INTERNAL AUDIT DEPARTMENT
COUNTY OF ORANGE

Integrity
Objectivity
Independence

FOLLOW-UP AUDIT OF DEPARTMENT CONTROL REVIEW COUNTY CLERK-RECORDER CASH RECEIPTS AND TRUST FUND DISBURSEMENTS, AUDIT NO. 2324

AS OF FEBRUARY 28, 2005

AUDIT NUMBER: 2532 **REPORT DATE: APRIL 19, 2005**

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

Follow-Up Audit of Department Control Review
County Clerk-Recorder Cash Receipts and
Trust Fund Disbursements, Audit No. 2324

As of February 28, 2005

TABLE OF CONTENTS

Transmittal Letter i

INTERNAL AUDITOR'S REPORT 1

COUNTY OF ORANGE
INTERNAL AUDIT DEPARTMENT

OFFICE OF THE DIRECTOR

Integrity
Objectivity
Independence

PETER HUGHES
Ph.D., MBA, CPA, CIA, CFE, CITP
DIRECTOR

MAILING ADDRESS:
400 CIVIC CENTER DRIVE WEST
BUILDING 12, ROOM 232
SANTA ANA, CA 92701

TELEPHONE: (714) 834-5475
FAX: (714) 834-2880
EMAIL: peter.hughes@ocgov.com
WEBSITE: www.oc.ca.gov/audit/

Transmittal Letter

Audit No. 2532

April 19, 2005

TO: Tom Daly
County Clerk-Recorder

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

SUBJECT: Follow-Up Audit of Department Control Review County Clerk-Recorder Cash Receipts and Trust Fund Disbursements, Audit No. 2324

We have completed a follow-up audit of County Clerk-Recorder cash receipts and trust fund disbursements. Our audit was limited to reviewing, as of February 28, 2005, actions taken to implement the recommendations made in our audit report dated September 2, 2003. The results of our follow-up audit are in the **Internal Auditor's Report** following this transmittal letter.

Please note, beginning in January 2005, we implemented a more 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). As a matter of policy, our first follow-up audit will now begin no later than six months upon the official release of the report. 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 review will now begin at 12 months from the release of the original report, by which time all audit recommendations are expected to be addressed and implemented.

At the request of the AOC, we are to bring to their attention any audit recommendations we find still not implemented or mitigated after the second follow-up audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for discussion.

In addition, as the Director of the Internal Audit Department, effective December 14, 2004, I now make a monthly audit status presentation to the BOS where I detail any material and significant audit findings released in reports during the prior month, the implementation status of audit recommendations as disclosed by our follow-up audits, any pressing audit or resource issues; as well as, respond to inquiries from the BOS. Therefore, the results of this follow-up audit will be included in a future summary to the Board.

The seven items contained in this report that were not fully implemented are considered as "**Reportable Conditions**."

For purposes of reporting our audit observations and recommendations, we have classified audit report items into three distinct categories:

- **Material Weaknesses:** Audit findings that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to immediately address "Material Weaknesses" brought to their attention.

- **Significant Issues:** Audit findings that represent a deficiency in the design or operation of processes or internal controls. Significant issues do not present a material exposure throughout the County; yet generally will require more immediate attention and corrective action by management than expected with a "Reportable Condition."

- **Reportable Conditions:** Audit findings that require management's corrective action to implement or enhance processes and internal controls.

As always, the Internal Audit Department is available to partner with you so that you can successfully implement or mitigate difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report or recommendations.

Other Recipients of this Audit Report:
Members, Board of Supervisors
Members, Audit Oversight Committee
Foreman, Grand Jury
Thomas G. Mauk, County Executive Officer
Darlene J. Bloom, Clerk of the Board of Supervisors
Renee Ramirez, Assistant Clerk-Recorder
Doug Wilson, Assistant Clerk-Recorder
Lyn Cole, Manager, Clerk-Recorder/Financial Services

COUNTY OF ORANGE
INTERNAL AUDIT DEPARTMENT

OFFICE OF THE DIRECTOR

Integrity
Objectivity
Independence

PETER HUGHES
Ph.D., MBA, CPA, CIA, CFE, CITP
DIRECTOR

MAILING ADDRESS:
400 CIVIC CENTER DRIVE WEST
BUILDING 12, ROOM 232
SANTA ANA, CA 92701

TELEPHONE: (714) 834-5475
FAX: (714) 834-2880
EMAIL: peter.hughes@ocgov.com
WEBSITE: www.oc.ca.gov/audit/

INTERNAL AUDITOR'S REPORT

Audit No. 2532

April 19, 2005

Tom Daly
County Clerk-Recorder
12 Civic Center Plaza
Rooms 101 and 106
Santa Ana, CA 92701

We have completed a follow-up audit of County Clerk-Recorder cash receipts and trust fund disbursements. Our examination was limited to reviewing, as of February 28, 2005, actions taken to implement the recommendations made in our audit report dated September 2, 2003.

