ORANGE COUNTY AUDITOR-CONTROLLER MANAGEMENT LETTER ON AUDIT OF STATEMENT OF ASSETS HELD BY COUNTY TREASURY AS OF DECEMBER 31, 2001

Issued: May 1, 2002

Audit Number 2104

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COUNTY OF ORANGE

INTERNAL AUDIT DEPARTMENT

ORANGE COUNTY AUDITOR-CONTROLLER **MANAGEMENT LETTER** ON AUDIT OF

STATEMENT OF ASSETS HELD BY COUNTY TREASURY AS OF DECEMBER 31, 2001

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APPENDIX: Auditor-Controller Responses (Full Text)



PETER HUGHES, Ph.D., CPA, CIA, CFE Director

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INTERNAL AUDIT DEPARTMENT

File No. 2104

May 1, 2002

MANAGEMENT LETTER

David E. Sundstrom Auditor-Controller 12 Civic Center Plaza, Room 205 Santa Ana, CA 92701

Pursuant to Government Code 26920(b) and 26921 through 26923, we have audited the Statement of Assets Held by the County Treasury as of December 31, 2001 and have issued our report dated March 29, 2002.

In conducting our audit, we performed limited testing of Auditor-Controller records for the purpose of expressing an opinion on the financial statement. However, we noted certain matters involving the records that we consider being reportable conditions under the standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls that in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement.

The significant deficiencies we observed are discussed in the Findings, Recommendations, and Responses section of this report and should be corrected to strengthen the internal controls and enhance assurance that internal control procedures are adequate to achieve reliability of financial reporting.

The Auditor-Controller is responsible for establishing and maintaining the internal control framework for his Department. In fulfilling this responsibility, judgments by management are required to assess the expected benefits and related costs of internal control framework policies and procedures. The objectives of an internal control framework over financial reporting are to provide management with reasonable, but not absolute, assurance that reliability of financial reporting is achieved with established criteria and management's policies.

David E. Sundstrom May 1, 2002

This report was discussed with representatives of the Auditor-Controller management; their responses have been incorporated in the report. This report is intended solely for the use of the Auditor-Controller management and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

We appreciate the cooperation and assistance extended to us by the personnel of the Auditor-Controller during our examination.

Respectfully submitted,

Dr. Peter Hughes, CPA Director, Internal Audit

Distribution:

Members, Board of Supervisors Members, Audit Oversight Committee Dr. Michael Schumacher, County Executive Officer Foreman, Grand Jury Darlene J. Bloom, Clerk of the Board

FINDINGS, RECOMMENDATIONS, AND RESPONSES

I. Reconciling (Outstanding) Items

During our tests of the Auditor-Controller's reconciliations of payroll cash and welfare to the Treasurer's cash balances, we noted there were 59 reconciling (outstanding) items that were six months or older (as of 12/31/01) and no evidence of an ongoing effort to resolve the items during the six months before quarter end.

On the Payroll Cash Reconciliation as of 12/31/01, there were 14 outstanding items with dates ranging from 1/18/96 to 4/27/01, and amounts ranging from \$.01 to \$1,461.33, totaling \$5,493.87. On the Welfare Reconciliation as of 12/31/01, there were 45 outstanding items with dates ranging from 6/8/00 to 6/20/01, and amounts ranging from \$3.00 to \$4,384.00, totaling \$23,674.87.

Recommendation No. 1

We recommend Auditor-Controller management ensure reconciling (outstanding) items are completely and timely resolved and on-going efforts to resolve the items are documented and monitored.

Auditor-Controller Response:

Concur. The General Ledger Unit has implemented a monthly procedure to ensure that reconciling items are disposed of in a timely manner. Of the 59 items cited in the finding, 41 of the Welfare items have been established as receivables for Social Services Agency. The remaining 4 Welfare reconciling items and the 14 Payroll reconciling items are being investigated and should be fully resolved by the end of April.



AUDITOR-CONTROLLER COUNTY OF ORANGE

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DAVID E. SUNDSTROM, CPA AUDITOR-CONTROLLER

April 29, 2002

TO: Peter Hughes, Director, Internal Audit Department

INTERNAL AUDIT

SUBJECT: Response to Cash Reconciliation Finding

The following is our response to a finding in your draft "Management Letter on Audit of Statement of Assets Held by the County Treasury" at December 31, 2001, dated April 5, 2002.

Recommendation No. 1

We recommend Auditor-Controller management ensure reconciling (outstanding) items are completely and timely resolved and on-going efforts to resolve the items are documented and monitored.

Response: Concur

The General Ledger Unit has implemented a monthly procedure to ensure that reconciling items are disposed of in a timely manner. Of the 59 items cited in the finding, 41 of the Welfare items have been established as receivables for Social Services Agency. The remaining 4 Welfare reconciling items and the 14 Payroll reconciling items are being investigated and should be fully resolved by the end of April.

Should you have any questions or need further information, please contact Monica Griffin, General Ledger Manager, at 834-2481.

David E. Sundstrom Auditor-Controller

MG:lr IAD Mgmt Resp/ops