HEMMING
MORSE, LLP
CERTIFIED PUBLIC ACCOUNTANTS
LITIGATION & FORENSIC CONSULTANTS

7111 North Fresno Street
Suite 200
Fresno, CA 93720

Tel: 559.440.0575
Fax: 559.440.0580
www.hemming.com

INDEPENDENT ACCOUNTANT'S REPORT ON THE APPLICATION OF AGREED-UPON PROCEDURES

We have performed procedures to assist the County of Madera Board of Supervisors (the Board of Supervisors) in evaluating the internal control structure over cash in the County of Madera Office of the Treasurer/Tax Collector. The County of Madera's management is responsible for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures either for the purposes for which this report has been requested or for any other purpose. The procedures we performed and our associated findings and recommendations are presented below in Attachment 1.

We were not engaged to, and did not conduct an audit of the matters addressed herein, the objective of which would be the expression of an opinion on such information. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the County of Madera Board of Supervisors and is not intended to be, and should not be used by anyone other than the County of Madera Board of Supervisors. However, this report is a matter of public record and its distribution is not limited.

Susan K. Thompson, CPA CFF
June 24, 2013

Wednesday July 31, 2013

ALL RESPONSES FROM COUNTY TREASURER –TAX COLLECTOR ARE IN 'GREEN' TEXT.

Attachment 1

Procedures, Findings, Recommendations and Responses

At the request of the County of Madera Board of Supervisors, we have evaluated the internal controls over cash in the County of Madera Office of the Treasurer/Tax Collector. This evaluation consisted of interviews of County employees as well as limited testing of the internal controls the County has in place. Based upon the work we performed, we present the following observations and recommendations. We have separated our observations and the related recommendations into three categories, Level 1 requiring immediate attention, Level 2 requiring prompt attention and Level 3 requiring consideration and appropriate attention.

Level 1 Points:

1.Observation:

The County Treasurer's cash and investments accounts are not reconciled to the general ledger on a daily basis. In fact, they have not been satisfactorily reconciled to the general ledger accounts on an annual basis for at least two years.

Effect:

Failure to reconcile cash and investment accounts to the general ledger on a ***daily basis*** could result in errors, omissions, misappropriations or concealments of such acts in recording and safekeeping of cash which may not be detected in a timely manner.

Recommendation:

In order to provide better control over the safekeeping of cash and investments, the County Treasurer's balances should be reconciled to the general ledger on a daily basis. This would help bring to light errors, misappropriations or concealments in the recording of cash and investments in a timely manner.

The cash in the County Treasury should be reconciled to the general ledger on a daily basis. To facilitate this, the cut-off of deposits should occur at the same time each day for ***both the Auditor Controller*** and the County Treasurer's offices. Additionally, a greater coordination of efforts will need to be made by

both offices to communicate the specific information needed and to provide the appropriate information to each other.

Response:

The Treasurer agrees with this recommendation and is working with the Auditor Controller's department to implement procedural improvements. Cash and investments in County Treasury are reconciled daily to the various bank accounts. The Treasurer's office will assist the Auditor's office as needed to ensure daily reconciling of the general ledger.

2.Observation:

The person who is responsible for preparing the bank and investment reconciliations also counts cash presented at the County Treasurer's office by other County departments.

Effect:

The lack of segregation of duties could result in errors, omissions, misappropriations or concealments of such acts in the cash balances that may not be caught in the normal course of business. It also provides an opportunity for concealment of irregularities.

Recommendation:

The person who prepares bank and investment reconciliations should not have any cash counting responsibilities nor should they count cash as a backup to other staff.

Response:

The Treasurer-Tax Collector agrees with this recommendation and has already implemented this improvement by removing cash counting responsibilities and cross training with the use of extra help.

3.Observation:

Cash in the County Treasury vault is counted daily by the staff that also performs the daily reconciliations of cash and investments.

Effect:

This lack of segregation of duties could result in errors, omissions, misappropriations or concealments of such acts in the counting of cash that may not be identified in the normal course of business.

Recommendation:

A staff person other than the staff responsible for reconciling the cash and investment accounts should count the cash in the County Treasury vault on a daily basis, utilizing the over/short accounts as necessary.

Response:

The Treasurer agrees with this recommendation and has already implemented this improvement with the use of extra help.

4.Observation:

Cash comes to the County Treasurer's office in sealed cash bags accompanied by a bank deposit slip and a County deposit permit. Currently, these sealed bags are being opened and the cash and checks are being recounted. If errors between the deposit slip and the cash and checks in the bags are noted, the appropriate department is notified and required to follow up and resolve the difference. Additionally, cash from some of the bags was being held in the treasury vault and used for making change and cashing County payroll checks.

