DEPARTMENT CONTROL REVIEW
RESOURCES & DEVELOPMENT MANAGEMENT DEPARTMENT
REVOLVING FUNDS

For the Year Ended May 31, 2004

REPORT DATE: November 3, 2004

Audit Number 2431

Audit Director:	**Peter Hughes, Ph.D., CPA**
Deputy Director:	**Eli Littner, CPA, CIA**
Audit Manager:	**Michael Goodwin, CPA, CIA**
Senior Auditor:	**Winnie Keung, CPA**

INTERNAL AUDIT DEPARTMENT

COUNTY OF ORANGE

DEPARTMENT CONTROL REVIEW
RESOURCES & DEVELOPMENT MANAGEMENT DEPARTMENT
REVOLVING FUNDS

For the Year Ended May 31, 2004

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COUNTY OF ORANGE
INTERNAL AUDIT DEPARTMENT

OFFICE OF THE DIRECTOR

Integrity
Objectivity
Independence

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Transmittal Letter

Audit No. 2431

November 3, 2004

TO: Bryan Speegle, Director
Resources & Development Management Department

FROM: Peter Hughes, Ph.D., CPA, Director
Internal Audit Department

SUBJECT: Department Control Review of Resources & Development Management Department Revolving Funds

We have completed a Department Control Review of Resources & Development Management Department Revolving Funds for the year ended May 31, 2004. The final report is attached along with your responses to our recommendations. We have also attached a Customer Survey of Audit Services. Please complete the survey and return it to Renee Aragon, Executive Secretary, Internal Audit Department. We appreciate the courtesy and cooperation of your staff during our review.

Attachment

Other recipients of this report:
Members, Board of Supervisors
Members, Audit Oversight Committee
Foreman, Grand Jury
Thomas G. Mauk, County Executive Officer
Vicki Wilson, Deputy CEO/Infrastructure & Environment
Steve Danley, Director, RDMD/Administration
Michael McMillan, Chief, RDMD/Purchasing & Contract Services
Brian Murphy, Chief, RDMD/Central Quality Assurance
Darlene J. Bloom, Clerk of the Board of Supervisors

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INTERNAL AUDITOR'S REPORT

Audit No. 2431

November 3, 2004

Bryan Speegle, Director
Resources & Development Management Department
300 N. Flower Street
Santa Ana, CA 92703

We have completed a review of internal controls over revolving fund processes of the Resources & Development Management Department (RDMD) for the year ended May 31, 2004. Our review was made in accordance with professional standards established by the Institute of Internal Auditors for the purpose of evaluating the adequacy of internal controls in the process noted above. We believe our review provides a reasonable basis for our opinion.

Management of RDMD is responsible for establishing and maintaining a system of internal controls. The objectives of an internal control system are to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly. County Accounting Procedure (CAP) No. S-2 – *Internal Control Systems* prescribes the policies and standards the departments/agencies should follow in establishing and maintaining internal control systems. Our review enhances and complements, but does not substitute for, RDMD's continuing emphasis on control activities and self-assessment of control risks.

Because of inherent limitations in any system of internal controls, errors or irregularities may nevertheless occur and not be detected. 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 that the degree of compliance with the procedures may deteriorate. Accordingly, our review made for the limited purpose described above would not necessarily disclose all weaknesses in RDMD's operating procedures, accounting practices, and compliance with County policy.

Based upon our review, it is our opinion that internal controls were generally effective to ensure revolving funds are safeguarded and transactions are recorded completely, accurately and timely, and are in compliance with applicable County Accounting Procedures. We noted opportunities where management should further enhance its internal controls, which are detailed in the Observations, Recommendations, and Management Responses section of this report. Responses from RDMD have been included for each recommendation and the complete text of responses has been appended to the report.

We appreciate the courtesy and cooperation extended to us by the personnel of RDMD during our review. As we identified issues during the review, personnel were very responsive and began taking corrective actions to address many of these recommendations.

If we can be of further assistance, please contact me directly or Eli Littner, Deputy Director at (714) 834-5899 or Michael Goodwin, Audit Manager at (714) 834-6066.

