

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

*Larry Haugh*

DEPT: Auditor-Controller

BOARD AGENDA # B-11

Urgent

Routine

AGENDA DATE March 16, 2010

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 is 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. 2010-141

On motion of Supervisor Chiesa, Seconded by Supervisor DeMartini

and approved by the following vote,

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

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.

FISCAL IMPACT (continued):

The audits presented in the agenda item represent approximately six months of service performed by the Internal Audit Division. We performed engagements regarding the collection of Public Facility Fees from four cities in the County that collected \$9,500,182 in fees for the period under review. In addition we also performed an engagement related to the collection of Public Facility Fees in the unincorporated area of the County, which collected \$736,818 in fees for the period under review. Eight engagements were performed to evaluate internal controls over cash handling and another related to processing of manual checks. In addition, \$94,924 of payroll reimbursement transactions and \$2,180,550 of purchasing card transactions were audited for compliance with the County Travel and Purchasing Card Policies. 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 \$143,482 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 outweighs the costs for these services.

DISCUSSION:

The results of the engagements presented in this agenda item reflect compliance with California Government Code Sections and County policies. Compliance with government code sections and County policies reflect strong internal controls and efficiencies thereby reducing risk to the County. The County departments have performed in a responsible manner in their stewardship of public funds.

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), the Institute of Internal Auditors (IIA), and the Government Accounting Office (GAO).

Fifty-seven engagements are presented today as follows:

- One compliance examination
- Five agreed-upon procedures engagements regarding County Public Facility Fees
- Eight engagements of internal control evaluations
- Six payroll reimbursement compliance audits
- Thirty-seven purchasing card compliance audits

The Internal Audit Division completed three engagements that were presented to the Board of Supervisors at an earlier date during this six month time period. The engagements included the financial and compliance audit for the Redevelopment Agency as of June 30, 2009 and two

DISCUSSION (continued):

financial and compliance reviews of the Treasury Statement of Assets for the quarters ending March 31, 2009 and September 30, 2009. These three engagements were completed in addition to the fifty-seven engagements presented in this report.

Audits that have been completed since the last presentation in June 2009 are as follows:

**Financial/Compliance Examinations**

Endowment Investment Fund Compliance Examination for the year ended June 30, 2009. 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 performed in accordance with standards established by the American Institute of Certified Public Accountants and Government Auditing Standards. Based upon our examination, the Treasury Department is in compliance with the aforementioned provisions.

**Agreed-Upon Procedures Engagement**

The Internal Audit division is performing a series of engagements related to the County's portion of County Public Facility Fees that is collected during the building permit process at the various cities located in the County. We reviewed the permit and collection process for completeness and to mitigate any potential weaknesses in internal controls related to the process. We completed four engagements with the Cities of Modesto, Oakdale, Riverbank, and Turlock which are included in this presentation. In addition we also performed an engagement for those fees collected in the unincorporated area of the County. The reports are written in terms of responsibility by both the Cities and the County not just the Cities. The total number of permits reviewed was 125 in the amount of \$2,383,871. The time period reviewed was Fiscal Year 2007-2008 and 2008-2009. Major findings for these engagements are:

**Cities of Modesto, Oakdale, Riverbank and Turlock**

- No written policies and procedures over the permit and cash handling process for one city.
- Limited documentation and approval of the plan check process for two of the cities.
- There was no record of permits that were voided permits in the building permit system used by one city.
- Limited documentation as to how the County Public Facility Fees were calculated for one city.
- We could not verify the accuracy of vesting information for one development, totaling 530 acres, as the only development agreement, covering 282 acres, provided to us did not cover the entire development. In addition we could not determine which permits belonged to the development agreement provided to us.
- The wrong permit category was used for 16 residential permits resulting in a loss of \$26,232 in county fees.
- County Public Facility Fees were not collected for four properties that were converted to another higher use at a loss of \$41,166 in county fees.

