



O R A N G E C O U N T Y

AUDITOR-CONTROLLER

I N T E R N A L A U D I T

COUNTYWIDE AUDIT OF FIDUCIARY FUNDS:

OC COMMUNITY RESOURCES

For the Period
July 1, 2014 through
June 30, 2015



Audit Number 1519
Report Date: March 15, 2016



O R A N G E C O U N T Y
AUDITOR-CONTROLLER
I N T E R N A L A U D I T

Eric H. Woolery, CPA
Orange County Auditor-Controller

Toni Smart, CPA	Director, Internal Audit
Michael Goodwin, CPA, CIA	Assistant Director
Lily Chin, CPA, CGMA	Audit Manager II
Michael Steinhaus, CPA, CGMA	Audit Manager I

12 Civic Center Plaza, Room 200
Santa Ana, CA 92701

Auditor-Controller Web Site
www.ac.ocgov.com



ERIC H. WOOLERY, CPA
AUDITOR-CONTROLLER



Transmittal Letter

Audit No. 1519

March 15, 2016

TO: Steve Franks, Director
OC Community Resources

SUBJECT: Countywide Audit of Fiduciary Funds:
OC Community Resources

We have completed our audit of internal controls over fiduciary funds in OC Community Resources for the period July 1, 2014 through June 30, 2015. Our final report is attached for your review.

I submit an **Audit Status Report** quarterly to the Audit Oversight Committee (AOC) and a monthly report to the Board of Supervisors (BOS) where I detail any critical and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the AOC and BOS.

Additionally, we will request your department to complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

Toni Smart, CPA, Director
Auditor-Controller Internal Audit Division

Attachments

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Eric Woolery, Auditor-Controller
- Frank Kim, County Executive Officer
- Lilly Simmering, Deputy Chief Operating Officer
- Connie Chang, Manager, OCCR/Budget and Financial Management
- Brian Rayburn, Business Practices Manager, OCCR
- Tonya Riley, Director, Satellite Accounting Operations, A-C
- Win Swe, Manager, OCCR/Accounting Services
- Susan Long, Manager, OCCR/Accounting Services
- Foreperson, Grand Jury
- Robin Stieler, Clerk of the Board of Supervisors
- Macias Gini & O'Connell LLP, County External Auditor



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OC Community Resources
Audit No. 1519***

For the Period July 1, 2014 through June 30, 2015

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Internal Auditor's Report

Audit No. 1519

March 15, 2016

TO: Steve Franks, Director
OC Community Resources

FROM: Toni Smart, CPA, Director
Auditor-Controller Internal Audit Division

SUBJECT: Countywide Audit of Fiduciary Funds:
OC Community Resources

OBJECTIVES

As part of a Countywide Audit of Fiduciary Funds, we have completed our audit of internal controls over fiduciary funds in OC Community Resources (OCCR) for the period July 1, 2014 through June 30, 2015. We conducted this audit to ensure fiduciary funds are properly administered and maintained in compliance with County policy, procedures and fund requirements. Our audit objectives were to:

1. Evaluate internal controls to ensure fiduciary fund transactions are accurate, valid, adequately supported, processed timely, properly recorded and that fund receipts and disbursements are made in accordance with the established fund purpose and uses.
2. Evaluate internal controls to ensure fiduciary fund reconciliations are accurate, complete and timely in compliance with County policy and departmental policy.
3. Evaluate for proper segregation of duties and management reviews and approvals related to the administration of fiduciary funds.
4. Determine if administration of fiduciary funds is effective and efficient (e.g. no backlogs, duplication of work, benefit in automating manual process).

RESULTS

Objective #1: Our audit found that internal controls are in place to ensure fiduciary fund transactions are accurate, valid, supported, processed timely, properly recorded and made in accordance with established fund purpose and uses. We have **no audit findings under this objective.**

Objective #2: Our audit found that internal controls over fund reconciliations are generally in place to ensure fiduciary fund reconciliations are accurate, complete and timely in compliance with County and departmental policy, with the following exceptions. Monthly reconciliations for Funds 177 and 323 were not performed and the funds do not have subsidiary records. The monthly reconciliation for Fund 326 has thirty (30) reconciling items that are outstanding greater than six months. We identified two **Control Findings** to enhance internal controls over fiduciary fund reconciliations.