Respectfully submitted,

Peter Hughes, Ph.D., CPA
Director, Internal Audit

Distribution: Pursuant to Audit Oversight Committee Procedure No. 1
Members, Board of Supervisors
Members, Audit Oversight Committee
Foreman, Grand Jury
Thomas G. Mauk, County Executive Officer
Vicki Wilson, Deputy CEO/Infrastructure & Environment
Steve Danley, Director, RDMD/Administration
Michael McMillan, Chief, RDMD/Purchasing & Contract Services
Brian Murphy, Chief, RDMD/Central Quality Assurance
Darlene J. Bloom, Clerk of the Board of Supervisors

OVERVIEW

OBJECTIVES

The Internal Audit Department conducted a review of the Resources & Development Management Department (RDMD) for the purpose of evaluating the adequacy and effectiveness of internal controls to ensure:

- Revolving funds are adequately safeguarded.
- Revolving fund transactions are processed in compliance with County Accounting Procedures (CAP) No. C-7 - *Revolving Cash Fund (Petty Cash)* & CAP No. C-1 - *Cash Advance Revolving Fund.*
- Revolving fund transactions are properly authorized and recorded completely, accurately, and timely.

BACKGROUND

In January 2004, the Board of Supervisors voted to consolidate the former Public Facilities & Resources Department (PFRD) and the Planning & Development Services Department (PDSD), creating the RDMD to enable greater operational efficiencies.

The mission of RDMD is to provide, operate, and maintain quality public facilities and regional resources for the enjoyment, mobility, protection, and business of the people of Orange County. RDMD has seven divisions to provide services such as flood protection, recreational facilities and maintenance of County buildings and the vehicle fleet.

The total revolving fund amount authorized for RDMD is $114,500, including $15,000 administered by the former PDSD which was excluded from this review. The funds are used for the purposes of departmental petty cash expenditures and travel cash advances, and are disbursed from 39 different locations. The allocated revolving funds for each location range from $100 to $76,095. The volume of revolving fund activity for RDMD and PFRD during the audit period of June 1, 2003 through May 31, 2004 totaled $176,610. RDMD Purchasing and Contract Services/Central Fund Allocation is responsible for administering and replenishing the revolving funds. RDMD/Central Quality Assurance recently reviewed revolving funds at all outlying locations.

SCOPE

Our review methodology included inquiry, auditor observation and testing of pertinent documentation for assessing the adequacy and effectiveness of internal controls over the revolving funds. Our review was limited to evaluating revolving fund procedures and controls under the former PFRD administration and the current RDMD administration, and did not include a review of transactions under the former PDSD. For testing purposes, we selected 4 of the 39 locations to perform our review of internal controls. These four locations and their authorized fund amounts are: Central Fund Allocation (CFA), $76,095; Facilities Operations (FO), $3,000; Operations & Maintenance (O&M), $3,050; and Transportation – Civic Center Garage (Transportation), $1,100.

CONCLUSION

Based upon our review, it is our opinion that internal controls were generally effective to ensure revolving funds are safeguarded and transactions are recorded completely, accurately and timely and executed in compliance with the applicable CAPs. However, we noted areas where internal controls should be strengthened, which are discussed in the Observations, Recommendations and Management Responses section of this report. In that section, we indicate the location(s) where our observations were noted. However, RDMD should evaluate all locations with revolving funds and implement the recommendations as applicable.

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

I. Safeguarding Funds

Revolving fund controls help safeguard funds from unauthorized use. Examples of such controls include utilizing authorized signature lists, conducting physical inventories, performing surprise cash counts, and preparing monthly reconciliations. The following are where controls should be enhanced to help safeguard revolving funds:

A. Authorized Signature Lists and Bank Signature Cards

Authorized signature lists serve as a tool to ensure only authorized individuals approve certain types of transactions. Purchasing and Contract Services/Central Fund Allocation (CFA) maintains these lists for signature verification on replenishment requests from outlying locations, and the outlying locations use them for signature verification on petty cash vouchers. Bank Signature Cards contain the names of individuals authorized to sign revolving fund checks and are maintained by the Treasurer-Tax Collector Office and the bank. Verification to these actual signatures provides evidence that the authorization is genuine and reduces the probability of making unauthorized payments.

We noted that **Operations & Maintenance** (O&M) did not have an authorized signature list of individuals who can approve petty cash transactions. Also, we noted that O&M's Wells Fargo Bank Signature Card had not been updated since July 2001. Our testing of seven revolving fund checks issued from O&M noted three check signers who were not on the authorized Wells Fargo Bank Signature Card.

Recommendation No. I.A

Purchasing and Contract Services/CFA obtain a current authorized signature list and Bank Signature Card from O&M. CFA should also have a process to ensure that all outlying locations maintain current authorized signature lists and Bank Signature Cards, and that those lists are updated timely and filed with the appropriate parties.

