

Internal Audit Department

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

INTERNAL CONTROL REVIEW OF CLERK-RECORDER SOUTH COUNTY BRANCH OFFICE CASH RECEIPTS PROCESS

For the Year Ending:
March 31, 2008

We audited the internal controls over cash receipts at the Clerk-Recorder's South County Branch Office where \$927,458 in cash receipts were received between April 1, 2007 and March 31, 2008.

We found overall internal controls and processes are in place to ensure cash receipts are received, recorded, deposited and safeguarded in accordance with County Accounting Procedures and the Clerk-Recorder's policies and procedures.

AUDIT NO: 2723
REPORT DATE: AUGUST 28, 2008

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Internal Audit Department

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Internal Audit Department

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Transmittal Letter



Audit No. 2723 August 28, 2008

TO: Tom Daly
Clerk-Recorder

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: Internal Control Review of
Clerk-Recorder South County
Branch Office Cash Receipts Process

We have completed an Internal Control Review of the Clerk-Recorder South County Branch Office cash receipts process for the year ending March 31, 2008, in which the South County Branch Office collected **\$927,458** in cash receipts. Our final report is attached for your review.

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). As a matter of policy, 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.

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.

We have attached a **Follow-Up Audit Report Form**. Your department should complete this template as our audit recommendations are 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 document to facilitate our review.

Each month I submit an **Audit Status Report** to the BOS where I detail any material 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 BOS.

Letter from Director Peter Hughes



As always, the Internal Audit Department is available to partner with your staff so that they 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.

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

ATTACHMENTS

Other recipients of this report are listed on the Internal Auditor's Report on page 4.

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South County Branch Office Cash Receipts Process
Audit No. 2723*

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March 31, 2008

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INTERNAL AUDITOR'S REPORT

Audit No. 2723

August 28, 2008

TO: Tom Daly
Clerk-Recorder

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: Internal Control Review of Clerk-Recorder
South County Branch Office Cash Receipts Process

Audit Highlight

We audited the internal controls over cash receipts at the Clerk-Recorder's South County Branch Office, where \$927,458 in cash receipts were received between April 1, 2007 and March 31, 2008.

We found overall internal controls and processes are in place to ensure cash receipts are received, recorded, deposited and safeguarded in accordance with County Accounting Procedures and the Clerk-Recorder's policies and procedures.

OBJECTIVES

The Internal Audit Department conducted an Internal Control Review of the cash receipts process at the Clerk-Recorder's South County Branch Office, which included an evaluation of the adequacy and integrity of internal controls; compliance with department and County policies, and evidence of process efficiencies and effectiveness. The objectives of our audit were to evaluate internal controls and determine if they are in place to ensure:

- ▶ Cash receipts are processed completely, accurately, timely, and in accordance with County Accounting Procedures and the Clerk-Recorder's policies, procedures and management authorization.
- ▶ Cash receipts and critical business forms are safeguarded to minimize occurrence of misuse, loss or theft.
- ▶ Business processes are efficient and effective as related to the processing of cash receipts at the South County Branch Office.

BACKGROUND

The mission of the **Clerk-Recorder** is to provide a reliable repository for public records, efficient service to the public and readily accessible public records in a convenient manner while safeguarding confidentiality and the security of those records. The Clerk-Recorder's annual budget is approximately \$10.6 million and has 102 employees. The Clerk-Recorder is comprised of two divisions: (1) Recorder Services and Systems; and (2) Clerk-Services, Archives, and Administration. The Clerk-Recorder has three office locations: the **Civic Center Office**, the **Old County Courthouse** and the **South County Branch Office**.



The Clerk-Recorder is responsible for examining and recording all documents presented for recording that deal with establishing ownership of land in the County, and maintains a permanent record and index of all documents for public access. The department maintains and provides certified copies of birth, death, and marriage certificates for the public. In addition, the department issues marriage licenses, performs civil wedding ceremonies, files fictitious business name statements, processes passport applications, files notary public oaths and bonds, registers professional photocopies, process services and unlawful detainer assistants. The department also oversees the County archives.

The Clerk-Recorder opened the South County Branch Office in **February 2006** to provide South County residents a more convenient location for obtaining Clerk-Recorder services. In its first two years, the office has served 34,000 customers, married 1,600 couples, issued 5,600 marriage licenses and issued 61,000 copies of birth, death and marriage certificates.

