit Division completed two audits for Agencies either having separate governing bodies or were presented to the Board of Supervisors at an earlier date. In addition, the division completed a consulting engagement that was requested by the Chief Executive Office. These three engagements were completed in addition to the eighty-nine engagements presented in this report. The three engagements are listed below.

One financial/compliance audit was completed for the Children and Families Commission as of June 30, 2007. Total assets and total revenue as of June 30, 2007 respectively were \$22,796,697 and \$8,562,763. The audit was performed in accordance with standards established by the American Institute of Certified Public Accountants and Government Auditing Standards. An unqualified opinion was rendered for this audit. This audit was presented to the Commission by the Internal Audit Manager in September of 2007.

The Redevelopment Agency financial/compliance audit as of June 30, 2007 was completed by the Internal Audit Division and presented to the Board of Supervisors by the Agency in December of 2007. Total assets and total revenue as of June 30, 2007 respectively were \$27,132,428 and \$7,324,778. The audit was performed in accordance with standards established by the American Institute of Certified Public Accountants and Government Auditing Standards. An unqualified opinion was rendered for this audit.

The Internal Audit Division was asked by the Chief Executive Office to perform a consulting engagement for the Office of Emergency Services (OES) Division. We were asked to help OES prepare for the State of California's monitoring field review of the Homeland Security Grants for grant periods, fiscal year 2001, 2002, 2003 and 2004. The monitoring field review is performed to determine if County's are in compliance with the grant requirements.

#### Financial/Compliance Examinations

Treasury Oversight Committee Compliance Examination for the year ended June 30, 2007. This engagement is required by California Government Code Section 27134 on an annual basis to guarantee compliance with such code by the County Treasury Department. The engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants and Government Auditing Standards. Based upon our examination, Treasury management is in compliance with the aforementioned provisions.

Endowment Investment Fund Compliance Examination for the year ended June 30, 2007. This engagement is required by the Investment Policy Securitization of the Tobacco Industry's Master Settlement Agreement and investment provisions to assure compliance with the investment policy as required by California Government Code Section 53601. The engagement was

DISCUSSION (continued):

performed in accordance with standards established by the American Institute of Certified Public Accountants and Government Auditing Standards. The examination report noted an opportunity for strengthening compliance with the provisions. Based upon our examination, the Treasury Department is in compliance with the aforementioned provisions.

**Financial/Compliance Reviews**

Property Tax Administration Fee Cost Calculations Review for the year ended June 30, 2007. The annual engagement is performed at the request of the Auditor-Controller in order to ensure an independent review of the appropriations and calculations listed in the report. The engagement was performed in accordance with the American Institute of Certified Public Accountants and Government Auditing Standards.

Four Quarterly reviews of the Stanislaus County Treasurer's Statement of Assets in the Treasury for the quarters ending December 31, 2006, March 31, 2007, September 30, 2007, and December 31, 2007. Review reports for the quarter ending June 30<sup>th</sup> are not issued by the Internal Audit Division as the annual audit report for the entire County as of that date includes the Treasury asset amounts. These quarterly reviews are required under California Government Code Section 26920 and the Stanislaus County Investment Policy and were performed in accordance with standards established by the American Institute of Certified Public Accountants and Government Auditing Standards. Based on our reviews the assets held in the Treasury Department are in conformity with State Code and the County Policy.

However, we noted during the September 30, 2007 examination a management comment that recurred during the December 31, 2006 examination. The management comment relates to a delay in recording funds received from the State of California that have been transferred to the County pooled Treasury cash account on the County's accounting records.

**Internal Controls Over Cash Handling Procedures**

We have identified twelve departments which we consider to have cash handling transactions that are high risk. High risk was determined either by the volume and/or nature of these transactions and also if remote locations were involved. We documented the procedures in place and identified control weaknesses and process improvements. We then tested on a sample basis the procedures and controls documented to ensure operations existed and were effective.

The Internal Audit Division performed one cash handling engagement at the Sheriff's Office, the Civil Process Division. Major findings for this engagement are listed below:

- The monthly bank reconciliation for the outside checking account did not reconcile to the accounting records. At the time of our engagement the checking account had a balance of \$909,802. The current monthly transactions are reconciled to the accounting records however, the cumulative balances from prior periods does not reconcile to the accounting records and has not for some time.