Effect:

Requiring the County Treasurer's office to open and recount sealed bags containing checks and cash that have already been counted by other county departments and recorded on accompanying bank deposit slips and County Deposit Permits, increases the opportunity for errors and omissions of cash to occur.

In addition, there are no efficiencies gained by recounting deposit bags at the Treasury Office when the bank will count it and report any errors. Any errors found by the banks will be noted within 24 hours and the same procedure that is now used by the County to follow up with the appropriate department will still be followed. The recounting is an unnecessary step that does not increase the internal controls over the safeguarding of assets and it uses County staff resources that could be better utilized in other vital tasks.

Additionally, the opening of sealed cash bags and using cash to make change and cash checks created an environment which made the daily reconciliation of cash in the bank to the cash recorded in the general ledger extremely difficult. In fact, this practice contributed to the inability of the County to reconcile cash and investments to the general ledger at year end.

Recommendation:

Sealed deposit bags presented to the County Treasurer's office for deposit by other County departments, which are accompanied by a bank deposit slip and a County Deposit Permit, should be deposited with the bank intact.

This will make the deposits easier to track and facilitate the daily reconciliation of the cash and investments on deposit with the County Treasurer with the general ledger.

Response:

The Treasurer agrees with this recommendation and has already notified county departments that we will convert back to our prior policy of depositing bank ready bank deposits in tact to bank.

5.Observation:

The County Treasurer's office wrote and signed a check to essentially move funds from one general ledger account to another without notifying the County Auditor.

Effect:

The issuance of a check to affect a transaction that could have been done by journal entry caused the general ledger cash balances to be overstated by $100,000. In addition, it caused unnecessary work to be performed by both the County Auditor and Tax Collector/Treasurer offices to identify and correct the resulting error which was noted in the year end bank reconciliation.

The County Treasurer has the authority and ability to make cash and investment decisions on behalf of the County and the County Pools. This includes the ability to move funds between accounts electronically and therefore there should be no reason to effect a movement of funds with checks. The check stock on hand for the particular account in question is quite old and does not contain many of the safety features of newer checks.

Recommendation:

Check writing is not an appropriate way to move funds from one general ledger account to another. The old check stock should be destroyed appropriately due to the lack of safeguards inherent in the old stock. Journal entries should be utilized to move money from one general ledger account to another. All checks should be initiated through the Auditor Controller's office to ensure proper recording on the general ledger. All movements of cash should be properly communicated to the County Auditor's office for proper recording in the general ledger.

Response:

Treasurer agrees that *further research* and coordination with the auditor controller's office will need to be done in order to facilitate how to accomplish booking such internal investment transactions in the future.

6.Observation:

Transient Occupancy Tax payments are received, deposited and reconciled by the same individual. Interest and penalties that are incurred are verbally communicated to tax payers.

Effect:

The lack of segregation of duties as well as the verbal communication of certain fees to operators could result in errors, omissions, misappropriation or concealment of such acts in the recording of payments that may not be detected in the normal course of business.

Recommendation:

An individual other than the person responsible for recording and reconciling payments of taxes should receive the payments and prepare the deposit slip. At a minimum, they could run the checks through the RTL machine for image and endorsement to create a record of checks received. The checks and the RTL balances could then be forwarded to the person responsible for inputting payments and reconciling the accounts. There should be a mechanism whereby the payments received can be reconciled to the payments entered into the Access database. This type of procedure is particularly important as the interest and penalties amounts are not reported separately from the actual taxes owed. The billing and collections, including those for interest and penalties, should be reviewed, and the review should be documented on a monthly basis by management for propriety as this is a self-reporting tax that may not be accurately budgeted.

Response:

The Treasurer Tax Collector will endeavor to implement the recommended division of duties to the extent staffing is available. The treasurer will also contact the information technology department to help facilitate a better internal quarterly billing and collection program.

7.Observation: RENEWALS

Business license renewals are tracked, billed and processed in the Tax Collectors office. Both the Assistant Tax Collector and a staff person have access to the database and can input new businesses as well as move businesses that are closed to an inactive status. There is no mechanism in place to track additions and/or deletions to the database.

Effect:

As the same staff person can add and delete businesses, and posts cash receipts to the database, there is greater opportunity for errors, omissions and concealment of such acts in recording revenues.

Recommendation:

The ability to change the business license database should be limited to the Assistant Tax Collector. The Assistant Tax Collector should thereafter not handle any of the tax collections creating a better segregation of duties.

