

AUDITOR-CONTROLLER/ TREASURER/TAX COLLECTOR



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March 6, 2012

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SUBJECT: REDEVELOPMENT AGENCY ENTERPRISE RISK MANAGEMENT AUDIT

Introductory Remarks, Objectives, Scope and Methodology

In compliance with Article V, Section 6, of the San Bernardino County Charter, the Board of Supervisor's Policy Statement on Internal Operational Auditing, and the Internal Controls and Cash Manual (ICCM), we have completed an audit of the Redevelopment Agency's Enterprise Risk Management. Our audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

Our overall objective was to evaluate the effectiveness of the department's monitoring of its cash/agency (trust) funds, expenditure/revenue transactions, and actual to budget figures and how successfully it communicated new or modified policies/procedures to staff. Specific audit objectives were to:

- determine that the department is monitoring its cash/agency (trust) funds, expenditure/revenue transactions, and actual to budget figures at least monthly and that there is evidence of the review.
- determine the department successfully communicates new or modified policies/procedures to staff and that there is evidence of staff receipt.

The review included evaluating management's controls over the items mentioned above during fiscal year 2010-2011.

Conclusion

As a result of our analysis and tests performed, we concluded that the department successfully communicated changes in policy and procedures to staff including proof of staff receipt. The department prepared monthly budget to actual comparisons but the department did not document management's review or approval of these reports. In addition, the department did not document management's review or approval of its expenditure and revenue reports. The department also did not complete monthly reconciliations of its petty cash or agency (trust) funds. We have listed these areas and our recommendations for improvement in the Findings and Recommendations section of this report.

Findings and Recommendations

Finding 1: Petty Cash reconciliations could be improved

The Internal Control and Cash Manual (ICCM), Chapter 4, states reconciliations should be completed monthly. The ICCM also states that the reconciliation should also be reviewed and signed by an employee of a higher ranking job code to ensure that errors and omissions are detected. The department does not complete petty cash reconciliations monthly. Management was unaware of the need for petty cash reconciliations. If the department does not complete and review monthly reconciliations, there is a risk of undetected theft and errors. In addition, it implies there might be a lack of sufficient control over other items within the department. Timely management oversight helps establish tone at the top that flows through an organization.

Recommendation:

We recommend that management ensure all reconciliations are prepared, reviewed and approved at least monthly.

Management's Response:

The department concurs with the recommendation. Effective immediately upon comment by the Internal Auditor, the RDA changed their procedure to reconcile the Petty Cash Fund on a monthly basis. Also effective immediately, once complete the reconciliation has been submitted to the Administrative Supervisor II or Deputy Director (higher ranking job classification) or an alternate for their review. Upon completion of the review, the reconciliation will be signed and dated by the reviewer.

Auditor's Response:

The department's planned actions will address the deficiencies noted in the finding.

Finding 2: Documentation of delegation of authority over, or management's review of budget to actual figures should be improved

By directive from the County Administrative Office (CAO), each department is to submit budget adjustments on a quarterly basis, thus a review of budget to actual figures should be conducted at least quarterly. Per the "Internal Control—Integrated Framework" by the Committee of Sponsoring Organizations of the Treadway Commission (IC-IF), "there is a growing tendency to push authority downward to bring decision-making closer to front-line personnel [and...] such increased delegation may carry an implicit requirement for a higher level of employee competence, as well as greater accountability. It also requires effective procedures for management to monitor results."

Though budget to actual comparisons were prepared monthly, there was no documentation of review or approval by an employee of a higher-ranking job code. There was also no formal departmental policy allowing lower level employees to

assume this responsibility from management. If the department does not document its review and approval, there is a risk that management may overlook a month and will not be aware if the initial expenditure and/or revenue assumptions need to be adjusted and whether revenues and expenditures are aligned with its expectations for meeting operational objectives.

Recommendation:

We recommend that management either create and implement a policy formally delegating their authority over the budget to actual comparisons or document their monthly review and approval of these figures. If a policy is adopted, it should include guidelines on when an issue must be escalated to management.

Management's Response:

The Assistant Administrator has been reviewing budget to actual comparisons on a monthly basis, but there has been no final signoff on the review. The department concurs with the recommendation to document the monthly review process. The department will continue to have the monthly Budget Year-End Estimate Report (YEE) meeting with the Assistant Agency Administrator and/or Director. In addition, the Assistant Agency Administrator and/or Director will sign off and date the YEE. The signed document will be filed with our records.

Auditor's Response:

The department's planned actions will address the deficiencies noted in the finding.

Finding 3: Documentation of delegation of authority over, or management's review of expenditure/revenue transactions should be improved

The objective of Enterprise Risk Management (ERM) is to provide assurance to management and the organization's key stakeholders that the organization is likely to achieve its objectives. Management's review of expenditures and revenues ensures that income and expenses are in line with those objectives. As stated previously, the IC-IF requires effective procedures for management to monitor results if management delegates its responsibilities downward within the organization.

Though expenditure and revenue reports were prepared monthly, there was no documentation of review or approval by an employee of a higher-ranking job code. There was also no formal departmental policy allowing lower level employees to assume this responsibility from management.

If the department does not document its review and approval, there is a risk that management may overlook a month and increase the risk of expenditures/revenues being misclassified possibly resulting in undetected theft, inaccurate monthly reports and inaccurate annual financial statements. Misclassification may also impact the department's review of budget to actual expenditures. In which case, the department may not be able to respond to changing operational conditions which would affect

operational effectiveness and efficiency. Additionally, if the department does not periodically review expenditure and revenue transactions, management will not be able to engage in timely corrective actions to:

- ensure that expenditures were reasonable and necessary,
- ensure that unnecessary costs were avoided, and
- discover transaction errors including items billed to the department in error.

Recommendation:

We recommend that management either create and implement a policy formally delegating their authority over the review of expenditure and revenue transactions or document their monthly review and approval of these reports. If a policy is adopted, it should include guidelines on when an issue must be escalated to management.

Management's Response:

The Assistant Agency Administrator has been reviewing expenditures and revenue transactions on a monthly basis, but there has been no final signoff on the review. The department concurs with the recommendation to document the monthly review process. The department will continue to have the monthly Budget Year-End Estimate Report (YEE) meeting with the Assistant Agency Administrator and/or Director. In addition, the Assistant Agency Administrator and/or Director will sign off and date the YEE. The signed document will be filed with our records.

Auditor's Response:

The department's planned actions will address the deficiencies noted in the finding.

Thank you very much for the cooperation extended by your staff during the course of this audit.

Respectfully submitted,

Larry Walker

Auditor-Controller/Treasurer/Tax Collector

By:

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