

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

DEPT: Auditor-Controller *AC*

BOARD AGENDA # *B-3

Urgent

Routine

AGENDA DATE June 28, 2011

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. 2011-383

On motion of Supervisor O'Brien, Seconded by Supervisor Chiesa
and approved by the following vote,
Ayes: Supervisors: O'Brien, Chiesa, Withrow, DeMartini, and Chairman Monteith
Noes: Supervisors: None
Excused or Absent: Supervisors: None
Abstaining: Supervisor: None

- 1) 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 a little over one year of service performed by the Internal Audit Division. We performed engagements regarding the collection of Public Facility Fees from two cities in the County that collected \$335,100 in fees for the period under review. In addition, we performed a follow-up engagement related to the collection of Public Facility Fees for the City of Oakdale, which collected \$71,244 in fees for the period under review. The procedures, processes, and calculations performed by both Stanislaus County and the City of Modesto were examined in connection with the North McHenry Revenue Sharing Agreement. Three engagements were performed to evaluate internal controls over the Auditor-Controller's Office Accounts Payable, Accounts Receivable and Payroll divisions related to their specific processes. We tested compliance with the County Travel and Purchasing Card Policies on \$7,451 of payroll reimbursement transactions and \$1,164,147 of purchasing card transactions. One MOU/Timekeeping and Attendance audit was performed for compliance with the County Accounting Guidelines for Timekeeping and Attendance and the Memorandum of Understanding (MOU) provisions specific to the department. One transition audit was performed for compliance with California Codes, County regulatory requirements and County policies and procedures. An examination was performed regarding the Transient Occupancy Tax collected from nineteen hotels located in the unincorporated area of Stanislaus County for compliance with California Revenue and Taxation Code and Stanislaus County Code. 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 approximately \$244,511 in salaries and benefits for approximately 7,800 hours of time. 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 results of the engagements presented in this agenda item reveal 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.

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).

Forty-seven engagements are presented as follows:

- Three compliance examinations
- Four agreed-upon procedures engagements, three regarding County Public Facility Fees and one regarding North McHenry Revenue Sharing Agreement
- Three engagements of internal control evaluations
- Two payroll reimbursement compliance audits
- One MOU/Timekeeping and Attendance compliance audit
- Thirty-three purchasing card compliance audits
- One transition audit

The Internal Audit Division completed four engagements that were presented to the Board of Supervisors at an earlier date during this time period. The engagements included the four financial and compliance reviews of the Treasury Statement of Assets for the quarters ending December 31, 2009, March 31, 2010, September 30, 2010 and December 31, 2010. These four engagements were completed in addition to the forty-seven engagements presented in this report.

Audits that have been completed since the last presentation in March 2010 are as follows:

Financial/Compliance Examinations

Endowment Investment Fund Compliance Examination for the year ended June 30, 2010. 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 the *International Standards for the Professional Practice of Internal Auditing* established by the Institute of Internal Auditors. Based upon our examination, the Treasury Division is in compliance with the aforementioned provisions.

Treasury Oversight Committee Compliance Examination for the year ended June 30, 2010. This engagement is required by the Treasurer's Investment Policy to assure compliance as required by California Government Code Section 27134. The engagement was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing* established by the Institute of Internal Auditors. Based upon our examination, the Treasury Oversight Committee is in compliance with the aforementioned provisions.

Transient Occupancy Tax Compliance Examination for the period of July 1, 2009 through September 30, 2009. We performed an examination to determine whether the transient occupancy tax was collected and remitted to Stanislaus County in compliance with the Hotel Tax Chapter of the Stanislaus County Code. The tax levied by the Board of Supervisors is only applicable to hotel operators in the unincorporated areas within Stanislaus County. The transient occupancy tax is 8% of rent charged by the operator and is collected by the operator and remitted to the County Treasurer-Tax Collector. Limited procedures were performed in the Treasurer-Tax Collector's Office and we judgmentally selected five hotel operators and performed site visits. For the remaining fourteen hotel operators we performed limited desk reviews. Based on our procedures performed in the Treasurer-Tax Collector's Office, we found the administration of the transient occupancy tax to be functioning as intended noting no significant weakness. Of the nineteen hotels in the unincorporated areas of Stanislaus County we noted seven hotels were in compliance with the Hotel Tax Chapter of the Stanislaus County Code. We noted the most pervasive exception among the operators was the separation of tax from the rent charged as well as incorrectly calculating and reporting the correct amount of transient occupancy tax owed.

Agreed-Upon Procedures Engagement

The Internal Audit division performed 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 two engagements with the City of Ceres and the City of Newman which are included in this presentation. In addition, we also performed a follow-up engagement for those fees collected from the City of Oakdale. 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 24 in the amount of \$129,317. The time period reviewed was Fiscal Year 2007-2008 and 2008-2009 for the City of Ceres and City of Newman and a nine month period ended March 31, 2010 for the follow-up for the City of Oakdale. Major findings for these engagements are:

Cities of Ceres and Newman

- No written policies and procedures over the permit process for two of the cities.
- No written procedures over the cash handling process for one city.
- Application dates for permits were incorrectly recorded either on the report provided to the internal auditor or in the permit database used by one city to record building permit activity making it appear the permits were issued out of numerical sequence.
- The County Building Permit Division is not determining whether building permits submitted for Plan Check review by one city are subject to county facility fees.
- The wrong fee schedule was used for the fixed impact fee for one residential property in one city resulting in a loss of \$3,109 in county fees. For one city, we were unable to determine the accuracy of the vesting information used in selecting the fee schedule for the County public facility fee calculations for seven building permits.

- One permit for a partial conversion of warehouse space to office space did not have County facility fees calculated for one city resulting in a loss of \$7,796 in county fees.
- County public facility fees were not collected for one property converted to a higher use for one city resulting in a loss of \$745 in county fees.

City of Oakdale Follow-up

The City of Oakdale appeared to have the most opportunities for improvement in their procedures and controls. The internal audit division performed a follow up engagement with the City at the end of Fiscal Year 09-10 to determine what controls were strengthened or implemented by the City. As of the date of the report, the City is still making changes to its Building Department processes as they relate to the management comments. Major findings for the follow-up engagement are:

- There are no written procedures over the cash handling process.
- There are no written procedures over the building permit process.
- A reconciliation between the building permit software program and the financial accounting software program the city uses for processing the permit fees is not being performed by the city.
- The first quarter payment to the County was not remitted timely as required by the agreement.
- Void permits are not included in the list of permits provided to us nor are they listed in the building permit system.
- We were unable to determine from project documentation whether the properties for three residential permits were located within the acreage covered by the development agreement. Based on final map recorded date, it appears the vesting rights for these three permits expired prior to the building permit application date.
- One permit for construction of a new industrial building was not submitted to the County for calculation of the facility fee and the fee was not collected on the permit. Subsequently, the fee was calculated and the applicant billed for the fee due.

North McHenry Revenue Sharing Agreement

The Internal Audit Division also performed an engagement related to the calculation of the revenue shared between Stanislaus County and the City of Modesto for the various taxes earned on commercial and residential properties located in the North McHenry Avenue corridor. This corridor is located on both sides of McHenry Avenue between Standiford Road on the south and Kiernan Road to the north. At the time the agreement was entered into, the designated area consisted of a total of 271 acres. Sixty acres were located within Modesto city limits and the

remaining 211 acres were located in the unincorporated area of Stanislaus County but within the City of Modesto's sphere of influence. Under the North McHenry Revenue Sharing Agreement, Stanislaus County and the City of Modesto would share local taxes generated by these businesses and the City of Modesto would in return provide services (sewer and water) to businesses located outside of the city limits after the businesses enter into an outside service agreement with the City of Modesto.

Based on the procedures performed, we found overall both Stanislaus County and the City of Modesto have adequate policies and procedures over obtaining and summarizing revenue amounts and calculating the revenue to be allocated between Stanislaus County and the City of Modesto. We did however note the following:

- The annual review and approval of the allocation percentage amounts had not been documented in writing per the provisions of the agreement and its administrative guidelines.
- The City of Modesto was unable to provide a copy of a pre-existing agreement exempting several businesses from the mill tax therefore we were unable to determine which businesses are required to pay the tax.
- Per the City of Modesto Council report dated October 2007, the City was in the process of obtaining outside service agreements with twelve businesses located in the unincorporated area. The City of Modesto did not provide these agreements therefore we were unable to determine whether these twelve agreements had been completed nor whether or not the City pursued outside service agreements with any of the new businesses not paying mill tax that may have been required to do so.

Internal Control Evaluations

We were requested by the Auditor-Controller of Stanislaus County to perform an internal control evaluation of the procedures and processes of the Accounts Payable Division, Revenue Division and Payroll Division of the Auditor-Controller's Office.

The objective of this evaluation was to identify the procedures performed by the divisions in their assigned functions and responsibilities and provide management with an assessment of such for any significant weaknesses regarding internal controls while also noting any potential inefficiencies related to operational aspects. 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 Accounts Payable Division – The Auditor-Controller's Accounts Payable Division is responsible for paying approximately 82,000 invoices annually, totaling about \$430 million, on behalf of the County. The Division makes all check and electronic disbursements to County vendors and disbursements from trusts held for the benefit of third parties. Major findings for this engagement are:

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

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- Two individual fund balances in the Accounts Payable module did not agree to the respective fund balances in the General Ledger module.
- The sum of all funds in the Accounts Payable module did not agree to that of the General Ledger module and the variance was different than the expected variance related to the two individual fund balances mentioned above.

The Revenue Division – The Auditor-Controller's Revenue Division is responsible for recording all funds received and deposited in the County Treasury. The Division balances paid checks for entities with funds on deposit in the Treasury including School Districts, Special Districts, and the County. In general, we found the procedures performed by the Revenue Division to be adequate for internal control purposes.

The Payroll Division - The Auditor-Controller's Payroll Division currently provides biweekly paychecks to approximately 4,000 County employees. Payments must be consistent with all Memorandums of Understanding (MOU) provisions, State and Federal laws and pay practices negotiated with unions representing various bargaining units. Approximately 113,000 checks/advice notices were produced in calendar year 2009. Major findings for this engagement are:

- We noted four instances out of sixty two (6.45%) where the employee picking up the department payroll was not listed on the Department Head Payroll Pickup Authorization Form. The Sheriff's Office, Community Services Agency and Alliance Worknet have one employee pickup the payroll for all three departments. For three of the four instances the Sheriff's Office used the incorrect authorization form. The form used for the Sheriff's Office payroll pickup authorization was the Check Writer/One Time Vendor Form for authorized pick up and the form was signed by a CSA Department Head Designee, not the Sheriff's Office Department Head Designee.
- During fieldwork we noted the K drive where payroll places confidential employee information was available for access by the audit staff. We also noted other Auditor-Controller staff had access to this drive. It should be noted, subsequent to fieldwork, payroll secured access to the K drive to authorized payroll staff only.

Payroll Reimbursement Compliance Audits

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. Emphasis during this engagement was placed on the changes to the revised Travel Policy approved September 2009, such as reimbursements made through the use of advances and per diem options.

The Internal Audit Division completed 2 of the 6 Payroll Reimbursement Compliance Audits for Fiscal Year 2009-2010, Community Services Agency and the Sheriff's Office. The other 4 Payroll Reimbursement Compliance Audits were performed in the prior year based on compliance with the Travel Policy in effect prior to September 2009, and were presented to the Board in March 2010.

The Community Services Agency had a total of 2,271 payroll reimbursement transactions for the audit period. Due to the number of transactions, testing was performed on a sample basis consisting of 18 (1%) mileage reimbursements, 61 (15%) per diem advances and 5 (10%) other reimbursements, i.e. parking reimbursement, bridge toll reimbursement, etc. The Department Head reimbursements totaled 37 and were reviewed 100%.

The Sheriff's Office had a total of 83 payroll reimbursement transactions for the audit period. Due to the small number of transactions 3 (10%) mileage reimbursements were tested and 59 (100%) training and other reimbursements were tested. There were no Department Head payroll reimbursements.

Transactions tested totaled \$6,530.48 in payroll reimbursements. These audits were based on compliance with the County Travel Policy in effect as of September 2009 and payroll reimbursement requirements.

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.

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

The 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 2009-2010, 28 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 33 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 ranging from 11% to 52% of the total transactions. The sample population was based upon professional judgment, including past audit results, dollar amounts and the appearance of high risk transactions, along with random selection. The total number of transactions tested and the related amounts for the 33 purchasing card audits completed for this presentation is 2,725 transactions in the amount of \$1,164,147.

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

Purchases for Fiscal Year 2009-2010 through the use of County purchasing cards declined 8% in terms of the dollar amount and declined 16% in terms of the number of transactions as compared to the previous year's transactions. Compared to three years ago, Fiscal Year 2006-2007, purchases through the use of the County purchasing cards declined 48% in terms of dollar amount and 49% in terms of number of transactions.

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 33 purchasing card audits is listed below:

FISCAL YEAR 2009-2010

- We noted two transaction totaling \$535.40 for which the credit card documentation was not on file. One transaction did not have any supporting documentation. The other was supported by an itemized receipt however the credit card statement was not retained.

- Receipts and supporting documentation for two transactions totaling \$1,676.71 were not provided for review during the testing of transactions. These transactions were noted to be expenses related to the California Witness Protection Program. In the past sensitive information was blocked out on program documentation in order for our review to occur. This option was not provided to the internal audit division during this audit cycle.
- We noted the reconciliation of 11 purchasing card statements had not been 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 15 reports which were not certified by the Department Head or not reviewed in a timely manner.
- We noted 3 travel charges (meals and/or lodging charges) before and/or after conferences or events. However, the travel expenses incurred before and/or after the events did not appear to be necessary and the reasons for the before and/or after event charges were not documented. Estimated additional expenses totaled \$262.47.
- We noted 3 meal transactions in the amount of \$75 for grocery expenditures during long term travel. Under the Travel Policy in effect at the time of the transactions, grocery expenditures are not allowable under the purchase card option for meals while traveling.
- We noted the Travel Authorization Form supporting one transaction for \$1,525.00 was approved prior to travel but subsequent to the purchase.
- We noted seven transactions totaling \$4,401.05 for which sales tax was not paid at the time of purchase or reported on a Use Tax Log and submitted to the Auditor-Controller's Office.

The major findings primarily consisted of departments lacking sufficient procedures and controls, in some cases, to monitor the appropriateness of the purchasing card transactions. Fiscal Year 2009-2010 reflects continued 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 and Travel Policies.

MOU/Timekeeping and Attendance Audit

The primary objective of this engagement is to determine whether payroll processes are in compliance with County Guidelines and the provisions outlined in the applicable MOU's.

Emphasis during this engagement was placed on hours worked compared to hours paid including any additional pay as provided by the applicable MOU's for a recently processed pay period or month. In addition an evaluation of the effectiveness of the internal controls in place was a consideration for this engagement.

The agency audited for the MOU/Timekeeping and Attendance audit was the Animal Services Agency. The audit period covered all employee time and attendance transactions during the period 11/6/2010 through 12/03/2010 (two full pay periods). Agency personnel (31) incurred a total of 761 payroll time and attendance transactions during this time period. For our engagement, we elected to test 329 transactions (approximately 43%) of the total population based upon the number and type of transactions for compliance with County Policies. Of the transactions selected, 44 time and labor transactions were for On Call Pay and Call Back Pay as provided per the MOU. These 44 transactions represent 100% of the On Call and Call Back Pay activity for the period tested. We found the department to be in compliance with County Policy and the applicable MOU's.

Transition Audit

The primary objective of this examination is to determine whether appropriate actions have been taken to accomplish the transfer of accountability and administrative functions from the preceding to the succeeding Assessor and to determine whether the Department's assets were properly accounted for and reported in the accounting records as of January 4, 2011.

The County Assessor is an elected position. The outgoing County Assessor did not seek reelection during June 2010 and his term ended January 4, 2011. California Government Code Section 24051 requires a true copy of inventory be delivered by the person who made it to his or her successor in office. California Government Code and County Code also require the preparation of specific documents related to the transition for both the incoming and outgoing officer. This engagement was conducted to ensure certain affidavits, authorizations, disclosures, and reports were properly completed and processed. Completing the required documents provides for an orderly transition of officers, and establishes proper accountability for public assets.

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

- Verified change funds were properly accounted for and balances were reasonably stated.
- Confirmed fixed assets were accounted for and recorded properly in the County financial records and transferred to the incoming Assessor.
- Verified required documents such as Form 700, Oath of Office and Signature Authorization Forms were completed.

- Determined whether the outgoing Assessor's final paycheck was accurately calculated.

We found the transition from the incoming to the outgoing County Assessor and the Department's assets were properly accounted for and recorded in the County financial records.

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. The division completed those audits that were approved for the Fiscal Year 2010-2011.

The division has begun and performed new engagements during the current fiscal year. These new engagements consist of an examination of assets on hand at the transition time of one elected official leaving office and another arriving. The three Auditor-Controller division engagements were also new to the division. We also started a series of engagements examining internal controls and processes regarding the County Attendance and Timekeeping Guidelines and Memorandums of Understanding.

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

POLICY ISSUE:

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.

STAFFING IMPACT:

Beginning in Fiscal Year 2010-2011, the Internal Audit Division consisted of four Internal Auditors with two Internal Audit positions vacant due to decreases in the department's budget. As of July 5, 2010 a new Internal Audit Manager, Natalie Elliott, was hired to manage the division. During Fiscal Year 2010-2011 one employee left county employment and another employee transferred to another Auditor-Controller division. With the projected general fund contribution decreasing further for Fiscal Year 2011-2012 it was determined the two remaining employees in the division could more effectively provide crucial services to the County in other Auditor-Controller divisions. Therefore, as of March 2011, the Internal Audit Division was disbanded.

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The Auditor-Controller's Office will continue to perform some limited engagements. These engagements consist of the state mandated quarterly review of Treasury assets, year-end review of imprest cash balances, review of the annual Property Tax Administration Fee calculations and purchasing card transactions.

CONTACT PERSONS:

Natalie Elliott, General Ledger Manager	525-6548
Lauren Klein, Auditor-Controller	525-6576

**COUNTY OF STANISLAUS
ENDOWMENT INVESTMENT FUND
COMPLIANCE AUDIT**

For the Year Ended June 30, 2010

COUNTY OF STANISLAUS
Endowment Investment Fund
For the Year Ended June 30, 2010

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AUDITOR-CONTROLLER

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Gordon B. Ford
Treasurer/Tax Collector
County of Stanislaus
Modesto, CA

We have examined the County of Stanislaus' compliance with the Investment Policy for the investment of the proceeds from the Securitization of the Tobacco Industry's Master Settlement Agreement and investment provisions contained in Section 53601 of the California Government Code for the fiscal year ended June 30, 2010. Management is responsible for the County of Stanislaus' compliance with those requirements. Our responsibility is to express an opinion on the County of Stanislaus' compliance based on our examination. We did not audit, verify or confirm the existence of the investments as this was not within the scope of this engagement and is normally included as part of the County's annual financial audit. Rather, the sole purpose of this audit was to determine compliance with the requirements specified in the Investment Policy and Government Code Sections.

Our examination was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* established by the Institute of Internal Auditors and, accordingly, included examining, on a test basis, evidence about the County of Stanislaus' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the County of Stanislaus' compliance with specified requirements.

As described in the accompanying information, the Auditor-Controller is mandated by various statutes within the California Government Code to perform certain accounting, auditing, and financial reporting functions. These activities, in themselves, necessarily impair the auditor's independence. However, we believe adequate safeguards and divisions of responsibility exist.

In our opinion, except for the effects, if any, of the impairment to auditor independence, the County of Stanislaus complied, in all material respects, with the aforementioned requirements for the fiscal year ended June 30, 2010. We have included on the following pages our discussion and observations regarding the management of the investments provided.

This report is intended solely for the information and use of the Board of Supervisors and Stanislaus County management and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Natalie Elliott". The signature is written in a cursive style with a prominent loop at the end of the last name.

Natalie Elliott
Certified Public Accountant
Internal Audit Division Manager
Auditor-Controller's Department
County of Stanislaus

November 12, 2010

COUNTY OF STANISLAUS
Endowment Investment Fund
For the Year Ended June 30, 2010

Background and General

In November 1998, the attorneys general of 46 states (including California), the District of Columbia, the Commonwealth of Puerto Rico, Guam, The United States Virgin Islands, American Samoa and the Territory of the Northern Marianas (collectively, the “Settling States”) and the four largest United States tobacco manufacturers (OPM’s) entered into a master settlement agreement in resolution of cigarette-smoking related litigation. The master settlement agreement releases the OPM’s from past, present and future smoking-related claims in exchange for, among other things, certain payments to be made to the Settling States.

On August 5, 1998 the counsel for the State of California and various cities and counties therein (“participating jurisdictions”) entered into a memorandum of understanding (MOU). Pursuant to the MOU, participating jurisdictions are entitled to receive a portion of the payments made to the State of California in accordance with the master settlement agreement. Some jurisdictions, in an effort to manage/mitigate the risks associated with the receipt of such revenues, opted to securitize this revenue stream.

Stanislaus County opted to securitize the revenue stream and sold their interest in the Tobacco Settlement revenues in March 2002 and created an endowment in order to generate additional discretionary revenue for the County. By securitizing this revenue stream, the County received over \$50 million and subsequently placed the funds in an endowment. In January 2002 the County Board of Supervisors delegated responsibility for the investment of said funds to the County Treasurer-Tax Collector in accordance with the Investment Policy for the Investment of the Proceeds from the Securitization of the Tobacco Industry’s Master Settlement Agreement.

Since the offering of the 2002 Tobacco Bonds, interest rates fell and investor demand for tobacco settlement asset-backed bonds greatly improved giving the County the opportunity to either refund or restructure the 2002 bonds or issue additional bonds. On March 29, 2006, Stanislaus County issued \$42,153,611.25 in bonds to further securitize the Tobacco Settlement Revenues. Of that amount, \$40,980,417.85 was placed in an endowment – the County of Stanislaus Tobacco Endowment Series 2006 Fund. However, while these funds are invested separately, they fall under Stanislaus County’s Investment Policy for the Investment of the Proceeds from the Securitization of the Tobacco Industry’s Master Settlement Agreement, and are invested within the parameters of that policy.

