

County of Ventura  
AUDITOR-CONTROLLER  
MEMORANDUM

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**To:** Honorable Lawrence L. Matheney, Treasurer-Tax Collector      **Date:** August 3, 2006

**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, 2005, and have issued our report thereon dated February 9, 2006. 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. Significant banking functions, including processing of deposits, payment of County checks, and investment of funds are handled by the Treasury. County agencies/departments deposit funds into the County's bank, Wells Fargo Bank (WFB), either directly using sub-accounts or through Treasury via over-the-counter (OTC) deposits. OTC deposits are typically processed in the presence of the agency/department courier delivering the deposit while deposits delivered by armored transport are processed by Treasury personnel under dual custody. After processing, funds are commingled and deposited into WFB by Treasury.

**SCOPE:**

Our overall objective was to determine whether the Statement of Money in County Treasury (Statement) was presented fairly and in accordance with generally accepted accounting principles. 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 9, 2006, 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:** Overall, we found that opportunities existed to improve Treasury operations and internal controls relating to deposit procedures. Specifically, we found that: the OTC deposit process could be streamlined; cashiers did not always process cash deposits under dual custody; and Treasury occasionally opened sealed sub-account deposits intended for direct deposit. Summarized below are areas where improvements were needed. Except as noted in Findings 1 and 3, Treasury management initiated corrective action during the audit.

1. **Streamlining OTC Deposits.** Opportunities were available to streamline Treasury's OTC deposit process and mitigate the risks associated with the handling and transferring of cash. For example, sub-accounts permit County agencies/departments to deposit funds directly into WFB, thereby reducing the number of times cash is handled and OTC processing time. Our analysis of 113 OTC deposits by 15 agencies/departments disclosed that each cash deposit exchanged hands and was counted no less than four times prior to deposit into WFB. The use of sub-accounts would minimize cash points-of-contact prior to deposit and reduce the risk of loss or misappropriation of funds. Further, we estimated that establishing the 15 sub-accounts would reduce annual OTC processing time by 336 to 672 hours, resulting in cost savings (net of bank fees) of \$3,963 to \$11,958. Lastly, we believe establishing 15 new sub-accounts would not necessarily reduce OTC deposits to a level that would prevent Treasury from replenishing the \$3,500 change fund with smaller denomination currency.

**Management Response.** Treasury management stated:

"Management agrees that there are some advantages to be expected if subaccounts were utilized to a greater extent. However, such a change would also involve disadvantages that are, in the opinion of management, of more significant weight as detailed below.

"The discussion of the perceived benefits of a more extensive use of subaccounts is appreciated. However, management derives a benefit from the existing method of handling cash deposits that has not been fully addressed in the report. The various cash deposits provide the opportunity for Treasury staff to replenish the several departmental cash carts with usable currency denominations without the need to go offsite to the bank. The daily Over The Counter transactions are insufficient to provide the high-demand small denomination currency. The timing of need for replenishing the carts makes impractical the alternative of using a change delivery service offered by the Treasury's bank. There is no predictable pattern for the day or time when the carts must be replenished. Therefore, to obtain the currency when needed would require expedited delivery, at a prohibitive rate. While an attractive rate for such delivery is available, it requires an unworkable amount of advance notice to be given to the bank. The current practice is viewed by management as offering at least two significant benefits: (1) it

is safer than sending unarmed staff across a heavily traveled street, with large amounts of currency, to the bank on a frequent basis, and (2) it also makes more efficient use of staff time in that the safety issue would otherwise dictate sending at least two staff members on each trip to the bank.

"In the opinion of management, there is no demonstrated net advantage in expanding the use of subaccounts. Therefore, management has no present intention of either encouraging or requiring the increased use of subaccounts."