Resources & Development Management Department Response:

RDMD concurs with Recommendation No. I.A.

CFA has confirmed that **O&M's** Signature Card was updated and filed as of July 14, 2004. A call to Josephine Agbayani of Wells Fargo confirmed receipt of updated signature card. CFA is currently updating RDMD Public Works construction Signature Card and estimates its completion by end of October 2004.

B. Periodic Inventories of Unused Checks

Physical inventories of unused revolving fund checks help detect any lost or stolen checks in a timely manner, reducing the risk of misappropriation of County assets. Best practices for performing inventories include maintaining a log of unused check stock to facilitate the inventories, having a person independent of other revolving fund duties perform the inventories, and documenting the results of the inventories, including any noted discrepancies and management's resolution of those discrepancies.

We were informed that periodic inventories of unused checks were performed at **CFA** and **O&M**; however, they were conducted by persons with other revolving fund duties, were not documented and reviewed, and inventory records of the unused check stock were not maintained.

Recommendation No. I.B
RDMD perform and document periodic inventories of unused revolving fund check stock in accordance with the best practices identified above.

Resources & Development Management Department Response:
RDMD concurs with Recommendation No. I.B. **CFA** - A physical inventory has been updated. The Staff Analyst in charge of Petty Cash will be responsible for physical inventory of unused checks. Also, a log has been established to record date and time of inventory and record of any discrepancies and its resolution. **O&M** - A physical inventory has also been updated. The Supervising Maintenance Inspector Specialist in charge of Petty Cash will be responsible for physical inventory of unused checks. Also, a log shall be established to record date and time of inventory and record any discrepancies and their resolution.

II. Segregation of Duties

Adequate segregation of duties reduces the risk that one individual may conceal errors and irregularities and not be detected. County Accounting Procedure (CAP) C-7, Section 2.2.1 states, "*Purchases or cash advances from the revolving cash fund must be approved by an authorized person who does not also have revolving fund custodian, check signer, or reconciliation duties.*" Section 2.4.5 also requires that "*A reconciliation of the revolving fund shall be performed once per month by a person with no other revolving fund duties.*" If segregation of duties is not practical due to limited staffing, a detailed supervisory review can be a mitigating control. Our review noted the following areas where additional segregation or supervisory reviews are needed:

CFA: An Accounting Specialist who issues the checks to replenish all 38 outlying locations also prepares the monthly bank reconciliation. A Staff Analyst who authorizes revolving fund transactions and replenishment requests also has check signing authority.

O&M: A Manager who authorized a petty cash voucher also signed the revolving fund check.

Outlying Locations: The revolving fund custodians for O&M, FO and Transportation perform the fund reconciliation when they request replenishment of their funds. Per CAP requirements, someone without other revolving fund duties should do this, but we acknowledge that the funds are being reconciled. This is where a detailed supervisory review could enhance the reconciliation process.

Recommendation No. II
RDMD ensure revolving fund duties for authorizing, check signing, and reconciling are segregated. If that is not possible due to limited staffing, ensure that the incompatible duties undergo a detailed supervisory review.

Resources & Development Management Department Response:
RDMD concurs with Recommendation No. II:

CFA: The Accounting Specialist who is the custodian of the unused checks is different from the Accounting Specialist (alternate custodian) that replenishes the 38 outlying locations. In regards to the monthly bank reconciliation, the Staff Analyst will perform a detailed supervisory review

as recommended. A form will be used to document the monthly review. This form has been emailed to the custodians of existing checking accounts as discussed with Internal Audit.

The Staff Analyst will continue to authorize revolving fund transactions and replenishment requests while separating check signing to RDMD's other authorized personnel including Director of Administration, Chief of Purchasing & Contracts, Accounting Office Supervisor II and Supervising Procurement Contract Specialist.

O&M: The Supervising Maintenance Inspector Specialist shall continue to authorize petty cash requests. In addition, the responsibility of signing checks shall be given to the other authorized personnel such as the Maintenance Systems Manager or the Manager of Operations and Maintenance.

Outlying Locations: **O&M** Management members, who have not been involved otherwise in the transaction, will begin reviewing before approving and signing off on the request for reimbursement envelopes. **Transportation** has begun implementing procedures at each Transportation shop location to ensure that replenishment requests are reviewed and approved by a supervisor who is not involved in petty cash activities, prior to submission. While the **FO** petty cash custodian prepares the reimbursement request form, the supervisor conducts a detailed review of the reimbursement request forms before signing.

