QUARTERLY AUDIT AUDITOR-CONTROLLER'S CASH AND INVESTMENT RECONCILIATION COMPLIANCE

For the Quarter Ended SEPTEMBER 30, 2012

CASH AND INVESTMENTS PER TREASURER'S OFFICIAL RECORDS AT SEPTEMBER 30, 2012 WERE $5.8 BILLION (COST BASIS).

In our opinion, except for the one (1) instance of material non-compliance or deviation described in the report, the Orange County Auditor-Controller complied in all material respects with the California Government Code Section 26905 for the quarter ended September 30, 2012.

Our examination disclosed one (1) Material Non-Compliance or Deviation related to the completeness of the reconciliation of cash and investment accounts to the official records of the treasurer. Auditor-Controller's reconciliation did not include approximately $57 million in Specific Investments and other reconciling items in the Treasurer's official records.

AUDIT NO: 1249-A
REPORT DATE: JANUARY 15, 2013

Director: Dr. Peter Hughes, MBA, CPA, CIA
Deputy Director: Eli Littner, CPA, CIA
Senior Audit Manager: Alan Marcum, MBA, CPA, CIA
Audit Manager: Carol Swe, CPA, CIA

Internal Audit Department

ORANGE COUNTY
6th Largest County in the USA

Independence **Objectivity** **Integrity**

ORANGE COUNTY BOARD OF SUPERVISORS'
Internal Audit Department

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Providing Facts and Perspectives Countywide

RISK BASED AUDITING

Dr. Peter Hughes
Director
Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE, CFF, CGMA
Certified Compliance & Ethics Professional (CCEP)
Certified Information Technology Professional (CITP)
Certified Internal Auditor (CIA)
Certified Fraud Examiner (CFE)
Certified in Financial Forensics (CFF)
Chartered Global Management Accountant (CGMA)
E-mail: peter.hughes@iad.ocgov.com

Eli Littner
Deputy Director
CPA, CIA, CFE, CFS, CISA
Certified Fraud Specialist (CFS)
Certified Information Systems Auditor (CISA)

Michael Goodwin
Senior Audit Manager
CPA, CIA

Alan Marcum
Senior Audit Manager
MBA, CPA, CIA, CFE

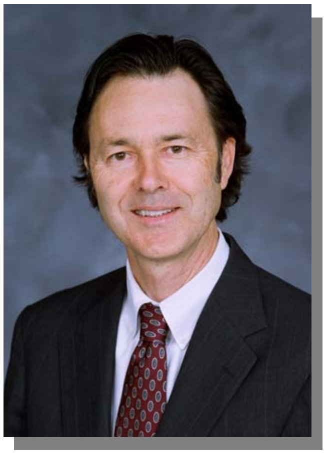
Hall of Finance & Records

12 Civic Center Plaza, Room 232
Santa Ana, CA 92701

Phone: (714) 834-5475 Fax: (714) 834-2880

To access and view audit reports or obtain additional information about the OC Internal Audit Department, visit our website: www.ocgov.com/audit

OC Fraud Hotline (714) 834-3608



Transmittal Letter

Audit No. 1249-A **January 15, 2013**

TO: Jan Grimes
Chief Deputy Auditor-Controller

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: Quarterly Audit of Auditor-Controller's Cash and Investment Reconciliation Compliance for the Quarter Ended September 30, 2012

At your request, we have completed our first Quarterly Compliance Audit of the Auditor-Controller's Cash and Investment Reconciliations. Attached is a copy of our report for the quarter ended September 30, 2012. Our audit disclosed one (1) material non-compliance exception or deviation from the California Government Code 26905 requirements. This material exception is the basis for our rendering a "qualified opinion" as presented on page 1.

Each month I submit an **Audit Status Report** to the BOS where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

Additionally, we will request that the Auditor-Controller's Office complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

Attachments

Other recipients of this report listed on the **Independent Auditor's Report** on page 2.