COUNTY OF STANISLAUS
Endowment Investment Fund
For the Year Ended June 30, 2010

Compliance Audit Requirement

The Investment Policy for the Investment of the Proceeds from the Securitization of the Tobacco Industry's Master Settlement Agreement requires an annual audit to ensure that investment transactions are in compliance with State Law and Policy. Per the Investment Policy, the annual audit is to be forwarded to the Board of Supervisors for review and acceptance. This engagement serves to comply with that requirement.

Investment Policy Statement

Per the Investment Policy, the Policy shall be reviewed on an annual basis. Any changes must be prepared by the Stanislaus County Treasurer-Tax Collector and then reviewed and approved by the Stanislaus County Board of Supervisors. The Investment Policy was reviewed and approved by the Stanislaus County Treasurer-Tax Collector. There were no revisions of the Investment Policy during fiscal year 2009-2010.

Investment Authority and Standards of Care

We reviewed the requirements specified under the provisions of the Investment Policy for Broker/Dealer qualifications. No exceptions were noted.

Investment Policy Review

We reviewed and compared the authorized investment requirements specified in Government Code Section 53601 with the provisions of the Investment Policy and believe the policy addressed the requirements specified. No exceptions were noted.

Compliance to Policy

We reviewed the County's authorized investments and actual practices during fiscal year 2009-2010 to determine compliance with State Law and Policy. As part of determining compliance we performed the following: compared actual investments to those authorized, determined that maximum percentages by investment type as well as maximums for single issuers and term limits were not exceeded. No exceptions were noted.

COUNTY OF STANISLAUS
Endowment Investment Fund
For the Year Ended June 30, 2010

Annual Distribution

We reviewed the county's actual practices during fiscal year 2009-2010 to determine compliance with the Investment Policy.

Result:

We found in general the net annual distribution to be in compliance with the policy, however, during the period under examination, the endowment fund incurred a \$38,326 realized loss from a municipal bond call that was not included in the annual distribution made to the County as required under the investment policy. As a result, the annual distribution to the County was overstated by \$30,661. We noted no other exceptions to the annual distribution practices during fiscal year 2009-2010. We recommend the County Treasury Division revise its procedures to ensure any realized gains or realized losses from the disposition of investments are included in the distribution calculation in accordance with the investment policy.

Reporting

We reviewed the detail listing of security transactions grouped by investment type and the summary of the total portfolio to verify they contained all information specified in Policy. The reports were in compliance with the policy requirements and the annual report was reviewed and accepted by the Board of Supervisors on August 24, 2010.

Summary

As of June 30, 2010, the Endowment Investment Fund Series 2002 and 2006, at cost, totaled \$57,468,917 and \$34,870,985 respectively, while the market value was \$57,776,650 and \$34,728,856 respectively. Fair value was 100.5% and 99.6%, respectively, of cost. Investments appeared prudent and were of the type common to investments of other counties. Safekeeping agents were used for custody of investments.

We believe Stanislaus County Treasurer-Tax Collector is materially compliant with the Investment Policy and Government Code regarding the Securitization of the Tobacco Industry's Master Settlement Agreement.

**COUNTY OF STANISLAUS
TREASURY OVERSIGHT COMMITTEE
COMPLIANCE AUDIT**

For the Year Ended June 30, 2010

**COUNTY OF STANISLAUS
Treasury Oversight Committee
For the Year Ended June 30, 2010**

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AUDITOR-CONTROLLER

Lauren Klein
Auditor-Controller

1010 10th Street, Suite 5100, Modesto, CA 95354
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Members of the Treasury Oversight Committee
County of Stanislaus
Modesto, CA

We have examined the County of Stanislaus' compliance with the Treasury Oversight Committee provisions contained in the Stanislaus County Treasury Pool Investment Policy and in Sections 27130-27137, Sections 53600-53609, Section 53635, and Sections 53645-53646 of the California Government Code for the fiscal year ending June 30, 2010. Treasury management is responsible for compliance with those requirements. Our responsibility is to express an opinion based on our examination. We did not audit, verify or confirm the existence of the investments as this was not within the scope of this engagement and is normally included as part of the County's annual financial audit. Rather, the sole purpose of this audit was to determine compliance with the requirements specified in the Government Code Sections.

Our examination was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* established by the Institute of Internal Auditors and, accordingly, included examining, on a test basis, evidence about the County of Stanislaus' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the County of Stanislaus' compliance with specified requirements.

As described in the accompanying information, the Auditor-Controller is mandated by various statutes within the California Government Code to perform certain accounting, auditing, and financial reporting functions. These activities, in themselves, necessarily impair the auditor's independence. However, we believe adequate safeguards and divisions of responsibility exist.

In our opinion, except for the effects, if any, of the impairment to auditor independence, the County of Stanislaus is in compliance, in all material respects, with the aforementioned Treasury Oversight Committee provisions for the fiscal year ending June 30, 2010. We have included on the following pages our discussion and observations regarding the oversight provided.

This report is intended solely for the information and use of the Board of Supervisors, management and the County Treasury Oversight Committee and is not intended to be and should not be used by anyone other than these specified parties.

Natalie Elliott

Natalie Elliott
Certified Public Accountant
Internal Audit Manager
Auditor-Controller's Office
County of Stanislaus

January 5, 2011

**COUNTY OF STANISLAUS
Treasury Oversight Committee
For the Year Ended June 30, 2010**

COMMITTEE MEMBERS

Member

Organization Appointed From

Larry Haugh

Stanislaus County Auditor-Controller

Don Gatti

Stanislaus County Office of Education

Terry Swehla

Public at Large

ADVISORY

Gordon Ford

Stanislaus County Treasurer-Tax Collector

COUNTY OF STANISLAUS
Treasury Oversight Committee
For the Year Ended June 30, 2010

Background and General

In 1995, the California legislature passed provisions requiring each county and city to establish an oversight committee of 3 to 11 members representing various organizations (the pool of organizations was also specified in the legislation). The purpose of this committee is to oversee the policies that guide the investment of public funds. The committee was not to impinge on the day-to-day operations of the County Treasurer, but rather to review and monitor the Treasurer's investment policy and reporting.

Compliance Audit Requirement

The oversight legislation included many specific requirements such as the required contents of the Treasurer's Investment Policy. Government Code Section 27134 requires an annual audit to determine compliance with the provisions. This audit serves to comply with that requirement.

Committee Formation and Operation

In 1996, Stanislaus County issued a Resolution, which established the Stanislaus County Treasury Oversight Committee (the "Committee"), membership, terms of members, organization, powers and duties. The first Committee meeting was held in 1996.

Government Code Sections 27131-27132 specifies the requirements and conditions placed on committee members. We reviewed the requirements and conditions placed on committee members specified under the provisions of Government Code Sections 27131-27132 and believe all committee members are in compliance with the provisions.

Investment Policy Statement

Government Code Section 53646 requires the County Treasurer to prepare annually an investment policy statement, which is then reviewed by the Oversight Committee and submitted to the Board of Supervisors for approval. The investment policy was amended and then reviewed and approved at the March 2, 2010 Board of Supervisors meeting. All amendments are compliant with Government Code.

Investment Policy Review

We examined the requirements specified in Government Code Section 27133, items a-h, under the provisions of the Investment Policy. We found the policy contained all the provisions specified in the oversight legislation. The policy is complete with a comprehensive glossary defining terms and different investments referenced in the policy.

COUNTY OF STANISLAUS
Treasury Oversight Committee
For the Year Ended June 30, 2010

Compliance to Policy

We examined the County's actual practices during fiscal year 2009-2010 to determine compliance with the investment policy. We verified that the maximum percentages by category of investment were not exceeded during the year. We also verified that maximums for single issuers and maximum term limits specified in the policy were not exceeded. No exceptions were noted when comparing practice to policy.

Reporting

We reviewed the monthly reports submitted to the Board of Supervisors and to the Committee to verify the reports contained the information specified in Government Code. They were complete with all required information including the following: cash needs disclosure, compliance to policy and source of market value information. Additional summaries and graphs, which would be informative to readers, were included.

Interest Apportionments

We examined the procedures for interest apportionment. We determined that the Treasurer's costs charged and the interest apportionment process is equitable to the individual entities and funds and was in compliance with applicable requirements.

Auditor Independence

As required by various statutes within the California Government Code, County Auditor-Controllers are mandated to perform certain accounting, auditing and financial reporting functions. These activities, in themselves, necessarily impair the auditor's independence. Specifically, "Auditors should not audit their own work or provide non audit services in situations where the amounts or services involved are significant or material to the subject matter of the audit." Although the office of the Auditor-Controller is statutorily obligated to maintain accounts of departments, districts or funds that are contained within the County Treasury, we believe that adequate safeguards and divisions of responsibility exist. Therefore, we believe that subject to this qualification and disclosure, the reader can rely on the auditor's opinion contained in this report.

Summary

As of June 30, 2010, the Pooled Treasury at cost totaled \$1,096,662,485 while the market value was approximately \$1,105,134,916. Fair value was 100.8% of cost. Investments in the portfolio were prudent and were of the type common to investment pools of other counties.

Cash flow and maturity planning were done to meet the needs of the County without having to prematurely sell investments. Safekeeping agents were used for custody of investments.

**COUNTY OF STANISLAUS
Treasury Oversight Committee
For the Year Ended June 30, 2010**

Management Comments

January 5, 2011

Members of the Treasury Oversight Committee
County of Stanislaus
Modesto, CA

In planning and performing our examination of the County of Stanislaus' compliance with the Treasury Oversight Committee provisions contained in the Stanislaus County Treasury Pool Investment Policy and in Sections 27130-27137, Sections 53600-53609, Section 53635, and Sections 53645-53646 of the California Government Code for the fiscal year ending June 30, 2010, we considered the County Treasury Division's internal control in order to determine our examination procedures for the purpose of expressing an opinion on the County of Stanislaus' compliance with the provisions contained in Stanislaus County Treasury Pool Investment Policy and provisions of the California Government Code as described above and not to provide assurance on internal control.

We did not become aware of any matters during our engagement related to strengthening internal controls and operating efficiency. We did, however, follow-up on a management comment that was reported on the prior year's engagement report. The prior year's engagement was performed by an outside auditor contracted with the County. The outside auditor prepared and reported the comment below on the prior year's engagement report. This letter does not affect our report, dated January 5, 2011, on the County of Stanislaus' compliance with the provisions contained in Stanislaus County Treasury Pool Investment Policy and provisions of the California Government Code.

Status of Prior Year Management Comment

Lack of Segregation of Duties

We found in general that the controls to be adequate but we noted a lack of segregation of duties in the process. The Chief Deputy Treasurer is currently authorizing the trade tickets which were negotiated and approved by the County Treasurer but not signed by the County Treasurer. We recommend the County Treasurer authorize all transactions by signing the trade tickets for all investments he has negotiated and purchased and that the Chief Deputy Treasurer be responsible for reconciling and recording the transactions and submitting the trade tickets to the custodian.

Status: This recommendation was implemented during the examination period. The County Treasurer is now signing the trade tickets for all investment transactions. The Chief Deputy Treasurer is reconciling and recording the investment transactions, and submitting the trade tickets to the custodian.

**COUNTY OF STANISLAUS
Treasury Oversight Committee
For the Year Ended June 30, 2010**

The comments and recommendations are intended solely for the information and use of the County Treasury Oversight Committee, County Board of Supervisors, management, and others within the Treasury Department and should not be used by anyone other than these specified parties.

Last, we would like to thank management and staff at the Treasury Department for their cooperation and assistance during the engagement.

Sincerely,



Natalie Elliott
Certified Public Accountant
Internal Audit Manager
Auditor Controller's Office
County of Stanislaus



**STANISLAUS COUNTY
EXECUTIVE SUMMARY**

TRANSIENT OCCUPANCY TAX

ENGAGEMENT PURPOSE

This report contains the results of our engagement of the administration of the Transient Occupancy Tax collected by hotels, referred to as operators, in the unincorporated areas of Stanislaus County and reported and submitted quarterly to the Stanislaus County Treasurer-Tax Collector. We performed this engagement as requested by the Auditor-Controller of Stanislaus County.

OBJECTIVE

The objective of this evaluation was to determine whether the transient occupancy tax was collected and remitted to Stanislaus County in compliance with the Hotel Tax Chapter of the Stanislaus County Code, also noting potential inefficiencies in the administration of the transient occupancy tax.

SCOPE AND METHODOLOGY

The scope of this evaluation included the Treasurer-Tax Collector's Office and nineteen (19) operators in the unincorporated area of Stanislaus County. We performed limited procedures in the Treasurer-Tax Collector's Office and we judgmentally selected five (5) operators and performed site visits. For the remaining fourteen (14) operators we performed a limited desk review. Testing of transactions included quarterly report for the period of July 1, 2009 through September 30, 2009.

The information used to perform this evaluation was obtained primarily through:

- Review of applicable county and department policies, and applicable laws and regulations (both State and County Codes)
- Discussion with Treasurer-Tax Collector personnel and management
- Review of Treasurer-Tax Collector's procedures and processes related to the administration of transient occupancy tax
- Analysis of operators' reporting and remittance of transient occupancy tax revenue
- Review of transient occupancy tax collection and remittance processes
- Testing of room revenue transactions
- Reconciling operators' room revenue against reported revenue to determine over or under payment
- Deliberations with operators, Treasurer-Tax Collector personnel, and where necessary County Counsel on audit results

**STANISLAUS COUNTY
EXECUTIVE SUMMARY**

TRANSIENT OCCUPANCY TAX

BACKGROUND

The State of California granted local governments the power to levy a tax for the privilege of occupying a room or other living space in a hotel, motel, inn, tourist home, or other lodging (such as campgrounds) for 30 days or less, pursuant to California Revenue and Taxation Code Section 7280. The tax levied by the Board of Supervisors is only applicable to operators in the unincorporated areas within the County pursuant to the Hotel Tax Chapter 4.04, Title 4 Revenue and Finance of the Stanislaus County Code. The Transient Occupancy Tax is 8% of rent charged by the operator and is collected by the operator and remitted to the County Treasurer-Tax Collector. Due to staffing constraints, the last time the transient occupancy tax was reviewed was during fiscal year 2001-2002.

STANDARDS

We conducted our engagement in accordance with the International Professional Practice Framework established by the Institute of Internal Auditors and accordingly, included examining, on a test basis, evidence supporting the transient occupancy tax and performing such other procedures as deemed necessary.

CONCLUSION

Based on the procedures performed in the Treasurer-Tax Collector's Office, we found the administration of the transient occupancy tax to be functioning as intended noting no significant weakness. Of the nineteen hotels in the unincorporated areas of Stanislaus County we noted seven hotels were in compliance with the Hotel Tax Chapter of the Stanislaus County Code.

However, the results of our engagement disclosed issues in both the Treasurer-Tax Collector's Office and the remaining hotels which should be addressed by the Treasurer-Tax Collector's Office. These issues are described in the Management Comments section within the following pages. While the findings, described in the following section may not, individually or in the aggregate, significantly impair compliance with Stanislaus County Code as it relates to the enforcement, collection or remittance of the transient occupancy tax, they do present risks that can be more effectively controlled.

We thank the Treasurer-Tax Collector's Office for their courtesy and cooperation during this engagement. Their assistance, and the assistance and cooperation of the hotel operators, contributed significantly to the successful completion of this engagement.

MANAGEMENT COMMENTS

Treasurer-Tax Collector's Office – Transient Occupancy Tax Administration Findings

TTC-MC: 1 Transfer of Ownership

Observation: Pursuant to County Code section 4.04.140, when ownership of any hotel is transferred, the Treasurer-Tax Collector shall be notified by the seller of the transfer of ownership and the Treasurer-Tax collector shall cause the books and records of the hotel to be audited within thirty days to determine the amount of Transient Occupancy Tax owed to the County as of the date of transfer of title. During the course of our engagement, we noted that the audit for the transfer of ownership was not occurring within the stated time period.

Recommendation: We recommend the Treasurer-Tax Collector's Office implement procedures to ensure timely audits of a hotel's records due to a transfer of ownership to determine transient occupancy tax owed as of the date of transfer of title.

Management Response: We have sent the letters to all the operators in the County to notify us when the Transfer of ownership occurs. When they file the transfer of ownership information, we will review the return with the information furnished to us within 30 days.

Hotel Operator Findings

OMC: 1 Record Retention and Reporting

Observation: During a site visit for one operator, we were unable to determine whether the transient occupancy tax was collected and reported correctly in accordance to County Code. The hotel had limited documentation supporting the amounts reported to the Treasurer-Tax Collector. Additionally, monthly totals and permanent resident revenue provided by the operator did not agree to the amounts reported.

Recommendation: We recommend that the Treasurer-Tax Collector contact this operator to discuss the requirements of the Hotel Tax Chapter of the Stanislaus County Code to ensure compliance with such.

Management Response: The Assistant Treasurer Tax Collector contacted this operator and explained the process. The operator was informed to file the returned and pay the taxes per Code. The operator understood the entire process and agreed to comply with the County Code.

MANAGEMENT COMMENTS - continued

OMC: 2 Reporting of Transient Occupancy Tax

Observation: We noted two operators did not calculate and report the correct amount of transient occupancy tax owed. Both operators also included in their calculation deductions considered unallowable exemptions, pursuant to County Code.

Recommendation: We recommend that the Treasurer-Tax Collector contact these operators and amend any returns, as necessary, to ensure the correct amount of transient occupancy tax is reported.

Management Response: The refund amount to Shasta Motel would be adjusted (subtracted) from the TOT to be paid for the next quarter. The operator has been informed about the procedures when they file the return.

The operator, i.e., Hampton Inn has already filed the amended returns for two quarters in February 2010. The operator knows to file correctly in future.

OMC: 3 Separation of Tax

Observation: During our engagement, we noted the most pervasive exception among ten operators was the separation of tax from the rent charged. Pursuant to County Code, the amount of tax shall be separately stated from the amount of the rent charged to each occupant.

Recommendation: We recommend that the Treasurer-Tax Collector contact these operators and enforce compliance with this code section going forward.

Management Response: The letters have been sent to all these operators about compliance with this Code and they would be monitored for compliance in future.

COUNTY OF STANISLAUS

**CITY OF CERES, PUBLIC FACILITY FEES
AGREED-UPON PROCEDURES**

June 30, 2009



AUDITOR-CONTROLLER

Lauren Klein
Auditor-Controller

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**ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

Board of Supervisors
Stanislaus County, California

We have performed the procedures enumerated below, which were agreed to by the Stanislaus County Auditor-Controller, solely to assist you with respect to the County's portion of the public facility fees by the City of Ceres for the year ended June 30, 2009. The City of Ceres' management is responsible for the public facility fees. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures are listed below and the related findings are listed in the following pages.

- Review internal controls pertaining to the numerical sequence of permit numbers applied for during fiscal year 2008-2009.
- Review internal controls over the building permit process as it relates to the public facility fees during fiscal year 2008-2009.
- Review internal controls over the cash receipts process as they pertain to the collection of public facility fees during fiscal year 2008-2009.
- Determine the appropriate public facility fees were received by the County and recorded properly in the financial records during fiscal year 2008-2009.

The Auditor-Controller is mandated by various statutes within the California Government Code to perform certain accounting, auditing, and financial reporting functions. These activities, in themselves, necessarily impair the auditor's independence. However, we believe adequate safeguards and divisions of responsibility exist.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion, on the public facility fees. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Stanislaus County and the City of Ceres and is not intended to be and should not be used by anyone other than those specified parties.

Lauren Klein

Lauren Klein
Certified Public Accountant
Chief Deputy Auditor-Controller
Auditor-Controller's Department
County of Stanislaus

January 29, 2010

COUNTY OF STANISLAUS
CITY OF CERES, PUBLIC FACILITY FEES
June 30, 2009

The following observations were noted during the agreed-upon procedures engagement of the City of Ceres' Public Facility Fees. These observations were obtained through interviews with City staff, evaluations of policies and procedures and limited testing. The period under review was July 1, 2008 through June 30, 2009.

A. Numerical Sequence of Permit Numbers

We requested a listing of the building permits applied for that pertain to County facility fees during fiscal year 2008 – 2009 to verify all sequenced permit numbers are accounted for.

Description

We were given a listing of permits applied for during the period under review. We reviewed the permit listing to verify whether the building permits were issued sequentially and that there were no gaps in the building permit numbers that were applied for.

Result

There were no missing permit numbers listed on the report, however, there were thirty-five permit numbers that were not issued sequentially. We discovered after discussion with City staff that the application dates listed on the report for those thirty-five permits were not accurate. The dates were recorded incorrectly either on the report that was provided to us or in the permit database used by the City to record building permit activity. We recommend City staff periodically; reconcile permit information in the database to the building permits to ensure accuracy. The periodic time period in which to perform this reconciliation could be on a monthly or quarterly basis. The City should consider looking into acquiring a formal building permit system that automatically assigns permit numbers and records the application dates whenever a new permit is created, allowing for budget considerations. This system would decrease the risk of human error and increase the overall efficiency of the building permit process.

B. Building Permit Process as it Relates to the County Public Facility Fees

We requested a copy of the City's policies and procedures related to the issuance of building permits and reviewed the County's procedures over the Plan Check process as it relates to City of Ceres' building permits. The County performs the Plan Check process for the City. We tested the internal controls over the building permit process by selecting three business properties and six residential properties and applied certain tests to determine if controls were in place and were adequate.

- We reviewed City's policies and procedures as they relate to the building permit process for adequacy in terms of strengthened internal controls.

COUNTY OF STANISLAUS
CITY OF CERES, PUBLIC FACILITY FEES
June 30, 2009

Result

Based upon our limited knowledge regarding planning department processes, due to our area of expertise being financial issues, the policies and procedures over the building permit process for the City appear reasonable. We noted, however, that the City has no written procedures documenting the City's building permit process. Written procedures will strengthen controls over the permit process in the event the Building Permit Technician is not available to perform his or her duties. We also noted that while the Building Permit Technician performs a final review of building permits before the permits are issued; the review is not documented with a signature or date.

