



Frank Davies, CPA
Orange County Auditor-Controller



Management Letter on Review of the Schedule of Assets Held by the County Treasury as of December 31, 2020

Audit Manager: Michael Steinhaus, CPA, CGMA
Auditor II: John Lim

Audit Number 2007
Report Date: June 8, 2021

Internal Audit



OFFICE OF THE
ORANGE COUNTY AUDITOR-CONTROLLER

FRANK DAVIES, CPA
AUDITOR-CONTROLLER

Transmittal Letter

Audit No. 2007

June 8, 2021

TO: Members, Board of Supervisors
Chairman Andrew Do, First District
Vice Chairman Doug Chaffee, Fourth District
Katrina Foley, Second District
Donald P. Wagner, Third District
Lisa A. Bartlett, Fifth District

SUBJECT: Management Letter on Review of the Schedule of Assets Held by the County
Treasury as of December 31, 2020

We have completed our Review of the Schedule of Assets Held by the County Treasury as of December 31, 2020, and have issued our report thereon dated May 18, 2021. We identified one finding during our review, which we have documented in the attached Management Letter on Review of the Schedule of Assets held by the County Treasury as of December 31, 2020. Our letter is attached for your review.

The management letter contains one recommendation. Management's response has been included in the management letter and the complete text of the response is included in Attachment B.

Frank Davies, CPA
Auditor-Controller

Other recipients of this report:

Members, Audit Oversight Committee
Shari Freidenrich, Treasurer-Tax Collector
Frank Kim, County Executive Officer
Christine Herrera, Director of Treasury, Treasurer-Tax Collector
Gary Nguyen, Director of Investments, Treasurer-Tax Collector
Salvador Lopez, Chief Deputy Auditor-Controller
Foreperson, Grand Jury
Robin Stieler, Clerk of the Board of Supervisors
Eide Bailly LLP, County External Auditor



Management Letter

The Honorable Board of Supervisors
County of Orange, California

We have reviewed, in accordance with the Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA, the Schedule of Assets Held by the County Treasury—Modified Cash-Basis (financial schedule) of the County of Orange, California, as of December 31, 2020, pursuant to Government Code Section 26920(a) and have issued our report thereon dated May 18, 2021.

In performing our review, we identified one finding that we determined to be a reportable condition. Reportable conditions involve matters coming to our attention relating to deficiencies in the design or implementation of the internal controls or qualitative aspects of the entity's accounting practices. This includes accounting policies 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 schedule. This letter does not affect our report on the financial schedule dated May 18, 2021.

For reporting our observations and recommendations, we classify report items into three categories: control deficiencies, significant deficiencies, and material weaknesses. See Attachment A for a description of report item classifications.

This letter was discussed with the representatives of the Treasury management and their response has been incorporated into this letter. The Treasury's response was not subject to the review procedures applied in the review of the financial schedule and, accordingly, we express no conclusion on the response. We will follow-up on the status of the response in accordance with our follow-up procedures.

This communication is intended solely for the information and use of the Board of Supervisors, the management of the Treasury, and the management of the Auditor-Controller and is not intended to be, and should not be, used by anyone other than these specified parties. However, this letter is a matter of public record and its distribution is not limited.

Frank Davies, CPA
Auditor-Controller
June 8, 2021



Management Letter

Finding #1: Northern Trust Demand Account was Not Recorded in Quantum **Significant Deficiency**

Criteria

Government Code Section 26920 states that "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... The review shall include... verifying that the records of the county treasurer and auditor are reconciled pursuant to Section 26905." Government Code Section 26905 states that "...the auditor shall reconcile the cash and investment accounts as stated on the auditor's books [CAPS+] with the cash and investment accounts as stated on the treasurer's books [Quantum]... 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." Established internal controls require that the financial records of the Treasury accurately reflect the cash and investment accounts.