III. Reconciliations

Reconciliations are comparisons of one set of data to another, identifying and investigating differences, and taking corrective action when necessary to resolve those differences. This control activity helps ensure the accuracy and completeness of transactions, and that any errors or irregularities are detected timely.

A. Bank Reconciliations

Monthly bank reconciliations are necessary for locations that have revolving fund checking accounts. These reconciliations compare revolving fund records to monthly bank statements to identify any differences, such as uncleared checks. Any long outstanding items should be brought to the attention of management for timely resolution. In addition, CAP C-7, Section 2.4.4 states "*the reconciliations should be initialed and dated by the preparer to document timeliness and responsibility. Also, the reconciliations should be reviewed, initialed, and dated by a supervisor.*" During our review, we noted the following concerning bank reconciliations:

CFA: Monthly bank reconciliations were performed and documented, but did not have a supervisory review. We also noted ten outstanding petty cash checks remain on the reconciliation. They range from $20.20 to $1,000.00 totaling $2,326.27; the oldest one being issued on September 24, 2001.

O&M: Monthly bank reconciliations were performed and reviewed; however, the preparer and supervisor did not document their work on the reconciliation. An outstanding check in the amount of $20.00 issued on May 28, 2003 remained a reconciling item.

Recommendation No. III.A

RDMD take measures to clear the long outstanding petty cash checks and ensure that all future reconciling items are resolved timely. In addition, individuals who prepare or review the reconciliation should initial and date the document.

Resources & Development Management Department Response:
RDMD concurs with Recommendation No III. A

CFA: Bank reconciliations are performed monthly and are being reviewed by the Staff Analyst of Purchasing & Contracts. The outstanding checks have been returned to the checking account balance with the exception of one check, which was reissued. The overage continues to exist. As suggested by Internal Audit we will continue to monitor the overage and follow-up with Auditor-Controller recommendation at end of November 2004.

O&M: O&M sent a memo to CFA on 7/27/04. The memo states the check #1124 was mailed to a vendor and then requested to be reimbursed on Claim C 4263 for $20.00. Check #1124 was never cashed, and according to the check recipient, was never received. Check #1124 has since exceeded the 90 days that the check is valid and is no longer cashable. Payment was for a membership that was never received, so there are no outstanding invoices to be paid. O&M asked that $20.00 be deducted from the 7/27/04 request for reimbursement envelope for this correction.

B. Fund Reconciliations

Fund reconciliations involve comparing the checking account balance (if applicable), the cash balance, and any unreplenished items to the total authorized fund amount. Fund reconciliations should be performed at least monthly and are typically done when replenishments are requested. The reconciliation should be signed by the preparer and have a documented supervisory review. A critical element of the reconciliation process is to resolve reconciling items timely to identify errors or unauthorized uses of the funds. During our review, we noted the following items concerning fund reconciliations:

CFA: Only two fund reconciliations were performed between December 2002 through April 2004 for CFA's authorized revolving fund of $76,095. Currently, the fund has an overage of $654.64 that has existed for at least two years. Additionally, we noted that fifteen reconciling items ranging from $31.87 to $500.00 (totaling $3,300) remain unresolved.

FO: A reconciling item for $34.37 from September 2002 has not been resolved.

Transportation: The reconciliations are performed when replenishments are requested, but a supervisor does not review the replenishment requests and the reconciliations.

Recommendation No. III.B
RDMD ensure that fund reconciliations are performed monthly to the authorized fund amount and that any discrepancies are resolved timely. The preparer and the reviewer should sign and date the reconciliation. In addition, RDMD should resolve the existing reconciling items.

Resources & Development Management Department Response:
RDMD concurs with recommendation No. III B

CFA: Monthly reconciliation has been performed and the overage continues to be an issue. As recommended by Internal Audit we will continue to monitor overage and discuss with Auditor-Controller results in November 2004. As for the fifteen items in question, we have resolved all issues to date.

Facility Operations: The $34.47 unresolved issue is for an employee pair of jeans damaged on the job. CFA is researching this and expects it to be resolved by 10/20/04. CFA is aware of the fact that damaged personal property of County employees is processed through Employee Benefits and will contact them directly in the future.

Transportation Response: Transportation will re-evaluate and if necessary re-establish existing Transportation petty cash policy & procedures at Civic Center Garage. We will mandate review of petty cash reconciliation and replenishment requests on a monthly basis by an individual of supervisory or management capacity. Transportation will implement additional internal control measures to ensure requests for petty cash are appropriately initiated, approved, and replenished.