Response:

The Treasurer-Tax Collector agrees with this recommendation. We will also limit users to "inquiry only".

8. .Observation:

The quarterly review of interest income per SymPro (investment tracking software program) to the general ledger is inadequate. The reconciliation consists of comparing the deposit permits to the general ledger. The deposit permits are the documents that are used to post to the general ledger.

Effect:

This has the effect of auditing the input document to the output instead of auditing the interest reported by third parties to interest recorded in the general ledger. Interest should be reconciled to the general ledger from the source documents, such as the broker statements to ensure proper recording

- **Additionally , although discounts, premiums or purchased interest on investments are properly reflected in SymPro, reporting the appropriate information to the Auditor's office is necessary in order for** - the **proper reconciling of the** general ledger **and carrying values of investments to the bank and investment statements**

Recommendation:

Investments, just like cash, should be reconciled to the general ledger on a daily basis. Discounts and premiums should be properly reflected on the general ledger. The quarterly reconciliations should reconcile the interest recorded in the general ledger, as well as amortization of premiums, to third party documentation, for example the investment statements. The way that SymPro records premiums and interest and the methodology used by the Treasurer's office caused discrepancies between the general ledger and the Treasurer's records.

Response

The Treasurer understands this recommendation and we are currently meeting with auditor-controller to improve the methodology used to properly report discounts and premiums.

9. Observation:

On several occasions we noted the inside door of the vault was left open and unattended.

Effect:

This could lead to unauthorized access to cash in the vault.

Recommendation:

Greater effort must be made to keep the vault door locked at all times.

Response:

The Treasurer does not know when this occurred , but has directed staff to make certain the day- time glass door is locked at all times.

Level 2 Points:

10 .Observation:

Access is a shared database that is used to track Transient Occupancy Tax and can be accessed by anyone in the Tax Collector's office.

Effect:

Unauthorized access to the data base could result in inappropriate manipulation of the data.

Recommendation:

Access should be limited to "Read Only" for employees that are not authorized to make changes or responsible for recording of transactions to the data base.

Response:

The Treasurer Tax Collector agrees with this recommendation and will recruit assistance from the Information Technology department to evaluate and set up a "read only" designation.

11. Observation: **BUSINESS LICENSES ISSUED:**

Application and issuance of new business licenses is performed by the RMA/Planning Department (Planning). When an application and the related fee is received, it is deposited by Planning. The progress of the business license is tracked by Planning through a data flow system called Posse. Although Planning reconciles the Posse sytem to the general ledger, Posse does not provide an easily reconcilable trail between cash collected and licenses issued.

Historically , the Treasurer Tax Collector's office was responsible for reconciling business license renewals and new business license applications to the general ledger. Recently, these responsibilities were split. Planning is now responsible for new business license applications and the Treasurer Tax Collector is responsible for business license renewals. At no time was the general ledger revenue for business licenses reconciled to the number of business licenses issued.

Effect:

The current procedure could lead to discrepancies in licenses issued, revenue received and revenue recorded in the general leger that may not be discovered in the normal course of business.

Recommendation:

In the Treasurer Tax Collector's office, revenue collected for business licenses should be reconciled to the number of licenses renewed as recorded in the Business Licenses Database. Additionally, the business license renewal process should have adequate segregation of duties in place to prevent individuals from having access to both the license renewal database and payments for renewals.

In the RMA department, controls over the business license application process, such as pre-numbered licenses, should be put in place. The controls should allow for the business license application revenue recorded in the general ledger to be reconciled to the number of new licenses issued.

Response:

The Treasurer Tax Collector's office reviews and reconciles all renewing business licenses annually. Additionally the Treasurer Tax Collector agrees to segregate duties to the best of our ability.

See Attachment for Planning's response regarding reconciling Business Licenses.

12 .Observation:

Cash on hand in the County Treasurer's vault is not kept on an imprest basis, utilizing the over/short account as needed.

Effect:

Amounts over or under the established amount kept in the vault, currently $4,500, are not properly accounted for in the general ledger. The account is currently at $4,400 as an error was made and the balance has not been returned to its established amount of $4,500. Use of the over/short accounts would help facilitate the reimbursement of this account.

Recommendation:

Cash on hand in the County Treasurer's vault, which is kept for making change, should be kept on an imprest basis and reconciled daily, utilizing the over/short account as necessary.

Response:

The Treasurer Tax Collector agrees with this recommendation. The Treasurer maintains a fixed amount in the vault and has not deviated from that set amount. The shortage detected was corrected by May 31st, 2013. The Treasurer has already contacted the auditor's office to assist us in creating an imprest account.