- We reviewed the County's policies and procedures over the Plan Check process performed on building permits issued by the City of Ceres for adequacy in terms of strengthened internal controls.

Result

The County's policies and procedures over the plan check process performed for the City of Ceres appear reasonable. However, we did note that the County Building Permit Division is not determining whether building permits submitted for Plan Check review by the City are subject to county facility fees. Upon completion of the plan check process, the County returns the building permit documentation to the City. The City's Building Permit Technician then determines whether a building permit is subject to the County facility fees and directs the applicant to the County to pay the fees. The County's Building Permit Division should revise its procedures to include during the Plan Check process a determination whether building permits are subject to County facility fees. The County should include this determination in its correspondence to the City.

Part of our review of the building permit process includes tracking a building permit through the entire building permit process. We noted during this process that the County Building Permits Division did not retain a copy of the Plan Tag that was sent by the City. As part of its building permit procedures, the City includes a Plan Tag containing building permit information with the building permit documentation sent to the County for the Plan Check process. As part of its Plan Check function, the County Building Permits Division should retain a copy of the Plan Tag and other building permit documentation provided by the City.

- We verified the building permit issue date and the type of building permit issued, residential, commercial or industrial for accuracy.

Result

We noted no exceptions related to the permit issue date and the type of building permit issued.

COUNTY OF STANISLAUS
CITY OF CERES, PUBLIC FACILITY FEES
June 30, 2009

- The County charges a fixed impact fee for residential properties. For single family homes, the County charges a single fee. For multi-residential properties, there is a fixed fee which is charged on the number of units that exists on each property. The County facility fee agreement was established in 1993 and revised in 2003 and 2005. We attempted to verify whether the correct permit fees were charged based upon the date the subdivision maps were vested or the building permit issue date, if applicable. A subdivision map is considered vested the date the planning application is deemed complete. If the vesting rights have expired, the appropriate fee schedule is based on the building permit issuance date. The County Building Permits division calculates the public facility fees for the City of Ceres.

Result

There were a total of six residential permits selected for testing. The correct fee schedule was used on five of the six properties tested. On the remaining building permit, the County Building Permit Division used the 1993 fee schedule to determine the fees due. The vesting rights for the subdivision had expired and the 2005 fee schedule should have been used based on the building permit issuance date. As a result, the County was underpaid by \$3,108.61

- For the industrial and commercial properties tested, the County facility fee is based on the type of business property and square footage of the structure. For the properties tested, we recalculated the fees and verified that the correct permit fee was charged based upon the square footage of the property and the dates the parcel maps were vested. There were a total of three non-residential building permits applied for during the examination period. We selected all three permits for testing. One permit was located in an industrial subdivision. The other two building permits were for property additions and therefore the applicable fee schedule is based on the building permit application date.

Result

Three permits were selected for testing. The facility fee calculations for two of three permits were materially correct and the appropriate fee schedules were used. On the remaining permit, The County Building Department used the wrong fee schedule to calculate the public facility fees. The Sphere of Influence schedule was used to calculate the fees on a city issued building permit. As a result, the applicant overpaid the County by \$127.79.

We also observed during our testing of the facility fee calculations the County Building Permits Division changed the square footage amount used to calculate the County facility fees on one of the three permits selected for testing. The reason for the change was not documented.

- We scanned the entire list of permits applied for during the examination period for completeness. We listed eleven permits that could potentially be subject to County facility fees and from that list selected three permits for testing. If County facility fees were not paid on any of the permits selected for testing, we determined whether County facility fees should have been paid based on the County's Administrative Guidelines.

COUNTY OF STANISLAUS
CITY OF CERES, PUBLIC FACILITY FEES
June 30, 2009

Result

Of the three permits tested, one permit appears to have been subject to public facility fees and County facility fees were not calculated on this permit. The permit was for the partial conversion of warehouse space to office space. This conversion results in a change in use of the property to a higher use category and therefore the permit is subject to County public facility fees estimated to be \$7,796.01.

C. Cash Receipts

The County collects the public facility fees on permits issued by the City of Ceres. We used the same sampling population to determine whether controls were in place and adequate in terms of the cash receipts process. We requested a copy of the County Building Department's policies and procedures over cash receipts.

- We reviewed the cash receipts policies and procedures for adequacy in terms of strengthened internal controls.

Result

The Building Permit Division's policies and procedures over the cash receipts process appear reasonable

- We traced the paid permit fees to the customer receipt in Tidemark. We then traced the permit fee to the deposit permit used to deposit the funds into the County Treasury.

Result

All of the permit fee amounts agreed to amounts listed on the cash receipts supporting documentation.

- We reviewed the County's financial records to ascertain whether the facility fee payments tested were properly recorded on the County's financial records.

Result

All of the facility fee payments tested were properly recorded in the County's financial records.

COUNTY OF STANISLAUS
CITY OF NEWMAN, PUBLIC FACILITY FEES
AGREED-UPON PROCEDURES

June 30, 2009



AUDITOR-CONTROLLER

Lauren Klein
Auditor-Controller

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PO Box 770, Modesto, CA 95353-0770
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**ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

Board of Supervisors
Stanislaus County, California

We have performed the procedures enumerated below, which were agreed to by the Stanislaus County Auditor-Controller, solely to assist you with respect to the County's portion of the Public Facility Fees by the City of Newman for the year ended June 30, 2009. The City of Newman's management is responsible for the Public Facility Fees. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

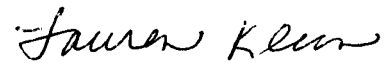
Our procedures are listed below and the related findings are listed in the following pages.

- Review internal controls pertaining to the numerical sequence of permit numbers applied for during fiscal year 2008-2009.
- Review internal controls over the building permit process as it relates to the public facility fees during fiscal year 2008-2009.
- Review internal controls over the cash receipts process as they pertain to the collection of public facility fees during fiscal year 2008-2009.
- Reviewed the internal controls over the County public facility fee liability account recorded on the City of Newman's financial statements during fiscal year 2008-2009.
- Determine the appropriate public facility fees was received by the County and recorded properly in the financial records during fiscal year 2008-2009.

The Auditor-Controller is mandated by various statutes within the California Government Code to perform certain accounting, auditing, and financial reporting functions. These activities, in themselves, necessarily impair the auditor's independence. However, we believe adequate safeguards and divisions of responsibility exist.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion, on the public facility fees. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Stanislaus County and the City of Newman and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in black ink that reads "Lauren Klein". The signature is written in a cursive, flowing style.

Lauren Klein
Certified Public Accountant
Chief Deputy Auditor-Controller
Auditor-Controller's Department
County of Stanislaus

March 5, 2010

COUNTY OF STANISLAUS
CITY OF NEWMAN, PUBLIC FACILITY FEES
June 30, 2009

The following observations were noted during the agreed-upon procedures engagement of the City of Newman's Public Facility Fees. These observations were obtained through interviews with City staff, evaluations of policies and procedures and limited testing. The period under review was July 1, 2008 through June 30, 2009.

A. Numerical Sequence of Permit Numbers

We requested a listing of the building permits applied for that pertain to County facility fees during fiscal year 2008 – 2009 to verify all sequenced permit numbers are accounted for.

Description

The City of Newman contracts with Precision Inspection to perform its building permit function. Precision Inspection was unable to provide a list of building permits applied for during the period. The building permit system used by Precision Inspection will only generate a listing of building permits issued during the period which Precision Inspection provided to us. We reviewed the list of building permits issued during the examination period in order to verify that all of the permit numbers are accounted for.

Result

Initially it was noted forty-eight permits were not listed on the report given to us. Through alternative procedures we were able to verify the permits were either voided or still pending, or were issued outside of the examination period.

B. Building Permit Process as it Relates to the County Public Facility Fees

We requested a copy of the City's policies and procedures related to the issuance of building permits. We tested the internal controls over the building permit process by selecting eight residential properties and applied certain tests to determine if controls were in place and were adequate. There were no permits issued for non-residential properties during the examination period.

- We reviewed the policies and procedures as they relate to the building permit process for adequacy in terms of strengthened internal controls.

Result

Based upon our limited knowledge regarding planning department processes, due to our area of expertise being financial issues, the policies and procedures over the building permit process appear reasonable.

- We verified the building permit issue date and the type of building permit issued, residential, commercial or industrial.

Result

We noted no exceptions related to the permit issue date and the type of building permit issued.

- The County charges a fixed impact fee for residential properties. For single family homes, the County charges a single fee. For multi-residential properties, there is a fixed fee which is charged on the number of units that exists on each property. The County Public Facility Fee agreement was established in 1993 and revised in 2003 and 2005. We attempted to verify whether the correct permit fees were charged based upon the date the subdivision maps were vested. A subdivision map is considered vested the date the planning application is deemed complete.

Result

There were eight residential permits selected for testing. One of the permits was for a multi-residential dwelling. The County facility fee for this building permit was calculated correctly and the appropriate fee schedule was used. The other seven building permits were for single family residences located in one major residential development, Sherman Ranch. The 1993 fee schedule was used to determine the County public facility fee amounts on all of the permits tested from Sherman Ranch. The use of the 1993 fee schedule was based on vesting rights that began during May of 1999 with the filing of the vested tentative map and was brought forward by two one year time extensions approved by the City. Based on information provided by the City, it appears the vesting rights expired one year prior to the filing of the second extension. The City believes the vesting rights were extended an additional twelve months up to the date of the second time extension under a provision of the California Subdivision Map Act that grants an additional twelve months if the applicant spends at least \$125,000 for offsite improvements. While documentation exists showing the construction of offsite improvements was planned, we were unable to obtain documentation supporting the cost of constructing the improvements.

We also noted the second time extension granted by the City to extend the vested tentative map date expired during July 2004. The final maps for the two Sherman Ranch subdivisions we reviewed as part of our testing were not filed until June 2005 and May 2006. City staff informed us that there were no extensions filed to extend the tentative map vesting date beyond July 2004. City Staff believes a vesting provision contained in a development agreement entered into between the developer and the City extended the vesting rights. Due to the planning and legal issues involved with the extensions and the applicability of the development agreement, we cannot confirm the accuracy of the vesting information that was used in selecting the fee schedule for the County public facility fee calculations on these permits as of the date of this engagement.

The Sherman Ranch development is not complete as of the date of this engagement and therefore County public facility fees will be collected when future development occurs. Moving forward, the County needs to inform the City as to the correct County fee amount to charge for houses in this development. The selection of the proper County Public Facility Fee schedule to use in calculating the fees for the Sherman Ranch Development involves complex planning and legal issues that are beyond our level of expertise. The County Planning Department should verify the vesting information and work with the City Planning Department so that the appropriate fee schedule is used to calculate the public facility fees on future building permits issued for homes in this development.

- We also selected two tenant improvement/addition permits for testing to determine whether County facility fees were paid on the permits. If County facility fees were not paid on the permits, we determined whether County facility fees should have been paid based on the type of improvements the County's Administrative Guidelines state are subject to the fees. We initially reviewed all of the tenant improvement/addition permits contained in the permit listing provided by the City and selected permits that appear to be subject to County Facility fees of which there were four permits.

Result

One of the two permits selected for testing is subject to County public facility fees and fees were not collected with the permit. The building permit resulted in a change in use of the property that is a higher use category on the County Public Facility Fee schedule. Estimated County Facility Fees not collected is \$745.36.

C. Cash Receipts

We used the same sampling population to determine if controls were in place and adequate in terms of the cash receipts process. We requested a copy of the City's policies and procedures for cash receipts. We obtained the cash receipts files which contain copies of sales receipts showing the amount of County facility fees received by the City for building permits issued.

- We reviewed the cash receipts policies and procedures for adequacy in terms of strengthened internal controls.

Result

We noted the City endorses checks at the time of deposit. In order to safeguard cash and cash equivalents, checks should be endorsed when received. Also, the City does not have written procedures over the cash handling process. We recommend the City develop written procedures over the cash handling process. The City's other policies and procedures over the cash receipts process appear reasonable.

- We compared the County facility fees paid as recorded on the sales receipt and as listed in the liability account due to the County to the amount listed on the building permit.

Result

All of the amounts recorded in the system we reviewed were consistent with the permit fee amounts.

D. Public Facility Fee Liability Account

The sampling population used in the above sections was used to determine if controls were in place and adequate regarding the recording of the facility fees liability to the County. We obtained copies of the General Ledger Detailed Report of the liability account recorded on the City of Newman's financial records.

- We traced the amount of the permit fee per our sampling population to the liability account recorded on the City of Newman's financial records.

Result

The County's facility impact fees in the sampling population were recorded appropriately in the liability account.

- We analyzed the liability account recorded on the City of Newman's general ledger for any unusual activity.

Result

We noted no unusual activity occurred in the account.

E. Stanislaus County Financial Records

We obtained copies of the documentation forwarded to the County from the City of Newman when the facility fees are paid to the County.

- The agreement between the City and the County requires the facility fees to be paid to the County each quarter. We reviewed the documentation sent to the County from the City to verify the timing of the receipt of the fees.

Result

The County facility fees were paid to the County on a quarterly basis as required by the agreement.

- We traced the amounts paid to the County from the City of Newman to verify the accuracy as compared to the amounts due to the County as recorded in the City of Newman's general ledger.

Result

The amounts received from the City of Newman match the amounts due to the County.

- We reviewed the County's financial records to ascertain the total amount of the facility fees received from the City of Newman was properly recorded on the County's financial records.

Result

The total amount of the facility fees received from the City of Newman during the period under review was properly recorded on the County's financial records.

COUNTY OF STANISLAUS
CITY OF OAKDALE, PUBLIC FACILITY FEES
AGREED-UPON PROCEDURES

March 31, 2010



AUDITOR-CONTROLLER

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**ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

Board of Supervisors
Stanislaus County, California

We have performed the procedures enumerated below, which were agreed to by the Stanislaus County Auditor-Controller, solely to assist you with respect to the County's portion of the Public Facility Fees by the City of Oakdale for the nine month period ended March 31, 2010. The City of Oakdale's management is responsible for the building permits issued by the City and the collection of County public facility fees associated with those permits. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures are listed below and the related findings are listed in the following pages.

- Review internal controls pertaining to the numerical sequence of permit numbers applied for during the nine month period July 1, 2009 through March 31, 2010.
- Review internal controls over the building permit process as it relates to the County public facility fees during the nine month period July 1, 2009 through March 31, 2010.
- Review internal controls over the cash receipts process as they pertain to the collection of public facility fees during the nine month period July 1, 2009 through March 31, 2010.
- Determine the appropriate public facility fees were received timely by the County during the nine month period July 1, 2009 through March 31, 2010.

This agreed-upon procedures engagement is a follow-up to our previous agreed-upon procedures engagement covering the period July 1, 2007 through December 31, 2008. Refer to our report dated July 7, 2009. Our procedures for this engagement are limited to those areas of the initial report where management comments exist. We interviewed staff and performed procedures in order to determine whether the City has addressed any of the management comments from the original report and to verify whether the conditions that led to the original management comments still exist.

The Auditor-Controller is mandated by various statutes within the California Government Code to perform certain accounting, auditing, and financial reporting functions. These activities, in themselves, necessarily impair the auditor's independence. However, we believe adequate safeguards and divisions of responsibility exist.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion, on the public facility fees. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Stanislaus County and the City of Oakdale and is not intended to be and should not be used by anyone other than those specified parties.

Lauren Klein

Lauren Klein
Certified Public Accountant
Assistant Auditor-Controller
Auditor-Controller's Department
County of Stanislaus

August 31, 2010

COUNTY OF STANISLAUS
CITY OF OAKDALE, PUBLIC FACILITY FEES
March 31, 2010

The following observations were noted during the agreed-upon procedures engagement of the City of Oakdale's Public Facility Fees. These observations were obtained through interviews with City staff, evaluations of policies and procedures and limited testing. The period under review was July 1, 2009 through March 31, 2010.

A. Numerical Sequence of Permit Numbers

We requested a listing of the building permits applied for that pertain to County facility fees during the period July 1, 2009 through March 31, 2010 to verify all sequenced permit numbers are accounted for. The City was unable to provide us with a listing of the building permits applied for. The City's permit system can only generate a report of permits issued during the period.

Description

We were given a listing of permits issued during the period under review. We reviewed the permit listing to verify whether the building permits were issued sequentially and that there are no gaps in the building permit numbers that were issued.

Result

Seven permits were not listed on the report given to us and are no longer listed in the building permit system. The City has developed a system to track voided and withdrawn permits and we were able to confirm four of the seven permits were voided or withdrawn. The Building Permit Technician was unable to obtain information on the three remaining permits as of the date of this report.

B. Building Permit Process as it Relates to the County Public Facility Fees

We requested a copy of the City's policies and procedures related to the issuance of building permits. We tested the internal controls over the building permit process by selecting four business properties and three residential properties and applied certain tests to determine if controls were in place and were adequate.

- We reviewed the policies and procedures as they relate to the building permit process for adequacy in terms of strengthened internal controls.

Result

The City does not have written procedures over the building permit process so we obtained an understanding of the building permit process by interviewing the acting Chief Building Official and Building Permit Technician. The absence of written procedures constitutes an internal control weakness. We noted no other internal control weaknesses over the building permit process.

- We verified the building permit issue date and the type of building permit issued, residential, commercial or industrial.

Result

We noted no exceptions related to the permit issue date and the type of building permit issued. However we were unable to obtain information for one permit. The permit was for the construction of a new retail facility that replaced an existing retail facility that was demolished. The square footage of the demolished building was not documented in the building permit file. City staff was only able to provide verification of the square footage to us via email.

COUNTY OF STANISLAUS
CITY OF OAKDALE, PUBLIC FACILITY FEES
March 31, 2010

- The County charges a fixed impact fee for residential properties. For single family homes, the County charges a single fee. For multi-residential properties, there is a fixed fee which is charged on the number of units that exists on each property. The County facility fee agreement was established in 1993 and revised in 2003 and 2005. We attempted to verify whether the correct permit fees were charged based upon the date the subdivision maps were vested. A subdivision map is considered vested the date the planning application is deemed complete.

Result

The three residential properties selected for testing are located in the Bridle Ridge Specific Plan. Subdivision map vesting for part of Bridle Ridge is covered under a development agreement between the City and the project's applicants which covers a total of 282 acres. Under the development agreement, the vesting rights do not expire until the year 2017. However, according to the City's website, the Bridle Ridge Specific Plan covers approximately 530 acres. We could not determine from the project documentation whether the properties tested are located within the 282 acres covered by the development agreement.

City staff subsequently provided us with a hand drawn map of the area covered by the development agreement. There was no other collaborating documentation provided. According to the map, the three properties tested are located outside of the 282 acres covered under the agreement. Staff further stated the area totaling 245 acres is not covered by another development agreement and vesting for this area is based on the subdivision maps. Based on the date the final map was recorded, it appears the vesting rights for the three building permits expired prior to the building permit application date. We followed up with the City to obtain documentation to support this information but never received a response. The 2005 fee schedule was used to determine the County facility fees due with the three permits.

- For the industrial and commercial properties tested, the County facility fee is based on the type of business property and square footage of the structure. The City revised its policies regarding the calculation of the County facility fees. The City now forwards the building permit information to the County Building Permit Division for the facility fee calculation. There were no County facility fees calculated for non-residential permits issued during the engagement period.

Result

We selected four non-residential building permits for testing. One permit was for the construction of a new industrial building. The City did not submit the permit to the County to have the County facility fee calculated and the fee was not collected on the permit. Subsequent to our fieldwork, the County Building Permit division calculated the County facility fee due on this permit totaling \$16,335. The City put a hold on the permit and billed the applicant for the fee due.

Another permit was for the conversion of 508 square feet of manufacturing space to general office use. This conversion results in a change in use to a higher use category based on the County facility fee schedule. The City never forwarded the permit to the County to have the fee calculated and the fee was not collected. The estimated County facility fee due with this permit is \$3,237. The remaining two permits were not subject to County facility fees.

COUNTY OF STANISLAUS
CITY OF OAKDALE, PUBLIC FACILITY FEES
March 31, 2010

C. Cash Receipts

We used the same sampling population to determine if controls were in place and adequate in terms of the cash receipts process. We requested a copy of the City's policies and procedures for cash receipts.

- We reviewed the cash receipts policies and procedures for adequacy in terms of strengthened internal controls.

Result

We noted the following internal control weaknesses over the cash handling process:

- There are no written procedures over the cash handling process.
- The City uses two different software programs to process permit fees. The Building Department uses one application and the Finance department uses another application. A reconciliation of permit fees between the two applications is not performed by the City.
- We traced the paid permit fees to the supporting cash receipts documents which included the financial transaction reports and deposit copies.

Result

We noted no exceptions with the cash receipts.

D. Stanislaus County Financial Records

We obtained copies of the documentation forwarded to the County from the City of Oakdale when the facility fees are paid to the County. We also reviewed the payment documentation prepared by the City Finance Department.

- The agreement between the City and the County requires the facility fees be paid to the County each quarter. We reviewed the documentation sent to the County from the City to verify the timing of the receipt of the fees.

Result

We reviewed the first two quarters of FY 09-10. The City combined the two quarters into one payment and the payment was made during February 2010. The second quarter was paid on time; however, the first quarter payment was not timely as required by the agreement. We noted that the first quarter payment only consisted of two residential permits with County facility fees totaling \$15,832.07. It appears the City combined the payments due to the small number and dollar value of the first quarter payment. We noted no exceptions with the Check Register Form attached to the quarterly payment or any of the other documents related to the quarterly payment.