IV. Unauthorized Use of Revolving Funds

We found the following instances where revolving funds were used for non-allowable purchases:

CFA: A claim made on a Mileage and Other Expense Claim for a travel cash advance included a meal expense paid for a non-county employee (lobbyist), which is non-allowable and not eligible for reimbursement.

Transportation: Revolving funds were used to purchase birthday cakes for purposes of employee recognition. We did not find support in County policies and procedures for such costs being an allowable use of revolving funds.

Recommendation No. IV

RDMD address the above issues and ensure that all locations are aware of the allowable uses of revolving funds.

Resources & Development Management Department Response:

RDMD concurs with Recommendation No. IV

CFA: Discussion is on-going with Auditor-Controller in response to paying meals for lobbyists. We asked Auditor-Controller on 9/23/04 for direction as to how to handle for future reference. Lisa Kawashima of A/C has discussed with County Counsel and will discuss with Bob Leblow before giving her recommendation.

Transportation: Transportation will re-evaluate, and reinstitute if necessary, existing internal departmental policy and procedures in concert with County policies concerning authorized and unauthorized use of revolving funds. Transportation will conduct a workshop and/or training for supervisors and management to clarify, re-emphasize, and ensure comprehension of County policies and procedures on the appropriate use of revolving funds.

V. Other Compliance Issues

CAP No. C-7, Section 1.4.5, states that "*revolving funds should not be used to purchase services from sole proprietorships or partnerships due to the 1099 tax form reporting requirements.*" We noted that RDMD/Harbor, Beach & Parks hires entertainers, many of them sole proprietorships, to perform at special events, and pays for them using revolving funds. Under a special arrangement with Auditor-Controller/Claims & Disbursing, this is an allowable use of revolving funds.

However, Claims & Disbursing required RDMD to forward all incurred payments and tax information to Auditor-Controller/General Ledger (G/L) to fulfill the 1099 tax form reporting requirement. Our review noted that in 2003 due to a misunderstanding, **CFA** only reported payments to entertainers whose payments exceeded $600 a year. CFA also cited that they sometimes have difficulty obtaining tax information from the vendors.

Recommendation No. V
RDMD ensure that all entertainment service payments made in 2003, and all future payments and related taxpayer information, are reported to Auditor-Controller/General Ledger. In addition, RDMD should consider obtaining taxpayer information from entertainers before disbursing the payments.

Resources & Development Management Department Response:
RDMD concurs with Recommendation No. V

CFA: An Excel Spreadsheet was forwarded to Auditor Controller's General Ledger containing taxpayer's information for all entertainment services hired in 2003. RDMD Petty Cash custodian will require all entertainers to provide taxpayer information prior to disbursing payments. All incurred payments and tax information will be consolidated and forwarded to Auditor Controller General Ledger section to comply with the 1099 tax form reporting requirement.

COUNTY OF ORANGE
RESOURCES & DEVELOPMENT MANAGEMENT DEPARTMENT

Bryan Speegle, Director
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RECEIVED
2004 NOV -3 AM 9:00
INTERNAL AUDIT DEPARTMENT

DATE: November 2, 2004

TO: Peter Hughes, Director, Internal Audit Department

FROM: Bryan Speegle, Director, Resources & Development Management Department

SUBJECT: Report on Revolving Fund Controls, Audit #2431

The Resources & Development Management Department (RDMD) has received and reviewed in draft form, the Internal Audit Department's Review of the RDMD Revolving Fund Controls. RDMD understands the primary purpose of the Internal Audit Department's review was to evaluate the adequacy and effectiveness of internal controls. RDMD hereby provides the following "Management Responses" to the Internal Audit Departments seven (7) "Observations" and "Recommendations".

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

I. Safeguarding Funds

Revolving fund controls help safeguard funds from unauthorized use. These controls include authorized signature lists, physical inventories, surprise cash counts, and monthly reconciliations. The following are where controls should be enhanced to help safeguard revolving funds:

A. Authorized Signature Lists and Bank Signature Cards

Authorized signature lists serve as a tool to ensure only authorized individuals approve certain types of transactions. Purchasing and Contract Services/Central Fund Allocation (CFA) maintains these lists for signature verification on replenishment requests from outlying locations, and the outlying locations use them for signature verification on petty cash vouchers. Bank Signature Cards contain the names of individuals authorized to sign revolving fund checks and are maintained by the Treasurer-Tax Collector Office and the bank. Verification to these actual signatures provides evidence that the authorization is genuine and reduces the probability of paying unauthorized payments.