Condition

During our review of the Treasurer-Tax Collector (T-TC) bank reconciliation as of December 31, 2020, we noted balances from Northern Trust OCMMF of \$42,000,000 and Northern Trust X-Fund of \$51,321,560 totaling \$93,321,560 that were reported in the Schedule of Assets as of December 31, 2020 as investments. However, the reports provided by Northern Trust show that Northern Trust considers these amounts to be cash. Regardless of whether the amounts are cash or investments, they were not recorded in Quantum.

We classify this finding as a significant deficiency when combined with the control deficiency identified in the Management Letter on Review of the Schedule of Assets held by the County Treasury as of September 30, 2016 and again in the Management Letter on Review of the Schedule of Assets held by the County Treasury as of September 30, 2019, for which T-TC's corrective action is still in process.

Cause

T-TC incurred COVID related staff shortages in the office and "the decision was made to minimize any wire transfers during this week and to not transfer the cash from maturities to our Wells Fargo bank account, but instead to leave them invested in the Northern Trust (NT) MMMF linked to each custody account overnight." The MMMF linked to the County's Money Market Fund and Extended Fund are not set up in Quantum and excluded from automated reporting and compliance testing.

Effect

These accounts totaling \$93,321,560 are included in the Schedule of Assets as of December 31, 2020, but cannot be reconciled pursuant to Government Code Section 26905 because they are not stated on the books of the treasurer (Quantum).

Recommendation

We recommend that T-TC management ensure that all accounts included in its Schedule of Assets are recorded in Quantum.



Management Letter

Management's Response

Treasury Management is working with its vendor to add the appropriate Northern Trust MMMFs to Quantum either, prior to, or shortly after the new version of Quantum goes-live.



Attachment A: Report Classifications

For purposes of reporting our findings and recommendations, we will classify report items into three categories:

Control Deficiency

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

Significant Deficiency

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepting accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

Material Weakness

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material misstatement of the financial statements will not be prevented or detected by the entity's internal control.



Attachment B: Treasurer-Tax Collector Management Response

Steinhaus, Michael [AC]

From: Winn, Brian <BWinn@TTC.OCGOV.com>
Sent: Friday, March 19, 2021 1:28 PM
To: Steinhaus, Michael [AC]
Cc: Nguyen, Tiffanie [TTC]; Lim, John [AC]
Subject: RE: Request for October - December 2020 Data Files for Compliance Monitoring

Categories: Findings

Hello Michael,

Here is the explanation:

In response to resource limitations caused by a COVID related staff shortages in the office, the decision was made to minimize any wires during this week and to not transfer the cash from maturities to our Wells Fargo bank account, but instead to leave them invested in the Northern Trust (NT) MMMF linked to each custody account overnight. As the normal practice is not to leave funds to be invested at Northern Trust primarily due to the fact that the yields on the NT MMMF are lower than the yields at our other MMMF's, this situation rarely occurs. This situation identified that previously any cash not wired to the Wells Fargo Bank was being incorrectly reported as cash when it should have been reported as a MMMF and was not being properly recorded as a trade in the investment accounting system even though it was being reported as a trade on the MMMF trade summary (with the note that no separate wire is required). Therefore, because of this, the Northern Trust MMMF's linked to the County's Extended Fund had not been set up in Quantum, and was therefore excluded from any automated reporting in Quantum and all related compliance reports.

Please note that on a go forward basis, TTC Management has taken the following steps:

- 1) Treasury Management is working with our vendor to add the appropriate Northern Trust MMMFs to Quantum either, prior to, or shortly after the new version of Quantum goes-live;
- 2) Any amounts in these new MMMF accounts would show up in the MMMF trade tickets and would be considered by the Investment Accounting / Compliance staff when they review this daily compliance report to ensure that the 10% and the 20% limits are in compliance; and
- 3) The Investments Division includes trades and balances in the Northern Trust MMMFs in their pre-compliance summary sheet prior to sending the trade packets to Investment Accounting/Compliance. This is reviewed by the Director of Investments prior to submitting these packets to Investment Accounting.

Let me know if you have any questions.

Brian E. Winn
Accounting/Compliance Manager
Office of the Treasurer-Tax Collector
County of Orange