COUNTY OF STANISLAUS
CITY OF OAKDALE, PUBLIC FACILITY FEES
March 31, 2010

As of the date of this report, the City is still making changes to its Building Department processes as they relate to our management comments. The City has experienced budget shortfalls in recent years due to the economic downturn and as a result has not permanently filled the Chief Building Official position that was left vacant by the former Chief Building Official who retired at the start of our initial engagement. The City has also reduced staffing in the Building Department. As a result, Building Department Staff have experienced an increased workload and have not been able to address our management comments in a timely fashion. The City has contracted with the County effective July 1, 2010 for Plan Check and Building Permit Services. Under the terms of the agreement, the County would provide all building inspections services and building plan check services for the City. The County Chief Building Official will serve as the Building Official for the City of Oakdale. With the execution of the agreement, the building permit and plan check processes and procedures will now be a part of the County Building Department policies and procedures.



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STANISLAUS COUNTY INTERNAL AUDIT REPORT

**EXAMINATION OF NORTH MCHENRY REVENUE SHARING AGREEMENT BETWEEN
STANISLAUS COUNTY AND THE CITY OF MODESTO**

ENGAGEMENT PURPOSE

We were requested by the Auditor-Controller of Stanislaus County to perform an examination of the procedures, processes, and calculations performed by both Stanislaus County and the City of Modesto in connection with the North McHenry Revenue Sharing Agreement. This report contains the results of this examination.

OBJECTIVES

The primary objective of this examination is to determine whether the revenue and allocation calculations comply with the provisions of the revenue sharing agreement and whether the agreement's administrative guidelines were followed when determining the calculations. Another objective of this engagement is to assess the procedures utilized by Stanislaus County General Ledger and Property Tax divisions of the Auditor-Controller's office in calculating associated revenue amounts for weaknesses in internal controls including significant weaknesses.

SCOPE AND METHODOLOGY

The scope of this evaluation consists of the fiscal year 2008/2009 revenue calculations and procedures that were in place at the time the calculations were performed.

In order to achieve our audit objectives, we performed the following:

- Obtained a copy of and reviewed the North McHenry Revenue Sharing Agreement and Administrative Guidelines.
- Discussed the North McHenry Revenue Sharing Agreement and related procedures with staff from Stanislaus County Auditor-Controller's office, General Ledger and Property Tax Divisions.
- Discussed the North McHenry Revenue Sharing Agreement with staff from the City of Modesto Finance Department and Business License Division.

- Reviewed and recalculated the revenue allocation worksheet and related documentation to verify whether revenue allocation between Stanislaus County and City of Modesto was made correctly.
- Tested a sample of the properties located in the North McHenry Revenue Sharing Agreement area to verify whether tax revenue from the businesses are being included in the revenue calculation and to ensure the businesses are being listed on the correct worksheets.

BACKGROUND

The North McHenry Revenue Sharing Agreement is a revenue sharing agreement entered into between Stanislaus County and the City of Modesto for the various taxes earned on commercial and residential properties located in the McHenry Avenue corridor. This corridor is located on both sides of McHenry Avenue between Standiford Road on the south and Kiernan Road to the north. At the time the agreement was entered into, the designated area consisted of a total of 271 acres. Sixty acres were located within Modesto city limits and the remaining 211 acres were located in the unincorporated area of Stanislaus County but within the City of Modesto's sphere of influence. Under this agreement, Stanislaus County and the City of Modesto would share local taxes generated by these businesses and the City of Modesto would in return provide services (Sewer and Water) to businesses located outside of the city limits after the businesses enter into an outside service agreement with the City of Modesto.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

CONCLUSION

Based on the procedures performed, we found overall both Stanislaus County and the City of Modesto have adequate policies and procedures over obtaining and summarizing revenue amounts and calculating the revenue to be allocated between Stanislaus County and the City of Modesto. We did, however, note three significant deficiencies in the procedures and administration of the agreement:

Verification of Fixed Allocation Percentages

The revenue generated under the agreement is split between Stanislaus County and the City of Modesto based on allocation percentages determined jointly by the county and the city. The allocation percentages are based on estimated county and city tax revenues. The allocation percentages for the first year of the agreement (FY98/99) were stated in the agreement. According to the agreement, the percentages for subsequent years can change due to annexations of lands by the City of Modesto covered under the agreement and

changes to estimated revenues. Under the agreement and its administrative guidelines, each year, prior to September 1, the Stanislaus County Auditor-Controller and City of Modesto Finance Director are to review and approve in writing the allocation percentages for the year. The percentages used to calculate the revenue allocation have changed after the initial fiscal year. Stanislaus County Auditor-Controller's office was unable to provide written documentation supporting changes made to the allocation percentages nor was there any written documentation supporting the approval of the annual percentages by the Stanislaus County Auditor-Controller or City of Modesto Finance Director for the current or prior periods.

We recommend written approval of the allocation percentage amounts including documentation supporting any change to the allocation be obtained from Stanislaus County Auditor-Controller and City of Modesto Finance Director annually by September 1st in compliance with the Revenue Sharing Agreement. The written approvals and supporting documentation should be kept with any other documentation related to the agreement for future reference.

Stanislaus County Auditor-Controller Department Response:

We concur with this recommendation. While the allocation percentages and the detail property tax information are shared with the City of Modesto Finance staff, there is currently no formal notification provided to the City of Modesto Finance Director. This step has been added to the filing requirements to be performed on an annual basis.

City of Modesto Finance Director Response:

The city will include as part of its yearly procedures obtaining written approval of the allocation percentage amounts from the City's Director of Finance.

City of Modesto - Mill Tax Revenue, Unincorporated Area

We noted four businesses located in the North McHenry Revenue Service Area outside of city limits (Sub Area 2) were paying mill tax to the City of Modesto. According to the terms of the North McHenry Revenue Sharing Agreement, the City is to enter into outside service agreements with businesses located in Sub Area 2. There were approximately sixty businesses located in that area at the time of this engagement. Some businesses are exempt from mill tax due to their tax-exempt status and several are exempt due to a pre-existing agreement between the City and the Berberian family. We were unable to obtain a copy of this agreement during our engagement and therefore could not determine which businesses are exempt from the tax nor could we determine which businesses are required to pay the tax.

The City should review and revise its procedures to include a review of the businesses located in Sub-area 2 in order to determine which businesses are subject to the mill tax.

City of Modesto Finance Director Response:

City staff will perform a review of the businesses that are paying mill tax to the City but are located outside of the city limits to determine which of these businesses should or should not be paying mill tax to the City. Procedures will be put into place to keep the status of these businesses current.

City of Modesto - Outside Service Agreements

During our engagement, we obtained an October 2007 City of Modesto Council report which states the City was in the process of obtaining outside service agreements with twelve businesses located in the unincorporated area. We were unable to determine whether the City was able to complete outside service agreements with those twelve businesses or whether the City pursued outside service agreements with any of the new businesses that were not paying mill tax but may have been required to do so during the engagement period. We followed up with staff from the City of Modesto Finance Department, however, due to their heavy workload they were unable to assist us in obtaining documentation necessary to determine which businesses are subject to the mill tax.

We recommend the City of Modesto Finance Department staff review their policy and procedures to ensure the city has obtained outside service agreements where applicable with businesses located in the unincorporated area of the North McHenry Revenue Sharing Agreement.

City of Modesto Finance Director Response:

City staff will perform a review of the status of the twelve businesses referred to above and determine which, if any, new businesses that are located in Sub Area 2 should have entered into outside service agreements with the City.

As a result of our testing, we also disclosed several issues which are described in the Management Comments section within the following pages.

This communication is intended solely for the information and use of County and City of Modesto management, the Board of Supervisors, Modesto City Council, and others within either organization, and is not intended to be and should not be used by anyone other than these specified parties.

The various County and City departments that assisted us with this engagement were cooperative and receptive during our engagement. We sincerely appreciate the courtesy and cooperation extended to us during our engagement.

MANAGEMENT COMMENTS

Auditor-Controller's Office - Property Tax Revenue Worksheets

Observation: During our observation of the procedures performed by the Property Tax Division of Stanislaus County Auditor-Controller's office, an error was discovered in a spreadsheet formula used to calculate property tax revenue amounts. As a result, the property tax revenue amounts in the revenue allocation worksheet were not accurate and had to be revised. We noted the Property Tax and General Ledger divisions rely extensively on spreadsheet programs to calculate and summarize amounts used in the revenue calculation. Human error in complex spreadsheets are common due to the amount of manual work needed to generate the information required to complete the calculation.

Recommendation: We recommend this procedure be revised to ensure worksheets used for the revenue calculations are reviewed for accuracy. The divisions should explore using other programs that could possibly generate the information needed requiring less manual calculations reducing the potential for errors occurring.

Stanislaus County Auditor-Controller Response:

The allocation of property taxes is done by tax rate area which is governed by State Code. Tax rate areas are established and modified by the Board of Equalization. However, the Revenue Sharing Agreement identifies boundaries that are not consistent with a specific tax rate area and thus require a manual allocation of property taxes outside of the existing property tax system. This manual process includes a query to extract the data and a manual allocation of taxes is performed in an Excel spreadsheet. While we acknowledge and recognize the risk, we are not currently aware of an alternative that would allow for a calculation independent of the current data existing in the property tax system. We will continue to look for alternatives to address this issue.

Management Comments – Continued

Auditor-Controller's Office - Property Tax Revenue Worksheets

Observation: The Stanislaus County Property Tax Division, through its property tax software, creates a spreadsheet showing property tax revenue generated from each area which is forwarded to the General Ledger Division for the revenue allocation calculation. We noted during our inquiry and observation of Stanislaus County General Ledger Division's procedures properties were not being placed on the correct area worksheets by the Property Tax division and the accountant in the General Ledger Division responsible for preparing the allocation worksheet is manually making the needed corrections. This increases the risk of error and leads to inefficiencies in the process as another manual step is added to the process.

Recommendation: Stanislaus County Property Tax Division should determine and query the necessary data in the property tax system to ensure the system generates accurate and complete reports. The division should also periodically review the lists for accuracy and completeness as annexations of land to the City will result in changes to the lists.

Stanislaus County Auditor-Controller Response:

We agree with the recommendation. General Ledger staff will work with Property Tax staff to modify the query so that additional adjustments will not be required. General Ledger staff will continue to review the list of properties for accuracy and completeness and coordinate adjustments for annexations of land as needed.

Management Comments – Continued

City of Modesto - Quarterly Mill Tax Payment Missing From Worksheet

Observation: We noted one delinquent quarterly mill tax payment made after year-end in the amount of \$953.78 was not included on the mill tax worksheet provided by the City thereby understating revenue used for the allocation computation.

Recommendation: We recommend the City review its procedures on a periodic basis and include a review of the revenue allocation worksheet for accuracy and to ensure completeness.

City of Modesto Finance Director Response:

City staff will establish procedures to ensure that the Financial Analyst who works on the North McHenry Tax Share Agreement is notified of any delinquent quarterly mill tax payments received after year end. This will ensure that all revenue is being captured.



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STANISLAUS COUNTY INTERNAL AUDIT REPORT

INTERNAL CONTROL EVALUATION OF DIVISION PROCEDURES ACCOUNTS PAYABLE DIVISION OF AUDITOR-CONTROLLER'S OFFICE

ENGAGEMENT PURPOSE

We were requested by the Assistant Auditor-Controller of Stanislaus County to perform an internal control evaluation of the procedures and processes of the Accounts Payable Division of the Auditor-Controller's Office. This report contains the results of our evaluation.

OBJECTIVES

The objective of this evaluation is to identify the procedures utilized by the Accounts Payable (AP) Division to perform their assigned functions and responsibilities and provide management with an assessment of such procedures for any significant weaknesses regarding internal controls, while also noting any potential inefficiency related to operational aspects.

SCOPE AND METHODOLOGY

The scope of this evaluation was the existing procedures in place in the Auditor-Controller AP Division at the time fieldwork was performed. We conducted our engagement for operations of May 2010.

In order to achieve our audit objectives, we performed the following:

- Obtained an understanding of AP Division's policies and procedures
- Reviewed applicable county and department policies and procedures, and any applicable law, regulations, and ordinances
- Discussion with AP Division Personnel
- Observation of AP Division current operations
- Walk-through of current practices
- Examined and tested transactions for propriety and conformity with established policies and procedures

BACKGROUND

The Auditor-Controller's AP Division is responsible for paying approximately 82,000 invoices annually, totaling about \$430 million, on behalf of the County. The Division makes all check and electronic disbursements to County vendors and disbursements from trusts held for the benefit of third parties. They also review payments for proper departmental authorization, sales tax payments, vendor discounts, 1099 (Federal and State Tax) reporting and disbursement dates for maximizing cash earnings. The AP Division also administers the County's Purchasing Card Program.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

CONCLUSION

Our analysis was not designed to express an opinion on the procedures and controls related to the Auditor-Controller's AP Division as a whole, and we do not express such an opinion. In addition, because of inherent limitations of any internal control, errors or fraud may occur and not be prevented or detected by internal controls. Also, projections of any evaluation of the accounting system and controls to future periods are subject to the risk that procedures may become inadequate because of changed conditions.

Our consideration of internal control was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Auditor-Controller's AP Division's internal control to be significant deficiencies:

Accounts Payable Module

We noted two individual fund balances in the AP Module did not agree to the respective fund balances in the General Ledger (GL) Module. In addition, we noted the sum of all funds in the Account Payable Module did not agree to that of the GL Module and the variance was different than the expected variance related to the two individual fund balances identified.

These variances appear to be a result of a system conversion issue that was first identified four years ago. Timely reconciliation and correction of any differences, whether they be systemic or due to human error, are key components of internal controls to ensure the integrity of the data.

We recommend the Auditor-Controller's Office (AO) correct any outstanding fund balance variances in the AP Module and reconcile the AP fund balances to their respective funds in the GL Module. We further recommend AP reconcile the AP fund balances to the GL prior to the close of the module each period to ensure the accuracy and integrity of the financial data. It should be noted, subsequent to the engagement the AO contacted technical support staff and are working collaboratively to resolve the issue.

Auditor-Controller's Department Response

The process control report continues to show variances since Fiscal Year 2006-2007. The general ledger expense and accounts payable balance is correct. The process control report is incorrect. Due to the migration to an updated version in Oracle, the application used for the recording of financial transactions and reporting purposes, further research has been halted. The process control report is a customized report. The AP Trial Balance is a standard report and the balances agree with the general ledger. In addition, the process control report has been revised to accurately record the various line items that are a component of the sum total.

In addition, we noted other issues that should be addressed by management and are described in the Management Comments section within the following pages.

This communication is intended solely for the information and use of management, the Board of Supervisors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We thank the AP Division of the AO for their cooperation. Their assistance contributed significantly to the successful completion of the engagement.

MANAGEMENT COMMENTS

Signature Authorization Forms

Observation: We noted the binder containing the Signature Authorization Forms included forms dating back to 1999 that have not been updated. The forms contain names of employees who have left county service or have transferred out of the respective department. These individuals are authorized to sign for documents such as vouchers, including those over \$75,000, posing a risk for potential fraud or theft. While there is a standardized form to document authorized signers, we also noted a variation of forms other than the standard form approving temporary, replacement or deputized signers, some without a given time frame of authorization.

Recommendation: We recommend the Department implement procedures to update the Signature Authorization Forms on file and review these forms on an annual basis to ensure current, authorized employees are approving appropriate transactions. We also recommend the division consider standardizing a method to authorize temporary, replacement, or deputized signers including an appropriate time frame when applicable to promote consistency throughout the County Departments.

Department Response: A focus group is in the process of revising the entire signature authority process. We hope to have the solution in place by the end of July 2011. As part of the solution, the authority given by each department will be reassessed annually to ensure the proper staff members have signing authority.

Payment of Original Invoice

Observation: We noted two instances where an invoice was paid from a copy, not the original, and an authorized departmental signature was not obtained as required by Department Policy.

Recommendation: We recommend the AP Division issue payments from original invoices in accordance with Department Policy to avoid possible duplication of payment. If original invoices are not available, a signed copy of the invoice noting 'authorized to pay off of copy' is required from the department by an authorized signer.

Department Response: All attempts are made to pay from the original invoices. Oracle prohibits the duplicate entry of invoice numbers. Authorization to pay off of an invoice copy is identified by "ok to pay from copy" notation and signed by a designated person in the department. The AP clerks have been made aware of the finding

Vendor Setup

Observation: The AP Division does not have a documented process for setting up new vendors into Oracle and obtaining all necessary information for 1099 reporting causing delays in issuing payments.

We also noted two other County departments enter vendor information directly into Oracle. This poses a risk for duplicate or erroneous vendor information in Oracle and additional work during the end of year 1099 reporting process.

Additionally, one of the two departments entering vendor information into Oracle also enters this information into the respective departments' accounts payable program. Subsequently, the 1099 vendor payment information is uploaded electronically to the County's technical support staff for data transfer to the Auditor Controller AP Division. This process promotes data entry of the vendor information twice creating inefficiencies when the vendor information can be uploaded electronically with the payment information.

Recommendation: We recommend AO document the vendor setup process and implement procedures to include timely receipt of vendor information, including the W-9 form, in order to avoid delays in issuing payments. We also recommend limiting access to vendor set up in Oracle and implementing any necessary processes in order to minimize duplication of information and work. This could include exploring the possibility of uploading all vendor information in the electronic data file.

Department Response: Each clerk has documentation (user guide) for setting up new vendors. The vendor entry is not limited to our office. Purchasing and CSA enter their own vendors and a copy of the W-9 is submitted to AP Division in the AO. The AP Division compares the W-9 to the vendor information in Oracle. In the event of duplication, the vendor information is merged into a single vendor. All W-9's are centrally filed in the AO.

Alliance WorkNet Vouchers

Observation: Alliance WorkNet utilizes expenditure vouchers for invoices that should be processed through the accounts payable claims process. Utilizing the established process promotes uniformity in executing and recording transactions and serves to strengthen internal controls.

Recommendation: We recommend the Department implement procedures to ensure accounts payable documents from Alliance WorkNet are processed utilizing the established accounts payable claims process to promote uniformity in executing and recording transactions and serve to strengthen internal controls. If the process is not utilized the reasoning should be adequately supported with written documentation for a clear audit trail.

Department Response: A meeting with the staff from the Alliance WorkNet staff has resolved the issues. Currently, they are submitting invoices where possible. Program expenses without invoices are submitted through expenditure vouchers. For confidential documents, a stamp is used to convey to the Auditors who perform the annual financial statement audit that the originals will be kept on file at the department level.

Written Procedures

Observation: Although the AP Division has written procedures, we found them to be limited, outdated and inconsistently performed noting the following issues related to such:

- Documented procedures were last updated in 2002 and 2006
- Not all procedures were documented, i.e. Vendorlink & E-payable processing, etc
- Staff was performing the same duties differently from each other
- Duplication of forms, i.e. variation of assigned duties list, poses potential risk of duplicating work performed

Written procedures document business processes, personnel responsibilities, and departmental operations. They also promote uniformity in executing and recording transactions and serve to strengthen internal controls. In addition, written procedures provide continuity with processes when assigned employees are not available or leave employment.

Recommendation: We recommend the AP Division document all significant business practices, processes, and policies to strengthen internal controls in executing and recording transactions. Once documented, the Division should perform an annual review of such to ensure they are current, clear, and available to staff at all times.

Department Response: The practices with incomplete documentation will be noted as a long-term goal. Due to limited staffing and the current workload, our goal to complete the documentation related to Vendorlink is June 30, 2011. The E-Payables documentation will be complete by June 30, 2012.

Electronic Payment Options

Observation: The division has two electronic payment options, Vendorlink and E-Payables. Through inquiry and discussion we noted implementation of electronic payment methods have decreased the number of checks issued, thus reducing cost. However, we noted there is no current process in place to identify vendors for participation in Vendorlink. Developing procedures to actively pursue vendors for participation would benefit the County in a cost savings in issuing a manual check.

Recommendation: We recommend management implement procedures to identify potential vendors for electronic payment, specifically Vendorlink, in order to continue reducing the operational cost in issuing a manual check.

Department Response: Manual checks have been reduced considerably since we implemented the electronic payment methods. We have captured most of the vendors with recurring invoices on electronic pay. Periodically, letters soliciting our electronic payment options are sent out to vendors with their checks, while new vendors receive a letter with their first payment. For onetime payment vendors, it is not efficient to solicit, register and set them up as an electronic vendor.

Record Management and Retention

Observation: We noted potential inefficiencies related to the paper usage and retention involved in the manual processing of accounts payable, including but not limited to storage issues, delays in processing due to the exchange of multiple hard copies, and duplicate printing.

Recommendation: We recommend management evaluate the manual accounts payable process to potentially reduce the usage of hard copies and consider the benefit and efficiencies that could be gained by electronically processing accounts payable.

Department Response: Our office had piloted the program with scanned invoices instead of hard copies. There is the issue of how to distinguish between the original versus the duplicate of a scanned invoice. Code section requires original invoices only.



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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
INTERNAL CONTROL EVALUATION OF DIVISION PROCEDURES
REVENUE DIVISION OF AUDITOR-CONTROLLER'S OFFICE**

ENGAGEMENT PURPOSE

We were requested by the Assistant Auditor-Controller of Stanislaus County to perform an internal control evaluation of the procedures and processes of the Revenue Division of the Auditor-Controller's Office. This report contains the results of our evaluation.

OBJECTIVES

The objective of this evaluation is to identify the procedures utilized by the Revenue Division to perform their assigned functions and responsibilities and provide management with an assessment of such procedures for any significant weaknesses regarding internal controls, while also noting any potential inefficiency related to operational aspects and the adherence to the established policies and procedures.

SCOPE AND METHODOLOGY

The scope of this evaluation was the existing procedures in place in the Auditor-Controller Revenue Division at the time fieldwork was performed. We conducted our engagement for operations of March 2010 thru April 2010.

In order to achieve our audit objectives, we performed the following:

- Obtained an understanding of Division's policies and procedures
- Reviewed applicable county and department policies and procedures, and any applicable law, regulations, and ordinances
- Held discussions with Revenue Division Personnel
- Observed the Revenue Division's current operations
- Performed walk-through of current practices
- Examined and tested transactions for propriety and conformity with established policies and procedures

BACKGROUND

The Revenue Division is responsible for recording all funds received and deposited in the County Treasury. The Division also balances paid checks for entities with funds on deposit in the Treasury. This includes School Districts, Special Districts and the County. The Revenue Division's duties also include preparation of invoices for County rendered services and other responsibilities as assigned by the Auditor-Controller.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

CONCLUSION

In general, we found the procedures utilized by the Revenue Division to perform their assigned functions and responsibilities to be adequate for internal control purposes. While we did not find any significant weaknesses, our results disclosed issues that should be addressed by management and are described in the Management Comments section within the following pages.

