

**ORANGE COUNTY TREASURER
MANAGEMENT LETTER
ON AUDIT OF STATEMENT OF ASSETS
HELD BY COUNTY TREASURY
AS OF DECEMBER 31, 2001**

Issued: June 13, 2002

Audit Number 2104

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**COUNTY OF ORANGE
INTERNAL AUDIT DEPARTMENT**

**ORANGE COUNTY TREASURER
MANAGEMENT LETTER
ON AUDIT OF
STATEMENT OF ASSETS HELD BY COUNTY TREASURY
AS OF DECEMBER 31, 2001**

TABLE OF CONTENTS

	<u>Page No.</u>
MANAGEMENT LETTER	1
Findings, Recommendations, and Responses	3
I. Back Office System	3
II. Notification of Investment Authority.....	4
APPENDIX: Treasury Management Responses (Full Text)	



**PETER HUGHES, Ph.D., CPA, CIA, CFE, CITP
Director**

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INTERNAL AUDIT DEPARTMENT

File No. 2104

June 13, 2002

MANAGEMENT LETTER

John M. W. Moorlach
Treasurer-Tax Collector
12 Civic Center Plaza, Room G-76
Santa Ana, CA 92701-4521

Pursuant to Government Code 26920(b) and 26921 through 26923, we have audited the Statement of Assets Held by the County Treasury as of December 31, 2001 and have issued our report dated March 29, 2002.

In planning and performing our audit, we considered the Treasury's internal controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statement and not to provide overall assurance on the internal controls in place. However, we noted certain matters involving the internal controls and its operations that we consider being reportable conditions under the standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement.

The significant deficiencies we observed are discussed in the Findings, Recommendations, and Responses section of this report and should be corrected to strengthen the internal controls and enhance assurance that internal control procedures are adequate to achieve reliability of financial reporting.

The Treasurer is responsible for establishing and maintaining the internal control framework for his Department. In fulfilling this responsibility, judgments by management are required to assess the expected benefits and related costs of internal control framework policies and procedures. The objectives of an internal control framework over financial reporting are to provide management with reasonable, but not absolute, assurance that reliability of financial reporting is achieved with established criteria and management's policies.

John M. W. Moorlach

June 13, 2002

This report was discussed with representatives of the Treasury management; their responses have been incorporated in the report. This report is intended solely for the use of the Treasury management and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

We appreciate the cooperation and assistance extended to us by the personnel of the Treasury during our examination.

Respectfully submitted,

Dr. Peter Hughes, CPA
Director of Internal Audit

Distribution:

Members, Board of Supervisors
Members, Audit Oversight Committee
Michael Schumacher, Ph.D., Chief Executive Officer
Foreman, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors
David Sundstrom, Auditor-Controller
Richard G. Hilde, Assistant Treasurer
Paul Gorman, Treasurer Accounting/Compliance Manager

FINDINGS, RECOMMENDATIONS, AND RESPONSES

I. Back Office System (Items in prior year Management Letter, dated 8/28/01, that have not been addressed.)

Internal controls over the Back Office System should be improved in the following areas:

1. Back-up disks are not stored offsite - they are locked in a vault within the Information Systems Office.
2. Policies and procedures for the system have not been documented for the physical security of the system, password cancellation, system back-up/recovery, user manuals, and a disaster plan.

The following recommendations and responses were included in the prior year Management Letter for the 12/31/00 Treasury Funds Audit. We believe the recommendations are still appropriate and effort should be made to implement them.

Recommendation No. 1

We recommend Treasury management store offsite back-up copies of diskettes and hard disks.

Treasury Management Response (Management Letter of 8/28/01):

Concur. Offsite Back Up copies of diskettes and hard disks will be implemented prior to December 31, 2001. This activity will include all systems utilized by the Treasurer/Tax Collector identified as critical to the Agency.

Treasury Management Response:

Concur. All arrangements to accomplish offsite back-up copies are in place and will be fully implemented by July 31, 2002.

