#### OFFICE OF THE AUDITOR-CONTROLLER

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**Independent Review Report** 

January 19, 2011

Board of Supervisors County of Solano 675 Texas Street Fairfield, CA 94533

#### Chairman & Members of the Board:

Pursuant to Government Code §26920, we have reviewed the accompanying Statement of Assets of the Solano County Treasury as of September 30, 2010, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in the Statement of Assets is the representation of the Solano County Treasurer.

As required under Government Code §26920, the review included a physical count of the cash in the Treasury and verification that the records of the County Treasury and the Auditor-Controller's Office are reconciled in accordance with Government Code §26905. In addition, we determined the accuracy, validity and compliance of the investments in the Solano County Treasury with Government Code §53601 and §53635.

A review consists principally of inquiries of department staff and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted audit standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statement in order for it to be in conformity with accounting principles generally accepted in the United States of America. Additionally, the Treasury investments appear to be in compliance with Government Code §53601 and §53635.

However, in verifying the records of the Treasurer and Auditor-Controller pursuant to Government Code §26905, we identified:

- The Auditor-Controller's reconciliation was not completed by the required deadline.
- No independent verification of deposits.

The following pages provide a detailed description of the findings identified and related recommendations. These recommendations will assist the Treasury and Auditor-Controller's Office to improve controls and will assist in the effort to ensure accountability over cash and investment transactions.

This report is intended for the information of the Board of Supervisors and the Treasury management. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Respectfully yours,

Simona Padilla – Scholtens, CPA

Auditor-Controller

#### FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

# 1. AUDITOR-CONTROLLER'S RECONCILIATION NOT COMPLETED BY THE REQUIRED DEADLINE

In verifying the reconciliation of the Treasurer's and Auditor-Controller's (ACO) books pursuant to Government Code §26905, we noted the reconciliation was completed 30 days after the deadline. In addition, the reconciliation was not signed by the preparer and there was no evidence of a supervisory review.

Per Government Code §26905, "Not later than the last day of each month, the auditor shall reconcile the cash and investment accounts as stated on the auditor's books with the cash and investment accounts as stated on the treasurer's books as of the close of business of the preceding month to determine that the amounts in those accounts as stated on the books of the treasurer are in agreement with the amounts in those accounts as stated on the books of the auditor."

The delay in the reconciliation of the Auditor's books to the Treasurer's books may delay the detection of errors & irregularities and increases the risk to the County.

#### **RECOMMENDATIONS:**

#### **Auditor-Controller's Office**

- A. Prepare the monthly reconciliation of the Treasurer's books to the ACO's books by the due date.
- B. Document the supervisory review by initialing and dating the reconciliation.

#### **MANAGEMENT RESPONSE:**

#### **Auditor-Controller's Office**

We agree with the finding and recommendations. Due to staff reductions the reconciliation was backlogged and thus not completed by the due date. We have taken corrective action to address the backlog and to ensure timely completion of the reconciliation. All future supervisory reviews of the reconciliation will be documented by initialing and dating of the reconciliation.

#### 2. NO INDEPENDENT VERIFICATION OF DEPOSITS

In reviewing the procedures for bank deposits into the County Treasury, we noted some deposits prepared by departments were not independently verified by the Treasurer's Office and/or by a second staff member of the department to ensure the completeness and accuracy of the amounts contained in the deposit.

Previously, the departments would prepare deposits and hand delivers the deposit to the Treasury who would tally the deposit at the window and verify the deposit permit. The Treasury would then submit all deposits received to the bank.

Recently, the Treasury modified their procedure to require departments to submit deposits in sealed bags to the Treasury. The Treasury accepts the sealed bag without verifying contents and forwards the bag to the bank. The new sealed bag process eliminated the independent verification of deposit by the Treasurer.

During the first quarter, a sealed deposit bag containing checks totaling \$4,063 was not received by the bank for deposit. The checks were not in the sealed bag and were not subsequently located by the department. A request was made to place a stop payment on the checks and reissue. The deposit bag was prepared by an employee who sealed the bag and prepared the deposit permit without independent verification. The Treasurer's Office upon receipt of the sealed deposit bag, processed and signed the deposit permit attesting to the accuracy of the deposit being made to the bank. However, neither the department nor the Treasurer's Office verified the contents of the sealed deposit bag.

Effective internal control requires cash received by the County be independently verified by the Treasurer and/or by a second staff member prior to deposit and entry into the County's financial system.