The **total cash receipts processed by the Clerk-Recorder** during the audit period from April 1, 2007 through March 31, 2008 were approximately **\$55 million**. The Clerk-Recorder's **South County Branch Office processed cash receipts totaling \$927,458** during the same period.

SCOPE

Our audit evaluated internal controls and processes over cash receipts at the Clerk-Recorder's South County Branch Office for the period from April 1, 2007 through March 31, 2008. We audited the cash receipting process starting from when cash receipts are received and recorded at the South County Branch Office through the deposit process performed at the Civic Center Office.

We did not audit the information system controls over the Clerk-Recorder cashing system or audit controls over cash receipts received and processed at the Civic Center Office because those areas underwent prior internal audits. Our methodology included inquiry, auditor observation and testing of relevant documents. Our audit was conducted in accordance with professional standards established by the Institute of Internal Auditors.

RESULTS

We audited the internal controls over cash receipts at the Clerk-Recorder's South County Branch Office where \$927,458 in cash receipts were received between April 1, 2007 and March 31, 2008. We found overall internal controls and processes are in place to ensure cash receipts are received, recorded, deposited and safeguarded in accordance with County Accounting Procedures and the Clerk-Recorder's policies and procedures.



No material weaknesses or significant issues were identified. Our audit found no exceptions or discrepancies in cash receipts collected, recorded and deposited during our testing of 10 days of cash receipts totaling over \$65,000.

However, we did note **five (5) control findings and one (1) efficiency and effectiveness issue resulting in six (6) recommendations** to enhance existing controls and processes as discussed in the Detailed Observations, Recommendations and Management Responses section of this report. See *Attachment A* for a description of Report Item Classifications.

Based upon the objectives of our audit, we noted:

- ▶ **Objective:** *Cash receipts are processed completely, accurately, timely, and in accordance with County Accounting Procedures and the Clerk-Recorder's policies, procedures and management authorization.*
- ▶ **Results:** Controls and processes are in place to ensure cash receipts are processed completely, accurately, timely and in accordance with County Accounting Procedures and the Clerk-Recorder's policies, procedures and management authorization. No exceptions or discrepancies in cash receipts collected and deposited were noted.
- ▶ **Objective:** *Cash receipts and critical business forms are safeguarded to minimize occurrence of misuse, loss or theft.*
- ▶ **Results:** Controls and processes are generally in place to ensure cash receipts are safeguarded to minimize occurrence of loss or theft. However, we noted where enhancements should be made concerning accountability for transferred mail receipts and safeguarding critical business forms such as Bank Note Paper and handwritten receipt forms. These are classified as **Control Findings**.
- ▶ **Objective:** *Business processes are efficient and effective as related to the processing of cash receipts at the South County Branch Office.*
- ▶ **Results:** No inefficient or ineffective procedures such as backlogs or duplication of work were noted or came to our attention concerning cash receipts at the South County Branch Office. We noted one issue concerning the Deposit Order process that can enhance the efficiency of processing deposits. This is an **Efficiency/Effectiveness Issue**.



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 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. Internal Audit's review enhances and complements, but does not substitute for the Clerk-Recorder's 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, and 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 Clerk-Recorder's operating procedures, accounting practices and compliance with County policy.

Acknowledgment

We appreciate the courtesy extended to us by the Clerk-Recorder's Office. If we can be of further assistance, please contact me directly; or Eli Littner, Deputy Director at 834-5899 or Michael Goodwin, Senior Audit Manager at 834-6066.

Attachments

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
Renee Ramirez, Assistant Clerk-Recorder
Dana Ohanesian, Director of Administration, Clerk-Recorder
Paul Lanning, Administrative Manager, Clerk-Recorder
Shaun Skelly, Senior Director, Accounting and Technology, A-C
Phillip Daigneau, Assistant Auditor-Controller, A-C/Information
Technology
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors



DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

ACCOUNTABILITY FOR TRANSFER OF MAIL RECEIPTS

On a daily basis, the Civic Center Office pulls between 40 -50 opened mail receipts from the mailroom and sends them to the South County Branch Office for recording in the cashiering system. This practice is done to allocate staff resources and workloads at each location. These mail receipts consist of mail order service applications along with payments by check.