Recommendation No. 2

We recommend Treasury management ensure all policies and procedures related to the Back Office System are documented, reflect the current policy, and are distributed to the appropriate personnel.

Treasury Management Response (Management Letter of 8/28/01):

Concur. Policies and Procedures related to physical security of the system, password cancellation, system back-up/recovery, user manuals, and a disaster plan will be completed and in place by December 31, 2001.

Treasury Management Response:

Concur. Policies and Procedures related to physical security of the system, password cancellation, system back-up/recovery, user manuals, and a disaster plan will be completed and in place by July 31, 2002.

II. Notification of Investment Authority

The Treasurer has not adequately notified the Board of Supervisors of investment authority delegated to his new Financial Analyst.

Although the Treasurer's Office noted the qualifications/credentials of their new Financial Analyst in a letter to the Board, which was included in their August 31, 2001 Treasurer Monthly Management Report, the delegation of investment authority to the Financial Analyst was not mentioned in the letter. The individuals in the Treasurer's Office authorized to purchase investments have the job title of Investment Officer or Assistant Investment Officer; therefore, it is questionable that the Board would assume the Financial Analyst would be exercising investment authority.

The Investment Policy Statement, effective March 2001, Section III, Scope states “The Treasurer may further delegate investment authority to such persons within the Treasurer’s Department as deemed appropriate. The Board of Supervisors will be provided annually with the qualifications of those to whom authority has been delegated. When changes are made to those who are authorized to make investments the Board of Supervisors will be informed and provided with their qualifications.”

Recommendation No. 3

We recommend the Treasurer provide the Board of Supervisors with written notification to clarify that investing authority was delegated to the Financial Analyst.

Treasury Management Response:

Concur. The Treasurer will include this clarification in the June 30, 2002 Treasurer's Monthly Management Report.

APPENDIX
TREASURY MANAGEMENT RESPONSE



RECEIVED COUNTY OF ORANGE
INTERNAL AUDIT DEPARTMENT
OFFICE OF THE TREASURER-TAX COLLECTOR
2002 JUN 12 AM 10:45
DEPT. OF FINANCE & RECORDS
12 CIVIC CENTER PLAZA, ROOM G76
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June 12, 2002

Peter Hughes, Director
Internal Audit Department
County of Orange
400 Civic Center Drive West
Building 12, Room 232
Santa Ana, CA 92701-4521

Dear Peter:

Pursuant to Audit Oversight Committee Administrative Procedure No. 1, we have prepared our response to the draft results of your Management Letter on the audit of Statement of Assets Held by the County Treasury as of December 31, 2001. The recommendation numbers used in your report references our response.

Back Office System

Recommendation No. 1

We recommend Treasury management store offsite back-up copies of diskettes and hard disks.

Treasury Management Response:

Concur. All arrangements to accomplish offsite back-up copies are in place and will be fully implemented by July 31, 2002.

Recommendation No. 2

We recommend Treasury management ensure all policies and procedures related to the Back Office System are documented, reflect the current policy, and are distributed to the appropriate personnel.

Treasury Management Response:

Concur. Policies and Procedures related to physical security of the system, password cancellation, system back-up/recovery, user manuals, and a disaster plan will be completed and in place by July 31, 2002.

APPENDIX
TREASURY MANAGEMENT RESPONSE (con't)

Peter Hughes, Director
June 12, 2002
Page 2

Notification of Investment Authority
Recommendation No. 3

We recommend the Treasurer provide the Board of Supervisors with written notification to clarify that investing authority was delegated to the Financial Analyst.

Treasury Management Response:

Concur. The Treasurer will include this clarification in the June 30, 2002 Treasurer's Monthly Management Report.

If you have additional questions or follow-up comments, please contact Paul Gorman, Treasury Accounting/Compliance Manager at 834-2288.

Very truly yours,



John M. W. Moorlach, C.P.A., CFP™
Treasurer-Tax Collector