DISCUSSION (continued):

- An incorrect calculation for one commercial permit resulted in a loss of \$15,689 in county fees.
- One city did not forward their required quarterly payments, per the agreement between the City and the County, to the County for a year and a half.

Administrator of the Public Facility Fee Program - Stanislaus County

- The County Building Permit division utilizes software that has not had an upgrade for over 10 years. In addition to the age of the software an older server must be used in order to be compatible with the software. Also, the sole source of software support is provided within the County as the software company no longer supports the version the County is currently using. Steps have been taken by the department to mitigate the risk created by the lack of support from the vendor however in our opinion risk still remains. In order to decrease this risk and provide better effectiveness and efficiencies the software system along with the server should be replaced. Due to the shortage of funds to accomplish this task the department should consider requesting the use of the administrative component of the County Public Facility Fees available for use. This request would be warranted as the County Building Permit division is the administrator of the program which provides millions of dollars to the County to be used on capital projects.
- The County did not have procedures in place to monitor the receipt of the required quarterly fee payments from the Cities to the County.
- When calculating the Public Facility Fees for those cities who need the calculation performed, the County does not receive adequate supporting documentation in the determination of the fees.
- For those fees that are calculated by the Cities, the County does not have procedures in place to review the accuracy of the fees.

**Internal Controls Over Cash Handling Procedures**

We have identified departments/divisions 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 completed seven cash handling engagements for the following departments/divisions: Behavioral Health & Recovery Services, Library – Main Branch, Parks and Recreation – Woodward Reservoir, Treasury, Treasurer Tax Collection – Property Tax Division, Treasurer Tax Collector – Revenue Recovery Division, and Animal Services E-Payments. The total amount reviewed during these engagements was \$191,690,518. Major findings for these engagements were:

DISCUSSION (continued):

- Cash handled by multiple employees.
- Lack of documentation.
- Lack of physical security over access to cash and keys.
- Written documentation of cash handling procedures is limited.
- No policies and procedures for customer fee waivers, including authority to waive fees.
- Software does not require user login, thus lack of trail and accountability.
- Noted weaknesses due to lack of segregation of duties in cash receipt and handling processes.
- Reconciliation of credit card deposits not performed timely.
- Various departments do not adequately secure deposits during transport to Treasury.
- Not all checks are restrictively endorsed at the time of receipt.
- Reconciliations not performed timely and/or not adequately documented.
- Clerks' roles are not adequately restricted within the software system.

The Internal Audit Division has, and will, continue to work on the cash handling procedures for those remaining departments deemed high risk that do not have completed engagements or it has been some time since the last engagement was performed.

The Internal Audit Division also completed a non-audit engagement evaluating procedures specific to the new check writing system, CheckWriter. This system was developed by Strategic Business Technologies and implemented in September of 2008. The intended use of the CheckWriter system are for one time payments. The total number of transactions tested was 142 in the amount of \$317,699. Major findings for this engagement were:

- Lack of verification of amounts to the Agency fund.
- Check dollar limits not formally reviewed and approved, also instances of check splitting to bypass limits.
- Lack of written procedures.
- Manual system being utilized for recurring monthly payments.
- Review of refund documentation to support accuracy is not adequately performed.
- Elections stipend payroll sheets were not fully completed.
- Secondary reviews of various Elections reports were not documented.

### **Payroll Reimbursement Compliance Audits**

The results of the recent audits we performed regarding payroll reimbursement transactions reflect significant improvement in terms of compliance with the County Travel Policy. The audits presented in this agenda item overall reflect the departments are in compliance with the policy and internal controls have been strengthened considerably thereby reducing risk to the County.

The Internal Audit Division has completed 6 Payroll Reimbursement Compliance 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 11% to 21% of the total reimbursements. These audits were based on compliance with the County Travel Policy and payroll reimbursement requirements.