Objective #3: Our audit found that internal controls are in place regarding segregation of duties and management reviews and approvals of fiduciary fund transactions and fund reconciliations. We have **no audit findings under this objective.**

Objective #4: Our audit did not disclose any instances of duplication of work or backlogs; however, we did find that documentation for establishing fiduciary funds, known as Chart of Accounts (COFAs), were old, and were based on memos with limited information compared to the current COFA format requirements. We identified one **Control Finding** to evaluate the funds with old documentation and work with OCCR Accounting to update the COFAs as determined necessary by management.



Internal Auditor's Report

BACKGROUND

We conducted a Countywide Audit of Fiduciary Funds to ensure funds are properly administered and maintained in compliance with County policy, procedures and fund requirements. This report is on our audit of selected fiduciary funds administered by OCCR. We are issuing separate reports for our audits of fiduciary funds in the County Executive Office, Child Support Services, Clerk-Recorder, District Attorney/Public Administrator, Health Care Agency/Public Guardian, OC Public Works, Probation, Registrar of Voters, Sheriff-Coroner, and Treasurer-Tax Collector.

Fiduciary funds are used to account for assets held by the County in a trustee or agency capacity on behalf of outside parties, including employees, individuals, private organizations or other governments. These funds cannot be used to support the County's programs. Fiduciary funds are to be used and accounted for in accordance with applicable legal requirements; Federal, State, and other governmental regulations; trust agreements, trust indentures, or other fiduciary agreements; and generally accepted accounting principles.

County Accounting Manual (CAM) Procedures F-3, *Requesting Establishment/Deletion of Funds/Agency* and F-4, *Fiduciary Funds* provide the policy, procedures and internal control requirements for establishing and maintaining fiduciary funds. Fiduciary funds are classified as either: 1) Private-Purpose Trust Funds; 2) Pension and Other Employee Benefits Trust Funds; and 3) Agency Funds. For this audit, we are including only select Private-Purpose Trust Funds and Agency Funds as described below:

Public Administration Trust Funds (Fund Class U1) – This type of private-purpose trust fund is used to account for trust arrangements where the principal and income benefit individuals, private organizations, or other governments. Examples include unidentified funds, unclaimed prisoner funds, and decedents' property held for escheatment.

Agency Funds (Fund Class A5) – This type of agency fund is used by certain County departments to hold various types of cash receipts and deposits in a fiduciary capacity. Disbursements are made from these funds by checks issued by the Auditor-Controller upon requisition of the responsible department.

As of June 30, 2015, OCCR had the following fiduciary funds:

Fund	Fund Class	Name/Date Established	Purpose	FY 14/15 Receipts/Disbursements	Fund Balance at 6/30/15
153	A5	Local Parks Fund Established: Apr. 1971	Development of local parks	Receipts: \$341,936 Disbursements: \$381,453	\$135
156	A5	Recreational Facility Donations Established: Nov. 1981	Reimbursements for purposes specified by donor	Receipts: \$298,301 Disbursements: \$682	\$727,299
177	A5	Deferred Loan Program (HUD) Established: Feb. 1979	Account for monies received from HUD under the Housing and Community Development Block Grants that will be used for a 0 % interest loan program	Receipts: \$26,317 Disbursements: \$26,321	\$0
180	A5	Amortized Loan Program (HUD) Established: Sept. 1983	Account for monies received from HUD that will be used for amortized loans to low/moderate income homeowners for rehabilitation work	Receipts: \$335,199 Disbursements: \$335,187	\$0
323	A5	Animal Shelter Established: June 1968	Depositing unidentified funds and incorrectly collected fees that should be refunded	Receipts: \$0 Disbursements: \$2,100	\$101



Internal Auditor's Report

Fund	Fund Class	Name/Date Established	Purpose	FY 14/15 Receipts/Disbursements	Fund Balance at 6/30/15
325	A5	Domestic Violence Programs Established: Unknown	Residual funds closed out and moved to Fund 124 back in June 2009. Notified OCCR Budget 8/12/15 to close this fund. Pending OCCR Director's approval	Receipts: \$0 Disbursements: \$0	\$0
326	A5	OC Community Resources Established: Jan. 2009	Hold security deposits	Receipts: \$181,560 Disbursements: \$178,331	\$816,077
876	A5	Block Grant Program Income (HUD) Established: Sept 1983	Hold program income	Receipts: \$536,884 Disbursements: \$516,928	\$0