We noted that **Operations & Maintenance (O&M)** did not have an authorized signature list of individuals who can approve petty cash transactions. Also, we noted that **O&M's** Bank Signature Card had not been updated since July 2001. Our testing of seven revolving fund checks issued from O&M noted three check signers who were not on the authorized Wells Fargo Bank Signature Card.

Recommendation No. I.A

Purchasing and Contract Services/CFA obtain a current authorized signature list and Bank Signature Card from O&M. CFA should also have a process to ensure that all outlying locations maintain

Signature Card from O&M. CFA should also have a process to ensure that all outlying locations maintain current authorized signature lists and Bank Signature Cards and that those lists are updated timely and filed with the appropriate parties.

RDMD Response: RDMD concurs with Recommendation No. I.A.

CFA has confirmed that **O&M's** Signature Card was updated and filed as of July 14, 2004. A call to Josephine Agbayani of Wells Fargo confirmed receipt of updated signature card. CFA is currently updating RDMD Public Works construction Signature Card and estimates its' completion by end of October 2004.

B. Periodic Inventories of Unused Checks

Physical inventories of unused revolving fund checks help detect any lost or stolen checks in a timely manner, reducing the risk of misappropriation of County assets. Best practices for performing inventories include maintaining a log of unused check stock to facilitate the inventories, having a person independent of other revolving fund duties perform the inventories, and documenting the results of the inventories, including any noted discrepancies and management's resolution of those discrepancies.

We were informed that periodic inventories of unused checks were performed at **CFA** and **O&M;** however, they were conducted by persons with other revolving fund duties, were not documented and reviewed, and inventory records of the unused check stock were not maintained.

Recommendation No. I.B

RDMD perform and document periodic inventories of unused revolving fund check stock in accordance with the best practices identified above.

RDMD Response: RDMD concurs with Recommendation No. I.B. **CFA** - A physical inventory has been updated. The Staff Analyst in charge of Petty Cash will be responsible for physical inventory of unused checks. Also, a log has been established to record date and time of inventory and record of any discrepancies and its' resolution. **O&M** - A physical inventory has also been updated. The Supervising Maintenance Inspector Specialist in charge of Petty Cash will be responsible for physical inventory of unused checks. Also, a log shall be established to record date and time of inventory and record any discrepancies and their resolution.

II. Segregation of Duties

Adequate segregation of duties reduces the risk that one individual may conceal errors and irregularities and not be detected. County Accounting Procedure (CAP) C-7, Section 2.2.1 states, "*Purchases or cash advances from the revolving cash fund must be approved by an authorized person who does not also have revolving fund custodian, check signer, or reconciliation duties.*" Section 2.4.5 also requires that "A reconciliation of the revolving fund shall be performed once per month by a person with no other revolving fund duties." If segregation of duties is not practical due to limited staffing, a detailed supervisory review can be a mitigating control. Our review noted the following areas where additional segregation or supervisory reviews is needed:

CFA: An Accounting Specialist who is the custodian of unused checks and issues the checks to replenish all 38 outlying locations also prepares the monthly bank reconciliation. A Staff Analyst who authorizes revolving fund transactions and replenishment requests also has check signing authority.

O&M: A Manager who authorized a petty cash voucher also signed the revolving fund check.

Outlying Locations: The revolving fund custodians for **O&M, FO** and **Transportation** perform the fund reconciliation when they request replenishment of their funds. Per CAP requirements, someone with no other revolving fund duties should do this, but we acknowledge that the funds are being reconciled. This is where a detailed supervisory review could enhance the reconciliation process.

Recommendation No. II
RDMD ensure revolving fund duties for authorizing, check signing, and reconciling are segregated. If that is not possible due to staffing, ensure that the incompatible duties undergo a detailed supervisory review.

RDMD Response: RDMD concurs with Recommendation No. II:

CFA: The Accounting Specialist who is the custodian of the unused checks is different from the Accounting Specialist (alternate custodian) that replenishes the 38 outlying locations. In regards to the monthly bank reconciliation, the Staff Analyst will perform a detailed supervisory review as recommended. A form will be used to document the monthly review. This form has been emailed to the custodians of existing checking accounts as discussed with Internal Audit.