Independent Auditor's Report

Quarterly Audit of Auditor-Controller's
Cash and Investment Reconciliation Compliance
Audit No. 1249-A

For the Quarter Ended
September 30, 2012

INDEPENDENT AUDITOR'S REPORT

January 15, 2013 Audit No. 1249-A

Members, Board of Supervisors
Hall of Administration
333 W. Santa Ana Blvd., 5th Floor
Santa Ana, CA 92701

We have examined the Orange County Auditor-Controller's reconciliations of cash and investment accounts for compliance with the California Government Code (GC) Section 26905, pursuant to GC Section 26920(a)(2), for the quarter ended September 30, 2012. The Orange County Auditor-Controller's management is responsible for compliance with those requirements. Our responsibility is to express an opinion on the Orange County Auditor-Controller's compliance based on our examination.

Our examination was made in accordance with the attestation standards established by the American Institute of Certified Public Accountants, and accordingly included examining, on a test basis, evidence supporting the Orange County Auditor-Controller's cash and investment reconciliations for compliance with the above specified requirements and performing such other procedures as considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Orange County Auditor-Controller's compliance with specified requirements.

Our examination disclosed one material noncompliance or deviation from the California Government Code Section 26905 for the quarter ended September 30, 2012. The material noncompliance or deviation from the requirements dealt with the incomplete reconciliation of cash and investment accounts to the official records of the Treasurer. A complete description of the exception is shown in the accompanying schedule of Detailed Finding, Recommendation, and Management Response.

In our opinion, except for the material noncompliance exception described in the above paragraph, the Orange County Auditor-Controller complied, in all material respects, with the aforementioned requirements for the quarter ended September 30, 2012.

This report is intended solely for the information and use of the Orange County Auditor-Controller and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.

Respectfully Submitted,

Peter Hughes

Dr. Peter Hughes, CPA, Director
Internal Audit Department

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Audit Oversight Committee
Robert J. Franz, Interim County Executive Officer
Shari L. Freidenrich, Treasurer-Tax Collector
Paul C. Gorman, Chief Assistant Treasurer-Tax Collector
Victoria Ross, Director, A-C/Central Accounting Operations
Autumn McKinney, Manager, A-C/Accounting & Financial Reporting
Cindy Wong, Senior Manager, A-C/General Ledger
Nancy N. Ishida, Audit Manager, A-C/Internal Audit
Foreperson, Grand Jury
Susan Novak, Clerk of the Board of Supervisors

COUNTY OF ORANGE
SUMMARY OF CASH AND INVESTMENT RECONCILIATION COMPLIANCE REQUIREMENTS
For the Quarter Ended September 30, 2012

The cash and investment reconciliation compliance requirements in the California Government Code Section 26905 & 26920 are as follows:

California Government Code:

- Section 26905
  Not later than the last day of each month, the auditor shall reconcile the cash and investment accounts as stated on the auditor's books with the cash and investment accounts as stated on the treasurer's books as of the close of business of the preceding month to determine that the amounts in those accounts as stated on the books of the treasurer are in agreement with the amounts in those accounts as stated on the books of the auditor.

- Section 26920(a)
  (a) At least once in each quarter, the county auditor shall perform, or cause to be performed, a review of the treasurer's statement of assets in the county treasury. Each county shall fund and allocate the cost of the review in accordance with that county's established budgetary practice. The auditor's review shall be accomplished in accordance with the appropriate professional standards, as determined by the county auditor. The treasurer shall prepare a statement showing the amount and type of assets in the county treasury as of the date of the review. The review shall include:

  (2) Verifying that the records of the county treasurer and auditor are reconciled pursuant to Section 26905.

Detailed Finding, Recommendation and Management Response

1. Finding No. 1 – Cash and Investment Accounts are not Completely Reconciled to Official Treasurer's Records – Noncompliance with CA Government Code 26905 (Material Noncompliance or Deviation)

CRITERIA:
California Government Code (GC) 26905 requires that the Auditor-Controller reconcile the cash and investment accounts as stated on the auditor's books with the cash and investment accounts as stated on the treasurer's books to determine that the amounts in those accounts as stated on the books of the treasurer are in agreement with the amounts in those accounts as stated on the books of the auditor.