Note: We limited our testing of disbursements and reviewed ending fund balances in Funds 156 and 326. We performed testing of fund reconciliations for Funds 153, 156, 180, 326 and 876. Because we only performed testing on select fiduciary funds in OCCR, **it is important that the OCCR determine if the findings and recommendations contained in this report are applicable to other fiduciary funds under its administration.**

SCOPE AND METHODOLOGY

Our audit of internal controls over fiduciary funds administered by OCCR was performed to ensure fiduciary funds are properly administered, safeguarded and maintained in compliance with County policy, procedures and specific fund requirements for the period from July 1, 2014 through June 30, 2015. Our audit included inquiry, auditor observation, and limited testing for assessing the adequacy of internal controls and compliance with established County and departmental procedures. We limited our scope for our Countywide Audit of Fiduciary Funds to select Public Administration Trust Funds (Fund Class U1) and Agency Funds (Fund Class A5).

Scope Exclusions. We did not include the following funds in our Countywide Audit of Fiduciary Funds. These will be considered for future audits based on our risk assessment and audit planning process:

- Fund Class: A2 – Unapportioned Tax and Interest Funds
- Pension Trust & Other Employee Benefits (Fund Class P1, P2, P3, P4, P5, P6)
- Fund Class U2 – OCDA Redevelopment Private Purpose Trust Fund

FOLLOW-UP PROCESS

Please note we have a structured and rigorous **Follow-Up Audit** process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). Our **First Follow-Up Audit** will begin at six months from the official release of the report. A copy of all our Follow-Up Audit reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution list.

The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our **Second Follow-Up Audit** will begin at six months from the release of the first Follow-Up Audit report, by which time **all** audit recommendations are expected to be addressed and implemented. We bring to the AOC's attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. Such open issues appear on the AOC agenda at their next scheduled meeting for discussion.

We have attached a **Follow-Up Audit Report Form**. Your department should complete this template as our audit recommendation is implemented. When we perform our first Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed form to facilitate our review.



Internal Auditor's Report

MANAGEMENT'S RESPONSIBILITIES FOR INTERNAL CONTROLS

In accordance with the Auditor-Controller's County Accounting Manual Section S-2 Internal Control Systems: "All County departments/agencies shall maintain effective internal control systems as an integral part of their management practices. This is because management has primary responsibility for establishing and maintaining the internal control system. All levels of management must be involved in assessing and strengthening internal controls." Control systems shall be continuously evaluated by Management and weaknesses, when detected, must be promptly corrected. The criteria for evaluating an entity's internal control structure is the Committee of Sponsoring Organizations (COSO) control framework. Our Internal Control Audit enhances and complements, but does not substitute for OC Community Resources' continuing emphasis on control activities and self-assessment of control risks.

Inherent Limitations in Any System of Internal Control

Because of inherent limitations in any system of internal controls, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in OC Community Resources' operating procedures, accounting practices, and compliance with County policy.

The Auditor-Controller Internal Audit Division is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations.

ACKNOWLEDGEMENT

We appreciate the courtesy extended to us by the personnel of OC Community Resources during our audit. If you have any questions regarding our audit, please contact me directly at 834-5442, or Lily Chin, Audit Manager at 834-4096.



Detailed Findings, Recommendations and Management Responses

Finding No. 1 – No Subsidiary Records and Reconciliations for Funds 177 and 323 (Control Finding)

Criteria

County Accounting Manual (CAM) F-4, Section 2.6.5 *Reconciliation of Fiduciary Funds* states that departments and agencies are responsible for reconciling, at least monthly, each fiduciary fund balance per the department's or agency's subsidiary ledger records or other detailed records to the Auditor-Controller's General Ledger balance shown for the fiduciary fund.

Details

Fund 177 – *Deferred Loan Program (HUD)* is used to account for monies received from HUD under the Housing and Community Development Block Grants that are used for a 0% interest loan program. Fund 323 – *Animal Shelter* is used for depositing unidentified funds and fees that were incorrectly collected that need to be refunded.

OCCR Accounting reported to us that it does not maintain subsidiary ledgers or perform monthly reconciliations for Funds 177 and 323. OCCR Accounting reviews these funds annually during a General Ledger review and certification of funds as requested by County external auditors. However, we were informed by Auditor-Controller General Accounting that annual General Ledger review and certification is not a substitute for departments/agencies maintaining subsidiary records and performing monthly fund reconciliations.