Observation No. 1 – Accountability for Transfer of Mail Receipts

We noted there is no listing prepared for the checks pulled from the Civic Center Office mailroom and sent to the South County Branch Office for recording. The staff who transport and receive the mail receipts do not document the transfer of monies between employees in writing. In addition, these receipts are not tracked by the Civic Center Office to ensure they all are recorded in the cashiering system and are eventually deposited. (**Control Finding**)

County Accounting Manual (CAM) Procedure Number C-4 - *Deposits* - requires employees to document the transfer of accountability in writing when money is transferred between employees during the collection and deposit process. Documenting the transfer of mail receipts establishes accountability for the receipts until deposited and decreases the risk that monies are lost or misappropriated. This documentation should be prepared, retained and included in the Civic Center Office deposit process to ensure all receipts sent to the South County Branch Office are deposited.

Recommendation No. 1

The Clerk-Recorder implement a procedure to identify mail receipts transferred from the Civic Center Office to South County Branch Office for processing; to document transfer of accountability when exchanging mail receipts between locations; and to ensure the mail receipts were processed.

Clerk-Recorder Management Response:

Concur. The Clerk-Recorder is in the process of developing a procedure to identify checks that are received by mail but sent to the "Branch Office" for processing, and to account for their return from the branch office for deposit. Once a procedure is developed, we will share with IA for their review and comments before implementing.



BANK NOTE PAPER

The Clerk-Recorder issues certified copies of birth, death, and marriage certificates on serially numbered Bank Note Paper. These are considered critical business forms because there is a potential monetary value associated with them due to their nature. As such, physical controls are required over these documents to prevent unauthorized acquisition, use, or disposition.

At the South County Branch Office, a stock of blank Bank Note Paper is delivered from the Civic Center Office to one employee assigned the custodial function, and are stored in a secured location accessible only to the custodian. On a daily basis, the custodian issues blank Bank Note Paper (generally 50 sheets) to each cashier and prepares a separate Bank Note Paper log for morning distribution and evening retrieval. Both logs show the date, cashiering station, range of blank Bank Note Paper and number of documents. The morning and evening logs record documents issued and returned, respectively.

Observation No. 2 – Physical Inventories of Bank Note Paper

Bank Note Paper issued to the South County Branch Office has not been subject to an independent physical inventory and reconciliation with the respective inventory records since the branch opened over two years ago. The responsibility for conducting these periodic inventories was assigned to personnel in the Civic Center Office, who cited staffing constraints as the reason for not conducting the inventories.

Because Bank Note Paper may be susceptible to misuse, inventory records should be maintained. Periodic inventories should be documented and be conducted in a frequency determined by management. Records of the inventories should be retained for audit. The custodian of the Bank Note Paper should not be in charge of taking the physical inventory to ensure adequate segregation of duties. The inventory results and any adjustment of records should be reviewed and approved by the appropriate manager. (**Control Finding**)

Recommendation No. 2

The Clerk-Recorder perform documented, periodic physical inventories of Bank Note Paper at the South County Branch Office. Any discrepancies in the inventories should be documented and reported to management.

Clerk-Recorder Management Response:

Concur. Beginning FY 08-09, CR Financial Unit will perform semi annual “surprise” audits on South County Bank Note paper to verify inventories. Any discrepancies will be reported immediately to the Assistant Clerk-Recorder and/or the Director of Administration (or most senior department manager available). In addition, CR has ordered large “void” stamps for each South County cashier to void any unusable bank note paper.



Observation No. 3 – Transfer of Bank Note Paper

We selected ten days to test whether there was documentation on the Bank Note Paper logs to establish accountability for transfers between the custodian and cashiers. We noted the transfer of accountability for blank Bank Note Paper was not consistently documented by the cashiers or custodian by initialing the log, especially during the evening retrieval process. It should be noted that all blank Bank Note Paper was accounted for during these days and there were no instances of missing Bank Note Paper noted. (**Control Finding**)

Recommendation No. 3

The Clerk-Recorder ensure there is documented transfer of accountability by the persons exchanging blank Bank Note Paper at the South County Branch Office.

Clerk-Recorder Management Response:

Concur. CR has added a "Received By" line on the form used to transfer Bank Note paper between staff; and we also added a space for the person's signature and date.

