

County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Henry Gonzales, Agricultural Commissioner

Date: June 27, 2012

From: Christine L. Cohen

**Subject: VALIDATION OF THE 2010 CONTROL SELF-ASSESSMENT FOR
THE VENTURA COUNTY AGRICULTURAL COMMISSIONER (VCAC)**

We have completed our engagement to validate the internal controls reported in the VCAC's 2010 Control Self-Assessment (CSA). The results of our validation are summarized below.

BACKGROUND

Under the County's *Internal Control Policy*, departments are required to formally assess the adequacy of internal controls at least once every 3 years and report the results to the Auditor-Controller's Office for review and validation. The 2010 CSA for the VCAC was submitted on December 30, 2010.

The VCAC protects and promotes agriculture, while ensuring the welfare of the public, the industry and the environment. The VCAC is responsible for enforcing local, state, and federal laws and regulations associated with the agricultural industry and the use of certain restricted materials. The VCAC was authorized 39 positions and a budget of \$4.2 million for fiscal year 2011-12.

SCOPE

Our overall objective was to evaluate, on a test basis, the information reported in the VCAC's CSA. Specifically, we:

- verified that selected internal controls were in place and operating effectively as reported in the department's CSA; and
- verified the status of planned internal control improvement actions reported in the department's CSA.

We performed tests and evaluations using documents and records provided by the VCAC for the period July 2010 through March 2012. The engagement was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by The Institute of Internal Auditors.

This engagement does not provide an opinion on the design and implementation of the department's overall system of internal control.

VALIDATION RESULTS

In general, we found that the selected internal controls were in place and operating effectively as reported in the department's CSA. We confirmed that controls were in place to support accurate reporting of program expenditures and to ensure compliance with applicable program requirements. We also confirmed that controls

were in place to ensure back-up copies of electronic information and software are created on a routine basis and stored off-site.

However, we identified certain areas where actions were needed to strengthen VCAC's system of internal controls. Specifically, duties were not always segregated over the cash handling process and compensating controls had not been established. In addition, department travel credit card users did not always submit receipts for fiscal review and recordkeeping, and travel credit cards were sometimes used for non-travel purchases.

Our validation also confirmed that all identified internal control improvement actions were in progress. Following are details of our validation results.

1. **Controls Needing Improvement.** Of the 10 internal controls we selected for validation, we identified 2 (20%) that were not adequate and required improvement. Following are details of the areas where improvements were needed. VCAC management initiated corrective action during the engagement as noted.

A. **Cash Handling.** Internal controls were not always adequate to address the lack of segregation of duties over the cash handling process and to ensure a complete log of checks received for reconciliation purposes.

i. **Lack of Segregation of Duties.** Improvements were needed to segregate duties to the extent possible over the collection, recording, and deposit of cash and checks, and to compensate for limitations where segregation of duties was not possible. The VCAC has only one Fiscal Assistant, who performs all of the following functions:

- Picking up the mail (containing customer payments) from the post office.
- Safeguarding cash and checks collected by other VCAC employees in the field and over the counter.
- Issuing invoices and recording payments for accounts receivable.
- Creating the "cash receivable log" to record the cash and checks for deposit.
- Depositing cash and checks with the County Treasury.

To safeguard the County against the possibility of error or fraud, proper segregation and compensating controls could include assigning another employee to pick up the mail, and implementing separate management reconciliation of:

- cash receipt slips and check logs to deposit records to ensure all funds received are actually deposited; and
- receipt slips for credit payments to accounts receivable records to ensure all services rendered are properly billed and credited.

Note: This finding was previously noted in our July 2009 report regarding the audit of change in department head for the VCAC. While the VCAC implemented a review procedure to verify that the total of cash and checks matched the deposit listing, a more detailed review was needed to ensure that all funds received by the VCAC are actually deposited.

- ii. **Incomplete Check Log.** Checks received by the VCAC were not always recorded in the check log, undermining the ability to fully reconcile the VCAC's cash receipts to deposits. The VCAC's Management Assistant opens most of the mail and maintains a log listing the checks received. However, some checks are mailed directly to the Deputy Agricultural Commissioners responsible for tracking certain fees and penalties, and are not recorded on the Management Assistant's check log. For the 3 months tested in 2011, we found 40 checks totaling \$38,637, or 20 percent of the total deposits for the period, that were not listed in the check log. Maintaining a complete check log helps an independent reviewer ensure that all checks received are actually deposited, helping to prevent loss or theft.

Management Action. VCAC management concurred with the finding and stated: "We will develop and implement policies and procedures to improve segregation of cash handling duties, and to ensure all checks received by VCAC are logged."

- B. **Travel Credit Cards.** Internal controls were not always adequate to ensure that travel credit card receipt documentation and purchase types/amounts conform to County policy.
 - i. **Incomplete Documentation.** The VCAC did not maintain complete documentation for travel credit card expenses, in nonconformance with County policy. Travel credit card users are required to obtain receipts for all expenditures, and to remit the receipts to the department's credit card custodian promptly upon return to the office for confirmation and retention. Of the 14 travel credit card statements reviewed, 9 (64%) did not have any receipts attached to support the charges, and an additional 4 (29%) had only a portion of the receipts attached. Consequently, \$6,200 (72%) of the \$8,600 in expenditures reviewed was not supported with receipt documentation in the VCAC's files. During our engagement, the VCAC was able to locate an additional \$3,800 in receipts, ultimately leaving \$2,400 (28%) without receipt documentation. Maintaining full documentation for travel credit card purchases allows the travel credit card custodian to ensure that all charges are for appropriate amounts and purchase types.
 - ii. **Prohibited Purchase Amounts/Types.** VCAC travel credit card purchases were not always in conformance with County policy regarding allowed amounts and purchase types. County policy prohibits the use of travel credit cards for non-travel expenses. However, the VCAC used a travel credit card to purchase a \$219 web-based training to view in the VCAC office. Further, County expense policies specify allowable meal expenses, including the maximum tip for restaurant service. Due to limited receipt documentation, we were unable to review certain meal expenses to verify conformance with County policies. However, we found one incident with a tip in excess of the allowed amount (a difference of less than \$1). While the amount was not material, department travel credit card custodians are required to review all purchases for conformance with County policy, and to seek reimbursement from employees for purchases in excess of approved limits.

Note: These findings were previously noted in our July 2009 report regarding the audit of change in department head for the VCAC. While VCAC management directed all staff to follow County policy regarding appropriate travel expenses at the time, including remitting complete receipt documentation, we found that improvements were still needed in this area.

Management Action. VCAC management concurred with the finding and stated: "We will provide refresher training on County travel credit card policies to users, and develop policies and procedures to ensure complete documentation is reviewed and maintained for travel credit cards."

2. **Status of Planned Improvement Actions.** Of the two planned internal control improvement actions reported in the department's CSA, we found that both are in progress. Specifically, the VCAC has updated the organizational chart to reflect changes in staffing, with additional updates planned as needed. In addition, the VCAC has completed staff training on customer service and is exploring available options for training on the County's e-mail system, GroupWise.

AUDITOR'S EVALUATION OF MANAGEMENT ACTION

We believe that management's planned actions were responsive to the validation findings. VCAC management planned to complete corrective action by September 30, 2012.

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

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