The lack of independent verification by the Treasurer and/or by a second staff member in the department is a weakness in the internal control structure of the Treasurer's bank deposit procedures. The deposit permit signed by the Treasurer indicated the monies listed on the form were received by the County Treasury. Based on the signed deposit permit, the ACO updated and recorded the deposit to the County's financial system resulting in an overstatement of cash.

#### **RECOMMENDATIONS:**

#### **Treasurer**

- A. Require County departments to have two staff members count each deposit and initial the deposit slip and/or deposit permit indicating agreement with the accuracy of the deposit.
- B. Revise the Treasury's policy and procedures to require Treasurer to verify two sets of initials on both the deposit slip and deposit permit.

#### **Auditor-Controller's Office**

A. Work with the Treasurer's Office to revise the description on the signatory section of the ACO's deposit permit attesting the monies listed have been received, processed and recorded.

#### **MANAGEMENT RESPONSE:**

#### **Treasurer**

The Treasurer concurs with the basic tenets of this finding.

The Treasurer, in recognition of a duplication of efforts related to the handing of cash, checks, and coins brought to the Treasury for processing, and after consultation with the Auditor-Controller, streamlined the process for depositing these items and the subsequent posting of entries to the County's financial system, IFAS.

The duplication of efforts eliminated was the recounting and consolidation of cash, checks, and coins brought to the Treasury for deposit. Under the old system, the department would tally the amount being deposited and bring it to the Treasury; the Treasury would then tally the amount, consolidate the deposit and re-tally the amount, before finally depositing the money, which would then be re-tallied by the recipient bank.

To eliminate the redundant tallies, the Treasury no longer consolidates departmental deposits. Departments now place the tallied money, along with a bank deposit slip, inside a tamper proof sealed bag. The department prepares a deposit permit (the document used to update IFAS) which is submitted with the sealed to the Treasury. The deposit permit is then forwarded to the Auditor-Controller for posting.

The bags are then collected by armored car pick-up and taken to the bank. This practice of not counting and re-counting the money was pioneered with the School Districts and other special districts many years ago and found to be far more efficient. Within 24 hours of deposit to the bank, the Treasury is notified of the validated contents of the bag. Discrepancies between the deposit permit and the validated contents of the bag are reported same day to the department, and the Auditor - Controller for corrective action and adjustment to IFAS.

We will work with the ACO to align the necessary certifications on the deposit permit to the new roles and responsibilities.

#### **Auditor-Controller's Office**

We agree with the finding and recommendation and will work with the Treasurer's Office to revise the description of the signatory section of the deposit permit to ensure accurate certification and control of the deposit process.

### Solano County Treasury Statement of Assets September 30, 2010

Cash on Hand	\$	616,583	
Cash in Banks		781,491	
Money Market & Mutual Funds			
Money Market Funds		96,450,871	
Mutual Funds		39,188,906	
Total money market and mutual funds		135,639,777	
Non-Cash Assets			
Accrued Interest and other non-cash assets		2,352,686	
Total non-cash assets		2,352,686	
Investments (fair value)			
Federal Agency Securities		269,043,438	
Treasury Securities	139,552,507		
Municipal Securities		43,789,224	
Corporate Securities		60,802,018	
Total investments	513,187,187		
Total Cash & Investments	\$	652,577,724	

# Solano County Treasury Cash Balances Summary Report by Fund Type September 30, 2010

## **County Funds:**

General Fund		\$ 52,818,239	8%
Reserves	\$ 31,216,979		
Contingencies	21,811,915		
All Other	(210,655)		
Special Revenue			
Health & Social Services		34,058,895	5%
First 5 Solano		17,471,673	3%
Road		11,863,951	2%
<b>Public Facilities Fees</b>		8,746,270	1%
Recorder Special Revenue	e	7,408,089	1%
County Library		6,557,354	1%
<b>Public Safety</b>		(2,636,386)	0%
<b>Debt Service</b>			
2002 COP-Debt Service/w	vith Trustee	98,648,689	15%
Capital Projects			
H&SS Capital Projects - '	Tobacco	14,161,704	2%
Capital Outlay - Other		34,903,584	5%
<b>Internal Service Fund</b>			
Risk Management		10,630,738	2%
<b>All other County Funds</b>		28,897,037	5%
<b>Total County Funds</b>		323,529,837	50%
<b>Non-County Agencies:</b>			
Schools		197,085,818	30%
Special Districts/Other		 131,962,069	20%
Total Non-County Agencie	es	329,047,887	
<b>Total Cash &amp; Investments</b>		\$ 652,577,724	100%

Note: Amounts shown for Special Revenue, Debt Service, Capital Projects, Internal Service and all other County Funds include Reserves, Contingencies, and Operating amounts.