The original audit report contained eleven (11) recommendations. Our follow-up audit indicated four (4) recommendations were fully implemented, two (2) recommendations were substantially implemented, and five (5) recommendations were partially implemented. We believe the recommendations are still appropriate and further efforts should be made to fully implement them. The audit report recommendations that have not been fully implemented are noted below along with a comment on the current status. The item number from the September 2, 2003 report is shown in parentheses after each heading. **Note: The seven items contained in this follow-up audit report are considered "reportable conditions."**

1. Accountability Over Cash Receipts (No. I)

Recommendation No. 1: Clerk-Recorder management take additional measures to ensure accountability is properly established by maintaining a list of unprocessed checks, restrictively endorsing checks immediately upon receipt, using counterfeit detector pens on large bills, and documenting the transfer of cashier starting banks.

Current Status: **Substantially Implemented.** We found that the Accounting Unit maintained a list of unprocessed checks; the Document Examining Help Desk stamp endorsed checks upon receipt; and cashiers used counterfeit detector pens consistently on large bills. However, the transfer of accountability on the cashier starting banks was not consistently documented between cashiers and the Accounting Unit.

Clerk-Recorder Planned Action: The Accounting Unit staff are currently fully documenting the transfer of accountability of cashiers' starting banks to the Accounting Unit.

2. **Physical Safeguard (No. III)**

Recommendation No. 3: Clerk-Recorder management ensure controls are in place to safeguard cash receipts and critical forms including transferring cash receipts securely, securing keys to cash drawers, maintaining inventory records of handwritten receipts, Bank Note Paper, Vital Chek forms, and title company checks, and performing documented independent physical inventories of these forms.

Current Status: **Substantially Implemented.** The Clerk-Recorder's office has established controls to securely transfer cash receipts, safeguard keys to cash drawers, maintain a record of key and safe combination holders, and limit the access to handwritten receipt books, Bank Note Paper, Vital Chek forms and title company checks. Inventory records of these forms were prepared based upon completing a physical inventory of the forms. The Accounting Unit also performed an inventory of the Bank Note Paper recently in February 2005; however, we noted that this was not a complete inventory because it only included the unopened packages and not the Bank Note Paper currently in use. Periodic inventories of each type of form should be performed on a continuing basis to ensure these forms are accounted for completely.

Clerk-Recorder Planned Action: The Accounting Unit has implemented periodic inventories of currently in-use Bank Note Paper.

3. **Supervisory Review & Approval (No. IV)**

Recommendation No. 4: Clerk-Recorder management ensure supervisory review and approval of pertinent documents is performed and documented to ensure cash receipts are accurate, complete and recorded properly

Current Status: **Partially Implemented.** The Clerk-Recorder's office strengthened controls over reviewing Deposit Orders to collection records and house charges schedules, as well as verifying cash receipts are properly recorded for document copies. However, the review to ensure cash receipts are properly recorded for **vital records** is still in process. Bank Note Paper is a form used to print vital records, such as birth, death and marriage certificates. The Accounting Unit has not been able to consistently reconcile the daily number of used Bank Note Paper to the number recorded in the cashiering system. They are continuing to research and identify the cause of reconciling differences.

Clerk-Recorder Planned Action: The reconciliation of daily Bank Note Paper usage with the Department's cashiering system continues to be an ongoing issue. The Department has identified the primary operational processes responsible for the reconciliation difficulties. The Department will explore various operational options which may address this issue and will continue to consult with Internal Audit regarding our progress to address this issue.

4. **Reconciliation of Deposit Order (No. V)**

Recommendation No. 5: Clerk-Recorder management take appropriate measures to reconcile deposits to the general ledger monthly and investigate and resolve differences timely.