**Auditor's Evaluation of Management Response.** We agree that sending staff off-site for change fund replenishment is not desirable and do not recommend this practice. However, while "making change" is a relevant courtesy service, we believe that opportunities to streamline operations and improve internal controls outweigh the benefits derived from providing the service. Nevertheless, we believe that Treasury's change fund could be adequately replenished, assuming a moderate demand for change, using cash deposits made by agencies/departments for which sub-accounts will not be established. For example, had the 15 sub-accounts been established, OTC cash deposits of \$4,916 would have been available to replenish the change fund for the 2-week period under review. If necessary, a "Change Order" service could have been used to supplement, not supplant, the current practice of replenishing the change fund. Our review disclosed that Treasury's bank provides the "Change Order" service at a cost of \$3.50 per order, and is delivered by armored transport at no additional charge.

2. **Processing Cash Deposits under Dual Custody.** Treasury staff did not always document that cash deposits delivered by armored transport were processed under dual custody. Our review of 40 Cash Receipt documents for cash deposits delivered by armored transport disclosed that five (12.5%) did not contain a second cashier signature. As a result, Treasury management could not verify that \$5,465 in cash deposits were processed within established internal controls for handling cash. Treasury management indicated that the missing signatures were probably due to cashier oversight and that compensating controls require a second cashier to conduct an end-of-day count of funds deposited. While the end-of-day count of funds may disclose deposit variances, the procedure would not necessarily identify the variance point of origin since deposited funds are commingled. Therefore, documenting that cash deposits were counted in dual custody assists in protecting both the integrity of the deposits and the staff if variances in deposited amounts are discovered.

**Management Action.** Treasury management stated: "Management has counseled staff about cash handling policies, including the proper method of dual control and need for documentation. In addition, management will increase supervision over cash deposit documentation."

3. **Opening Sealed Sub-Account Deposits.** Sealed sub-account deposits, which were sometimes routed through Treasury for deposit into WFB, were occasionally opened by Treasury cashiers. Treasury management acknowledged that five sub-account deposits processed from July 1 to July 8, 2005, may have been opened to replenish Treasury's change fund drawers with smaller denomination currency. As a result, Treasury was required to process sub-account deposits as OTC deposits thereby duplicating the deposit preparation process already completed by the depositing agency/department. While we understand Treasury's need for smaller denomination currency,

obtaining the desired currency units through OTC deposits, rather than sealed sub-account deposits, would reduce the risk of loss or misappropriation of funds.

**Management Response.** Treasury management stated: "As discussed [in] item #1, above, the cash deposits of Treasury participants are sometimes used to replenish the cash cart currency. To the knowledge of management, there has never been a documented loss or misappropriation of funds as a result of the present practice. Moreover, when a sealed deposit is opened by Treasury staff, there is an additional hand count required of the funds, serving as a check against the count made by the depositing agency. Management has no present intention to alter the practice of using the sealed cash deposits to replenish Treasury's currency needs."

**Auditor's Evaluation of Management Response.** We believe Treasury's \$3,500 change fund could have been adequately replenished with OTC cash deposits, which exceeded the change fund balance. For example, the five sealed sub-account deposits in question were processed by Treasury on the same day that over \$6,781 in OTC cash deposits were made. Therefore, adequate replenishment appeared to be available through OTC deposits. Further, the opening of sealed sub-account deposits unnecessarily duplicates the deposit preparation process already completed by the depositing agency/department, and increases the risk of loss or misappropriation of funds. While we are not aware of a loss/misappropriation of funds having resulted from opening sealed sub-account deposits, we believe that internal controls are most effective when practiced proactively rather than reactively.

**OVERALL EVALUATION OF TREASURY MANAGEMENT ACTION:** We believe that management action taken for Finding 2 was responsive to the audit finding. Management completed corrective action during the course of the audit.

Our audit also disclosed matters relating to the Auditor-Controller Financial Management's wire transfer request process, which are presented to Treasury management for informational purposes only. Specifically, our audit disclosed weaknesses in the design of the internal controls over the Auditor-Controller Financial Management's non-investment wire transfer verification/approval process and opportunities to automate the wire transfer request process. In response to our audit report, the Auditor-Controller's Financial Management Division agreed to implement corrective action. Therefore, a response from Treasury management is not required.

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

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