We thank the Revenue Division of the Auditor-Controller's Office for their cooperation. Their assistance contributed significantly to the successful completion of the engagement.

MANAGEMENT COMMENTS

MC-1: Accounts Receivable

Observation: During our review of Accounts Receivables for March 2010, we noted the accounts receivable balance was \$4,504,335 for which \$1,012,487 (22%) was over 180 days old. Although the division does not have formal written procedures for the handling of accounts receivable, receivables over 180 days old are written off.

This issue also relates to the year end recording process in that the departments are instructed to record only receivables expected to be received within 180 days. However, all receivables are recorded at year end, whether they are to be received within or after 180 days.

Recommendation: We recommend management implement best practices over the accounts receivable process and document such to consistently handle accounts receivables, including but not limited to year end instructions, to help minimize the risk of overstating the accounts receivable balance.

Department Response: In accordance with GASB No. 34, receivables not received within 180 days should be written off. The Auditor-Controller's Office is in the process of updating all Accounts Receivable policies which will include the GASB No. 34 guidelines. This policy will be implemented by June 2011. Currently, County department's request prior year receivables (PR) during the year-end close to record revenue earned but not received. The accounts receivable staff monitors the PR's on a monthly basis by sending statements to the departments. When the 180 day threshold is past, the accounts receivable staff again sends out a statement notifying the department that their PR's are over 180 days. County departments are notified outstanding balances will be written off unless the department can provide documentation to show that the balances are collectable before the end of the fiscal year.

MC-2: Credit Memorandums

Observation: There are no established written procedures or a standard form for processing credit memorandums to document receivable adjustments. Although credit memorandums are processed with the approval of the billing agency or department, the process is initiated through various forms, email, copies of an invoice with written approval attached, or occasionally by telephone communication initiated by the Revenue Division.

At the time of our initial observations, an account clerk initiated the invoicing process and the Supervisor processed the credit memorandums. Subsequent to the initial audit fieldwork, the division underwent reorganization and the supervisor now initiates the invoicing and processes the credit memorandums.

Recommendation: In accordance with best practice, management should consider establishing written procedures and implementing a standard for the processing of credit memorandums to provide a clear audit trail of the receivable adjustment process. We also recommend management review the invoicing and credit process to ensure that no one individual performs the process from beginning to end.

Department Response: The Auditor-Controller's Office is in the process of writing a new credit memo policy to ensure uniformity as well as proper checks and balances. This process has been changed to include the requirement of a formal request sent on a credit memo request form.

MC-3: Written Procedures

Observation: While the division has written procedures, they are limited and outdated with the last revision written in 2002. Written procedures document business processes, personnel responsibilities, and departmental operations. They also promote uniformity in executing and recording transactions and serve to strengthen internal controls. In addition, written procedures provide continuity with processes when assigned employees are not available or leave employment.

Recommendation: We recommend the Revenue Division document or update all significant business practices, processes, and policies to ensure they are current and available to staff at all times.

Department Response: The Auditor-Controller's Office is in the process of updating and implementing new policies and procedures. As of October 2010, all but one of the existing policies has been updated.

MC-4: Schools' Desk

Observation: During our observations of the duties and responsibilities of the schools' desk we noted:

- Cross training of the responsibilities related to the schools' desk is limited
- Per discussion with staff, an increasing volume of wire transfers is creating additional workload
- The vast majority of journal vouchers, averaging about 80 a day, routed through this desk from schools are of a minimal amount, as little as \$0.01, for which processing time is not charged.

Cross training staff is an effective way to reduce the risk of dependency on a single individual to ensure key functions are not disturbed in the event of unexpected absence. Also, a lack of understanding the expectations and key functions related to workload can lead to inefficiencies in productivity.

Recommendation: We recommend management implement procedures to cross train staff on the schools' desk functions and responsibilities to provide adequate coverage in the event of an unexpected absence to ensure key functions are performed timely. We also suggest management evaluate the schools' desk responsibilities and assess the workload and expectations related to such in order to streamline duties and improve efficiency.

Department Response: The Auditor-Controller's Office is working with Stanislaus County Office of Education (SCOE) to minimize the Auditor –Controller's Office workload by having electronic copies of journal vouchers sent to us to upload rather than manual keying. The accounts receivable division supervisor has been trained on the schools desk and a desk manual is available to ensure duties of the schools desk will be maintained in the absence of the employee assigned to these duties.

MC-5: Monthly Reconciliation Process

Observation: We noted potential inefficiencies related to the monthly reconciliation processes due to the use of:

- Extensive use of handwritten data onto printed spreadsheets
- Receipt of spreadsheets via hard copy
- Multiple Oracle reports and spreadsheets.

Recommendation: We recommend management review and revise the monthly reconciliation process in order to increase efficiencies by streamlining duties, providing software training to staff, and considering the benefit of dual monitors for this process.

NOTE: Subsequent to initial fieldwork, the division underwent reorganization on 10/15/10 resulting in the loss of staff for the reconciliation desk. Although the division is short-staffed, the duties of the reconciliation desk must be completed and have been split between the remaining staff, including the supervisor.

Department Response: Since reorganization of division duties the reconciliation process has been streamlined, and the handwritten procedures eliminated. The staff now utilizes dual monitors to view reports on-screen while reconciling to a two-page report printed from Oracle.

MC-6: Record Retention and Security

Observation: Prior to the electronic storage of records, micro fiche was used. However, we noted there is no back-up or security to the micro fiche records leaving documentation vulnerable to loss.

Recommendation: We recommend management review the policy related to record retention for propriety and determine the adequacy of the micro fiche storage system for security purposes.

Department Response: The policy was reviewed, and the micro fiche is now stored in a locked, fire safe room.

MC-7: Check Reconciliation System

Observation: We noted concerns related to the knowledge and documentation of the Check Reconciliation System by technical support staff to adequately support the system as the majority of expertise is limited to the technician who developed the software. We also question the software's capability to generate reports in a spreadsheet compatible format that would increase the division's efficiency.

Recommendation: We recommend management explore options with technical support staff to ensure the software is adequately supported and discuss software capabilities to optimize performance and increase efficiency.

Department Response: The technical staff at SBT has a primary and back-up technician to provide support for the check reconciliation system.

MC-8: Rents and Leases

Observation: Billing for rent and lease contracts is performed by the division supervisor outside the established billing process. The supervisor does not possess copies of the contracts providing all details of such ensuring the correct billing amount.

Recommendation: We recommend the process for billing of rent and lease contracts be performed using the established billing process in accordance with invoicing policies. If the established process is not utilized, the division supervisor should be provided with copies of contracts to ensure completeness, accuracy, timeliness of payment, and adequate supporting documentation.

Department Response: The Auditor-Controller's Office is working with the CEO's office to align the billing process with current policy. The CEO's Office should be submitting a request for invoice.

MC-9: Security of Copy Monies

Observation: Although the zippered cash bag containing copy money is secured in a locked cabinet overnight, it is not adequately secured during the day. The cash bag is on a desk during the day and while the amount of cash is nominal, there is a risk of loss or theft.

Recommendation: We recommend management implement procedures to adequately safeguard cash throughout the day in order to reduce the risk of loss or theft.

Department Response: The cash bag is now locked away during the day to secure the funds.

MC-10: Functional Assignments and Responsibilities

Observation: We noted during our observations of the Revenue Division, there are multiple functional assignments and responsibilities performed by this division that appear to be outside the scope of the division, including but not limited to the following:

- Accounting of SSI for Minors
- Absent Heirs Accounting
- Gravel Accounting
- Retention of Retirement Check Register
- Asset Forfeitures
- Postage Meters

- Month End Journal Vouchers for Clerk & Probation Trust Accounts
- Schools Desk
- Reconciliation Desk

The majority of functions and responsibilities were assigned prior to the current staff without additional review for propriety.

Recommendation: We recommend management evaluate the functional assignments and responsibilities of the revenue division for propriety and implement any necessary modifications.

Department Response: The Auditor-Controller's Office is currently going through reorganization and all duties are being reviewed. Functions and assignments outside the scope of the division may continue until budget resources are replenished. The Department will ensure that the duties are not above the level of job classification.

MC-11: Incoming Revenue

Observation: During our observations of the handling of incoming revenue, specifically checks arriving in the department via various methods such as mail, walk-in, or ID mail, etc., we noted the following concerns:

- Various types of money received in the Department is not logged or endorsed at the time of receipt. Pursuant to the Policy & Procedure in effect at the time of fieldwork for Money Received, all money received is to be listed on a log and immediately endorsed.
- The 10-key tapes of checks received by mail are not initialed by the employees that prepare them. These tapes are reconciled to each other to ensure all mailed checks are posted.
- The reconciliation of the 10-key tapes to ensure all mailed checks are posted is not certified with signature (initial) and date to evidence ownership and timeliness. We also noted the reconciliation is not performed on a daily basis. Timely reconciliations are a critical component of internal controls to ensure discrepancies are resolved as they occur.

Recommendation: In accordance with best practices all money received should be logged and endorsed upon receipt. We recommend management review the process of incoming monies and consider implementing procedures to log, track, and endorse all incoming monies at the time of receipt. We also recommend management implement procedures to ensure 10-key tapes and reconciliations are certified with a signature (or initial) and date to evidence ownership and timeliness in an effort to strengthen controls over monies received.

Department Response: The Revenue division is in the process of updating this policy to incorporate the best practices recommended above.



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STANISLAUS COUNTY INTERNAL AUDIT REPORT

INTERNAL CONTROL EVALUATION OF DIVISION PROCEDURES PAYROLL DIVISION OF AUDITOR-CONTROLLER'S OFFICE

ENGAGEMENT PURPOSE

We were requested by the Auditor-Controller of Stanislaus County to perform an internal control evaluation of the procedures and processes of the Payroll Division of the Auditor-Controller's Office. This report contains the results of our evaluation.

OBJECTIVES

The objective of this evaluation is to identify the procedures utilized by the Payroll Division to perform their assigned functions and responsibilities and provide management with an assessment of such procedures for any significant weaknesses regarding internal controls, while also noting any potential inefficiency related to operational aspects.

SCOPE AND METHODOLOGY

The scope of this evaluation was the existing procedures in place in the Auditor-Controller Payroll Division at the time fieldwork was performed. We conducted our engagement for operations of fiscal year 2009/2010. Twenty-six payroll cycles are performed during the year. We selected four of these twenty-six pay periods for testing, one for each quarter of the year. Pay periods tested were 09Q (pay period ending 08/14/09), 09V (pay period ending 10/23/09), 10F (pay period ending 03/12/10) and 10J (pay period ending 05/07/10).

In order to achieve our audit objectives, we performed the following:

- Obtained an understanding of Payroll Division's policies and procedures
- Reviewed applicable county and department policies and procedures, and any applicable law, regulations, and ordinances
- Discussion with Payroll Division Personnel
- Observation of Payroll Division current operations
- Walk-through of current practices
- Examined and tested transactions for propriety and conformity with established policies and procedures

BACKGROUND

The Payroll Division currently provides biweekly paychecks to approximately 4,000 County employees. Payments must be consistent with all Memorandums of Understanding (MOU) provisions, State and Federal laws and pay practices negotiated with unions representing various bargaining units. Stanislaus County implemented the Oracle-Peoplesoft HRMS system in 1999

(version 7). In 2002, the system was upgraded to version 8 sp1. In 2007, the system was upgraded to version 8.9. Approximately 113,000 checks/advice notices were produced in calendar year 2009.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

CONCLUSION

Our analysis was not designed to express an opinion on the procedures and controls related to the Auditor-Controller's Payroll Division as a whole, and we do not express such an opinion. In addition, because of inherent limitations of any internal control, errors or fraud may occur and not be prevented or detected by internal controls. Also, projections of any evaluation of the accounting system and controls to future periods are subject to the risk that procedures may become inadequate because of changed conditions.

Our consideration of internal control was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Auditor-Controller's Payroll Division's internal control to be significant deficiencies:

Unauthorized Employees Picking up Payroll

We noted four instances out of sixty two (6.45%) where the employee picking up the department payroll was not listed on the Department Head Payroll Pickup Authorization Form. Three of the four instances the Sheriff's Office used the incorrect authorization form. The Sheriff's Office, Community Services Agency and Alliance Worknet have one employee pickup the payroll for all three departments. The form used for the Sheriff's Office payroll pickup authorization was the Check Writer/One Time Vendor Form for authorized pick up and the form was signed by a CSA Department Head Designee, not the Sheriff's Office Department Head Designee.

Data Security

During fieldwork we noted the K drive where payroll places confidential employee information was available for access by the audit staff. We also noted other Auditor-Controller staff had access to this drive. It should be noted, subsequent to fieldwork, payroll secured access to the K drive to authorized payroll staff only.

Safeguarding of data is a key component of internal controls to ensure the integrity of the data and minimize the risk of fraud occurring and not being detected in a timely manner.

We recommend the Auditor-Controller's Office review and revise its procedures to ensure the various department employee's picking up the payroll are in fact authorized to do so by the appropriate Department Head and the employee data required to be generated by the payroll process is secured and safeguarded.

Auditor-Controller's Department Response

The above recommendations have been noted and the following corrective actions have been taken:

- K drive has been secured.
- The Signature Authorization form has been updated and sent to all departments requesting updated authorized signatures to be obtained and the forms to be returned to Auditor Payroll.
- Additional training for staff awareness has been given.

In addition, we noted other issues that should be addressed by management and are described in the Management Comments section within the following pages.

This communication is intended solely for the information and use of management, the Board of Supervisors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We thank the Payroll Division of the Auditor-Controller's Office for their cooperation. Their assistance contributed significantly to the successful completion of the engagement.

MANAGEMENT COMMENTS

Auditor-Controller's Office Payroll Division – Payroll Processing

Payroll Advice/Check Registers

Observation: PeopleSoft generates a payroll advice/check register including off cycle checks. In addition, a manual log is kept listing the beginning and ending advice/check numbers creating duplication of work. We also noted one advice number listed in the manual log did not agree to the advice number reported on the PeopleSoft Payroll Register.

Recommendation: We recommend the Department review and revise its procedures to minimize any additional work performed. The advice/check register report provided by PeopleSoft could be used as a sequential numerical log for the advice/check register binder rather than manually documenting the numbers helping to eliminate the potential for errors taking place and not being noticed in a timely manner. An additional procedure to review the sequential numbering listed on the register will provide adequate controls to account for all checks.

Department Response: We have noted the recommendation listed above and reviewed current procedures with the following changes being implemented:

- A new procedure has been developed and included on the payroll job-sheet to ensure the task is performed.
- Forms have been updated to meet the findings recommendation and the payroll division needs.
- Staff has been given direction on the changes put in place.

Lack of Certification and Documentation

Observation: We noted the following regarding documentation of tasks performed throughout the payroll process:

- Not all steps on the Job Sheet were marked off as completed and one Job Sheet was not initialed or dated by the payroll clerk performing the tasks.
- The Disability Worksheets used to determine payroll amounts for employees on disability leave do not list the name of the employee who prepared the worksheet for all instances in the test samples.
- We were unable to locate either the email from the payroll clerk to Valley First Credit Union notifying of the payroll upload or the

MANAGEMENT COMMENTS (continued)

confirmation email from Valley First Credit Union notifying receipt of the upload for all instances in the test samples.

- We noted two instances where the payroll clerk did not initial the one time deduction request by the employee certifying the information was keyed into PeopleSoft for processing.
- Checks that are mailed out one time are logged, however we noted the clerk performing this function did not initial the log for all instances in the test samples.

Recommendation: We recommend management review and revise its procedures to ensure all documents are completed, signed or initialed and dated by the employee performing the task. Any signed or initialed and dated document along with any corroborating correspondence should be retained with the payroll records in accordance with the record retention policy. Documenting the process ensures completeness and provides an audit trail and accountability.

Department Response: All recommendations above have been noted and action is being taken to comply with findings:

- Additional staff training being given and procedures being reviewed.
- When processes are performed without results needing to be addressed the job sheet will be notated with N/R (no results).
- Any forms with action taken will be filed with the job sheet.
- Forms have been updated to meet the audit recommendations.

Reports

Observation: Numerous reports are used throughout the payroll process. Some reports are generated by the process while others are requested by the payroll employees. We noted the following regarding specific reports generated throughout the payroll process:

- Prior to the first full calculation of payroll a Pre Calculation Audit Report is generated which provides information that might cause problems during the Pay Calculation process. For two of the four periods tested we noted the Pre-Calculation Audit Exception Report was not marked off on the Job Sheet nor printed for one of the periods. The other period noted was marked off but appeared to not have been printed.
- A Pre Sheet Audit Exception Report is generated to ensure potential employee setup issues are resolved prior to Pay Sheet creation. For

MANAGEMENT COMMENTS (continued)

three of the four periods tested the Pre Sheet Audit Exception Report was marked on the Job Sheet as a task performed however we were unable to locate the reports. The one report we did locate was not initialed by the clerk reviewing the report.

- Payable Status Reports are generated to ensure all time entered by the departments has been processed completely through the Time and Labor module. For all four periods tested the Payable Status Reports were not initialed or dated by the payroll clerk performing the task. We also noted when there are exceptions generated by the report, the payroll clerks are not documenting whether the exceptions had been cleared or were accepted.
- After Time and Labor is uploaded Error Message Reports are generated. Any exceptions need to be resolved prior to continuing the process. We noted some of the Error Message Reports generated contain handwritten notes on some of the exceptions however we were unable to determine if the errors with notes had been corrected or accepted. We also noted the notations on the reports were not initialed or dated by the payroll clerk verifying the error.
- Sixteen additional audit reports are requested to check for issues such as part time or management with state disability insurance deductions, or employees with additional pay with no earnings, or employees with no deductions. We noted for the Additional Audit Reports and Queries, not all payroll clerks print all reports nor do all payroll clerks initial and/or date reports printed. We were unable to determine if all sixteen reports were generated for the four periods tested as some of the reports did not have a header naming the document.
- We noted the Payable Status Report, Pre-Sheet Audit Report and the Pre-Calculation Audit Report are printed by the lead clerk for the pay period. The lead clerk then makes several copies of these reports to distribute to the clerks for their use, up to four copies for each report.

Recommendation: Documenting any process has been completed provides assurance of accountability, completeness of the process, and an audit trail. The Department has a Job Sheet as a tool to ensure completeness in the process. We recommend management review and revise its procedures to eliminate any unnecessary steps while documenting completion of the process (i.e. printing reports with no data). The only reports that should be printed, initialed and dated are those with exceptions that were either cleared or accepted by the payroll clerks. Any other reports are documented as complete on the Job Sheet. The Department should consider if additional copies of reports are necessary and investigate whether distribution of reports to the payroll clerks could be done electronically.

MANAGEMENT COMMENTS (continued)

It should be noted: Subsequent to the audit period the PeopleSoft system was in the process of being upgraded and reports which had no header, therefore could not be identified for audit purposes, now have headers.

Department Response: All recommendations above have been noted. Consideration of the recommendations are being reviewed for the action to be taken.

- Additional staff training being given and procedures being reviewed.
- When processes are performed without results needing to be addressed the job sheet will be notated with N/R (no results).
- Job sheet will be initialed by the lead clerk performing the task.
- Headers are now on all reports and reports with results will be initialed and filed.

Personnel Action Forms (PAF's)

Observation: A PAF is generated upon any new hire, re-hire or status change of an employee. The various departments send the PAF to the CEO's office for approval, CEO signature, and entry into PeopleSoft. The copy of the approved PAF is then sent to the Auditor-Controller's Payroll Division for final processing. During testing we noted the following regarding the PAF's:

- We noted two instances where the PAF did not have the CEO/HR signature on the back approving the changes. Payroll staff did not send back or obtain the required signature.
- We noted two instances where the PAF was not dated by the payroll clerk reviewing the changes. For one of those instances the payroll clerk also did not sign or initial the PAF.

Recommendation: We recommend management review and revise its procedures to ensure the PAF's received for processing contain the signature of the CEO and the payroll clerk reviewing the changes dates and initials the front of the PAF documenting authority to make the changes and providing accountability and an audit trail.

Department Response: The recommendation is accepted and has been discussed with staff to ensure the recommended actions are in place.

MANAGEMENT COMMENTS (continued)

Written Procedures

Observation: Although the Payroll Division has written procedures, we found them to be limited and inconsistently documented. Written procedures document business processes, personnel responsibilities, and departmental operations. They also promote uniformity in executing and recording transactions and serve to strengthen internal controls. In addition, written procedures provide continuity with processes when assigned employees are not available or leave employment.

Recommendation: We recommend management document or update all significant business practices, processes, and policies to ensure they are current and available to staff at all times.

Department Response: The recommendation is accepted and management is in agreement and will update and document procedures as time and resources permit.

Auditor-Controller's Office Payroll Division – Reconciliation Process (CA IV)

Job Sheet

Observation: The Job Sheet is a tool to ensure completeness in the process. During our walkthrough of the process, we noted two steps on the job sheet for the CA IV were not marked as completed. One had a question mark by it with no notation.

Recommendation: We recommend management review and revise its procedures to ensure all steps listed on the job sheet are completed. The CA IV should check off each step as it is completed. If there is a reason one step is not completed it should be noted on the job sheet with date and initial of the employee performing the task.

Department Response: The recommendation has been noted and action has been taken to comply with audit findings.

MANAGEMENT COMMENTS (continued)

Insurance Invoice Reconciliation

Observation: The CA IV receives an invoice from the insurance company including a detailed list of eligible employees and adjustments for employees who have terminated. This invoice is compared to a report run in PeopleSoft, exported to Excel and sorted by insurance coverage code. The Excel data is as of the date the report is run and the invoice data is as of a specific date. The two sets of data do not agree creating inefficiencies as additional work is needed to perform the reconciliation, i.e. a second report generated from PeopleSoft on a different date creating the same information for comparison purposes.