13 .Observation:

Off-site depositors prepare deposits irregularly and sometimes as infrequently as once a month.

Effect:

Keeping cash on hand for long periods of time increases the likelihood of errors or irregularities in the safekeeping of the cash. It also can cause the accounting and reconciling of that cash to the general ledger to be much more difficult.

Recommendation:

Off-site depositors should prepare deposits regularly, no less than on a weekly basis.

Response:

The Treasurer agrees with this recommendation and will notify all departments of our Uniform Cash Handling Policy. The Treasurer recognizes that additional training may be needed for off-site depositors.

14. Observation:

Mandatory furloughs are no longer in effect for the County.

Effect:

With the furloughs in effect, employees had less incentive to take vacation, and they were not required to take vacation. Enforcing an annual vacation helps lessen the risk of a theft and concealment occurring and not being detected in a timely manner.

Recommendation:

Enforcing annual vacations in the County Treasurer/Tax Collector's office takes on greater importance due to the poor segregation of duties and internal controls.

Response:

The Treasurer Tax Collector agrees with enforcing annual vacations

Level 3 Points: LOWEST PRIORITY

15 .Observation:

There is a security camera located near the vault in the County Treasurer/Tax Collector's office that is currently pointed at the vault door. This camera had been covered until recently, rendering it useless as a security device. The camera is now uncovered and operational with a visual feed to the Treasurer's office.

Effect:

The existence of the video camera may act as a deterrent to theft; however it is not very effective to the extent that it is not properly monitored.

Recommendation:

If this video camera's intended use is to monitor activity in the County Treasurer's office, the objectives need to be established and a department or individual that is not associated with the County Treasurer/Tax Collector's office should be in charge of monitoring it. **This recommendation does not preclude the Treasurer Tax Collector fro also having access to the video feed.**

Response:

The Treasurer agrees with the recommendation. Objectives must be established for the security camera to be of significant value.

16 .Observation:

The Treasurer's office maintains a list of Non-Sufficient Funds (NSF) checks. The information for the NSF checks is sent to the appropriate departments for follow-up and the Auditor Controller's office is notified so the appropriate adjustments can be made in the general ledger. There is no process in either the Treasurer's office ***or the Auditor Controller's*** office to follow up with departments, other than the property tax collections, on the NSF checks.

Effect:

Without timely follow up on NSF checks, the likelihood of resolution and ultimately payment of the obligation decreases. This could have a negative effect on the revenues of the County.

Recommendation:

A policy should be established to ensure timely, proper follow up with appropriate departments for their NSF checks.

Response:

The Treasurer agrees that a policy should be established and *was* established under 2001 Uniform Cash Handling Policy: Returned Items.

A more comprehensive, county-wide collection policy/procedure could be established through the Revenue Services department.

17 .Observation:

The County Treasurer's office recently discontinued their practice of cashing checks for other County departments.

Effect:

Various County departments may need to cash checks at outside financial institutions. This could cause the county to incur additional banking fees.

Recommendation:

The County should consider entering into negotiations with Bank of America, the County's current bank, regarding check cashing fees.

Once the County is able to reconcile cash held by the County Treasury to the general ledger on a daily basis, it can revisit the policy of check cashing for County departments by the County Treasury.

Additionally, there may be certain recurring situations where the most prudent action is to have the County Treasurer cash certain department checks. In this case, the Treasurer and Auditor's offices should agree on acceptable protocol for these situations.

Response:

The Treasurer's office discontinued cashing county warrants of any kind in September 2012. The Treasurer agrees and will continue to develop acceptable practices and security measures as needed for cashing county warrants.

18 .Observation:

Policies, procedures, job descriptions and processes in the County Treasurer/Tax Collector's offices should be properly documented.

Effect:

Without proper and thorough documentation of the policies, procedures, job descriptions and processes for each position within the County Treasurer/Tax Collectors office, each time a person leaves, much of the information they possessed regarding their job duties leaves with them, causing an inefficient and sometimes incomplete retraining of their replacement.

Recommendation:

Each position within the County Treasurer/Tax Collectors office should have a detailed written job description which specifies their responsibilities. In addition, the processes and procedures that are required to perform their job duties should be documented.

Although there are certain procedures that have been documented in this department, they need to address not only the procedures, but the processes and responsibilities that accompany them, associating them to the appropriate job description.

Response:

The Treasurer Tax Collector agrees and regularly updates their policies and procedures as necessary in an effort to keep them current with any changes in laws, new technology or local directives. We understand that with staffing turnover keeping current policies and procedures up to date is very important although time consuming.

Draft