

OFFICE OF THE AUDITOR-CONTROLLER

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DATE: March 31, 2011

TO: Simona Padilla-Scholtens, CPA
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FROM: Ian Goldberg, CGAP 
Deputy Auditor-Controller

SUBJECT: Master Internal Control Review
For the fiscal year ended June 30, 2010

In accordance with the Fiscal Year 2010/11 Audit Plan and at your request, we conducted a review of the internal control structure for centralized transaction cycles within the County for the fiscal year ended June 30, 2010. The transaction cycles selected for review included:

- Cash Administration
- Integrated Financial Accounting System (IFAS)
- Purchasing
- Fixed Assets
- Interest Earnings Apportionment
- Property Tax Apportionment
- General Ledger (Cash disbursements, cash receipts, journal entries and warrant accountability)

The Budget Process, which was included in our original listing of transaction cycles selected, was removed from the scope of our review due to the transition of management and the redesign of budget processes currently underway. The redesigned budget process will be scheduled for review in the next Master Internal Control Review.

For each cycle selected above we evaluated the adequacy and effectiveness of internal controls in accordance with the Internal Control – Integrated Framework as issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Internal Control -

Integrated Framework includes three primary objectives of an internal control system (1) efficient and effective operations, (2) accurate financial reporting, and (3) compliance with laws and regulations. In completing our review of the objectives described above we performed interviews, transaction walkthroughs and detail testing to verify controls are properly designed and operating effectively.

Our review of the internal control structure for centralized transaction cycles within the County for controls in place as of June 30, 2010 did not disclose any issues that are considered a significant deficiency or material weakness. We found that internal controls and processes were adequate to ensure the funds were received, recorded, deposited, safeguarded, and disbursed in accordance with the management's procedures and expectations.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities, in amounts that would be material in relation to the internal controls being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control would not necessarily disclose all matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses.

In performing our review of the centralized transaction cycles certain matters came to our attention that we considered to be immaterial and thus were not included as findings in our report. We have provided a listing of these immaterial items for informational purposes only. Please refer to the following pages for further detail.

We wish to thank management and staff of the Auditor-Controller's Office, General Services – Purchasing, and Department of Information Technology for their assistance in completing the review.

SCHEDULE OF EXIT ISSUES

The following exit issues will be disposed during our exit meetings with the responsible departments:

Cash Disbursements

Vendor Claim not supported by original invoice

Condition: Out of 50 vendor claims selected for review, we noted four instances of payment of a vendor claim were not supported by an original invoice but rather by a faxed supporting document.

Criteria: The ACO procedure clearly states that the ACO only pays from original invoice. No copies, no faxes, no statements and no charge card slips are acceptable.

Effect: ACO may inadvertently duplicate payments. (We noted no duplicate payments during our review).

Recommendation: Ensure that Vendor Claims processed for payment include original receipts and supporting documentation.

Overpayment/Underpayment of Vendor Claim

Condition: We noted one instance of overpayment and one instance of underpayment to the vendor. A payment made prior to due date was processed timely but payment made included late fees. Subsequently, a payment was made to the same vendor after the due date but the payment did not include any late fees.

Criteria: Per ACO policies and procedures, vendor claims must be compared to invoices.

Effect: An overpayment or underpayment of a vendor claim can create extra work reclaiming duplicate payments made or may costs the County to pay penalties and fines for late fees not paid.

Recommendation: Implement thorough review and oversight of invoices to match vendor claims. The review should consists of checking amount due is appropriate based on the date of payment.

Three-Way Match

Condition: In our review of the purchasing and vendor claim payment process, we were not able to determine if a three-way match is being conducted – purchase order, physical receipt and invoice from the vendor all match before the invoice is paid. It was not evidenced on our review if receiving department records receipts of goods purchased.

Criteria: Good internal control requires checks and balances on significant financial transactions help management detect and prevent errors. Implementing a three-way match helps avoid paying for items not received but for which the vendor has billed or invoiced.

Effect: Departments might inadvertently pay goods/services not received.

Recommendation: Determine the feasibility of adopting a three-way match system.

Purchasing

Copy of purchase order on file not signed

Condition: Out of 35 purchase orders selected for review, 29 were not signed by the Purchasing Agent.

Criteria: An important control activity is authorization/approval. Approval of a transaction means the approver has reviewed the supporting documentation and is satisfied that the transaction is appropriate and accurate.

Effect: The department's procedure of retaining unsigned copies of purchase orders could result to circumvention of approval of the purchase orders.

Recommendation: Agent must sign all three part purchase order forms.

Warrant Printing

Lack of Implementation of Audit Trail

Condition: DoIT has not implemented or maintained audit trail records pertaining to Warrant Printing. Management has decided not to enable or utilize the audit trail feature because there were no expressed concerns over system and internal control performance. However, no formal analysis has been performed to determine the cost benefit of utilizing this feature.

Criteria: Audit trails should be maintained and monitored on a regular basis to help ensure that transactions are processed as intended. Controls over the processing of data should preclude or detect the erroneous or unauthorized addition, removal or alteration of data during processing. Internal control systems should generally be designed to ensure ongoing monitoring occurs in the course of normal operations. An audit trail, created by an automated log, should include sufficient information to establish what transactions occurred and who or what caused them.

Effects: By not utilizing audit trail functionality in PayBase, important transactions such as, who printed or reprinted checks, how many checks are reprinted – are not captured. This may significantly limit management’s ability to monitor, review and ensure transactions have been appropriately approved or authorized. This limitation exposes the County to an increased risk that improper payments will be processed and goes undetected, or if detected, the responsible individual may not be identified.

Recommendation: Review the feasibility of utilizing the audit trail functionality in PayBase.

Risk Assessment

Risk of loss of data

Condition: We determined concerns regarding loss of data. During our interview with key personnel in DoIT, a concern about electrical breakdown that could lead to data loss was raised.

Disaster Recovery Plan

Condition: In our review of the Disaster Recovery Plan, we determined the plan does not address specifics such as:

- Accurate communication or call list
- Where the recovery site is
- Easy-to-follow map and directions of how to reach the recovery site
- Additional documentation such as a list of vendor contacts and insurance documentations such as policy numbers
- Current network diagram of the entire network and recovery site in the DR plan