The Staff Analyst will continue to authorize revolving fund transactions and replenishment requests while separating check signing to RDMD's other authorized personnel including Director of Administration, Chief of Purchasing & Contracts, Accounting Office Supervisor II and Supervising Procurement Contract Specialist.

O&M: The Supervising Maintenance Inspector Specialist shall continue to authorize petty cash requests. In addition, the responsibility of signing checks shall be given to the other authorized personnel such as the Maintenance Systems Manager or the Manager of Operations and Maintenance.

Outlying Locations: **O&M** Management members, who have not been involved otherwise in the transaction, will begin reviewing before approving and signing off on the request for reimbursement envelopes. **Transportation** has begun implementing procedures at each Transportation shop location to ensure that replenishment requests are reviewed and approved by a supervisor who is not involved in petty cash activities, prior to submission. While the **FO** petty cash custodian prepares the reimbursement request form, the supervisor conducts a detailed review of the reimbursement request forms before signing.

III. Reconciliations

Reconciliations are comparisons of one set of data to another, identifying and investigating differences, and taking corrective action when necessary to resolve those differences. This control activity helps ensure the accuracy and completeness of transactions, and that any errors or irregularities are detected timely.

A. Bank Reconciliations

Monthly bank reconciliations are necessary for locations that have revolving fund checking accounts. These reconciliations compare revolving fund records to monthly bank statements to identify any differences, such as uncleared checks. Any long outstanding items should be brought to the attention of management for timely resolution. In addition, CAP C-7, Section 2.4.4 requires that *"the reconciliations should be initialed and dated by the preparer to document timeliness and responsibility. Also, the reconciliations should be reviewed, initialed, and dated by a supervisor."* During our review, we noted the following concerning bank reconciliations:

CFA: Monthly bank reconciliations were performed and documented, but did not have a supervisory review. We also noted ten outstanding petty cash checks remain on the reconciliation. They range from $20.20 to $1,000.00 totaling $2,326.27; the oldest one being issued on September 24, 2001.

O&M: Monthly bank reconciliations were performed and reviewed; however, the preparer and supervisor did not document their work on the reconciliation. An outstanding check in the amount of $20.00 issued on May 28, 2003 remained a reconciling item.

Recommendation No. III. A

RDMD take measures to clear the long outstanding petty cash checks and ensure that all future reconciling items are resolved timely. In addition, individuals who prepare or review the reconciliation should initial and date the document.

Response: RDMD concurs with Recommendation No III. A

CFA: Bank reconciliations are performed monthly and are being reviewed by the Staff Analyst of Purchasing & Contracts. The outstanding checks have been returned to the checking account balance with the exception of one check, which was reissued. The overage continues to exist. As suggested by Internal Audit we will continue to monitor the overage and follow-up with Auditor-Controller recommendation at end of November 2004.

O&M: O&M sent a memo to CFA on 7/27/04. The memo states the check #1124 was mailed to a vendor and then requested to be reimbursed on Claim C 4263 for $20.00. Check #1124 was never cashed, and according to the check recipient, was never received. Check #1124 has since exceeded the 90 days that the check is valid and is no longer cashable. Payment was for a membership that was never received, so there are no outstanding invoices to be paid. O&M asked that $20.00 be deducted from the 7/27/04 request for reimbursement envelope for this correction.

B. Fund Reconciliations

Fund reconciliations involve comparing the checking account balance (if applicable), the cash balance, and any unreplenished items to the total authorized fund amount. Fund reconciliations should be performed at least monthly and are typically done when replenishments are requested. The reconciliation should be signed by the preparer and have a documented supervisory review. A critical element of the reconciliation process is to resolve reconciling items timely to identify errors or unauthorized uses of the funds. During our review, we noted the following items concerning fund reconciliations:

CFA: Only two fund reconciliations were performed between December 2002 and April 2004 for CFA's authorized revolving fund of $76,095. Currently, the fund has an overage of $654.64 that has existed for at least two years. Additionally, we noted that fifteen reconciling items ranging from $31.87 to $500.00 (totaling $3,300) remain unresolved.

Facilities Operations: A reconciling item for $34.37 from September 2002 has not been resolved.

Transportation: The reconciliations are performed when replenishments are requested, but a supervisor does not review the replenishment requests and the reconciliations.

Recommendation No. III. B

RDMD ensure that fund reconciliations are performed monthly to the authorized fund amount and that any discrepancies are resolved timely. The preparer and the reviewer should sign and date the reconciliation. In addition, RDMD should resolve the existing reconciling items.