OCCR Accounting informed us that subsidiary records for Fund 177 are being developed for Notes Receivable, which comprises the largest amount in the fund. They also plan on using an Excel spreadsheet as a subsidiary record to track cash receipts placed into suspense into Fund 323. Maintaining subsidiary records and performing reconciliations of the subsidiary records to the General Ledger helps ensure the completeness and accuracy of transactions and fund balances in the fiduciary funds, and ensures the funds are safeguarded and monitored for unusual activity.

Recommendation No. 1:

OCCR Accounting take measures to establish subsidiary records and perform reconciliations of Funds 177 and 323.

OC Community Resources Management Response:

Concur. A subsidiary ledger for Fund 177 has been created and a monthly reconciliation procedure is also being implemented. A subsidiary ledger and monthly reconciliation procedure is being implemented for Fund 323. Fund 323 currently has a zero balance. Additionally, OCCR Accounting will work with OCCR to determine the possibility of closing Fund 323.

Finding 2 – Fund 326 Long-Outstanding Reconciling Differences (Control Finding)

Criteria

CAM F-4, *Fiduciary Funds*, Section 2.6.5 states that reconciliations must identify the differences between the department's or agency's detailed or subsidiary records and the General Ledger balance of the fund, the reasons for those differences, and the planned disposition of any reconciling items.

Details

OCCR Accounting maintains subsidiary records and performs monthly reconciliations for Fund 326 – *OC Community Resources*. This fund is used to hold refundable security deposits for OC Parks. Our audit found that there are several reconciling differences that have not been resolved for Fund 326, and have been outstanding for a period of six months or longer. (Note: we are not reporting on reconciling items less than six months old.) Our audit found thirty (30) reconciling items that net to \$950 and have been outstanding since January 2015. These reconciling items are identified on the June 2015 reconciliation.



Detailed Findings, Recommendations and Management Responses

Recommendation No. 2:

OCCR Accounting work towards resolving the long-outstanding reconciling differences in Fund 326.

OC Community Resources Management Response:

Concur. The differences are due to timing between events and receipt of surety deposits for events at OC Parks. Differences are currently being researched and steps are being implemented with OC Parks to prevent future differences. All differences will be identified by March 31, 2016.

Finding 3 – Fiduciary Fund Document Lacking Required Elements (Control Finding)

Criteria

CAM F-3, *Requesting Establishment/Deletion of Funds/Agencies*, Section 2.3 states:

“The AIT or request letter must contain the following information: (A) The legal authority for establishing the new fund or agency; (B) If no legal authority, the policy/administrative reason or other authority for establishing the fund or agency; (C) Whether or not the fund or agency is a budgeted fund or agency, and if available, the Activity Code to be used for this budget; (D) A description of the revenue sources for the fund or agency, and the uses of the fund or agency; (E) Any expiration date for the fund or agency; (F) Whether the fund will earn its own interest, or if it does not, which other fund should receive the interest earned on balances in the new fund (this does not apply to new agencies); (G) If the fund will not earn its own interest, the reason for the redirection of interest: legal or contractual provision, or management decision; (H) The specific account codings and dollar amounts or appropriations and estimated revenues to be established for the fund or agency, if the fund or agency is being established pursuant to 2.2.3 above; (I) The responsible controlling department for the new fund or new agency; and (J) For funds with separate cash accounts, the planned disposition of any residual account balances when the fund is closed. Include legal or other authority for the distribution.”

Details

Chart of Accounts (COFAs) are documents used to establish or modify various funds in the County. Our audit found that OCCR had a COFA in the current format for Fund 326 – OC Community Resources. For the other fiduciary funds included in this audit (Funds 153, 156, 180, 323 and 876), instead of a COFA, OCCR provided us memos dated from 1968, and some dated in the 1970s and 1980s, which occurred prior to the implementation of the of the Auditor-Controller policy. Because these funds were established prior to the existing policy, the memos lack certain elements as required by the policy, such as citing legal or other authority for fund distributions, expiration dates, whether it is interest bearing, and the planned disposition of any account residual balances when the fund is closed. Some of the elements are contained in the old memos, but some are very limited in the information provided.

Auditor-Control General Accounting is responsible for establishing and maintaining COFA documents. They are aware that some of the fund establishment documents are old and lack the elements that are required. Currently, if a department/agency requests a revision to a COFA that is not in the current format, the Auditor-Controller will require them to use the current COFA format that includes all required elements. We were informed by Auditor-Controller General Accounting that it is a goal to eventually have all COFAs in the current format. OCCR should work with OCCR Accounting in determining which COFAs can be updated. Our audit did not find any issues arising from the old COFAs.