Observation No. 4 – Voided Bank Note Paper

We selected ten days to test the cancellation of voided Bank Note Paper. Bank Note Paper is voided due to printing problems or poor resolution of the documents. Although there are procedures in place for voiding documents, our audit noted that voided Bank Note Paper was not always marked "Void" to prevent misuse as shown below:

Date	Voided Bank Note Paper #
6/15/07	1823312
6/15/07	1823746
8/16/07	1896057
8/16/07	1896058
8/16/07	1896368
8/16/07	1896369
10/19/07	1902583
2/14/08	2005195

Clerk-Recorder staff should clearly mark these as "Voided" or deface them to prevent reuse. One option to consider is cutting, removing, or blocking out the signature portion of the voided Bank Note Paper to ensure it cannot be used for unauthorized purposes. (**Control Finding**)

Recommendation No. 4

The Clerk-Recorder should ensure the South County Branch Office marks as "void" or defaces all voided Bank Note Paper.

Clerk-Recorder Management Response:

Concur. CR has purchased large "VOID" stamps for all South County Cashiers to be used on all voided bank note paper.



HANDWRITTEN CASH RECEIPTS

When cash registers are not available, handwritten receipts are required to be issued to the payer of money. Uniform procedures define the process for approving, stocking, issuing, and accounting for authorized handwritten cash receipt forms. Maintaining inventory records and performing physical inventories of handwritten cash receipts by someone other than the custodian decreases the risk of theft, loss or unauthorized use.

Observation No. 5 – Physical Inventories of Handwritten Receipts

Handwritten cash receipts at the South County Branch Office have not been subject to an independent physical inventory and reconciliation with the respective inventory records. We noted there is an assigned custodian for the receipt forms, and that the receipt forms are stored in a secure location accessible only to the custodian. We were informed the custodian periodically inventories the receipt forms, but does not document the inventories. The responsibility for conducting these inventories was assigned to personnel in the Civic Center Office, who cited staffing constraints as the reason for not conducting them.

CAM Procedure Number C-5 - *Handwritten Cash Receipts* - requires a periodic inventory of handwritten cash receipt forms by an employee with no custodial or cashiering duties.

Because blank handwritten receipt forms are considered critical business forms, they should have physical safeguards to prevent and detect any loss or misuse of the receipt forms. Periodic inventories should be conducted in a frequency determined by management. Records of the physical inventories should be maintained. The custodian of the handwritten cash receipt forms should not be in charge of maintaining the inventory records or the taking of physical inventory to ensure appropriate segregation of duties. (**Control Finding**)

Recommendation No. 5

The Clerk-Recorder perform documented, periodic physical inventories of handwritten cash receipt forms at the South County Branch Office. Any discrepancies should be documented and reported to management.

Clerk-Recorder Management Response:

Concur. CR Financial Unit will perform semi annual “surprise” audits of the South County handwritten cash receipts to confirm inventories. Any discrepancies will be reported immediately to the Assistant Clerk-Recorder and/or the Director of Administration (or most senior department manager available). NOTE: Use of handwritten cash receipts is limited to times when the computerized cashiering system is inoperative.



EFFICIENCY/EFFECTIVENESS OBSERVATION

One of the audit objectives was to identify areas where efficiencies and effectiveness can be enhanced in the process. Our audit noted the following observation:

Observation No. 6 – Automation of Deposit Orders

The Civic Center Office prepares Deposit Orders to record the deposit of money. A template table resembling the County Deposit Order form is printed from the Clerk-Recorder's cashiering system. The template table presents the requisite information for the Deposit Order. Past attempts to utilize the template table to interface with the Auditor-Controller's financial system (CAPS) have not been successful. As a result, the Clerk Recorder's office inputs deposit data on a separate spreadsheet for the preparation of Deposit Orders.

During our audit of the South County Branch Office, we met with representatives from Clerk-Recorder Information Systems and Auditor-Controller Information Technology to discuss this issue and past attempts to automate the process. It was noted that CAPS accepts electronic files generated from a computer storing deposit data, and that it may now be possible to automate the Clerk-Recorder's Deposit Order process. Automating the process utilizing an electronic file saves time in submitting records and reduces the likelihood of data input errors.

Recommendation No. 6

The Clerk-Recorder Information Systems partner with Auditor-Controller Information Technology to develop a process for transmitting Deposit Order information via an electronic file that will replace the current manual process.

