

County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Honorable Steven Hintz, Treasurer-Tax Collector

Date: February 7, 2012

From: Christine L. Cohen

Subject: DEFICIENCY IN INTERNAL CONTROL DETECTED DURING THE AUDIT OF THE STATEMENT OF MONEY IN COUNTY TREASURY AS OF JUNE 30, 2011

The Auditor-Controller's Office, in accordance with Government Code Section 26920, has audited the Statement of Money in County Treasury ("Statement"), as of June 30, 2011, and has issued our report thereon dated December 14, 2011. During our audit, we noted certain matters involving Treasury's controls over bank accounts that are presented for your consideration.

BACKGROUND

The County Treasury is the depository for the County, school district, 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. The assets in County Treasury are generally comprised of change funds, deposits on demand, and balances of the various investment instruments held in custody of the bank. The Treasury handles all banking functions, including processing of deposits, payment of County checks, and investment of funds.

SCOPE

Our overall objective was to determine whether the Statement presented fairly the cash and investments deposited with the Treasurer. In planning and performing our audit, we considered 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 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 December 14, 2011, on the Statement.

Our audit was conducted in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. In connection with the audit, certain disclosures 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 must not audit their own work or provide nonaudit services in situations in which the nonaudit services are significant or material to the subject matter of the 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 identified an opportunity to strengthen internal controls over authorization of new users for bank accounts. Following are details of the area where improvement was needed. Treasury management initiated corrective action as noted.

Improper Authorization of Bank Signature Cards. Authorization procedures were not properly adhered to when the requests for addition of the new Treasurer as an authorized signatory on the bank signature cards were submitted to the bank. Specifically, both cards were signed and authorized by the new Treasurer although the authority for the new Treasurer to do so had not been formally established with the bank. Treasury management asserted that prior verbal communication occurred with the bank regarding the role of the new Treasurer; however, no evidence was available to support that the transfer of accountability was properly communicated to the bank prior to the signature cards being submitted. Requests for changes to bank accounts, including addition of new signatories, need to be completed and signed by individuals that are presently listed with the bank to mitigate the County's exposure to risk of fraud and loss of assets.

Management Action. The Treasurer-Tax Collector stated:

"I do not dispute the finding. It never occurred to me that the duly elected and sworn Treasurer lacks the power to add himself as a signatory to the bank accounts that he has the plenary power to manage. This most grievous error will not recur.

"During the next several months the Treasurer-Tax Collector staff will prepare a 'change-of-leadership' file that addresses the issues. I anticipate the file will be developed by 1 June 2012."

AUDITOR'S EVALUATION OF MANAGEMENT ACTION

We believe that management's planned corrective action was responsive to the audit finding. Corrective action is planned to be completed by June 1, 2012.

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

cc: Honorable John C. Zaragoza, Chair, Board of Supervisors
Honorable Peter C. Foy, Vice Chair, Board of Supervisors
Honorable Steve Bennett, Board of Supervisors
Honorable Linda Parks, Board of Supervisors
Honorable Kathy Long, Board of Supervisors
Michael Powers, County Executive Officer