

**County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM**

To: Jill Ward, Deputy Director, Auditor-Controller's Office

Date: September 24, 2019

From: Barbara Beatty 

Subject: SUMMARY AUDIT REPORT OF OUTSIDE BANK ACCOUNTS

We have completed our audits of outside bank accounts for three County departments and issued separate audit reports on March 5, 2019. This report is a summary of our individual department audits to address outside bank account issues that impacted departments Countywide. Except as disclosed in the attached report, the audits were conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by The Institute of Internal Auditors. Our findings are summarized below with details provided in the attached report.

EXECUTIVE SUMMARY

Overall, we found that departments satisfactorily managed outside bank accounts and complied with County policy. For example, our departmental audits confirmed that outside bank account activity appeared appropriate and bank reconciliations were documented.

During our audits, we noted that Countywide oversight procedures for outside bank accounts were in need of improvement by the Auditor-Controller's Financial Reporting Division's Financial Planning Unit ("Financial Planning"). Specifically, we noted that Financial Planning's procedures could be improved by:

- Maintaining originating information regarding the opening of outside bank accounts.
- Verifying that outside bank account check signers were deputized auditor-controllers.
- Following-up with departments that do not respond with annual declarations of outside bank accounts.
- Tailoring the review of outside bank account balances to the type of account under review.
- Initiating discussion with departments to identify whether any outside bank accounts could benefit from migrating to a Treasury sub-account.

Financial Planning management initiated corrective action to address our findings. Corrective action is planned to be completed by June 30, 2020.

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

Attachment

Jill Ward, Deputy Director, Auditor-Controller's Office

September 24, 2019

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cc: Honorable Jeffery S. Burgh, Auditor-Controller
Honorable Steve Bennett, Chair, Board of Supervisors
Honorable Kelly Long, Vice Chair, Board of Supervisors
Honorable Linda Parks, Board of Supervisors
Honorable Robert O. Huber, Board of Supervisors
Honorable John C. Zaragoza, Board of Supervisors
Michael Powers, County Executive Officer

County of Ventura
Office of the Auditor-Controller



SUMMARY AUDIT REPORT OF OUTSIDE BANK ACCOUNTS

September 24, 2019

Jeffery S. Burgh
Auditor-Controller

SUMMARY AUDIT REPORT OF OUTSIDE BANK ACCOUNTS

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SUMMARY AUDIT REPORT OF OUTSIDE BANK ACCOUNTS

BACKGROUND

County money is held either within the County Treasury or in bank accounts outside the Treasury system (“outside bank accounts”). County money within the Treasury system is safeguarded by a number of significant Countywide controls, whereas County money in outside bank accounts is primarily protected by department-level controls. Departments must provide sufficient justification to establish a bank account outside the County Treasury.

The Financial Planning Unit of the Financial Reporting Division in the Auditor-Controller’s Office (“Financial Planning”) is charged with general oversight for outside bank accounts on a Countywide basis. Examples of duties include: reviewing reasonableness of requests for new outside bank accounts; reviewing documentation submitted by departments semiannually; and confirming whether all persons authorized to sign checks are deputized. According to Financial Planning, six County departments maintained a total of 18 outside bank accounts with a combined bank balance of approximately \$482,000 as of June 30, 2017.

SCOPE

Our overall audit objective was to determine whether departmental use and control of outside bank accounts was appropriate and compliant with County policy for the period July 1, 2016, through June 30, 2017. We reviewed outside bank account activity for three County departments as follows and issued separate audit reports on March 5, 2019: 1) District Attorney’s Office; 2) General Services Agency; and 3) Human Services Agency. Specifically, we determined whether:

- outside bank accounts were established and used for valid business purposes in compliance with County policy; and
- departments had adequate controls over outside bank accounts to ensure safeguarding of funds.

We selected one account to review for each department, with bank balances totaling approximately \$67,000 as of June 30, 2017. We also sent requests to 13 banks throughout Ventura County in an effort to identify outside bank accounts that were not reported to Financial Planning.

Except as discussed in the following paragraph, our audits were performed in conformance with the *International Standards for the Professional Practice of Internal Auditing* (“*IIA Standards*”) promulgated by The Institute of Internal Auditors.

In connection with the impact of Financial Planning on our audits, certain disclosures are necessary pursuant to *IIA Standards*. Specifically, *IIA Standards* state: “If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.” Although the Internal Audit Division and Financial Planning both reside in the Auditor-Controller’s Office, we believe that the following safeguards and division of responsibility exist. The Internal Audit Division 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 departments satisfactorily managed outside bank accounts and complied with County policy. For example, for the sample account we selected for each department, our audits confirmed that:

- Account activity appeared appropriate, and bank reconciliations were documented.
- Assignments and duties were properly delegated and segregated.

