



J. TYLER MCCAULEY
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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December 4, 2001

TO: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **INTERNAL CONTROL REPORT**

Pursuant to Government Code Section 26920 through 26923, we examined the Treasurer and Tax Collector's (TTC) records relative to the amount and type of assets in the Treasury. On July 25, 2001, we sent to your Board our most recent audit report on the Treasurer's Cash and Investments as of December 31, 2000.

As part of our audit, we performed an internal control review that involved testing transactions, reviewing documents, and interviewing staff to determine if internal controls are effective and are operating as intended. Overall, our review determined that the internal controls are in place and functioning as intended. However, we did note several areas where TTC can improve its internal controls.

Below is a summary of our findings.

Summary of Findings

Issuer Limit Updates

Monthly, the Treasurer's Investment Office receives investment ratings guides from Moody's Investors Services, Inc., and Standard and Poor's Corporation indicating ranking/ratings for commercial paper issuing corporations. The Treasurer's Internal Controls Section compiles the Investment Limits by Issuer report (Issuer's Listing) from the ratings books on a monthly to quarterly basis depending on staffing and time constraints. The Issuer's Listing lists the issuer's ratings, investment limits, and term limits. The Treasurer's Investment Office and Internal Controls Section use the Issuer's Listing to monitor the investments purchased and in inventory to ensure that they are in compliance with the Government Code and the County's Investment Policy. We noted

that the Treasurer's Internal Controls Section was not distributing the listings timely or consistently. As a result, staff were not using current information to monitor the County's investments. The Issuer's Listing used during July through December 2000 was dated June 2000.

Since January 2001, the Internal Controls Section has been generating and distributing Issuer's Listings more consistently. Issuer's Listings were distributed in January 2001, March 2001, April 2001, and June 2001. To ensure that investment's maintained and purchased are in compliance with investment guidelines, TTC management should monitor the Internal Controls Section to ensure the Issuer's Listings are prepared timely and consistently.

Investment Limit Requirements

Government Code Section 53635 (h) requires that the amount invested in negotiable certificates of deposit (CDs) shall not exceed the shareholder's equity of any depository bank or the total net worth of any depository savings or federal association. The Treasurer's Investment Policy also requires that investments in banker's acceptances shall not exceed the total shareholder's equity or net worth of the depository bank.

To ensure County investments are in compliance with prescribed guidelines, the Treasurer's Internal Controls Section completes a checklist that summarizes the investment guidelines contained in the Government Code and the County's Investment Policy. We reviewed the checklist and noted that it does not require verification of the depository bank's or savings institution's compliance with either Government Code Section 53635(h) or the Treasurer's Investment Policy on banker's acceptances. Although we did not identify any instances where the County's investment limits were exceeded, TTC management should require the Internal Controls Section to modify the checklist to include verification of amounts invested in negotiable CDs and banker's acceptances.

Investment Trade Tickets

An investment trade ticket is used to document each investment purchased by the County. Daily, the Treasurer's Internal Controls Section reviews each new trade ticket for compliance with applicable investment guidelines. If investment purchases are not in compliance with the guidelines, the Internal Controls Section's practice is to document its findings in a memo to the Assistant Treasurer and Tax Collector and the Investment Officer. Currently TTC does not have a written policy requiring the Internal Controls Section to issue a memo to the Investment Officer.

To ensure that established limits are maintained at all times and the Investment Office is notified of any investments purchased that are not in compliance with the investment guidelines, TTC management should establish a written policy requiring the Internal Controls Section to forward the "Review of Trade Tickets" memo to the Investment Office daily.

Review of Report

We discussed the comments and recommendations with TTC staff. The Department's response is attached.

If you have any questions, please contact me or your staff may contact DeWitt Roberts at (213)974-0301.