DISCUSSION (continued):

- Security over cash and cash equivalents prior to bank deposit could be strengthened; checks are kept in an unlocked drawer, the daily deposit is kept in an unlocked bag, the cash register may be opened without the use of a key or user identification password, the existing register key is kept by one of the cashiers and too many employees have access to the safe.
- Lack of segregation of duties.

The Internal Audit Division will continue to work on the cash handling procedures for those remaining departments deemed high risk that do not have completed engagements.

The Internal Audit Division also performed a cash risk engagement at the Tax Collector's Office. We were notified of a potential cash risk. We immediately investigated the situation and did not note a significant cash risk however we did note some internal control weaknesses and non-compliance with department procedures which are listed on the report.

**Non-Audit Engagement**

The Internal Audit Division was requested by the Chief Executive Office to perform an engagement of clinic operations at the Health Services Agency. The engagement we performed was specific to one clinic, the Paradise Clinic, and to the revenue and expense cycle at that clinic during the time period of July 1, 2006 through December 31, 2006. We were not engaged to and did not perform an audit, the objective of which would be the expression of an opinion.

During the engagement we noted significant deficiencies and management comments. The major deficiencies are summarized below:

- The department's procedures dictate that the billing transactions be uploaded from the billing module to the general ledger module on a daily basis. We noted during the time period of this engagement the upload was performed once a month rather than daily.
- We noted during the engagement the agency's contracted share of revenue received from a medical group for physician charges was not reviewed for accuracy and completeness. In addition, we noted this same lack of procedures for Medi-Cal and Medi-Cal Blue Cross room charge payments to the department.
- The closing of the general ledger module was not performed in a timely manner which results in delayed monthly financial operating reports.
- Further utilization of electronic data via the Medi-Tech system, medical software system used by the department, rather than the use of Excel worksheets to increase potential efficiency improvements.

DISCUSSION (continued):

In addition, prior to, during and subsequent to our engagement work the department has made several significant changes to the operations of the department. Since the time period we were asked to review was prior to these significant changes and the receipt of Federally Qualified Health Center Look-Alike designation in September of 2007 many of our comments may no longer be applicable. We have been asked to perform a follow-up engagement to ascertain the current status of the significant deficiencies and management comments listed on the report. Plans to perform this follow-up engagement will occur during this summer of 2008.

**Payroll Reimbursement Performance Audits**

The Internal Audit Division has completed 51 Payroll Reimbursement Performance Audits. The payroll reimbursement transactions were reviewed 100% for Department Head reimbursements and the remaining department reimbursements were tested on a sample basis, generally from 30% to 35% of the total reimbursements. These audits were based on compliance with the County Travel Policy and payroll reimbursement requirements.

The 51 payroll reimbursement audits consist of 5 fiscal year 2002-2003 audits, 23 fiscal year 2004-2005 audits and 23 fiscal year 2006-2007 audits. The series of fiscal year 2002-2003 payroll reimbursement audits has been completed. We have completed 23 out of 29 payroll reimbursements audits for fiscal year 2004-2005 and 23 out of 30 payroll reimbursement audits for fiscal year 2006-2007. The total number of transactions tested and the related amounts for the 51 audits completed for this presentation is 11,656 transactions in the amount of \$307,907.

Of the audits presented today 18 out of the 51 audits had no major findings. Of the 13 remaining audits, 6 for fiscal year 2004-2005 and 7 for fiscal year 2006-2007 not completed as of this presentation, fieldwork has been completed and we are in the process of reviewing the results of the fieldwork and writing the reports.

Our engagement procedures included but were not limited to determining the following:

- The reimbursement transactions are considered County business.
- Supporting documentation exists for the reimbursements.
- Appropriate approval was obtained and documented for each reimbursement.
- Determination of duplicate payments through the payroll reimbursement process and the purchasing card process.
- If the department has their own policy, determine if the policy is more stringent than the County policy and if so determine if the department complies with their policy.
- Identify any items that may be an abuse of County policy such as the use of luxury hotels.