Recommendation: We recommend the CA IV retrieve the data from PeopleSoft to coincide with the date the insurance invoice data is run to minimize the differences in the data and reduce the time it takes to reconcile the invoice with PeopleSoft. We recommend that management also investigate the possibility of the CA IV working with Benefits staff to generate a report through Microsoft Access to make the reconciliation more efficient.

Department Response: The recommendation has been noted. Staff will collaborate with CEO-Risk Management to streamline the process.

Employee Assistance Program

Observation: The CA IV runs a query in PeopleSoft to obtain the count by the appropriate accounting structure (fund/org/combo code) for the Employee Assistance Program. This query is exported to excel, copied and posted into another excel spreadsheet for totals by fund for the cost allocation. A third copy of data is performed to an additional spreadsheet which populates the journal voucher (JV) to transfer the costs. Performing the transfer of data three times is inefficient and increases the possibility of errors occurring and not being detected in a timely manner.

Recommendation: We recommend management investigate how to link these spreadsheets requiring only one copy and paste process reducing the risk of errors taking place without being detected in a timely manner.

It should be noted: As of July 1, 2011 the CA IV will no longer be performing this task.

MANAGEMENT COMMENTS (continued)

Department Response: Effective July 1, 2011 the CAIV will no longer perform this task as EAP is being eliminated from County processing.

Other Department Responsibility

Observation: We noted the CA IV performs allocations and prepares journal vouchers for the Employee Assistance Program. This program is run by Behavioral Health and Recovery Services and the information to perform the allocation and prepare the journal voucher is provided by them. We also noted the Payroll Division prepares the journal voucher for the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) insurance which is administered by Risk Management. These two processes appear to be outside the scope of the division.

Recommendation: We recommend management evaluate the functional assignments and responsibilities of the Payroll Division for propriety and implement any necessary modifications.

Department Response:

- The payroll division prepares the journal voucher for the Cobra Insurance as it is reduced from our federal withholding tax.
- Effective July 1, 2011, the CA IV will no longer prepare the journal voucher for Cobra Insurance due to the completion of the ARRA Program.

Multiple Reports

Observation: We noted the CA IV prints fifteen reports to generate the data necessary for the Payroll Summary Recap. Each report is printed individually creating inefficiency in the process.

Recommendation: We recommend management evaluate the fifteen reports and create sets of reports for the CA IV to run rather than run each individually.

Department Response: The recommendation has been noted. Payroll is working with Technical Staff to evaluate the possibility of combining reports.

MANAGEMENT COMMENTS (continued)

Manual Processes

Observation:

We noted the CA IV performs several manual processes as follows:

- The PeopleSoft Payroll Summary Report provides data for pay check summary, earnings summary, employee deductions summary, employer contributions summary, employee tax summary and employer tax summary. The CA IV manually transfers this data from the PeopleSoft Payroll Summary Report to a Payroll Summary Recap Excel spreadsheet which provides the data in a different format for reconciliation purposes.
- The CA IV manually enters each garnishment deduction into an Excel spreadsheet. The spreadsheet is sorted by agency for totals per agency. The CA IV then manually revises another Excel spreadsheet to create a cover sheet for each agency. Once the checks are issued, the CA IV manually posts the garnishment payments to each employee's payment ledger.
- The CA IV completes and prints a spreadsheet with the totals owed from each Special District. As the payments are received the CA IV hand writes the deposit permit number and date received on the document.

Recommendation:

We recommend management evaluate the manual processes performed by the CA IV and determine if these processes could be automated.

- The Division should consider exporting the data from PeopleSoft to the Summary Recap rather than the CA IV manually inputting the data.
- A spreadsheet could be created for the employee's garnishment payment ledger. The second and third spreadsheets could be linked to the first transferring the information eliminating the need to manually key it in three times.
- The Special District spreadsheet should be maintained electronically rather than performed manually to minimize the possibility of errors occurring and not being detected in a timely manner.

Department Response:

- The Payroll Division will consult with the Software Analyst about the capability of exporting the data from PeopleSoft to the summary recap.
- The recommendation has been noted; staff will explore the possibility of linking multiple spreadsheets to stream line process.
- The recommendation to post the deposit permit dates and numbers electronically has been noted and the procedure will be reviewed.



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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
COMMUNITY SERVICES AGENCY
PAYROLL REIMBURSEMENT AUDIT – NEW TRAVEL POLICY**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Employee Payroll Reimbursement transactions which was included in the Fiscal Year 2009-2010 annual audit schedule and approved by the Board of Supervisors.

In prior periods it was determined that supplies and similar types of expenses were reimbursed through the payroll reimbursement process. These types of expenses are better paid through the accounts payable process rather than through the payroll reimbursement process. Based upon this information it appeared prudent to continue to monitor payroll reimbursement for compliance with the County Travel and Payroll Reimbursement Policies.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's employee payroll reimbursement transactions comply with the County's new Travel Policy (effective September 1, 2009), Payroll Reimbursement Policy, as well as the Department Policy, if applicable, and are appropriate County business expenses. In addition, we assessed the Department's internal controls over the maintenance and use of the employee payroll reimbursements.

The audit period covered employee reimbursements during the period of January through March 2010. We selected 100% of the payroll reimbursement transactions incurred by the Department Head representing 37 transactions in the amount of \$920.91. Department personnel incurred 2,234 payroll reimbursement transactions totaling \$51,597.96. For our engagement, we selected 84 transactions (approximately 4%) in the amount of \$1,964.30 (approximately 4%) from the entire transaction population for testing.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of payroll reimbursements for selected departments from the Payroll Division of the Auditor-Controller's Office, through the payroll software program.
- We verified the employee time sheets were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, out-of-county travel costs were pre-approved, costs appeared reasonable, and did not exceed allowable limits contained in the Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the Travel and Personnel policies.

We assessed the internal controls over the payroll reimbursement transactions by:

- Interviewing department personnel and documenting the department's controls over payroll reimbursements.
- Reviewed policies and procedures pertaining to payroll reimbursements.

STANDARDS

We considered the use of conducting our audit in accordance with auditing standards. This engagement will be conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. The Internal Audit Division performs engagements under *Government Auditing Standards* when required to do so. We were not requested by the Board of Supervisors to conduct these performance audits under Government Auditing Standards therefore we are not required to do so.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

There are no major findings and recommendations for the Department payroll reimbursement transactions during the period under review.



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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
SHERIFF DEPARTMENT
PAYROLL REIMBURSEMENT AUDIT –
NEW TRAVEL POLICY**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Employee Payroll Reimbursement transactions which was included in the Fiscal Year 2009-2010 annual audit schedule and approved by the Board of Supervisors.

In prior periods it was determined that supplies and similar types of expenses were reimbursed through the payroll reimbursement process. These types of expenses are better paid through the accounts payable process rather than through the payroll reimbursement process. Based upon this information it appeared prudent to continue to monitor payroll reimbursement for compliance with the County Travel and Payroll Reimbursement Policies.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's employee payroll reimbursement transactions complied with the County's revised Travel Policy effective September 1, 2009, Payroll Reimbursement Policy, as well as the Department Policy, if applicable, and was appropriate County business expenses. In addition, we assessed the Department's internal controls over the maintenance and use of the employee payroll reimbursements.

The audit period covered employee reimbursements during the period of January through March 2010. The Department Head did not incur any payroll reimbursement transactions during this period. Department personnel incurred a total of 89 payroll reimbursement transactions in the amount of \$4,700.18. For our engagement, we elected to test 69 transactions (approximately 70%), in the amount of \$4,566.18 (approximately 98%), of the total population based upon the number and type of transactions.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of payroll reimbursements for selected departments from the Payroll Division of the Auditor-Controller's Office, through the payroll software program.
- We verified the employee time sheets were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, out-of-county travel costs were pre-approved, costs appeared reasonable, and did not exceed allowable limits contained in the Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the Travel and Personnel policies.

We assessed the internal controls over the payroll reimbursement transactions by:

- Interviewing department personnel and documenting the department's controls over payroll reimbursements.
- Reviewed policies and procedures pertaining to payroll reimbursements.

STANDARDS

We considered the use of conducting our audit in accordance with auditing standards. The Internal Audit Division performs engagements under *Government Auditing Standards* when required to do so. We were not requested by the Board of Supervisors to conduct these performance audits under auditing standards therefore we are not required to do so.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

There are no major findings and recommendations for the Department payroll reimbursement transactions during the period under review.



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**STANISLAUS COUNTY INTERNAL AUDIT REPORT
STANISLAUS ANIMAL SERVICES AGENCY
TIMEKEEPING AND ATTENDANCE/MOU AUDIT**

ENGAGEMENT PURPOSE AND BACKGROUND

The Auditor-Controller's Office was contacted regarding a need to perform engagements of the payroll time card process. This process relates to time reported by employees on their time cards compared to time entered into the Peoplesoft system. The Internal Audit Division became involved in the analysis and determined these engagements would require more detailed analysis incorporating the Memorandum of Understanding (MOU) for each of the bargaining units associated with each department.

The Internal Audit Division will continue to assess the need to perform this engagement on an annual basis. We will not be performing this engagement for all of the County departments. The division will focus on those Departments that have a high risk assessed due to the complexity of the MOU's or as judgmentally selected by the Internal Audit Manager. We have chosen the Stanislaus Animal Services Agency for this engagement. While not a County department the Agency employees are County employees and must comply with the MOU governing their classifications and County Policy.

OBJECTIVE

The primary objective of this engagement is to determine whether the Agency payroll processes are in compliance with County Policy and the provisions outlined in the applicable MOU's. Emphasis during this engagement will be placed on hours worked compared to hours paid including any additional pay as provided by the applicable MOU's for a recently processed pay period or month. In addition an evaluation of the effectiveness of the internal controls in place will be a consideration for this engagement.

SCOPE

The audit period covered all employee time and attendance transactions during the period 11/6/2010 through 12/03/2010 (two full pay periods). Agency personnel (31) incurred a total of 761 payroll time and attendance transactions during this time period. For our engagement, we elected to test 329 transactions (approximately 43%) of the total population based upon the number and type of transactions for compliance with County Policies. Of the transactions selected, 44 of the 329 time and labor transactions were for On Call Pay and Call Back Pay as provided per the MOU. These 44 transactions represent 100% of the On Call and Call Back Pay activity for the period tested.

METHODOLOGY

Planned procedures for this engagement include obtaining an understanding of the County payroll process including applicable policies, the various department internal control procedures related to the payroll process, and the various MOU's applicable to the various departments. We will obtain this understanding through the following audit steps:

- Inquiry of various department personnel.
- Review of additional department policies, if applicable.
- Review of the MOU's for each bargaining unit; SEIU and SCEA Local 10
- Obtaining the TRC reports through the payroll software system (Peoplesoft)
- Performed walk-through of current practices
- Examined and tested transactions for compliance with County policies and procedures and compliance with the provisions of the applicable MOU's

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

CONCLUSION

In general, we found the Stanislaus Animal Services Agency to be in compliance with County Policy and the provisions of the applicable MOU's. While we did not find any significant matters, our results disclosed several issues that should be addressed by the Stanislaus Animal Services Agency and are described in the Management Comments section within the following pages.

We thank the Stanislaus Animal Services Department Agency for their cooperation. Their assistance contributed significantly to the successful completion of the engagement.

MANAGEMENT COMMENTS

MC-1 Call Back Overtime vs Regular Overtime (MOU)

Observation: We noted one transaction where an employee was dispatched to a service call one minute after the end of their shift prior to leaving the place of employment. The employee claimed Call Back Overtime (CBO) of two hours for the service call which lasted fifteen minutes incurring additional expenses to the Agency. Per Section 5 N of the SEIU MOU in effect during the pay periods audited, "...each occasion' means the employee is called to return to work from an off duty (other than serving on call) status." We interpreted this to mean, since the service call was received at the end of the employee's shift and the employee had not left the workplace, regular overtime should have been claimed rather than CBO.

Recommendation: The Agency should review and revise their procedures to ensure employees claim regular overtime when a work related function requires employees to extend their regular shift. If an employee is on-call at the end of a shift where overtime is claimed, the on-call hours should be reduced by the overtime hours claimed.

Department Response:

Department agrees with the recommendation.

MC-2 Call Back Overtime Documentation (MOU)

Observation: We noted one timecard where the employee did not list the beginning and ending times for the call back hours reported. We were unable to verify the call back hours reported were accurate. While there is no County Policy regarding documentation of beginning and ending time for call back hours, doing so ensures the County employee's time and attendance at work is complete, accurate and supported by evidence.

Recommendation: We recommend the Department review and revise their procedures to include employee's documenting beginning and ending times for call back hours on the timecard providing accountability and an audit trail.

Department Response:

Department agrees with the recommendation and policy is a copy of the on-call log will be attached to the time card for verification purposes. Department feels this is an even stronger support of evidence.

MC-3 Prior Approval of Weekly Work Schedule Changes

Observation: During transaction testing we noted five instances where an employee changed their work schedule and there was no documentation showing the employee obtained his/her supervisor's prior approval to modify their weekly work schedule. The weekly work schedule shows the designated work hours for each employee and is prepared by the supervisor to ensure proper coverage, efficiency and integrity of services. Per County Policy, "Weekly work schedules are approved by supervisors in advance, and cannot be changed without supervisor authorization." and, "With supervisor approval, employees may deviate from the usual work hours instead of using vacation or sick time for occasional absences from work. This variance is not intended to alter the work week on an ongoing basis."

Recommendation: We recommend the Agency review and revise their procedures to ensure employees obtain their supervisor's written approval prior to changing their weekly work schedule. This approval can be obtained with the supervisor's initials next to the change on the weekly work schedule or by email attached to the weekly work schedule.

Department Response:

Department agrees with recommendation. Policy will be all changes made to a posted schedule, will be noted with the supervisor's initials and the date. If the change is due to vacation, a copy of the vacation slip will be attached to the schedule.

MC-4 Weekly Work Schedule Changes Not Documented

Observation: During transaction testing we noted 31 instances where an employee changed his/her weekly work schedule as documented on the time card, however the change was not documented on the weekly work schedule creating inconsistency between the timecard and the weekly work schedule. Per County Policy, "Weekly work schedules are approved by supervisors in advance, and cannot be changed without supervisor authorization."

Recommendation: The Agency should review and revise their procedures to ensure when an employee changes his/her weekly work schedule the change is documented and approved on the posted weekly work schedule. The weekly work schedule should be compared to the associated time card and any variances should be investigated.

Department Response:

Department agrees with the recommendation.

MC-5 Sick Leave vs Bereavement Leave

Observation: We noted one transaction where an employee requested four hours bereavement leave. The Request for Time Off was changed to eight hours sick time and the change was not initialed by the employee. During discussion with Agency personnel, it was explained the employee did not want to take bereavement leave and chose sick leave instead. Per County Policy, "Sick leave with pay can only be granted upon the recommendation of the Department Head in case of bona fide illness of the employee or in the event of serious illness in the employee's immediate family." County Policy provides, with Department Head discretion, up to forty working hours for bereavement without charge to sick leave. We interpret this to say sick leave is not to be used for bereavement leave.

Recommendation: We recommend the Agency review and revise their procedures to ensure Supervisors review of employee's timecard includes the appropriate use of time off to ensure compliance with County Policy for Leave Time.

Department Response:

Department agrees with the recommendation.

MC-6 Pre-approval of Overtime Not Documented

Observation: During our walkthrough, the payroll clerk informed us that overtime hours are pre-approved verbally. We noted during testing six transactions for overtime where we were unable to determine if the overtime was pre-approved. Per County Policy and the Auditor-Controller Accounting Guidelines, overtime must be pre-approved.

Recommendation: We recommend the Agency review and revise its policies and procedures to include written documentation supporting the pre-approval of overtime to ensure compliance with County Policy and the Accounting Guidelines. The documentation can be in the form of an e-mail for request including the reply with the approval. The document should be attached to either the employee's timesheet or the weekly work schedule.

Department Response:

Department agrees with recommendation. The Executive Director will approve all overtime and initial timecard.

MC-7 Department Payroll Process Document Not Updated

Observation: We noted during the audit, the Department payroll process document is outdated containing instruction no longer used. The document also requires the payroll clerk verify both the employee and supervisor signed the timecard. It does not require verification that both employee and supervisor date the timecard as recommended in the Auditor-Controller's Accounting Guidelines. Documenting policies and procedures promotes uniformity in executing and recording transactions and serves to strengthen internal controls thereby safeguarding County assets and minimizing the risk of errors taking place.

Recommendation: We recommend the department review and revise the process document to reflect current practices and include verification of both signature and date of employee and supervisor on the timecard. This provides assurance of timeliness of transactions, compliance with policies and procedures, assurance the supervisor approved the employees certification of completeness and accuracy as well as providing accountability and an audit trail.

Department Response:

Department agrees with recommendation.

MC-8 Timecard Corrections Not Approved or Initialed

Observation: We noted during our walkthrough that the payroll clerk makes corrections to the timecard but does not initial and date the changes. Also the timecards, after corrections are made, are not sent back to the employee and/or supervisor for their initials. During transaction testing we noted eighteen corrections on timecards were not initialed by the employee and seventeen corrections on timecards were not initialed by the employee's supervisor. While there is no County Policy regarding documentation of changes to timecards, the Auditor-Controller's Office has developed 'Accounting Guidelines' that recommend the documentation of such. These guidelines are based on accounting best practices recommending all corrections made to the timecards be reviewed, approved and initialed by both the employee and the supervisor to ensure the County employee's time and attendance at work is complete, accurate and supported by evidence.

Recommendation: The Agency should revise their procedures so that the payroll clerk initials and dates any changes made to the timecard. The changes should also be initialed by the employee and/or employee's supervisor.

Department Response:

Department agrees with recommendation. Policy will now state that incomplete or inaccurate time cards will be returned to the supervisor. The supervisor will go over the time card with the employee. Once corrections are made both the employee and the supervisor are required to initial and date the changes to the time card.

MC-9 Employee Dated Timecard After Supervisor Approved

Observation: During transaction testing, we noted two timecards where it appeared the supervisor noticed the timecards had not been dated and/or signed by the employee and subsequently requested the employee to date his/her timecard after the supervisor signed and dated the timecard. The supervisor's signature and date indicates the time reported by the employee has been reviewed and approved. Part of the approval process is determining the employee signed and dated their time card certifying the timecard is complete, accurate and supported by evidence. While there is no County Policy regarding timekeeping and attendance procedures, the Auditor-Controller's Office has developed 'Accounting Guidelines' that recommend the procedures for timekeeping and attendance for both the employee and the supervisor. These guidelines are based on accounting best practices recommending; 1- Employee must sign and date their timecard certifying the timecard is complete, accurate and supported by evidence, when necessary, and 2 -Supervisor is to determine the employee signed and dated their timecard prior to the supervisor signing and dating the timecard.

Recommendation: We recommend the Agency review and revise their policies and procedures to ensure the supervisor approve the employee's timecard by signature and date only after the employee has signed and dated the timecard.

Department Response:

Department agrees with recommendation.

MC-10 Payroll Reports Not Signed Off and/or Retained

Observation: We noted during the audit the following regarding Peoplesoft Payroll Reports:

- Not all Peoplesoft Payroll Reports required to be generated are printed. These audit reports are required to ensure data entry of employee time is accurate and complete.
- It is not noted on the Payroll Processing Worksheet when a report is not printed. The Payroll Processing Worksheet lists the steps needed to complete a payroll including which reports to generate.
- Reports that originally had errors are run until the errors are resolved resulting in documentation with no exceptions. These reports are not always retained. In addition, retained exception reports are not certified as to the review and approval process.

Recommendation: In order to ensure accuracy and completeness, and provide accountability and an audit trail, we recommend the Agency review and revise its payroll processing procedures to include documentation of all payroll reports including but not limited to, noting on the payroll processing worksheet there were no exceptions or data therefore no report was printed and noting corrections were made to exceptions including initial of employee making the corrections. Any exception report should be retained providing documentation that the process was followed appropriately.

Department Response:

Department agrees with recommendation and has been printing each and every report that has a printable report. If there is no printable report, it is so noted on the Time and Labor processing steps, which are kept with the payroll for the given pay run ID. This process too shall be noted in the updated policy.



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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
AGRICULTURAL COMMISSIONER
PURCHASING CARD AUDIT**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

The audit period covered purchasing card activity during fiscal year 2009-2010. We selected 100% of the purchasing card transactions incurred by the Department Head representing 12 transactions in the amount of \$1,396. The remaining department purchasing card transactions consisted of 386 transactions in the amount of \$74,110. For our engagement, we selected 77 transactions (approximately 20%) in the amount of \$41,248 (approximately 56%) from the entire population for testing. The sample percentage was determined by a review of prior year audit reports and the selection of transactions appearing to be high risk purchases along with the remaining transactions randomly selected.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County Purchasing Card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

There are no major findings and recommendations for the Department purchasing card transactions during fiscal year 2009-2010.



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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
ALLIANCE WORKNET
PURCHASING CARD AUDIT**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

The audit period covered purchasing card activity during fiscal year 2009-2010. We selected 100% of the purchasing card transactions incurred by the Department Head representing 14 transactions in the amount of \$3,114.32. The remaining department purchasing card transactions consisted of 401 transactions in the amount of \$85,761.02. For our engagement, we selected 80 transactions (approximately 20%) in the amount of \$44,372.11 (approximately 52%) from the entire population for testing. The sample percentage was determined by a review of prior year audit reports and the selection of transactions appearing to be high risk purchases along with the remaining transactions randomly selected.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County Purchasing Card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

There were no major findings and recommendations noted during this period under review.



AUDITOR-CONTROLLER

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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
ANIMAL SERVICES
PURCHASING CARD AUDIT**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County purchasing cards.