Of the 13 banks to which we sent requests to search for accounts associated with the County's taxpayer identification number, we received 7 (54%) responses. The responses identified two accounts that were not included in Financial Planning's list of outside bank accounts:

- One account was used by a County department to deposit funds from employee activities for holiday luncheons.
- The other account was used by a non-profit organization that works closely with a County department.

Ultimately, neither account was considered an outside bank account containing County funds, and both accounts were closed during our audit as a result of our inquiries with department management. Although banks may not always respond to search requests, those that do respond may identify unauthorized accounts. Therefore, to seize on the value of such inquiries and to promote independence in the process, the Internal Audit Division will implement procedures to send an annual search request to selected financial institutions. We will reconcile the responses to Financial Planning's list of outside bank accounts, and notify you of the results.

During our departmental audits, we also identified areas where action was needed to improve Financial Planning's record keeping and regular oversight processes for outside bank accounts. Financial Planning management initiated corrective action during the audit as noted.

1. **Account Origins.** Financial Planning did not always maintain originating information about outside bank accounts, such as the original justification and approval, account opening date, initial deposit, and funding source. Such information is obtained from departments requesting approval of new outside bank accounts by the Auditor-Controller and Treasurer-Tax Collector. However, none of the departments we audited retained any originating information and could not verify whether the original opening balance remained in the bank account or had been transferred back to the County Treasury. Therefore, Financial Planning's central records were all the more important, especially considering that outside bank account activity is outside of the Ventura County Financial Management System ("VCFMS").

Recommendation. Financial Planning should maintain a file of originating outside bank account information, including opening balances, which would help ensure the return of County funds in the event of an account closure.

Management Action. Financial Planning management stated: "Management agrees with this recommendation. Originating files were known to exist as late as 1999 (20 years ago), however at some point they were transferred to offsite storage. Despite attempts we have been unable to locate them."

While the establishment of new outside bank accounts is rare (only one in the last 10 years if not longer), Financial Planning will endeavor to keep originating information in an electronic format that may be found more easily in the future. However, it should be noted that even without originating documents, the expectation is that any funds remaining in an outside bank account at the time of closure would be withdrawn by the department and deposited into the County Treasury with a corresponding cash receipt document (CR) processed by the department in the County's financial management system, VCFMS."

2. **Oversight Processes.** Opportunities were available to strengthen Financial Planning's regular oversight processes for outside bank accounts. County departments are required to provide Financial Planning with information as of December 31 and June 30 each year regarding outside bank accounts, including lists of check signers and bank reconciliations. We identified where Financial Planning's procedures for outside bank accounts could be improved to mitigate the risk of unauthorized disbursements, unreported accounts, unrecorded transactions in VCFMS, and unnecessary costs.

- A. **Deputized Auditor-Controllers.** Financial Planning did not always follow procedures to help ensure that all outside bank account check signers are deputized auditor-controllers. California Government Code Section 24102 states that deputies must be appointed as such by the Auditor-Controller. Auditor-Controller guidance included the following:

- The Auditor-Controller's year-end memorandum to all County fiscal officers regarding outside bank accounts stated: "All authorized signers must be deputized by the Auditor-Controller."
- Financial Planning's procedures for outside bank accounts instructed staff to: "Secure the latest department deputization list from AUD Administration [i.e., the Auditor-Controller's Administration Division]; confirm all authorized to sign checks are deputized".

However, because Financial Planning staff believed that changes to the lists of check signers were infrequent, reconciliations of check signers and deputized auditor-controllers were not always performed. During our departmental audits of outside bank accounts, we noted the following for the account we selected to audit for one department:

- The department's 2016 annual reporting of check signers identified that 41 (98%) of the 42 check signers were not deputized.
- One year later, after a mass deputation occurred in June 2017, the department's 2017 annual reporting continued to identify that 3 (7%) of the 46 check signers were not deputized.
- One employee who was listed on the department's 2016 and 2017 annual reporting of check signers as not deputized was actively signing checks and still had not been deputized at the time we issued our departmental audit report on March 5, 2019.

Recommendation. Financial Planning should reconcile lists of check signers and deputized auditor-controllers at least annually at year-end as required by written procedures. Financial Planning should actively follow-up with departments when the lists do not reconcile to help ensure that disbursements from outside bank accounts are properly authorized by deputized auditor-controllers. Financial

Planning should also communicate any necessary changes to the list of deputized auditor-controllers to the Auditor-Controller's Administration Division.

Management Action. Financial Planning management stated: "Management agrees with this recommendation. Procedures have been updated and staff has been re-trained to ensure that those individuals listed on the bank signature cards are also on the list of deputized auditor-controllers. Appropriate action will be taken if discrepancies are identified."

B. **Annual Declarations.** Financial Planning did not always conduct sufficient follow-up regarding the declaration of outside bank accounts by departments. Auditor-Controller guidance included the following:

- The Auditor-Controller's year-end memorandum to all County fiscal officers regarding outside bank accounts stated: "If you do not currently use an outside bank account, please provide a memorandum addressed to the Auditor-Controller, signed by your department head, so stating."
- Financial Planning's procedures instructed staff to: "Log department responses as received; departments with no outside accounts are to respond as such"; and "Follow up immediately with departments that do not respond by the due date".