DISCUSSION (continued):

The 6 payroll reimbursement audits consist of one Fiscal Year 2004-2005 audit and one Fiscal Year 2006-2007 audit. These are the last of the audits for these respective series of audits. In addition, 4 payroll reimbursement audits performed during the current Fiscal Year 2009-2010 were completed. The total number of transactions tested and the related amounts for the 6 audits completed for this presentation is 2,549 transactions in the amount of \$105,128.

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.

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 6 payroll reimbursement audits by fiscal year is listed below to allow the reader to view the compliance requirements more accurately.

FISCAL YEAR 2004-2005 (1,087 transactions in the amount \$51,219 were tested)

- We noted 84 reimbursements in the amount of \$2,606 lacked detailed receipts.
- We noted 51 reimbursements where an incorrect mileage or reimbursement amount was used and no documentation was maintained or provided to support the amounts claimed.
- We noted 21 reimbursements which were not supported by a complete pre-approved travel authorization form.
- We noted 12 instances where the incorrect time reporting code was used.
- We noted missing signatures on time cards as follows, 13 missing supervisor signatures, 4 missing employee signatures, and 4 missing signatures from both the supervisor and the employee.
- We noted 2 reimbursements related to travel outside the United State which did not have advance written approval from the Chief Executive Officer as required by the travel policy.

FISCAL YEAR 2006-2007 (1,145 transactions in the amount of \$43,705 were tested)

- We noted 55 reimbursements where an incorrect mileage or reimbursement amount was used and no documentation was maintained or provided to support the amounts claimed.
- We noted 36 reimbursements in the amount of \$2,015 lacked detailed receipts.
- We noted 36 instances where the incorrect time reporting code was used.

DISCUSSION (continued):

- We noted 17 reimbursements in the amount of \$9,228 for purchases of items not eligible under applicable memorandum of understanding.
- We noted 14 reimbursements which were not supported by a complete pre-approved travel authorization form.
- We noted 1 reimbursement related to travel outside the United State which did not have advance written approval from the Chief Executive Officer as required by the travel policy.
- We recommended H.S.A. management consider revising the reporting structure of the payroll function to report directly to the Finance division. This change in reporting structure would then help to mitigate issues that occur within the payroll function.

FISCAL YEAR 2009-2010 – July 2009 (317 transactions in the amount of \$10,204 were tested)

There were no major findings and recommendations for the departments under audit during this time period.

The four departments chosen for the Fiscal Year 2009-2010 audits were those departments that were considered the highest risk based upon the results of prior audits. In summary, as evidenced by the results of the Fiscal Year 2009-2010 audits County departments are in compliance with the County Travel Policy in terms of payroll reimbursement transactions.

**Purchasing Card Compliance Audits**

The results of the recent audits we performed regarding purchasing card transactions reflect significant improvement in terms of compliance with the County Purchasing Card and Travel Policy. In fact for the most recent period under review, Fiscal Year 2008-2009, 26 of the 33 audits completed during this time had no major findings. The departments have strengthened their internal controls considerably thereby reducing the risk to the County.

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 37 Purchasing Card Audits included in this presentation. The purchasing card transactions were reviewed 100% for Department Head transactions and the remaining department transactions were tested on a sample basis, generally from 10% to 25% of the total transactions.

The 37 purchasing card audits consist of 4 Fiscal Years 2005-2006, 2006-2007, & 2007-2008 audits; and 33 Fiscal Year 2008-2009 audits. The total number of transactions tested and the related amounts for the 37 purchasing card audits completed for this presentation is 13,563 transactions in the amount of \$4,675,662.

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.

DISCUSSION (continued):

- 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.
- Identify any items that may be an abuse of County policy such as purchase of personal items.