JTM:PTM:DR:IDC
Attachments

c: David E. Janssen, Chief Administrative Officer
Mark Saladino, Treasurer and Tax Collector
Violet Varona-Lukens, Executive Officer
Public Information Officer
Audit Committee (6)

Treasurer and Tax Collector
Internal Control Report

Comments and Recommendations

Background

Pursuant to Government Code Section 26920 through 26923, we examined the Treasurer and Tax Collector's (TTC) records relative to the amount and type of assets in the Treasury. On July 25, 2001, we sent to your Board our most recent audit report on the Treasurer's Cash and Investments as of December 31, 2000.

As part of our audit, we performed an internal control review that involved testing transactions, reviewing documents, and interviewing staff to determine if internal controls are effective and are operating as intended. Our review determined that adequate internal controls are in place and functioning as intended. However, we did identify the following areas where some improvements can be made.

Issuer Limit Updates

Monthly, the Treasurer's Investment Office receives investment ratings guides from Moody's Investors Services, Inc., and Standard and Poor's Corporation indicating ranking/ratings for commercial paper issuing corporations. The ratings books list the corporation's total assets and the amount of outstanding paper for each company as of month end. The Treasurer's Internal Controls Section compiles the Investment Limits by Issuer report (Issuer's Listing) from the ratings books on a monthly to quarterly basis depending on staffing and time constraints. The Issuer's Listing lists the issuer's ratings, investment limits, and term limits. The Treasurer's Investment Office and Internal Controls Section use the Issuer's Listing to monitor the investments purchased and in inventory to ensure that they are in compliance with the Government Code and the County's Investment Policy.

We noted that the Treasurer's Internal Controls Section was not distributing the listings timely or consistently. As a result, staff were not using current information to monitor the County's investments. The Issuer's Listing used during July through December 2000 was dated June 2000.

Since January 2001, the Internal Controls Section has been generating and distributing Issuer's Listings more consistently. Issuer's Listings were distributed in January 2001, March 2001, April 2001, and June 2001. To ensure that investment's maintained and purchased are in compliance with the investment guidelines, TTC management should monitor the Internal Controls Section to ensure the Issuer's Listings are prepared timely and consistently.

Recommendation

1. **TTC management monitor the Internal Controls Section to ensure the Issuer's Listings are prepared timely and consistently.**

Investment Limit Requirements

Government Code Section 53635 (h) requires that the amount invested in negotiable certificates of deposit (CDs) shall not exceed the shareholder's equity of any depository bank or the total net worth of any depository savings or federal association. The Treasurer's Investment Policy also requires that investments in banker's acceptances shall not exceed the total shareholder's equity or net worth of the depository bank.

To ensure County investments are in compliance with prescribed guidelines, the Treasurer's Internal Controls Section completes a checklist that summarizes the investment guidelines contained in the Government Code and the County's Investment Policy. We reviewed the checklist and noted that it does not require verification of the depository bank's or savings institution's compliance with either Government Code Section 53635(h) or the Treasurer's investment policy on banker's acceptances. Although we did not identify any instance where the County's investment limits were exceeded, TTC management should require the Internal Controls Section to modify the checklist to include the verification of the amounts invested in negotiable CDs and banker's acceptances.

Recommendation

2. **TTC management require the Internal Controls Section to modify the checklist to include the verification of the amounts invested in negotiable CDs and banker's acceptances.**

Investment Trade Tickets

An investment trade ticket is used to document each investment purchased by the County. Daily, the Treasurer's Internal Controls Section reviews each new trade ticket for compliance with applicable investment guidelines. If investment purchases do not comply with the guidelines, the Internal Controls Section's practice is to document its findings in a memo to the Investment Office. The Investment Office is responsible for reviewing the memos and taking the necessary corrective action to ensure that future investment purchases comply with the investment guidelines. However, there is no current Departmental policy requiring the Internal Controls Section to notify the Investment Office of possible investment guideline exceptions.

According to the Investment Officer, the Internal Controls Section does not always send the "Review of Trade Tickets" memo to the Investment Office timely. For example, on December 11, 2000, the Investment Office received approximately 15 memos from

November 9, 2000 through November 29, 2000. In addition, as of December 11, 2000, the Investment Office had not received any memos for December 2000.