The absence of complete written fiduciary fund documentation increases the risk of misunderstandings and miscommunication regarding rights, responsibilities and authorized uses for the department or agency holding the fiduciary funds in a trustee capacity.



Detailed Findings, Recommendations and Management Responses

Recommendation No. 3:

OCCR work with OCCR Accounting to prepare a COFA for the fiduciary funds noted above that includes all the required elements.

OC Community Resources Management Response:

Concur. OCCR Accounting will work with OCCR management to prepare current COFAs to include all of the required elements for Funds 153, 156, 180, 323 and 876. Additionally, OCCR Accounting will examine all funds currently within OC Community Resources to ensure all required elements are included in the COFA.



Detailed Findings, Recommendations and Management Responses

ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit findings and recommendations, we will classify audit report items into three distinct categories:

▶ **Critical Control Weaknesses:**

These are Audit Findings or a combination of Auditing Findings that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise the Department's or County's reputation for integrity. Management is expected to address Critical Control Weaknesses brought to their attention immediately.

▶ **Significant Control Weaknesses:**

These are Audit Findings or a combination of Audit Findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses require prompt corrective actions.

▶ **Control Findings:**

These are Audit Findings concerning internal controls, compliance issues, or efficiency/effectiveness issues that require management's corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.



Detailed Findings, Recommendations and Management Responses

ATTACHMENT B: OC Community Resources Management Responses



ORANGE COUNTY
OC Community Resources
Our Community. Our Commitment.

March 7, 2016

STEVE FRANKS
DIRECTOR
OC COMMUNITY RESOURCES

JENNIFER HAWKINS, DVM
DIRECTOR
OC ANIMAL CARE

KAREN ROPER
DIRECTOR
OC COMMUNITY SERVICES

STACY BLACKWOOD
DIRECTOR
OC PARKS

HELEN FRIED
COUNTY LIBRARIAN
OC PUBLIC LIBRARIES

To: Toni Smart, Director
Auditor-Controller Internal Audit Division

RE: Audit Report #1519

The Auditor-Controller Internal Audit Division completed an audit of internal controls over fiduciary funds in OC Community Resources for the period July 1, 2014 through June 30, 2015. Below are OC Community Resources' responses to the audit findings and recommendations.

Control Finding No. 1: No Subsidiary Records and Reconciliations for Funds 177 and 323.

- Recommendation: OCCR Accounting take measures to establish subsidiary records and perform reconciliations of Funds 177 and 323.
- OCCR Response: Concur. A subsidiary ledger for fund 177 has been created and a monthly reconciliation procedure is also being implemented. A subsidiary ledger and monthly reconciliation procedure is being implemented for Fund 323. Fund 323 currently has a zero balance. Additionally, OCCR Accounting will work with OCCR to determine the possibility of closing Fund 323.

Control Finding No. 2: Fund 326 Long-Outstanding Reconciling Differences.

- Recommendation: OCCR Accounting work towards resolving the long-outstanding reconciling differences in Fund 326.
- OCCR Response: Concur. The differences are due to timing between events and receipt of surety deposits for events at OC Parks. Differences are currently being researched and steps are being implemented with OC Parks to prevent future differences. All differences will be identified by March 31, 2016.

Control Finding No. 3: Fiduciary Fund Document Lacking Required Elements.

- Recommendation: OCCR work with OCCR Accounting to prepare a COFA for the fiduciary funds noted above that includes all the required elements.



OFFICE OF THE DIRECTOR
1770 NORTH BROADWAY
SANTA ANA, CA 92706-2642
PHONE: 714.480.2788
FAX: 714.480.2899



Detailed Findings, Recommendations and Management Responses

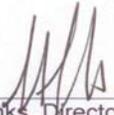
ATTACHMENT B: OC Community Resources Management Responses (continued)

OCCR RESPONSE TO AUDIT REPORT #1519
PAGE 2 OF 2
MARCH 7, 2016

- OCCR Response: Concur. OCCR Accounting will work with OCCR management to prepare current COFAs to include all of the required elements for Funds 153, 156, 180, 323 and 876. Additionally, OCCR Accounting will examine all funds currently within OC Community Resources to ensure all required elements are included in the COFA.

If you have any questions related to these responses, please contact Brian Rayburn at (714) 480-2885.

Sincerely,



Steve Franks, Director
OC Community Resources

3/8/16

Date

SAF:bw