The audit period covered purchasing card activity during fiscal year 2009-2010. We selected 100% of the purchasing card transactions incurred by the Department Head representing 3 transactions in the amount of \$8,154.56. The remaining department purchasing card transactions consisted of 186 transactions in the amount of \$31,905.37. For our engagement, we selected 25 transactions (approximately 13%) in the amount of \$12,828.02 (approximately 40%) from the entire population for testing. The sample percentage was determined by a review of prior year audit reports and the selection of transactions appearing to be high risk purchases along with the remaining transactions randomly selected.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County purchasing card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

There are no major findings and recommendations for the Department purchasing card transactions during fiscal year 2009-2010.



AUDITOR-CONTROLLER

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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
AREA AGENCY ON AGING AND VETERANS SERVICES
PURCHASING CARD AUDIT**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

The audit period covered purchasing card activity during fiscal year 2009-2010. We selected 100% of the purchasing card transactions incurred by the Department Head representing 4 transactions in the amount of \$2,875.10. The remaining department purchasing card transactions consisted of 271 transactions in the amount of \$28,795.49. For our engagement, we selected 27 transactions (approximately 10%) in the amount of \$8,239.55 (approximately 29%) from the entire population for testing. The sample percentage was determined by a review of prior year audit reports and the selection of transactions appearing to be high risk purchases along with the remaining transactions randomly selected.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County purchasing card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

There are no findings and recommendations for the Department purchasing card transactions during fiscal year 2009-2010.



AUDITOR-CONTROLLER

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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
ASSESSOR'S OFFICE
PURCHASING CARD AUDIT**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

The audit period covered purchasing card activity during fiscal year 2009-2010. There were no Department Head transactions during the fiscal year. The remaining department purchasing card transactions consisted of 105 transactions in the amount of \$24,952.03. For our engagement, we selected 25 transactions (approximately 24%) in the amount of \$11,040.89 (approximately 44%) from the entire population for testing. The sample percentage was determined by a review of prior year audit reports and the selection of transactions appearing to be high risk purchases along with the remaining transactions randomly selected.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County purchasing card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

There are no major findings and recommendations for the Department purchasing card transactions during fiscal year 2009-2010.



AUDITOR-CONTROLLER

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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
AUDITOR-CONTROLLER'S OFFICE
PURCHASING CARD AUDIT**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County purchasing cards.

The audit period covered purchasing card activity during fiscal year 2009-2010. There were no Department Head transactions during the fiscal year. The remaining department purchasing card transactions consisted of 140 transactions in the amount of \$27,336.89 for our engagement, we selected 25 transactions (approximately 18%) in the amount of \$9,172.96 (approximately 34%) from the entire population for testing. The sample percentage was determined by a review of prior year audit reports and the selection of transactions appearing to be high risk purchases along with the remaining transactions randomly selected.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County Purchasing Card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

There are no major findings and recommendations for the Department purchasing card transactions during fiscal year 2009-2010.



AUDITOR-CONTROLLER

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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
BEHAVIORAL HEALTH AND RECOVERY SERVICES
PURCHASING CARD AUDIT**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County purchasing cards.

The audit period covered purchasing card activity during fiscal year 2009-2010. We selected 100% of the purchasing card transactions incurred by the Department Head representing 39 transactions in the amount of \$3,092.04. The remaining department purchasing card transactions consisted of 1,910 transactions in the amount of \$269,612.55. For our engagement, we selected 191 transactions (approximately 10%) in the amount of \$97,723.85 (approximately 36%) from the entire population for testing. The sample percentage was determined by a review of prior year audit reports and the selection of transactions appearing to be high risk purchases along with the remaining transactions randomly selected.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County purchasing card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

There are no major findings and recommendations for the Department purchasing card transactions during fiscal year 2009-2010.



AUDITOR-CONTROLLER

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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
BOARD OF SUPERVISORS
PURCHASING CARD AUDIT**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

The audit period covered purchasing card activity during fiscal year 2009-2010. We selected 100% of the purchasing card transactions incurred by the Department Head representing 14 transactions in the amount of \$4,364.07. The remaining department purchasing card transactions consisted of 51 transactions in the amount of \$4,272.25. For our engagement, we selected 25 transactions (approximately 49%) in the amount of \$2,512.01 (approximately 59%) from the entire population for testing. The sample percentage was determined by a review of prior year audit reports and the selection of transactions appearing to be high risk purchases along with the remaining transactions randomly selected.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County Purchasing Card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

There are no major findings and recommendations for the Department purchasing card transactions during fiscal year 2009-2010.



AUDITOR-CONTROLLER

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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
CHIEF EXECUTIVE OFFICE
PURCHASING CARD AUDIT**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

The audit period covered purchasing card activity during fiscal year 2009-2010. We selected 100% of the purchasing card transactions incurred by the Department Head representing 11 transactions in the amount of \$4,546.53. The remaining department purchasing card transactions consisted of 566 transactions in the amount of \$74,778.16. For our engagement, we selected 85 transactions (approximately 15%) in the amount of \$29,672.28 (approximately 40%) from the entire population for testing. The sample percentage was determined by a review of prior year audit reports and the selection of transactions appearing to be high risk purchases along with the remaining transactions randomly selected.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County Purchasing Card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

There are no major findings and recommendations for the Department purchasing card transactions during fiscal year 2009-2010.



AUDITOR-CONTROLLER

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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
CHILDREN AND FAMILIES COMMISSION
PURCHASING CARD AUDIT**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

The audit period covered purchasing card activity during fiscal year 2009-2010. We selected 100% of the purchasing card transactions incurred by the Department Head representing 37 transactions in the amount of \$1,572. The remaining department purchasing card transactions consisted of 97 transactions in the amount of \$23,259. For our engagement, we selected 25 transactions (approximately 26%) in the amount of \$15,929 (approximately 68%) from the entire population for testing. The sample percentage was determined by a review of prior year audit reports and the selection of transactions appearing to be high risk purchases along with the remaining transactions randomly selected.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County Purchasing Card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

There are no major findings and recommendations for the Department purchasing card transactions during fiscal year 2009-2010.



AUDITOR-CONTROLLER

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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
CLERK RECORDER
PURCHASING CARD AUDIT**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

The audit period covered purchasing card activity during fiscal year 2009-2010. We select 100% of the purchasing card transactions incurred by the Department Head for testing. However, the Department Head did not have a purchasing card issued during the period under review. The remaining department purchasing card transactions consisted of 238 transactions in the amount of \$43,213.54. For our engagement, we selected 25 transactions (approximately 11%) in the amount of \$14,480.12 (approximately 34%) from the entire population for testing. The sample percentage was determined by a review of prior year audit reports and the selection of transactions appearing to be high risk purchases along with the remaining transactions randomly selected.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County Purchasing Card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

There are no major findings and recommendations for the Department purchasing card transactions during fiscal year 2009-2010.



AUDITOR-CONTROLLER

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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
COUNTY COUNSEL
PURCHASING CARD AUDIT**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

The audit period covered purchasing card activity during fiscal year 2009-2010. We selected 100% of the purchasing card transactions incurred by the Department Head representing 5 transactions in the amount of \$1,308.86. The remaining department purchasing card transactions consisted of 156 transactions in the amount of \$40,302.94. For our engagement, we selected 39 transactions (approximately 25%) in the amount of \$20,216.46 (approximately 50%) from the entire population for testing. The sample percentage was determined by a review of prior year audit reports and the selection of transactions appearing to be high risk purchases along with the remaining transactions randomly selected.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County Purchasing Card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

There are no major findings and recommendations for the Department purchasing card transactions during fiscal year 2009-2010.



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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
UC COOPERATIVE EXTENSION
PURCHASING CARD AUDIT**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

The audit period covered purchasing card activity during fiscal year 2009-2010. We selected 100% of the purchasing card transactions incurred by the Department Head representing 29 transactions in the amount of \$3,026.99. The remaining department purchasing card transactions consisted of 56 transactions in the amount of \$3,499.37. For our engagement, we selected 25 transactions (approximately 45%) in the amount of \$1,435.89 (approximately 41%) from the entire population for testing. The sample percentage was determined by a review of prior year audit reports and the selection of transactions appearing to be high risk purchases along with the remaining transactions randomly selected.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County Purchasing Card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

There are no major findings and recommendations for the Department purchasing card transactions during fiscal year 2009-2010.



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STANISLAUS COUNTY EXECUTIVE SUMMARY COMMUNITY SERVICES AGENCY PURCHASING CARD AUDIT

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

The audit period covered purchasing card activity during fiscal year 2009-2010. We selected 100% of the purchasing card transactions incurred by the Department Head representing 38 transactions in the amount of \$2,571.84. The remaining department purchasing card transactions consisted of 3,121 transactions in the amount of \$591,046.66. For our engagement, we selected 313 transactions (approximately 10%) in the amount of \$218,443.87 (approximately 37%) from the entire population for testing. The sample percentage was determined by a review of prior year audit reports and the selection of transactions appearing to be high risk purchases along with the remaining transactions randomly selected.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County Purchasing Card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

While the findings discussed below may not, individually or in the aggregate, significantly impair compliance with the County Purchasing Card Program, they do present risks that can be more effectively controlled.

DEPARTMENT HEAD FINDINGS

There are no major findings and recommendations for the Department Head purchasing card transactions during fiscal year 2009-2010.

DEPARTMENT FINDINGS

A) Unallowable Meal Transaction

We noted three meal transactions (totaling \$75.00) for grocery expenditures during long term travel were purchased using the purchasing card. Under the travel policy in effect at the time of the transactions, grocery expenditures are not allowable under the purchase card option for meals while traveling. Employees who choose to use the purchasing card for meals must adhere to the established individual meal limits and guidelines in the County's purchasing card and travel policies.

Recommendation

We recommend the Department review and revise their procedures to ensure all travel expenses are appropriate, necessary and reasonable including determining meal charges are allowable as described in the Purchasing Card Policy.

Department Response

Department concurs with this finding but would like to note that the unallowable meal transactions were all related to a special project that required several employees to incur long stays away from home. Although grocery items were purchased, meal allowance amounts were not exceeded. Current Department travel policy for Long Term travel assignments will utilize a per diem method of reimbursement for meals alleviating the risk of this type of finding recurring in the future.



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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
DEPARTMENT OF CHILD SUPPORT SERVICES
PURCHASING CARD AUDIT**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

The audit period covered purchasing card activity during fiscal year 2009-2010. We selected 100% of the purchasing card transactions incurred by the Department Head representing 28 transactions in the amount of \$6,355.81. The remaining department purchasing card transactions consisted of 208 transactions in the amount of \$57,645.73. For our engagement, we selected 25 transactions (approximately 12%) in the amount of \$24,339.87 (approximately 42%) from the entire population for testing. The sample percentage was determined by a review of prior year audit reports and the selection of transactions appearing to be high risk purchases along with the remaining transactions randomly selected.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County Purchasing Card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

There are no major findings and recommendations for the Department purchasing card transactions during fiscal year 2009-2010.



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STANISLAUS COUNTY EXECUTIVE SUMMARY DISTRICT ATTORNEY PURCHASING CARD AUDIT

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

The audit period covered purchasing card activity during fiscal year 2009-2010. We selected 100% of the purchasing card transactions incurred by the Department Head representing 10 transactions in the amount of \$945.74. The remaining department purchasing card transactions consisted of 514 transactions in the amount of \$139,687.83. For our engagement, we selected 129 transactions (approximately 25%) in the amount of \$66,680.01 (approximately 48%) from the entire population for testing. The sample percentage was determined by a review of prior year audit reports and the selection of transactions appearing to be high risk purchases along with the remaining transactions randomly selected.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County Purchasing Card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

While the findings discussed below may not, individually or in the aggregate, significantly impair compliance with the County Purchasing Card Program, they do present risks that can be more effectively controlled.

DEPARTMENT HEAD FINDINGS

A) Cost Comparison For Vehicle Travel

We noted three transactions for one trip, greater than 100 miles one way, where the cost for vehicle travel was not supported by a cost comparison as required by County policy to determine the most cost effective method of vehicle travel.

Recommendation

We recommend the Department implement procedures to ensure a cost comparison is performed to determine the most cost effective method of vehicle travel for any trips greater than 100 miles one way as required by County policy.

Department Response

This was for travel by the Department Head, who was under the belief that since she had a car allowance she was not permitted to take a rental car or pool car. She did not realize that was for "in-county" travel only. In the future a cost comparison will be done any time she travels more than 100 miles one-way and wishes to take her car.

DEPARTMENT FINDINGS

A) Missing Credit Card Documentation

We noted two transactions (totaling \$535.40) for which the credit card documentation was not on file. One transaction did not have any supporting documentation. One transaction was supported by an itemized receipt however the credit card statement was not retained. The Purchasing Card Policy requires a minimum of five years retention of all credit card documentation, including but not limited to receipts, statements, and trip authorization forms for travel related expenses.

Recommendation

We recommend the Department review and revise its policies and procedures to ensure all purchasing card records are retained for a minimum of five years in accordance with County policy.

Department Response

The department normally retains all credit card statements for the required period of time but apparently these were misfiled and have not been located; the reconciliation of the Works Billing Statement requires the statements so they must have gone missing after the reconciliation.

B) Receipts Not Provided

The receipts and supporting documentation for two transactions (totaling \$1,676.71) were not provided for review during the testing of transactions. These transactions were noted to be expenses for the California Witness Protection Program. While we understand the sensitivity of the circumstances surrounding this program, historically documentation has been provided to us in prior audit engagements. Pursuant to the County of Stanislaus Purchasing Card Policy, the Purchasing Card Program is subject to annual audit and review.

Recommendation

We recommend the Department provide receipts and supporting documentation for all types of transactions in order to comply with an annual audit and review of the Purchasing Card Program as required by County policy. We also recommend the Department safeguard any sensitive information included in a purchasing card transaction as it has done in the past.

Department Response

The current Department Head continues to assert that to allow this documentation to be seen by non-law enforcement staff could endanger the protected witnesses and would be in violation of the protection program's guidelines.

C) Travel Authorizations

We noted the following findings related to Travel Authorization Forms:

- We noted the Travel Authorization Form supporting one transaction (totaling \$1,525.00) for travel related expenses was approved prior to travel, but subsequent to the purchase.
- We noted the approving signature on a Travel Authorization Form supporting one transaction (totaling \$350.00) was not dated. We were unable to determine whether the travel-related expense was approved timely.

- We noted one Travel Authorization Form supporting two travel related transactions (totaling \$27.34) was not thoroughly completed. Although the form was approved by authorized personnel, it omitted pertinent travel details, including but not limited to location, cost, and event information.

Pursuant to the County of Stanislaus Travel Policy, Travel Authorization Forms must be completed and approved prior to incurring travel related expenses and include supporting written documentation including the business purpose for the travel.

Recommendation

We recommend the Department review and revise their procedures to ensure Travel Authorization Forms are approved by appropriate personnel and thoroughly completed with signatures and dates prior to travel and the occurrence of travel related expenses.

Department Response

Authorized signers know that they are required to provide signature date when approving documents; additional training will be performed. Staff also know that unless there are extenuating circumstances Travel Authorizations are to be approved and dated prior to any expenditures or travel; in the cited case oral approval was given so staff could reserve spaces at the conference in a timely fashion, but this oral authorization was not documented in writing. Additional training will be performed to insure that staff comply with travel and purchasing card policy. Staff are also aware that now supporting documentation of conferences, training, etc must be supplied, such as flyers, advertisements, etc. This was not a requirement at the time of transactions but is being requested since implementation.



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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
ENVIRONMENTAL RESOURCES
PURCHASING CARD AUDIT**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County purchasing cards.

The audit period covered purchasing card activity during fiscal year 2009-2010. There were no Department Head transactions during the fiscal year. The remaining department purchasing card transactions consisted of 285 transactions in the amount of \$49,184.56. For our engagement, we selected 29 transactions (approximately 10%) in the amount of \$16,122.28 (approximately 33%) from the entire population for testing. The sample percentage was determined by a review of prior year audit reports and the selection of transactions appearing to be high risk purchases along with the remaining transactions randomly selected.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County Purchasing Card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

There are no major findings and recommendations for the Department purchasing card transactions during fiscal year 2009-2010.



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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
GENERAL SERVICES AGENCY
PURCHASING CARD AUDIT**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

The audit period covered purchasing card activity during fiscal year 2009-2010. We selected 100% of the purchasing card transactions incurred by the Department Head representing 1 transaction in the amount of \$2,092. The remaining department purchasing card transactions consisted of 564 transactions in the amount of \$95,890. For our engagement, we selected 86 transactions (approximately 15%) in the amount of \$31,787 (approximately 33%) from the entire population for testing. The sample percentage was determined by a review of prior year audit reports and the selection of transactions appearing to be high risk purchases along with the remaining transactions randomly selected.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County Purchasing Card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

There are no major findings and recommendations for the Department purchasing card transactions during fiscal year 2009-2010.



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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
GRAND JURY
PURCHASING CARD AUDIT**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

The audit period covered purchasing card activity during fiscal year 2009-2010. We select 100% of the purchasing card transactions incurred by the Department Head for testing. However, the Department Head did not have a purchasing card issued during the period under review. The remaining department purchasing card transactions consisted of 26 transactions in the amount of \$1,099.04. For our engagement, due to the number of transactions incurred during the fiscal year and a review of the prior year audit report, we elected 100% of the entire population for testing.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County Purchasing Card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

There are no major findings and recommendations for the Department purchasing card transactions during fiscal year 2009-2010.



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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
HEALTH SERVICES AGENCY
PURCHASING CARD AUDIT**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

The audit period covered purchasing card activity during fiscal year 2009-2010. We selected 100% of the purchasing card transactions incurred by the Department Head representing 2 transactions in the amount of \$792.58. The remaining department purchasing card transactions consisted of 862 transactions in the amount of \$156,343.16. For our engagement, we selected 172 transactions (approximately 20%) in the amount of \$88,926.69 (approximately 57%) from the entire population for testing. The sample percentage was determined by a review of prior year audit reports and the selection of transactions appearing to be high risk purchases along with the remaining transactions randomly selected.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County Purchasing Card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

There are no major findings and recommendations for the Department purchasing card transactions during fiscal year 2009-2010.



AUDITOR-CONTROLLER

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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
LOCAL AGENCY FORMATION COMMISSION
PURCHASING CARD AUDIT**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County purchasing cards.

The audit period covered purchasing card activity during fiscal year 2009-2010. We selected 100% of the purchasing card transactions incurred by the Department Head representing 20 transactions in the amount of \$1,479.64. The remaining department purchasing card transactions consisted of 27 transactions in the amount of \$2,180.84. Due to the small number of purchasing card transactions generated by the Department, we tested 100% of the Department's transactions.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County purchasing card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

There are no major findings and recommendations for the Department purchasing card transactions during fiscal year 2009-2010.



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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
LAW LIBRARY
PURCHASING CARD AUDIT**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

The audit period covered purchasing card activity during fiscal year 2009-2010. A Board of Trustees governs the Law Library with the president of the Board as the Head. The Board has delegated the Law Librarian as the Library's manager or Department Head. We selected 100% of the purchasing card transactions incurred by the Law Librarian or Department Head representing 21 transactions in the amount of \$2,251.25. The remaining department purchasing card transactions consisted of 7 transactions in the amount of \$433.36. Due to the number of transactions and the dollar amount involved, we elected the entire transaction population at 100% for testing.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County Purchasing Card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

While the findings discussed below may not, individually or in the aggregate, significantly impair compliance with the County Purchasing Card Program, they do present risks that can be more effectively controlled.

DEPARTMENT HEAD FINDINGS

A) Unpaid Use Tax not Reported

We noted six transactions (totaling \$677.65) for which sales tax was not paid at the time of purchase and the Department did not list the transactions on a Use Tax Log and submit it to the Auditor-Controller's Office on a monthly basis.

Recommendation

We recommend the Department review and revise its procedures and seek training to ensure credit card purchases for which sales tax was not paid are logged on a Use Tax or District Tax Log and submitted monthly to the Auditor-Controller's Office pursuant to the County of Stanislaus Purchasing Card Policy.

Department Response

Five out of the six transactions were out of state purchases. Sales tax was not charged. One transaction was a California purchase. Subsequent to the Findings Report, a Use Tax Log was filed with the Auditor including all six purchases and it was determined the California purchase need not be logged (per 12/3/10 email). A Use Tax Log for FY 2010/11 has been submitted to the Auditor for review that contains five Internet and/or out of state purchases.

B) Before Event Expenses

We noted three transactions (totaling \$262.47) for travel related expenses incurred prior to the event start date and the reason for approval of travel expenses during extended travel time before the event was not documented. Pursuant to the County travel policy, factors such as location should be considered when approving expenses for extended travel. Based on the locality of the event, the reason for approval of expenses prior to the event should be documented.

Recommendation

We recommend the Department Head document the reasons for approval of travel related expenses for extended travel time before or after an event. The department should consider reviewing and revising their procedures to ensure travel expenses incurred before and after an event are reasonable based on, but not limited to, the location of the event and the time of day the event begins and ends.

Department Response

\$11.97 Expense: This expenditure represents three dozen cookies purchased at Village Baking Company on Thursday 3/4/10. The cookies were for the attendees at the PacVal meeting held on Friday 3/5/10. Attendees provided break time refreshments.

Hampton Inn & Suites (Woodland): \$84.00 expenditure; 3/5/10 PacVal meeting at Yolo County Law Library; travel to Woodland is one mile short of the stated County Policy; trip took 1 hour and 45 minutes; Librarian drove to Woodland the afternoon before the meeting and attended a no-host librarian dinner the night before the meeting; overnight stay was approved by the President of the Law Library Board of Trustees on a Trip Authorization.

Embassy Suites (Sacramento): \$166.50 expenditure; 3/15/10 Council of California County Law Librarians meeting; Librarian drove to Sacramento the afternoon before the meeting and attended a no-host librarian dinner the night before the meeting; overnight stay was approved by the President of the Board of Trustees on a Trip Authorization.

As permitted by State law, the Law Library Board of Trustees has sole authority to establish policy and approve expenditures from the Trust Fund for operating costs.