To strengthen internal controls over investment purchases, TTC management should establish a written policy requiring the Internal Controls Section to forward the "Review of Trade Tickets" memo to the Investment Office in a timely manner.

Recommendation

- 3. TTC management establish a written policy requiring the Internal Controls Section to forward the "Review of Trade Tickets" memo to the Investment Office in a timely manner.**

Trust Funds

As of June 30, 2001, the Treasurer was responsible for 76 trust funds. Our review of the funds disclosed the following:

- For eight, there has been no activity for at least 6 months and are currently not being reconciled. Also, all eight trust funds had a zero balance.
- For two, unresolved reconciling items remained outstanding for eight and nineteen months, respectively.

County Fiscal Manual section 2.1.3 states that when a fund is no longer needed, the department's chief fiscal office should prepare a letter requesting the Auditor-Controller's Accounting Division to close the trust account. In addition, departments must investigate and resolve all reconciling items in a timely manner.

Recommendations

TTC management ensure:

- 4. Trust funds that are no longer needed are closed as required by County Fiscal Manual Section 2.1.3.**
- 5. Reconciling items are investigated and resolved in a timely manner.**

Cashier Shortages

During the cash count on June 7, 2001, we reconciled the cash difference fund. We noted that the fund was used to reimburse two cashiering shortages of \$200 and \$1,000. The Treasurer did not notify the Auditor-Controller's Audit Division of the shortages as required.

The County Fiscal Manual requires that cash shortages of \$100 or more must be immediately reported to the Auditor-Controller's Audit Division and followed-up with a

Cash Difference or Overage Report and a written explanation of the facts surrounding the shortage. TTC management should ensure that all shortages of \$100 or more are immediately reported to the Auditor-Controller's Audit Division and followed-up with a Cash Difference Report and a written explanation of the facts surrounding the shortage.

Recommendation

- 6. TTC management report all shortages of \$100 or more immediately to the Auditor-Controller's Audit Division and follow-up with a Cash Difference Report and written explanation of the facts surrounding the shortage.**

Bus Pass Shortage

The Treasurer's cashiering section sells Metropolitan Transit Authority (MTA) passes at the Hall of Administration cashiering windows. The passes are assigned to cashiers on a daily basis for sale to the public and are collected at the end of the day for accountability. The passes are kept in the vault when not assigned. At the end of the month, unsold passes along with cash from bus pass sales are returned to the MTA. The County is liable to the MTA for missing/unreturned passes.

During our June 7, 2001 cash count, we noted that the Treasurer did not account for the passes at the end of the day on June 6, 2001. We could not account for four passes totaling \$180. The Treasurer's staff indicated that the person who is responsible for distributing and collecting bus passes left early on June 6, 2001, and no one accounted for the bus passes at the end of the day.

To ensure bus passes are properly accounted for, TTC management should require the cashiering supervisor to verify that all sold and unsold bus passes are accounted for at the end of each day. In addition, TTC management should investigate the circumstances surrounding the missing bus passes and initiate disciplinary action as appropriate.

Recommendations**TTC management:**

- 7. Require the cashiering supervisor to verify that all sold and unsold bus passes are accounted for at the end of each day.**
- 8. Investigate the circumstances surrounding the missing bus passes and initiate disciplinary action as appropriate.**



COUNTY OF LOS ANGELES TREASURER AND TAX COLLECTOR


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MARK J. SALADINO
TREASURER AND TAX COLLECTOR

November 29, 2001

TO: J. Tyler McCauley
Auditor-Controller

FROM: Mark J. Saladino
Treasurer and Tax Collector 

SUBJECT: **RESPONSE TO INTERNAL CONTROL REPORT**

The following comments are in response to your Internal Control Report For the Year Ended December 31, 2000.

Issuer Limit Updates

Recommendation

1. TTC management monitor the Internal Controls Section to ensure the Issuer's Listings are prepared timely and consistently.