However, our interviews with Financial Planning staff disclosed that follow-up with non-responsive departments was rarely conducted if the department historically reported no outside bank accounts. Such assumptions could result in outside bank accounts that were opened without Auditor-Controller approval being missed during year-end financial reporting.

Recommendation. As required by written procedures, Financial Planning should follow-up with non-responsive departments to obtain written declarations at least annually at year-end of whether the department uses outside bank accounts.

Management Action. Financial Planning management stated: "Management agrees with this recommendation. Procedures have been updated and staff has been re-trained to ensure that written responses are received from all departments."

C. **Year-End Reconciliations.** Improvements could be made to how Financial Planning uses the information required from departments in the outside bank account reconciliations. During our departmental audits of outside bank accounts, we noted that one department did not always properly account in VCFMS for disbursements from the outside bank account that we selected to audit. We identified this issue from the department's year-end bank account inventory, which stated that the account was a "revolving" account (i.e., a fixed amount should remain in the account at all times) and replenished by the General Fund. However, the prior year ending account balance did not match the current year ending account balance as noted in the bank account inventory, and the variance could not be explained by any outstanding items. Although Financial Planning maintained a checklist to confirm bank account reconciliation items, the checklist did not appear to be sufficient to alert Financial Planning staff of this issue. Because Financial Planning has limited purview over outside bank account transactions, critical analysis of balances at year-end is essential to help ensure that transactions are recorded in VCFMS and to guard against misappropriation.

Recommendation. Financial Planning should consider tailoring the biannual checklist for outside bank accounts to the type of account under review. For example, Financial Planning should add a checklist item for “revolving” accounts to confirm that prior year ending balances match current year ending balances and ask departments to explain any unsupported variances. Financial Planning should also determine whether other review practices and written procedures would help identify concerns with outside bank accounts.

Management Action. Financial Planning management stated:

“Management disagrees that all revolving accounts will have the same year end balances due to the timing of when clearing items are processed by the department. Management will consider making changes to the bank reconciliation form so that the department reconciled balance could be further adjusted by pending clearing items, resulting in an expected revolving account balance.

“Management will review our bank reconciliation checklist for possible improvements prior to June 30, 2020.”

- D. **Account Transfer Opportunities.** The number of outside bank accounts could possibly be reduced with Financial Planning’s assistance in performing outreach to departments. During our departmental audits of outside bank accounts, we noted that opportunities were available to reduce costs and streamline one department’s processes by migrating the outside bank account we reviewed to a Treasury sub-account with the County’s bank. A number of the bank accounts outside of the County Treasury were established many years ago, and the banks selected might have been based upon business needs that have either changed or for which new options exist. By discussing current banking needs and whether the department would benefit from a Treasury sub-account with the County’s bank, Financial Planning might be able to help departments identify potential cost savings and process efficiencies.

Recommendation. Financial Planning should initiate discussions with departments to identify whether any additional current outside bank accounts could be migrated to a Treasury sub-account. These discussions should include departments’ operational needs and potential cost savings, efficiencies, and improved controls available through migrating to a Treasury sub-account. For future requests to open outside bank accounts, Financial Planning should document consideration of whether the account should be established as a Treasury sub-account.

Management Action. Financial Planning management stated:

“Although banking services are the responsibility of the Treasury Office, our office has reached out to departments in the past and asked them to consider moving their account to a Treasury sub-account. Those efforts did not result in any changes. We understand that circumstances change over time. Therefore, our office will periodically send a memo to all departments with outside bank accounts and request that they confirm in writing their continued need for an outside bank account. For those departments who continue to use a bank other than Wells Fargo, the memo will suggest that they consider contacting the Treasury Office to determine whether their banking needs could be met by switching to a Treasury sub-account. Since it has been several years since our last outreach, the initial memo will be sent out by June 30, 2020.

“As previously noted, it is rare that a new outside bank account is opened. In fact, all 18 accounts that were open as of June 30, 2017 had been open since at least June 30, 2009 (8 years), and very likely predating 1999 (nearly 20 years). Subsequent to June 30, 2017 only one new account has been opened, and it is a Wells Fargo Treasury sub-account. Despite it being rare, if a department requests a new outside bank account our policy is to urge them to use a Treasury sub-account. If they are not able to use a Treasury sub-account, they are required to provide written justification. We believe justification for not using a Treasury sub-account is documented in the files (20 years old and older) that we were unable to locate. As previously noted, our office will keep originating documents in an electronic format so they may be found more easily in the future.”

AUDITOR’S EVALUATION OF MANAGEMENT ACTION

We believe that management actions taken or planned were responsive to the audit findings. Financial Planning management planned to complete corrective actions by June 30, 2020.

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