Clerk-Recorder Management Response:

Concur. The Auditor-Controller and Clerk-Recorder staff were pursuing this recommendation prior to the South County audit, and we are continuing to work to accomplish this objective.



ATTACHMENT A: Report Item Classifications

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

- ▶ **Material Weaknesses:**
Audit findings or a combination of Significant Issues that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to address “Material Weaknesses” brought to their attention immediately.
- ▶ **Significant Issues:**
Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.
- ▶ **Control Findings and/or Efficiency/Effectiveness Issues:**
Audit findings that require management’s corrective action to implement or enhance processes and internal controls. Control Findings and Efficiency/Effectiveness issues are expected to be addressed within our follow-up process of six months, but no later than twelve months.



ATTACHMENT B: Clerk-Recorder Management Responses



TOM DALY
CLERK-RECORDER

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RECEIVED
INTERNAL AUDIT DEPARTMENT

2008 AUG 25 AM 9:44

MEMORANDUM

TO: Dr. Peter Hughes, CPA, Director
Internal Audit Department Date: August 21, 2008

FROM: Tom Daly, Clerk-Recorder *Tom Daly*

SUBJECT: Internal Control Review of Clerk-Recorder South County Branch Office Cash Receipts Process

Thank you for reviewing the Clerk Recorder's "South County Branch Office" cash receipts process. This is our first "branch office", and a review of our cash operations was timely and helpful in reinforcing controls over our cash processes. Clerk-Recorder Staff has reviewed the recent audit and our responses to your recommendations are indicated below.

Recommendation No. 1
The Clerk-Recorder implement a procedure to identify mail receipts transferred from the Civic Center Office to South County Branch Office for processing; to document transfer of accountability when exchanging mail receipts between locations; and to ensure the mail receipts were processed.

Clerk-Recorder Management Response:
Concur. The Clerk-Recorder is in the process of developing a procedure to identify checks that are received by mail but sent to the "Branch Office" for processing, and to account for their return from the branch office for deposit. Once a procedure is developed, we will share with IA for their review and comments before implementing.

Recommendation No. 2
The Clerk-Recorder perform documented, periodical physical inventories of Bank Note Paper at the South County Branch Office. Any discrepancies in the inventories should be documented and reported to management.

Clerk-Recorder Management Response:
Concur. Beginning FY 08-09, CR Financial Unit will perform semi annual "surprise" audits on South County Bank Note paper to verify inventories. Any discrepancies will be reported immediately to the Assistant Clerk Recorder and/or the Director of Administration (or most senior department manager available). In addition, CR has ordered large "void" stamps for each South County Cashier to void any unusable bank note paper.



ATTACHMENT B: Clerk-Recorder Management Response continued

Recommendation No. 3

The Clerk-Recorder ensure there is documented transfer of accountability by the persons exchanging blank Bank Note Paper at the South County Branch Office.

Clerk-Recorder Management Response:

Concur. CR has added a "Received By" line on the form used to transfer Bank Note paper between staff; and we also added a space for the person's signature and date.

Recommendation No. 4

The Clerk-Recorder should ensure the South County Branch Office marks as "void" or defaces all voided Bank Note Paper.

Clerk-Recorder Management Response:

Concur. CR has purchased large "VOID" stamps for all South County Cashiers to be used on all voided bank note paper.

Recommendation No. 5

The Clerk-Recorder perform documented, periodic physical inventories of handwritten cash receipt forms at the South County Branch Office. Any discrepancies should be documented and reported to management.

Clerk-Recorder Management Response:

Concur. CR Financial Unit will perform semi annual "surprise" audits of the South County handwritten cash receipts to confirm inventories. Any discrepancies will be reported to the Assistant Clerk Recorder and/or Director of Administration (or most senior department manager available). NOTE: Use of hand written cash receipts is limited to times when the computerized cashiering system is inoperative.

Recommendation No. 6

The Clerk-Recorder Information Systems partner with Auditor-Controller Information Technology to develop a process for transmitting Deposit Order information via an electronic file that will replace the current manual process.

Clerk-Recorder Management Response:

Concur. The Auditor Controller and Clerk-Recorder staff were pursuing this recommendation prior to the South County audit, and we are continuing to work to accomplish this objective.