

County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Honorable Lawrence Matheney, Treasurer-Tax Collector

Date: June 19, 2007

From: Christine L. Cohen

Subject: REPORT TO MANAGEMENT

In accordance with Government Code Section 26920, we have audited the Statement of Money in County Treasury, as of June 30, 2006, and have issued our report thereon dated February 28, 2007. During our audit, we noted certain matters involving Treasury's operations and internal controls that are presented for your consideration.

BACKGROUND:

The County Treasury is the depository for the County, school districts, and special district funds. The Treasury holds the assets of the school and special districts in a fiduciary capacity and as such these assets are not available for the general use of the County. All banking functions, including processing of deposits, payment of County checks, and investment of funds are handled by the Treasury.

Treasury investment activities are governed by California Government Code Section 53601 and the Treasurer-Tax Collector Investment Policy to achieve the goals of safety, liquidity, and yield. During fiscal year (FY) 2005-06, Treasury purchased approximately \$6.1 billion in investments, sold approximately \$6 billion, and realized approximately \$53 million in investment earnings.

SCOPE:

Our overall objective was to determine whether the Statement of Money in County Treasury (Statement) presented fairly the cash and investments deposited with the Treasurer. In planning and performing our audit, we considered Treasury's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the Statement and not to provide an opinion on the internal control over financial reporting. We have not considered internal control since the date of our report. This letter does not affect our report, dated February 28, 2007, on the Statement. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In connection with the report contained herein, there are certain disclosures that are necessary pursuant to *Government Auditing Standards* Amendment 3.

As required by various statutes within the California Government Code, county auditor-controllers are mandated to perform certain accounting, auditing, and financial reporting functions. These activities, in

themselves, necessarily impair *Government Auditing Standards'* independence standards. Specifically, "Auditors should not audit their own work or provide nonaudit services in situations where the amounts or services involved are significant/material to the subject of the audit." Although the Office of Auditor-Controller is statutorily obligated to maintain the accounts of departments, districts, or funds that are contained within the County Treasury, we believe that the following safeguards and division of responsibility exist. The Ventura County Auditor-Controller is an elected official and, as such, is independent from the County's management structure. Also, the internal audit staff, having the responsibility to perform audits, resides in a stand-alone division of the Auditor-Controller's Office and has no other responsibility of the accounts and records being audited. Therefore, the reader of this report can rely on the information contained herein.

FINDINGS: During our audit, we identified an opportunity to improve Treasury internal controls relating to investment compliance. Specifically, we found that improvement could be made in maintaining documentation to support investment compliance with Government Code regulations. Summarized below are areas where improvements were needed. Treasury management initiated corrective action during the audit as noted.

Documenting Investment Compliance. Treasury did not retain documentation to support investment compliance with Government Code regulations at the time securities were purchased. Although Treasury used an Excel spreadsheet to evaluate investment compliance, the spreadsheet was updated daily, overriding the prior day's information. Therefore, Treasury could not demonstrate that investments were evaluated for compliance at the time of purchase. Maintaining Treasury management's documented review of investment compliance on a daily basis would strengthen evidence of the propriety of investment transactions.

Management Action. Treasury management will retain the Excel compliance spreadsheets to provide evidence of review of Government Code regulations on a daily basis. The spreadsheets will be retained in electronic format (perhaps a CD) due to documentation storage limitations. Also, trade tickets will be revised to include a statement supporting the investment manager's current practice that Government Code and Investment Policy requirements were evaluated at the time of the trade.

AUDITOR'S EVALUATION OF MANAGEMENT ACTION: We believe that management's planned corrective action was responsive to the audit finding. Management planned to complete corrective action by July 2, 2007.

We appreciate the cooperation and assistance extended by you and your staff during this audit.

cc: Honorable Linda Parks, Chair, Board of Supervisors
Honorable Steve Bennett, Board of Supervisors
Honorable Kathy Long, Board of Supervisors
Honorable Peter Foy, Board of Supervisors
Honorable John K. Flynn, Board of Supervisors
John F. Johnston, County Executive Officer
Depositors in County Treasury