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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
LIBRARY
PURCHASING CARD AUDIT**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

The audit period covered purchasing card activity during fiscal year 2009-2010. The Department Head did not incur any purchasing card transactions for the period under review. The remaining department purchasing card transactions consisted of 672 transactions in the amount of \$101,899.63. For our engagement, we selected 67 transactions (approximately 10%) in the amount of \$45,869.50 (approximately 45%) from the entire population for testing. The sample percentage was determined by a review of prior year audit reports and the selection of transactions appearing to be high risk purchases along with the remaining transactions randomly selected.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County Purchasing Card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

There are no major findings and recommendations for the Department purchasing card transactions during fiscal year 2009-2010.



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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
PARKS AND RECREATION DEPARTMENT
PURCHASING CARD AUDIT**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County purchasing cards.

The audit period covered purchasing card activity during fiscal year 2009-2010. There were no Department Head transactions during the fiscal year. The remaining department purchasing card transactions consisted of 651 transactions in the amount of \$78,666.20. For our engagement, we selected 65 transactions (approximately 10%) in the amount of \$34,695.57 (approximately 44%) from the entire population for testing. The sample percentage was determined by a review of prior year audit reports and the selection of transactions appearing to be high risk purchases along with the remaining transactions randomly selected.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County Purchasing Card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

There are no major findings and recommendations for the Department purchasing card transactions during fiscal year 2009-2010.



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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
PLANNING DEPARTMENT
PURCHASING CARD AUDIT**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County purchasing cards.

The audit period covered purchasing card activity during fiscal year 2009-2010. We selected 100% of the purchasing card transactions incurred by the Department Head representing 3 transactions in the amount of \$1,730.79. The remaining department purchasing card transactions consisted of 189 transactions in the amount of \$23,091.33. For our engagement, we selected 38 transactions (approximately 20%) in the amount of \$8,527.29 (approximately 34%) from the entire population for testing. The sample percentage was determined by a review of prior year audit reports and the selection of transactions appearing to be high risk purchases along with the remaining transactions randomly selected.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County Purchasing Card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

There are no major findings and recommendations for the Department purchasing card transactions during fiscal year 2009-2010.



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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
PROBATION
PURCHASING CARD AUDIT**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

The audit period covered purchasing card activity during fiscal year 2009-2010. We selected 100% of the purchasing card transactions incurred by the Department Head representing 20 transactions in the amount of \$4,153.29. The remaining department purchasing card transactions consisted of 1,572 transactions in the amount of \$229,184.73. For our engagement, we selected 157 transactions (approximately 10%) in the amount of \$93,705.94 (approximately 41%) from the entire population for testing. The sample percentage was determined by a review of prior year audit reports and the selection of transactions appearing to be high risk purchases along with the remaining transactions randomly selected.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County Purchasing Card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

While the findings discussed below may not, individually or in the aggregate, significantly impair compliance with the County Purchasing Card Program, they do present risks that can be more effectively controlled.

DEPARTMENT HEAD FINDINGS

A) WORKS Billing Statements

During our review of the Department's monthly WORKS Billing Statements, we noted the following:

- The Department Head review and approval of the monthly WORKS Billing Statement was not performed in a timely manner for three (3) periods under audit.
- The Department Head review and approval of the monthly WORKS Billing Statement was not performed timely by all designees for two (2) periods under audit.
- The Department Head review and approval of the monthly WORKS Billing Statement was not certified with a signature and date by all designees for two (2) periods under audit.
- The Department Head review and approval of the monthly WORKS Billing Statement for the last period of the fiscal year was not yet performed as of the date of the audit.

Pursuant to the County of Stanislaus Purchasing Card Policy, "Each month the Department Head shall certify in writing that all purchasing card charges are valid appropriate County expenses via the Bank of America WORKS Billing Statement, prior to the receipt of the next month's statement."

Recommendation

We recommend the Department review and revise its procedures to ensure the Department Head certifies in writing the review and approval of the WORKS Billing Statement via a signature and date in a timely manner to evidence compliance with policy requirements.

Department Response

Agreed. The department has significantly improved on this requirement, however, vacancies in the fiscal unit continue to impact this effort. The department is typically only one month in arrears, and strives to comply with the policy.

DEPARTMENT FINDINGS

A) No Use Tax Paid

We noted one transaction (totaling \$3,723.40) for which sales tax was not paid at the time of purchase and the Department did not list the transaction on the Use Tax Log and submit it, on a monthly basis when applicable, to the Auditor-Controller's Office. It should be noted the Department reported the transaction on a Use Tax Log to the Auditor-Controller's Office subsequent to the engagement.

Recommendation

We recommend the Department review and revise its procedures to ensure credit card purchases for which sales tax was not paid are logged on a Use Tax or District Tax Log and submitted monthly to the Auditor-Controller's Office pursuant to the County of Stanislaus Purchasing Card Policy.

Department Response

Agreed.



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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
PUBLIC DEFENDER
PURCHASING CARD AUDIT**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

The audit period covered purchasing card activity during fiscal year 2009-2010. We selected 100% of the purchasing card transactions incurred by the Department Head representing 6 transactions in the amount of \$218.58. The remaining department purchasing card transactions consisted of 104 transactions in the amount of \$21,384.60. For our engagement, we selected 25 transactions (approximately 24%) in the amount of \$13,642.86 (approximately 64%) from the entire population for testing. The sample percentage was determined by a review of prior year audit reports and the selection of transactions appearing to be high risk purchases along with the remaining transactions randomly selected.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County Purchasing Card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

There are no major findings and recommendations for the Department purchasing card transactions during fiscal year 2009-2010.



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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
PUBLIC WORKS
PURCHASING CARD AUDIT**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County purchasing cards.

The audit period covered purchasing card activity during fiscal year 2009-2010. We selected 100% of the purchasing card transactions incurred by the Department Head representing 15 transactions in the amount of \$789.46. The remaining department purchasing card transactions consisted of 616 transactions in the amount of \$114,883.37. For our engagement, we selected 60 transactions (approximately 10%) in the amount of \$33,010.33 (approximately 29%) from the entire population for testing. The sample percentage was determined by a review of prior year audit reports and the selection of transactions appearing to be high risk purchases along with the remaining transactions randomly selected.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County Purchasing Card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

There are no major findings and recommendations for the Department purchasing card transactions during fiscal year 2009-2010.



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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
STRATEGIC BUSINESS TECHNOLOGY
PURCHASING CARD AUDIT**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

The audit period covered purchasing card activity during fiscal year 2009-2010. We selected 100% of the purchasing card transactions incurred by the Department Head representing 20 transactions in the amount of \$1,864.43. The remaining department purchasing card transactions consisted of 91 transactions in the amount of \$15,978.13. For our engagement, we selected 25 transactions (approximately 27%) in the amount of \$8,287.48 (approximately 52%) from the entire population for testing. The sample percentage was determined by a review of prior year audit reports and the selection of transactions appearing to be high risk purchases along with the remaining transactions randomly selected.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County Purchasing Card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

There are no major findings and recommendations for the Department purchasing card transactions during fiscal year 2009-2010.



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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
SHERIFF'S DEPARTMENT
PURCHASING CARD AUDIT**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

The audit period covered purchasing card activity during fiscal year 2009-2010. We selected 100% of the purchasing card transactions incurred by the Department Head representing 13 transactions in the amount of \$2,682.17. The remaining department purchasing card transactions consisted of 1,773 transactions in the amount of \$213,786.23. For our engagement, we selected 355 transactions (approximately 20%) in the amount of \$80,657.63 (approximately 38%) from the entire population for testing. The sample percentage was determined by a review of prior year audit reports and the selection of transactions appearing to be high risk purchases along with the remaining transactions randomly selected.

METHODOLOGY

Audit methodology included the following procedures:

- A) We obtained a list of purchasing card transactions for each department directly from Bank of America.
- B) We verified the transactions were approved and dated by appropriate personnel.
- C) We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- D) We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- A) Interviewing department personnel and documenting the department's controls over purchasing cards.
- B) We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County Purchasing Card and the form was approved by an appropriate personnel.
- C) We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- D) We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

While the findings discussed below may not, individually or in the aggregate, significantly impair compliance with the County Purchasing Card Program, they do present risks that can be more effectively controlled.

DEPARTMENT HEAD FINDINGS

A) Company Billing Statements

The review of the monthly Company Billing Statements was not performed in a timely manner for eight out of twelve (8 of 12) periods under audit.

Recommendation

Pursuant to the County of Stanislaus Purchasing Card Policy, "Each month the Department Head shall certify in writing that all purchasing card charges are valid appropriate County expenses via the Bank of America Works Billing Statement, prior to the receipt of the next month's statement." We recommend all such approvals are performed in a timely manner, and signed and dated to evidence compliance with policy requirements.

Department Response

Management has reviewed the findings and recommendations and issued a Purchasing Card General Order to ensure compliance with County policies. Management will conduct periodic training to remind employees of County policies. While County policy requires the Department Head to certify in writing that all purchasing card charges are valid appropriate County expenses prior to the receipt of the next month's statement this is not always possible due to the number of transactions in the Sheriff's Department. Each transaction and supporting documentation is reviewed by the Finance staff and Business Manager prior to being approved in the purchasing card "Works" system. Only after all the transactions, missing receipt forms,

credit card statements, trip authorizations, deposits and employee reimbursements are processed is the Department Head provided with the Detail Transaction register to review and sign.

DEPARTMENT FINDINGS

A) Before-Event Expenses

We noted seven transactions included travel charges incurred the day before an event and the travel expenses did not appear to be necessary based on the location and time the events started. While the Department Head's Designee approved the before-event charges, the reasons for the before-event charges were not documented; therefore the additional charges are considered personal. Estimated additional expenses totaled \$517.69. The Department indicated that some of these expenses may have been reimbursed through a grant. The Department should evaluate the expenses and seek reimbursement of any expenses that are not reimbursed by a grant.

Recommendation

We recommend the Department review and revise their procedures to ensure travel expenses incurred before and after an event and lodging accommodations are reasonable (length of stay and rate) based on the location of the event and the time of day the event begins and ends. The Department Head or his/her designee must approve any before/after event travel expenses and the reason for the approval must be documented.

Department Response

Management has reviewed the findings and recommendations and issued a Purchasing Card General Order to ensure compliance with County policies. Management will conduct periodic training to remind employees of County policies. The Department standard practice is to provide before event lodging in locations like Sacramento, Fresno, Oakland, San Jose and San Francisco with a round trip of more than 50 miles. The Commission on Peace Officers Standards and Training (POST) allows for a days subsistence reimbursement when travel is a round trip of 50 miles or more. Below is Section 4-10 from the POST Administrative Manual:

4-10.Subsistence for Enroute Travel Time:

Subsistence will be reimbursed for enroute time not to exceed 24 hours of subsistence allowance at the daily subsistence established by the Commission for the fiscal year. The subsistence allowance for enroute travel time will be calculated as a fraction of a day's subsistence allowance and will be proportional to the distance traveled between the trainee's station assignment and the training institution. A round trip of less than 50 miles will not be eligible for any enroute subsistence, and a round trip of greater than 400 miles may receive no more than one day of enroute subsistence.

POST Bulletin #2008-11, Expenditure Reduction Actions for Fiscal Year 2008/2009.

The POST approved daily subsistence (lodging and meals) suspended high-cost lodging allowance effective September 1, 2008. Reimbursement for all subsistence (lodging and meals) will be \$124 per day in all locations. This bulletin was dated July 18, 2008 and remained in effect until July 8, 2010 when Bulletin #2010-08 was issued.

B) Monthly Purchasing Card Reconciliation

During our testing of the Department's monthly reconciliations of the purchasing card statements, we noted the reconciliation of eleven purchasing card statements out of a total of one hundred and eighty-five (11 of 185) purchasing card statements examined were not performed timely. We did note, however, that the number and percentage of purchasing card statements not reconciled timely has significantly dropped from the prior audit period.

Recommendation

Per the County Purchasing Card Policy, purchasing card transactions shall be reconciled to the monthly statements prior to receiving the next month's statements.

Department Response

Management has reviewed the findings and recommendations and has issued a Purchasing Card General Order to ensure compliance with County policies. Management will conduct periodic training to remind employees of the County policies. While County policy requires the Department Head to certify in writing that all purchasing card charges are valid appropriate County expenses prior to the receipt of the next month's statement this is not always possible due to the number of transactions in the Sheriff's Department. Each transaction and supporting documentation is reviewed by the Finance staff and Business Manager prior to being approved in the purchasing card "Works" system. Only after all the transactions, missing receipt forms, credit card statements, trip authorizations, deposits and employee reimbursements are processed is the Department Head provided with the Detail Transaction register to review and sign.



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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
STANCERA
PURCHASING CARD AUDIT**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County purchasing cards.

The Stanislaus County travel policy that was approved June 15, 2004, contains a provision for StanCERA travel costs. That travel policy states that a travel policy adopted by the StanCERA Board shall be the controlling document for all StanCERA travel costs. The provision in the County travel policy further states that the Retirement Board may also approve other business related expenses such as tips for taxi or airport shuttle drivers, on-line communications, or any other expense the Retirement Board deems to be an appropriate business expense. Due to this provision, Stanislaus County's travel policy is no longer the controlling document for StanCERA travel costs. We did not audit the Agency's travel expenses for the time period covered by the audit. Our total population and sample population are based on non-travel purchasing card transactions only.

The audit period covered purchasing card activity during fiscal year 2009-2010. The Department Head did not incur any purchasing card transactions during the period under audit. The remaining department purchasing card transactions consisted of 87 transactions in the amount of \$11,198.10. For our engagement, we selected 25 transactions (approximately 29%) in the amount of \$2,644.37 (approximately 24%) from the entire population for testing. The sample percentage was determined by a review of prior year audit reports and the selection of transactions appearing to be high risk purchases along with the remaining transactions randomly selected.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County purchasing card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

There are no major findings and recommendations for the Agency's purchasing card transactions during fiscal year 2009-2010.



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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
STANISLAUS REGIONAL 9-1-1
PURCHASING CARD AUDIT**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

The audit period covered purchasing card activity during fiscal year 2009-2010. We selected 100% of the purchasing card transactions incurred by the Department Head representing 2 transactions in the amount of \$240. The remaining department purchasing card transactions consisted of 218 transactions in the amount of \$50,878. For our engagement, we selected 25 transactions (approximately 11%) in the amount of \$16,788 (approximately 33%) from the entire population for testing. The sample percentage was determined by a review of prior year audit reports and the selection of transactions appearing to be high risk purchases along with the remaining transactions randomly selected.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County Purchasing Card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

There are no major findings and recommendations for the Department purchasing card transactions during fiscal year 2009-2010.



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**STANISLAUS COUNTY
EXECUTIVE SUMMARY
TREASURER TAX COLLECTOR
PURCHASING CARD AUDIT**

BACKGROUND

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program which was included in the Fiscal Year 2010-2011 annual audit schedule and approved by the Board of Supervisors.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card and Travel Policies as well as the Department Policy, if applicable, in effect at the time of the purchases. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

The audit period covered purchasing card activity during fiscal year 2009-2010. We selected 100% of the purchasing card transactions incurred by the Department Head representing 3 transactions in the amount of \$2,600. The remaining department purchasing card transactions consisted of 158 transactions in the amount of \$29,436. For our engagement, we selected 25 transactions (approximately 16%) in the amount of \$11,217 (approximately 38%) from the entire population for testing. The sample percentage was determined by a review of prior year audit reports and the selection of transactions appearing to be high risk purchases along with the remaining transactions randomly selected.

METHODOLOGY

Audit methodology included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card and Travel Policies.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card and Travel policies.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County Purchasing Card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

We appreciate the courtesies and cooperation extended to the Internal Audit Division during the audit process.

FINDINGS AND RECOMMENDATIONS

There are no findings and recommendations for the Department purchasing card transactions during fiscal year 2009-2010.



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STANISLAUS COUNTY INTERNAL AUDIT REPORT

ASSESSOR TRANSITION AUDIT

ENGAGEMENT PURPOSE AND BACKGROUND

The County Assessor is an elected position. The outgoing County Assessor did not seek reelection during June 2010 and his term ended January 4, 2011. California Government Code Section 24051 requires a true copy of inventory be delivered by the person who made it to his or her successor in office. California Government Code and County Code also require the preparation of specific documents related to the transition for both the incoming and outgoing officer. This engagement was conducted to ensure certain affidavits, authorizations, disclosures, and reports were properly completed and processed. Completing the required documents provides for an orderly transition of officers, and establishes proper accountability for public assets.

OBJECTIVES

The primary objective of this examination is to determine whether appropriate actions have been taken to accomplish the transfer of accountability and administrative functions from the preceding to the succeeding Assessor and to determine whether the Department's assets were properly accounted for and reported in the accounting records as of January 4, 2011.

SCOPE

In order to achieve our audit objectives, we performed the following:

- Verified that the change funds were properly accounted for and balances were reasonably stated.
- Confirmed that fixed assets were accounted for properly, recorded properly in the County financial records, and transferred to the incoming Assessor.
- Verified that required documents, such as the Form 700, Oath of Office Form, and Signature Authorization Forms were completed.
- Determined whether the outgoing Assessor's final paycheck is accurately calculated.

STANDARDS

We conducted our engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

CONCLUSION

Based on the procedures performed, we found that accountability and administrative functions were satisfactorily transferred from the incoming to the outgoing County Assessor and the Department's assets were properly accounted for and recorded in the County financial records.

While we did not find any significant matters, our results disclosed several issues that should be addressed by the Assessor's office and are described in the Management Comments section within the following pages.

MANAGEMENT COMMENTS

MC-1 Written Procedures for Transition

Observation: We noted during fieldwork that there are no written procedures for the transition of officers. Written procedures document business processes, personnel responsibilities, and departmental operations. They promote uniformity in executing and recording transactions and serve to strengthen internal controls. In addition, written procedures provide continuity with processes when assigned employees are not available or leave employment.

Recommendation: We recommend the Assessor's Office document the necessary procedures for the transition of officers to ensure an orderly transfer of accountability for public assets and maintain a secure workplace. The procedures should include but not be limited to processes for obtaining required forms for both incoming and outgoing officers, obtaining signature authorizations, documenting transfer of assets, collecting proximity cards and office keys, cancelling internet access and cancelling purchasing cards.

Department Response: The assessor agrees with the recommendation, but due to budget issues the assessor does not have staffing at this time to create the county policy. However, if the county creates a general policy or the Auditor-Controller, which also had a new department head elected, creates a policy the assessor will update the policy for specific differences related to the assessor's office. If there is not a policy created before the next new assessor is elected the assessor will document the transfer process at that time.

MC-2 Cash Funds

Observation: The Assessor's Office lists a \$25 postage fund in the County's financial records. Staff in the Assessor's Office was unaware of the existence of this fund. We followed up with staff from the Auditor-Controller's office and they were unable to provide documentation or confirm the existence of this fund.

Recommendation: The Assessor's Office should take the necessary steps to determine if the \$25 Postage Fund exists. If the fund is not in use the Assessor's Office will need to notify the Auditor's Office of such in order to have the balance removed from the financial records.

Department Response: The assessor was unaware that this fund existed. The assessor will send a memo to the auditor-controller requesting that this account be closed.

MC-3 Asset/Inventory Transfer

Observation: Per Government Code Section 24051(c), "A true copy of the inventory shall be delivered by the person who made it to his or her successor in office, who shall receipt for it. The receipt shall be filed with the County Clerk or County Auditor." We believe the intent of the Government Code is for the documented transfer to occur at the time of change in leadership. We noted during fieldwork that the transfer of assets upon transition of officers was not documented in writing including signature of receipt by the incoming officer.

Recommendation: The Assessor's Office should provide a listing of the assets, including but not limited to cash balance, trust fund balance, inventory, fixed assets, minor equipment and supplies, to the incoming officer to document the receipt of the assets being transferred per government code. The original signed receipt should be forwarded to the Auditor-Controller for retention.

Department Response: The assessor will comply with this recommendation. The county does not have a written policy or standard form for the asset transfer therefore the assessor will create a form and use the 1/4/2011 fixed asset list as the inventory for the transition to the new assessor. The fixed asset list was audited as of 7/1/2010 and was considered accurate. It has been updated for the period 7/1/2010 to 1/4/2011. The new assessor will sign the confirmation of assets present when he took office form.

MC-4 Assets < \$1,000 Not Included in Equipment Inventory List

Observation: We noted that expensed equipment costing less than \$1,000 is not listed on the Inventory Equipment List. While there is no County Policy regarding documentation of inventory less than \$1,000, the Auditor-Controller's Office has developed 'Accounting Guidelines' that recommend the documentation of such. These guidelines are based on accounting best practices recommending the equipment that falls in this category be safeguarded against theft and abuse. The guidelines also provide a list of minor equipment which falls under this category. We did note that a list of minor equipment such as computers and copiers is maintained including a county asset tag number however this list does not appear to be complete or updated as it includes several pieces of salvaged equipment. The list does not include purchase date or cost. We also noted there are no written procedures for the department to ensure employees responsible for maintaining the equipment inventory comply with county guidelines and policies for capital assets or minor equipment.

Recommendation: Per the Auditor-Controller Accounting Guidelines for Capital Asset Inventory under Inventoriable Equipment, minor equipment (items that may cost less than \$1,000) is considered to be pilferable property and requires scrutiny and inclusion on property records. Also per the guidelines, "The Department is responsible for developing and implementing procedures necessary to safeguard all County property under the control of the Department." The Assessor's Office should review and revise the processes in place and document such to include all equipment required to be in the inventory list. In addition, documenting policies and procedures promotes uniformity in executing and recording transactions and serves to strengthen internal controls thereby safeguarding County assets and minimizing the risk of loss, inappropriate usage, damage, and/or destruction.

Department Response: The assessor complies with the county guidelines. It is our policy to expense all items costing less than \$1,000. The assessor has not encountered any problems with missing equipment and therefore the time spent creating additional tracking systems is unnecessary and an inefficient use of staff time. If the "pilferable" items disappear our employees could not do their job. The assessor does keep a separate listing of our computers to track rotation and replacement. The assessor disagrees with the audit comments regarding the computer list and believes that the listing is updated and accurate. It may not be pretty, but it is accurate.