

County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Honorable Lawrence L. Matheney, Treasurer-Tax Collector **Date:** March 18, 2008
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 29, 2007, and have issued our report thereon dated January 25, 2008. 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.

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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of the Treasury's 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 January 25, 2008, on the Statement.

In addition, we performed follow-up audit procedures to determine whether corrective action was taken to address issues noted in our prior Report to Management, dated August 3, 2006.

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*.

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, "audit organizations should not audit their own work or provide nonaudit services in situations where the

non-audit services are significant/material to the subject matter of audits." 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 found sufficient action was taken to address one of three issues in our prior Report to Management, dated August 3, 2006, regarding opening sealed sub-account deposits. However, sufficient corrective action had not been taken to address a prior audit finding relating to processing deposits under dual custody. Treasury management initiated corrective action for this issue as noted below.

In addition, corrective action was not taken to address a prior audit finding relating to expanding the use of sub-accounts to streamline Treasury's deposit process and strengthen internal controls. Treasury management has elected to assume the risk of not implementing corrective action on this issue; therefore, a response from Treasury is not required as described below.

1. **Processing Cash Deposits under Dual Custody.** Treasury did not implement sufficient corrective action to provide assurance of processing cash deposits under dual custody. Specifically, Treasury staff did not always document that cash deposits delivered by armored transport were counted and verified by two staff members. Our review of 75 Cash Receipt documents for cash deposits delivered by armored transport disclosed that 9 (12%) did not contain a second cashier signature. As a result, \$1,791 in cash deposits from our sample were not processed within Treasury's established internal controls for handling cash.

Management Action. Treasury management concurred with the finding and stated: "Management recognizes the importance of processing deposits in dual custody and has integrated that practice into the regular routine of our business. Unfortunately, during the time-frame reviewed, Treasury was operating with greatly reduced staff. The pressure to complete the various daily functions while shorthanded appears to have resulted in several cases of failing to document the dual custody practice. Staff has been counseled on the importance of always documenting the fact that we are adhering to all facets of the cash deposit processing procedures."

2. **Streamlining Over-the-Counter Deposits.** Treasury did not implement corrective action to expand the use of sub-accounts for streamlining Treasury's over-the-counter deposit process and mitigating the risks associated with the handling and transferring of cash. In our prior Report to Management, dated August 3, 2006, Treasury disagreed with our finding and stated that no corrective action would be taken. Although we commented on Treasury's disagreement in our prior report in a further effort to elicit corrective action, our current audit confirmed that no corrective action was taken. Therefore, Treasury has assumed the risk of not taking corrective action on this finding and no further follow-up is scheduled at this time.

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AUDITOR'S EVALUATION OF MANAGEMENT ACTION: We believe that management's planned corrective action for Finding 1 was responsive to the audit finding. Management completed corrective action during the course of the audit.

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

cc: Honorable Peter C. Foy, Chair, Board of Supervisors
Honorable Steve Bennett, Board of Supervisors
Honorable Linda Parks, 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