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. Due to the previous audit period covering a three year period, the Fiscal Year 2007-2008 findings have been listed separately in order to better reflect the current status of the departments' transactions. A summary of the major findings for the 37 purchasing card audits is listed below:

COMBINED FISCAL YEARS 2005-2006, 2006-2007, AND 2007-2008: (9,780 transactions in the amount of \$3,361,976)

- We noted 124 charges which were not supported by a properly completed pre-approved travel authorization form.
- We noted 124 transactions in the amount of \$35,704 with missing itemized receipts.
- Six credit card statements and all documentation supporting 88 transactions (totaling \$13,791) were missing.
- We noted 63 transactions for lodging charges where occupancy taxes were paid and the hotel accepts occupancy tax waiver forms, thus incurring \$1,983 in additional travel costs to the County.
- We noted 49 fuel purchases not made at available Card Lock station and no documentation provided as to reason.
- We noted 46 transactions that lacked appropriate approval certification on the missing itemized receipt form.
- Each month the Department Head is required to review and approve the Detailed Transaction Report/Company Billing Statement. 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 49 reports which were either not certified by the Department Head or that were not reviewed in a timely manner.
- We noted 37 transactions lacking documentation of a County business purpose.
- We noted 4 transactions in the amount of \$5,101 for which receipts were not provided and we were unable to audit these transactions.
- We noted 25 travel charges (meals and/or lodging charges) before and/or after conferences or events. However, the travel expenses incurred before the events did not appear to be necessary. The reasons for the before and/or after event charges were not documented; therefore the additional charges appear to be personal. Estimated additional expenses totaled \$469.
- We noted 27 in-county meals in the amount of \$2,756 that lacked required Department Head approval.



DISCUSSION (continued):

- We noted 10 travel charges that appear excessive for parking, rental vehicles, and airfare. Additional cost incurred by the county estimated to total \$1,239.

FISCAL YEAR 2008-2009: (3,783 transactions in the amount of \$1,313,686)

Purchases for Fiscal Year 2008-2009 through the use of County purchasing cards declined 39% in terms of the dollar amount and declined 34% in terms of the number of transactions as compared to the previous year's transactions.

- We noted 76 purchasing card statements reconciliations were not performed timely.
- Each month the Department Head is required to review and approve the Company Billing Statement. 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 32 reports which were not certified by the Department Head or not reviewed in a timely manner.
- We noted 16 travel charges (meals and/or lodging charges) before and/or after conferences or events. However, the travel expenses incurred before the events did not appear to be necessary. The reasons for the before and/or after event charges were not documented; therefore the additional charges appear to be personal. Estimated additional expenses totaled \$1,444.
- We noted 5 in-county meals in the amount of \$466 that lacked required Department Head approval.
- We noted 4 transactions containing "No Show" charges (totaling \$644) for a failure by an employee to cancel a hotel reservation. The no show charges did not appear to be a result of a failure to cancel a hotel reservation due to circumstances beyond the employee's control.

The major findings primarily consisted of departments lacking sufficient procedures and controls, in some cases, to monitor the appropriateness of the purchasing card transactions. However, the most recent year transactions, Fiscal Year 2008-2009 reflect significant increased improvement by the departments in their efforts to comply with the County Purchasing Card and Travel Policies as evidenced by the reduced findings. In conclusion, County departments are in compliance with the Purchasing Card and Travel Policies.

**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. Currently, the division is completing those audits that were approved for the Fiscal Year 2009-2010.

The division has begun and performed new engagements during the current fiscal year. These engagements consist of an internal control engagement over the recording and processing of Transit Occupancy Tax collected by hotel operators located in Stanislaus County and another internal control engagement reviewing the adequacy of controls regarding the North McHenry Revenue Sharing Agreement allocations.

**DISCUSSION (continued):**

In addition the division is in the process of performing a county wide risk assessment. This will be the first time such an assessment has been performed by the division. The information gained during the process will allow the division to determine which engagements to perform that are considered high risk and feasible to perform given the division's current resources.

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 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 continue to be performed on a semi-annual basis.