EXCEPTIONS NOTED:
We found that the Auditor-Controller did not completely reconcile the cash and investment accounts to the official records of the Treasurer for the quarter-ending September 30, 2012, as the reconciliation did not include a subset of the investments (non-pooled investments).

On a monthly basis, the Auditor-Controller/General Ledger staff reconciles the cash and investment accounts as stated on the Auditor-Controller /General Ledger records to the cash and investment accounts as stated on the Treasurer's Fund Accounting records.

The Treasurer's Fund Accounting records include the county and non-county "pooled" cash and investments held in the County treasury. However, the Fund Accounting records do not include Specific (non-pooled) Investments. The official record of all cash and investments in the County treasury is the Treasurer's Quantum General Ledger records.

As a result, approximately $57 million in Specific Investments and reconciling items of $410,826 were not reconciled to the Treasurer's official records at September 30, 2012. We compared the Auditor-Controller's and Treasurer's records of Specific Investments at September 30, 2012 and did not note any material differences.

To ensure that the Treasurer's and Auditor-Controller's cash and investment records are in agreement, the Auditor-Controller should reconcile to the Treasurer's official complete records (Quantum General Ledger) on a monthly basis as required by GC 26905.

Recommendation No. 1
We recommend that the Auditor-Controller reconcile the cash and investment accounts from the A-C General Ledger records to the Treasurer's Quantum General Ledger records on a monthly basis in compliance with GC 26905.

Auditor-Controller Management Response:
Concur. The Auditor-Controller has updated the reconciliation process to include the Specific Investments. We are currently researching how to best utilize the Quantum reports in the monthly reconciliation and plan to update the reconciliation process in January 2013.

ATTACHMENT A: Auditor-Controller Management Response

JAN E. GRIMES, CPA
CHIEF DEPUTY
AUDITOR-CONTROLLER

ORANGE COUNTY
AUDITOR-CONTROLLER

HALL OF RECORDS
12 CIVIC CENTER PLAZA, ROOM 200
POST OFFICE BOX 567
SANTA ANA, CALIFORNIA 92702-0567

(714) 834-2450 FAX: (714) 834-2569

www.ac.ocgov.com

PHILLIP T. DAIGNEAU
DIRECTOR
INFORMATION TECHNOLOGY

FRANK DAVIES, CPA
DIRECTOR
PROPERTY TAX

VICTORIA ROSS, CPA
DIRECTOR
CENTRAL ACCOUNTING OPERATIONS

DENISE STECKLER
DIRECTOR
SATELLITE ACCOUNTING OPERATIONS

December 20, 2012

TO: Peter Hughes, Director
Internal Audit Department

SUBJECT: Response – Quarterly Audit of Auditor-Controller's Cash and Investment Reconciliation Compliance for the Quarter Ended September 30, 2012, Audit No. 1249-A

The following are our responses to the recommendations contained in the Quarterly Audit of Auditor-Controller's Cash and Investment Reconciliation Compliance for the Quarter Ended September 30, 2012, Audit No. 1249-A

Recommendation No. 1
We recommend that the Auditor-Controller reconcile the cash and investment accounts from the A-C General Ledger records to the Treasurer's Quantum General Ledger records on a monthly basis in compliance with GC 26905.

Auditor-Controller Management Response:
Concur. The Auditor-Controller has updated the reconciliation process to include the Specific Investments. We are currently researching how to best utilize the Quantum reports in the monthly reconciliation and plan to update the reconciliation process in January 2013.

Jan Grimes
Chief Deputy Auditor-Controller

AM

cc: Alan Marcum, Senior Audit Manager, Internal Audit Department
Victoria Ross, Director, A/C-Central Accounting Operations
Autumn McKinney, Manager, A/C-Accounting and Financial Reporting
Cindy Wong, Manager, A/C-General Ledger