Acceptance of Internal Audit Reports Prepared by the Internal Audit Division of the Auditor-Controller's Office

DISCUSSION (continued):

Major findings are determined by the number of occurrences for a particular finding, the amount associated with the finding and the nature of the finding. A summary of the major findings for the 51 payroll reimbursement audits is listed below:

- We noted missing signatures on time cards as follows, 484 missing supervisor signatures, and 112 missing signatures from both the supervisor and the employee. In addition to the missing signatures we also noted 51 time cards were not dated by either the supervisor or the employee. We also noted 74 missing time cards.
- We noted 153 missing travel authorization forms to support supervisorial approval, and clear business purpose. We also noted 28 travel authorization forms lacked approvals from supervisors and 70 travel authorization forms lacked approval dates from the supervisors.
- We found 1,096 reimbursements missing destination codes. Destination codes help to support a clear County business purpose. Based on the employees job duties the reimbursements appear to be related to County business.
- We also noted 1,312 transactions without a clear business purpose documented.
- We found 30 reimbursements, in the amount of \$1,953, lacked supporting documentation.
- During audits performed for fiscal year 2002-2003, we noted 12 transactions in the amount of \$1,442 lacked receipts. During fiscal year 2004-2005 and fiscal year 2006-2007, we noted 74 reimbursements in the amount of \$1,590.76 lacked detailed receipts.
- We found 4 transactions in the amount of \$587.50 that were duplicate reimbursements. The County was reimbursed \$88 for 2 of these transactions from employees for these duplicate payments. The departments made an attempt to obtain reimbursement for the remaining duplicate payments and were unsuccessful as the one of the employees does not currently work for the County.
- We noted 8 reimbursements, in the amount of \$264.38 that were inappropriate. These reimbursements consisted of purchases for a retirement party, birthday card, alcohol, and tips for a taxi driver and college textbooks. The County was reimbursed \$212.20 for these purchases subsequent to our audits.
- One department reimbursed employees a monthly flat fee for cell phone usage without receiving proper approval from the Board of Supervisors. Our sample testing population consisted of 103 transactions in the amount of \$515.00 for fiscal year 2004-2005 and fiscal year 2006-2007.
- We noted registration fees in the amount of \$1,206.93 for an annual conference in London did not receive approval from the Chief Executive Officer for the out of country trip as required by policy.

DISCUSSION (continued):

In summary, the findings listed above primarily relate to lack of documentation to support the reimbursements and proper approval of reimbursements as required by the Travel Policy.

**Purchasing Card Audits**

The Board of Supervisors requested audits to review employee purchasing card transactions to ascertain the purchases were made in compliance with the County Purchasing Card Policy. The Internal Audit Division has completed 28 Purchasing Card Audits. The purchasing card transactions were reviewed 100% for Department Head transactions and the remaining department transactions were tested on a sample basis, generally from 30% to 35% of the total transactions.

The 28 purchasing card audits consist of 2 fiscal year 2002-2003 audits, 26 fiscal year 2003-2004 and fiscal year 2004-2005 audits. The series of fiscal year 2002-2003 purchasing card audits has been completed. We have completed 26 out of 32 purchasing card audits for fiscal year 2003-2004 and 2004-2005. The total number of transactions tested and the related amounts for the 28 purchasing card audits completed for this presentation is 9,764 transactions in the amount of \$1,652,698.

Of the purchasing card audits completed 5 had no major findings. Of the 6 remaining audits for the 2003-2004 and 2004-2005 series as of this presentation, fieldwork has been completed and we are in the process of reviewing the results of the fieldwork and writing the reports.

Our engagement procedures included but were not limited to determining the following:

- Supporting documentation exists for the purchases.
- Examine the department's reconciliation of the monthly purchasing card statement.
- The purchasing card transactions are considered County business.
- Review purchasing card authorization for each card.
- If the department has their own policy, determine if the policy is more stringent than the County policy and if so determine if the department complies with their policy.

Major findings are determined by the number of occurrences for a particular finding, the amount associated with the finding and the nature of the finding. A summary of the major findings for the 28 purchasing card audits is listed below:

- We noted 11 travel authorizations lacked approval from supervisors to support pre approval prior to the trips occurring.
- We noted 61 transactions in the amount of \$12,957.60 that lacked itemized receipts during the FY 2003-2004 and 2004-2005 audit.



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DISCUSSION (continued):