**STAFFING IMPACT:**

The Internal Audit Division currently consists of the Internal Audit Manager and five Internal Auditors. Currently, three of the Internal Audit staff is Certified Public Accountants. Two positions are presently vacant due to decreases in the department's budget. As of January 4, 2010 a new Internal Audit Manager, K-deep Dhaliwal, was hired to manage the division. We will continue to perform to the best of our abilities despite our reduced numbers engagements that safeguard the public's assets.

**CONTACT PERSON:**

Lauren Klein, Chief Deputy Auditor-Controller

Telephone: 525-6588

ATTACHMENTS AVAILABLE  
FROM YOUR CLERK

# INTERNAL AUDIT DIVISION BOARD PRESENTATION

**PowerPoint**

# ENGAGEMENTS

- ◆ One compliance examination
- ◆ Five agreed upon procedures engagement concerning County Public Facility Fees
- ◆ Eight engagements of internal control evaluations regarding cash handling
- ◆ Six payroll reimbursement compliance audits
- ◆ Thirty-seven purchasing card compliance audits

# FINANCIAL/COMPLIANCE EXAMINATION

- ◆ The engagement was in compliance with both State Code and County Policy.

# COUNTY PUBLIC FACILITY FEES - CONTINUED

- ◆ We reviewed the permit and fee collection process for the cities of Modesto, Oakdale, Riverbank, Turlock and the unincorporated area of the county.
- ◆ The total number of permits reviewed was 125 in the amount of \$2,383,871.

# COUNTY PUBLIC FACILITY FEES - CONTINUED

- ◆ One city appeared to have the most opportunities for improvement in their procedures and controls – Internal Audit will perform a follow up engagement with this city.
- ◆ The remaining cities had adequate procedures and controls.

# COUNTY PUBLIC FACILITY FEES - CONTINUED

- ◆ For those fees that are calculated by the cities, the county did not have procedures in place to review the accuracy of the fees.
- ◆ The software used to administer the PFF program has not had an upgrade for over 10 years.



# INTERNAL CONTROLS OVER CASH RECEIPTS

The total amount of transactions reviewed was \$192,008,217.