Current Status: **Partially Implemented.** Reconciliation of the deposits to the General Ledger was performed on certain trust funds, but it was not performed for all funds under the control of the Clerk-Recorder. The Accounting Unit informed us that there are numerous accounts where deposits are recorded daily. As a result, they indicated it would be too time consuming to reconcile these accounts on each deposit order. Reconciliations to the General Ledger ensure the amounts recorded in County records are complete and accurate.

We suggest that the Clerk-Recorder office further evaluate other options for reconciling their deposits to County records and the costs/benefits associated with implementing such a process. Clerk-Recorder management has the prerogative to determine the extent of controls to put in place, and the allowable risk they wish to accept, based upon their operational objectives.

Clerk-Recorder Planned Action: The Department has appraised Internal Audit of the difficulties involved in performing reconciliation of deposit orders to the General Ledger. The Department will consider the cost-benefit of altering the Department's cashiering reporting system to prepare a report(s) which may assist in the monthly reconciliation process. The Department will continue to work with Internal Audit in exploring alternatives to address this issue.

5. **Trust Fund Reconciliation (No. VI.A)**

Recommendation No. 6.a: Clerk-Recorder management ensure complete reconciliations are performed for all trust funds and identify and resolve any differences in a timely manner.

Current Status: **Partially Implemented.** The Accounting Unit has resolved the inactive trust fund balances identified in the original audit and established procedures to review the General Ledger monthly for unusual balances. The Notary Public Registration Trust Fund has been reclassified to the general fund after evaluating the nature of the monies. For the remaining trust funds noted in our original audit report, a complete reconciliation was not performed.

One of the funds where a complete reconciliation is not performed is a trust fund for 3rd Party Refunds. This fund was established to collect and disburse overage amounts greater than $5.00 on fees collected for various services. Accounting informed us that there is a high volume of small refunds made from this fund, and each request for refund check is manually processed. Due to the volume of refunds and the manual processing, Accounting indicated it would be difficult to reconcile the fund to the General Ledger.

As indicated in the above item, we suggest that the Clerk-Recorder office further evaluate other options for reconciling their 3rd Party Refunds to County records and the costs/benefits associated with implementing such a process.

Clerk-Recorder Planned Action: The Department has completed full reconciliation of the Property Transfer Tax Trust, Fish & Game Trust, and the DOJ Process Server Fingerprints Trust. Reconciliation of the 3rd Party Refund Trust continues to be an issue due to the large daily volume of third-party refund requests processed by the Department and the absence of specific data available from the General Ledger reporting system to adequately perform a complete reconciliation of this trust fund. The Department will work with Auditor-Controller staff to evaluate cost-effective options to automate the refund process and to receive additional information from the General Ledger reporting system to enable a complete reconciliation of the trust fund.

6. Trust Fund Documentation of Work Performed (No. VI.D)

Recommendation No. 6.d: Clerk-Recorder management ensure the preparers and reviewers document their work performed.

Current Status: **Partially Implemented.** The Accounting Unit has taken corrective actions by adding preparer's name on one trust fund deposit summary worksheet; however, work performed on other worksheets was not visibly documented by the preparer or reviewer.

Clerk-Recorder Planned Action: The Accounting Unit staff is currently fully documenting work performed as a preparer or reviewer on worksheets processed in the Unit.

7. Cashiering System (No. VII)

Recommendation No.7: Clerk-Recorder ensure access to cash receipts data in the Cashiering System is adequately restricted and data related to cash receipt transactions is accurate.

Current Status: **Partially Implemented.** The Clerk-Recorder's Office corrected a glitch in the Cashiering System that now allows the recording of cash receipt adjustments in the system to ensure accuracy and completeness of deposits. The inappropriate system access granted to employees identified in the original audit was also corrected. However, we noted there are two employees that currently have access to the cashiering system, which is not compatible with their current job duties. We were informed these employees previously had cashiering duties and had been rotated to the Data Entry and Imaging Units. The Information Systems Analyst informed us that access was not restricted because they were not informed of the staffing changes.

Clerk-Recorder Planned Action: The Department has acted to remove employees access to the cashiering system if their current job duties do not warrant access to the system. The Department will implement procedures to monitor employee access to the cashiering system in light of employees' current job duties.

We appreciate the cooperation and assistance extended to us by the staff of the County Clerk-Recorder's office during our audit.

Sincerely,

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

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
Renee Aguilar-Ramirez, Assistant Clerk-Recorder
Doug Wilson, Assistant Clerk-Recorder
Lyn Cole, Manager, Clerk-Recorder/Financial Services
Darlene J. Bloom, Clerk of the Board of Supervisors