- We also noted 10 transactions for in-county meals in the amount of \$963 lacked required Department Head approval and 5 transactions, in the amount of \$286, whereby the Department Head approval was obtained after the meal.
- For the monthly purchasing card reconciliation we noted 49 reconciliations missing signatures and dates, 27 reconciliations were not performed timely and 13 months of statements not retained by one department.
- Each month the Department Head is required to review and approve the Detailed Transaction Report. This report lists all of the purchasing card transactions for the period and allows the Department Head to review the purchases for appropriateness and authenticity. We noted 20 missing reports, 33 reports missing Department Head signatures, 82 reports missing dates and 17 reports not reviewed in a timely manner.
- We noted 43 inactive purchasing cards.
- We noted 42 transactions, in the amount of \$2,868 that were inappropriate County purchases. These transactions consisted of a variety of purchases; 4 meals for non-county employees, 3 alcohol purchases, 1 stay at a 4 star hotel, 4 occurrences of valet parking, laundry, 3 occurrences of personal telephone calls, 13 flower and sympathy card purchases, 1 vase, 2 plants for a funeral and non-employee, 1 retirement gift that is not allowed, fundraising event tickets, golf tournament deposit, 1 Christmas card, 2 gift cards for volunteers, 4 uniform purchases under the uniform policy which are not allowed per the uniform policy. Many of these transactions were not reimbursed to the County due to the purchases were made by a group rather than an individual and employees have left County service or retired. These transactions represent .0017 of the \$1,652,698 amount tested.
- We noted 5 departments did not have procedures in place to ensure duplication does not occur between the purchasing card and payroll reimbursement transactions.
- One agency used the County purchasing card to pay for expenses related to travel for a spouse and/or companion. While the majority of these expenses were reimbursed to the County soon after the expense was incurred, users of a County card are prohibited from incurring these types of personal expenses.

Of the transactions tested 522 or 5.35% of the total transactions were considered major findings and the total amount associated with these major findings is \$25,385 or 1.54% of the total dollar amount tested. In summary, the major findings primarily consisted of departments lacking sufficient procedures and controls, in some cases, to monitor the appropriateness of the purchasing card transactions. In conclusion, County departments are in compliance with the Purchasing Card and Travel Policies.

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DISCUSSION (continued):

The Internal Audit is currently setting up the next series of purchasing card audits. Fieldwork has begun. We will be auditing fiscal year 2005-2006, 2006-2007 and 2007-2008 transactions and issuing one report, per department, for the three year time period. The sample population for this series of audits will range from 10% to 25%. The sampling percentage used will be determined individually, per department, and will be based upon results from prior audits and the type of transactions. In addition, we will continue to audit the Department Head transactions at 100%.

**Summary**

The Internal Audit Division submits an annual audit schedule to the Board of Supervisors listing audits that are expected to be completed in the upcoming fiscal year. For fiscal year 2007-2008, the division was able to complete the majority of the audits listed on this schedule.

We have begun a new series of Purchasing Card Audits as mentioned above in the Purchasing Card section of the agenda item and expect to complete this series of audits during fiscal year 2008-2009. Once this series of audits is completed we will be current with our compliance review of the Purchasing Card and Travel Policy.

As stated under the Payroll Reimbursement section of the agenda item the remaining 13 departments that are not complete as of this board presentation will be completed during the first part of fiscal year 2008-2009. We will then be current with our compliance review of the Travel Policy and payroll reimbursement requirements.

Also, as stated above under the Internal Controls over Cash Handling Procedures section we will continue to perform the cash handling engagements during fiscal year 2008-2009.

One of the engagements, reviewing Public Facility Fees for the City of Patterson, which was scheduled for fiscal year 2007-2008, was postponed due to two unplanned engagements that were performed instead. We have begun this engagement during fiscal year 2008-2009.

In summary, the division continues to work towards completing meaningful and timely engagements that provide accountability to the Board of Supervisors and the public.

**POLICY ISSUES:**

Per Government Section Code 26833, the Board of Supervisors shall have the power to require that the County Auditor-Controller shall audit the accounts and records of any department, office, board or institute under its control.

The Internal Audit Division helps to determine whether financial and operating information is accurate and reliable; risks are identified and minimized; policies and procedures are followed; resources are used efficiently and effectively; and objectives are effectively achieved

The work performed by the Internal Audit Division provides accountability to the Board of Supervisors and the public. In addition, the work performed by the Internal Audit Division is in

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POLICY ISSUES (continued):

alignment with the Board's priority of ensuring efficient delivery of public services.

The division is committed to issuing reports on a timely basis. In order to continue to improve on the timing of the issuance of reports and the overall efficiency of the division, the Internal Audit Division presentations to the Board of Supervisors will be performed on a bi-annual basis.

STAFFING IMPACT:

The Internal Audit Division currently consists of the Internal Audit Manager and five Internal Auditors. Currently, three of the five employees are Certified Public Accountants. One position was added to the division during the current fiscal year. At the time of this presentation one of the Internal Auditor positions is unfilled. During the past year the division has achieved stability which is reflected in the number of audits completed during this time period.

ATTACHMENTS AVAILABLE  
FROM YOUR CLERK