## Major Findings:

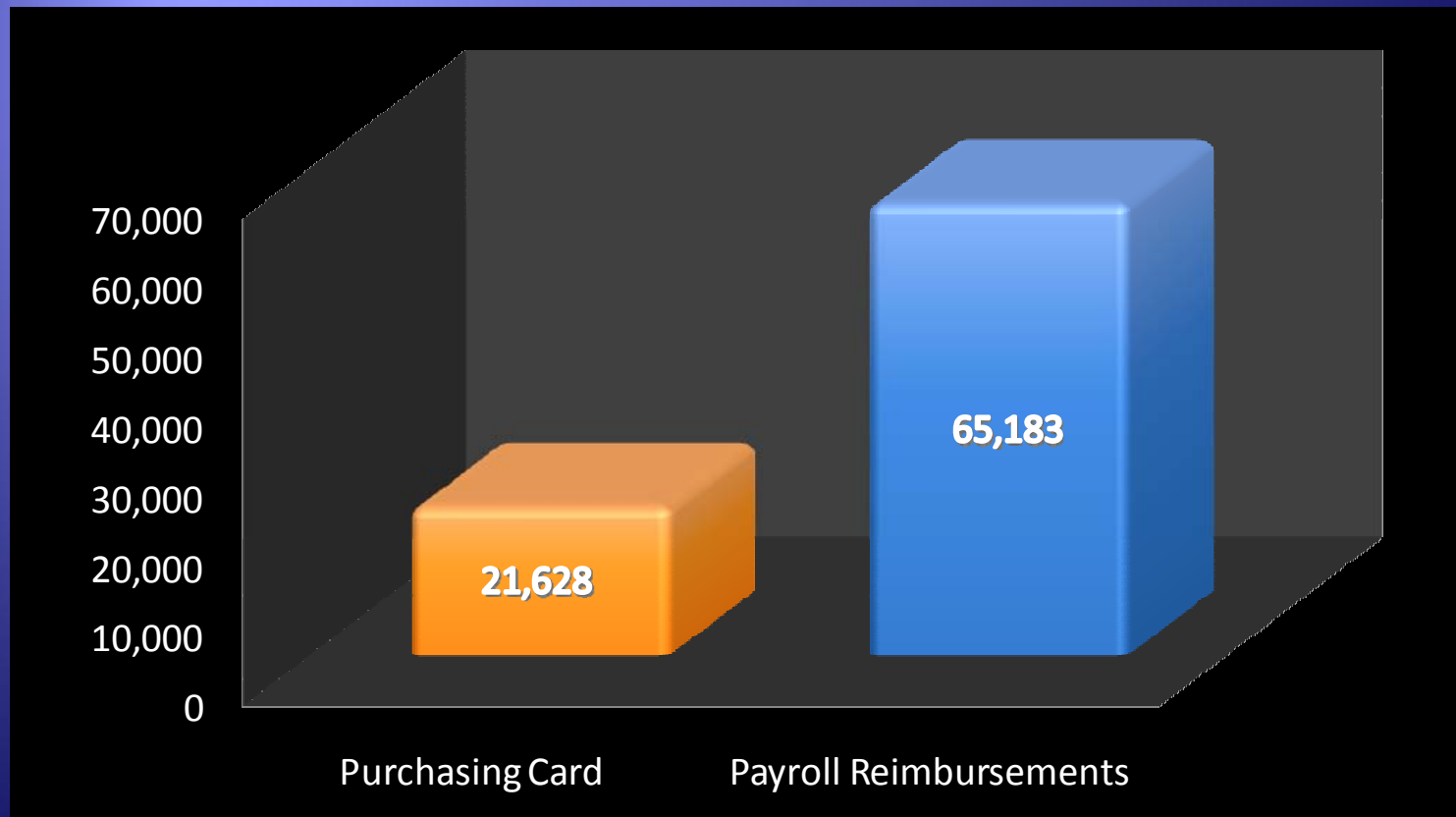
- ◆ Written documentation of cash handling procedures is limited.
- ◆ Security over cash could be strengthened.

# INTERNAL CONTROL OVER CASH RECEIPTS - CONTINUED

- ◆ Lack of segregation of duties
- ◆ Lack of supporting documentation
- ◆ Missing step to verify posting of Checkwriter transactions to correct Agency fund

# TRANSACTION AMOUNTS

FY 2008-2009



# FINANCIAL FY 2008-2009

## Payroll Reimbursements

\$800,000

\$600,000

\$400,000

\$200,000

\$-



# FINANCIAL FY 2008-2009

## Purchasing Card Charges

\$4,000,000  
\$3,000,000  
\$2,000,000  
\$1,000,000  
\$-



# PAYROLL REIMBURSEMENT ENGAGEMENTS

- ◆ 6 audits are presented today.
- ◆ 4 of these audits cover the period July 2009.
- ◆ Total number of transactions tested was 2,549 in the amount of \$105,128.
- ◆ The 4 audits covering the July 2009 period had no major findings or recommendations.

# PURCHASING CARD ENGAGEMENTS

- ◆ 37 audits are presented today.
- ◆ 33 of these audits covered FY 2008-2009 and the remaining 4 audits covered older periods.
- ◆ Total number of transactions tested was 13,563 in the amount of \$4,675,662.

# PURCHASING CARD ENGAGEMENTS - CONTINUED

- ◆ FY 08-09 activity declined 39% in terms of the dollar amount and 34% in the number of transactions.
- ◆ FY 08-09 audits resulted in 26 out of 33 departments and related agencies had no findings or recommendations.



# BOARD PRIORITIES

- ◆ The work performed by the Internal Audit Division of the Auditor-Controller's Office is in alignment with the Board Priority of ensuring efficient delivery of public services.