Response

It has been our practice to prepare the Issuer's Listings on a monthly basis. However, the frequency with which we prepare this list is not governed by Government Code. Regardless of the actual preparation of the Issuer Listing, the issuers are monitored throughout the revision period. The investments are continually reviewed to ensure safety and liquidity. We obtain rating changes as they occur from Moody's and Standard and Poor's on-line rating services. Rating reductions or issuers on CreditWatch may prompt a deletion of an issuer from the Issuer Listing and/or divestiture.

Investment Limit Requirements

Recommendation

2. TTC management require the Internal Controls Section to modify the checklist to include the verification of the amounts invested in negotiable CD's and banker's acceptances.

Response

We do not agree with this recommendation. The institutions on the Issuer List are all multi-billion dollar banking institutions. Since, by policy, we are limited to a maximum of \$400 million in investments, the net worth of the issuer cannot be exceeded. Reviewing the institutions as trades are made will provide no additional controls. Periodically, we will review the Issuer List to ensure the net worth of the banking institutions are at least equal to or greater than the maximum investments allowed.

Investment Trade Tickets

Recommendation

3. TTC management establish a written policy requiring the Internal Controls Section to forward the "Review of Trade Tickets" memo to the Investment Office in a timely manner.

Response

We agree with this recommendation. However, during the period cited by the auditors, specifically November 9, 2000 through December 11, 2000, with the exception of normal repurchase agreement collateral discrepancies, there were no discrepancies to report to the Investment Office. We will establish a written policy that will require timely notification of exceptions to the Investment Office.

Trust Funds

Recommendation

4. Trust funds that are no longer needed are closed as required by County Fiscal Manual Section 2.1.3.

Response

The eight trust funds the auditors identified as having zero balances has either been closed, cannot be closed at this time or are funds maintained and reconciled by the Auditor-Controller's Accounting Division. The eight trust funds were established in accordance with the issuance of County Improvement Bonds and the status are as follows: Four of the eight trust funds are rebate accounts which are the responsibility of the Auditor-Controller; one trust fund has been closed; three trust funds cannot be closed at this time because either the bonds have not yet matured or have existing delinquent accounts. We will review these three trust funds on a quarterly basis in order verify their balances.

Recommendation

5. Reconciling items are investigated and resolved in a timely manner.

Response

Reconciling items are investigated and depending on the circumstances, are resolved in a timely manner. The items identified as being outstanding for eight and nineteen months were either due to erroneous refunds, which are pending collection, or the cancellation/re-issuance of warrants.

When erroneous warrants were issued, attempts to collect the monies were made by referring the matter to the Treasurer and Tax Collector Revenue & Enforcement Division. Once collection efforts are exhausted, we will pursue writing off the amounts. Reconciling items, which the auditor identified as unresolved for eight months were due to missing trust warrant requisitions, which the Auditor-Controller could not locate. Duplicate trust warrant requisitions had to be submitted in order to reissue the cancelled warrants.

Reconciling items are investigated and monitored. However, due to the nature of the reconciling items, as discussed above, certain items cannot be resolved immediately.

Cashier Shortages

Recommendation

6. TTC management report all shortages of \$100 or more immediately to the Auditor-Controller's Audit Division and follow-up with a Cash Difference Report and written explanation of the facts surrounding the shortage.

Response

We agree with this recommendation. Once a shortage has been identified, we will notify the Auditor-Controller in a memo detailing the circumstances regarding the shortage.

Bus Pass Shortage

Recommendation

7. TTC management require the cashiering supervisor to verify that all sold and unsold bus passes are accounted for at the end of each day.
8. TTC management investigate the circumstances surrounding the missing bus passes and initiate disciplinary action as appropriate.

Response

We agree with the recommendations. The established procedure is for the cashiering supervisor to verify the bus passes are accounted for at the end of each day. However, an exception occurred during the cash count conducted by the auditors. The cashiering supervisor had to act in the capacity of the vault supervisor and the responsibility of ensuring the bus passes are accounted for was overlooked. Appropriate disciplinary action was taken and supervisors have been instructed to ensure a daily accounting of the bus passes.