RDMD Response: RDMD concurs with recommendation No. III B

CFA: Monthly reconciliation has been performed and the overage continues to be an issue. As recommended by Internal Audit we will continue to monitor overage and discuss with Auditor-
Controller results in November 2004. As for the fifteen items in question, we have resolved all issues to date.

Facility Operations: The $34.47 unresolved issue is for an employee pair of jeans damaged on the job. CFA is researching this and expects it to be resolved by 10/20/04. CFA is aware of the fact that damaged personal property of County employee's is processed through Employee Benefits and will contact them directly in the future.

Transportation Response: Transportation will re-evaluate and if necessary re-establish existing Transportation petty cash policy & procedures at Civic Center Garage. We will mandate review of petty cash reconciliation and replenishment requests on a monthly basis by an individual of supervisory or management capacity. Transportation will implement additional internal control measures to ensure requests for petty cash are appropriately initiated, approved, and replenished.

Internal Audit # 2431 – Revolving Funds

IV. Unauthorized Use of Revolving Funds

We found the following instances where revolving funds were used for non-allowable purchases:

CFA: A claim made on a Mileage and Other Expense Claim for a travel cash advance included a meal expense paid for a non-county employee (lobbyist), which is non-allowable and not eligible for reimbursement.

Transportation: Revolving funds were used to purchase birthday cakes for purposes of employee recognition. We did not find support in County policies and procedures for such costs being an allowable use of revolving funds.

Recommendation No. IV

RDMD address the above issues and ensure that all locations are aware of the allowable uses of revolving funds.

RDMD Response: RDMD concurs with Recommendation No. IV

CFA: Discussion is on-going with Auditor-Controller in response to paying meals for lobbyists. We asked Auditor-Controller on 9/23/04 for direction as to how to handle for future reference. Lisa Kawashima of A/C has discussed with County Counsel and will discuss with Bob Leblow before giving her recommendation.

Transportation: Transportation will re-evaluate, and reinstitute if necessary, existing internal departmental policy and procedures in concert with County policies concerning authorized and unauthorized use of revolving funds. Transportation will conduct a workshop and/or training for supervisors and management to clarify, re-emphasize, and ensure comprehension of County policies and procedures on the appropriate use of revolving funds.

V. Other Compliance Issues

CAP No. C-7 section 1.4.5 states that "*revolving funds should not be used to purchase services from sole proprietorships or partnerships due to the 1099 tax form reporting requirements.*" We noted that RDMD/Harbor, Beach & Parks hires entertainers, many of them sole proprietorships, to perform at special events, and pays for them using revolving funds. Under a special arrangement with the Auditor-Controller/Claim & Disbursing, this is an allowable use of revolving funds. However, Claims & Disbursing required RDMD to forward all incurred payments and tax information to Auditor-Controller/General Ledger (G/L) to fulfill the 1099 tax form reporting requirement. Our review noted that due to a misunderstanding, in 2003 CFA only reported payments to entertainers whose payments exceeded $600 a year. CFA also cited that they sometimes have difficulty obtaining tax information from the vendor.

Recommendation No. V

RDMD ensure that all entertainment service payments made in 2003, and all future payments and related taxpayer information, are reported to Auditor-Controller/General

Ledger. In addition, RDMD should consider obtaining taxpayer information from entertainers before disbursing the payments.

RDMD Response: RDMD concurs with Recommendation No. V

CFA: An Excel Spreadsheet was forwarded to Auditor Controller's General Ledger containing tax payer's information for all entertainment services hired in 2003. RDMD Petty Cash custodian will require all entertainers to provide taxpayer information prior to disbursing payments. All incurred payments and tax information will be consolidated and forwarded to Auditor-Controller General Ledger section to comply with the 1099 tax form reporting requirement.

Thank you for allowing us the opportunity to respond to your draft letter. If you have any questions or need additional information, please feel free to contact Brian Murphy of my staff at (714) 834-6798.

Bryan Speegle, Director

cc: Thomas Mauk, County Executive Officer
Vicki Wilson, Deputy CEO/Infrastructure and Environmental Resources
Steve Danley, Director, RDMD/Administration
Michael McMillan, Chief, RDMD/Purchasing & Contract Services
Brian Murphy, Chief, RDMD/Central Quality Assurance
Michael Goodwin, Audit Manager, Internal Audit Department
Winnie Keung, Senior Auditor I, Internal Audit Department