



Frank Davies, CPA
Orange County Auditor-Controller



Management Letter on Review of the Schedule of Assets Held by the County Treasury as of March 31, 2022

Audit Manager: Michael Steinhaus, CPA, CIA, CISA
Auditor II: John C. Lim, CIA

Audit Number 2108
Report Date: July 27, 2022

Internal Audit



OFFICE OF THE
ORANGE COUNTY AUDITOR-CONTROLLER

FRANK DAVIES, CPA
AUDITOR-CONTROLLER

Transmittal Letter

Audit No. 2108

July 27, 2022

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

SUBJECT: Management Letter on Review of the Schedule of Assets Held by the County Treasury as of March 31, 2022

We have completed our Review of the Schedule of Assets Held by the County Treasury as of March 31, 2022, and have issued our report thereon dated July 12, 2022. We identified one control issue 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 March 31, 2022. 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
Frank Kim, County Executive Officer
Shari Freidenrich, Treasurer-Tax Collector
James Kim, Assistant Treasurer-Tax Collector
Christine Herrera, Director of Treasury, Treasurer-Tax Collector – Treasury
Salvador Lopez, Chief Deputy Auditor-Controller
Michael Steinhaus, Audit Manager
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 March 31, 2022, pursuant to Government Code Section 26920(a) and have issued our report thereon dated July 12, 2022.

In performing our review, we identified one issue 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 July 12, 2022.

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 T-TC management and their response has been incorporated into this letter. T-TC management'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
July 27, 2022



Management Letter

Finding #1: Accounts Not Recorded in Quantum Control 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 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 [Quantum] are in agreement with the amounts in those accounts as stated on the books of the auditor [CAPS+].” 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 March 31, 2022, we noted two Sheriff accounts totaling \$11,378,951 and two John Wayne Airport accounts totaling \$7,620,332 were reported on the Schedule of Assets as of March 31, 2022, but were not stated on the books of the treasurer (Quantum).

Cause

In July 2016, T-TC transferred certain monies from the pooled investment funds to separate and individual bank accounts because of a Federal audit recommendation received by the Sheriff’s Department that required those monies to be kept separate from other County monies. This event triggered a review by T-TC of other similar accounts held independently by John Wayne Airport in a separate bank account. T-TC has included these accounts in their Schedule of Assets since July 31, 2016.

According to T-TC management, these accounts were not recorded in Quantum due to a system limitation. T-TC planned to add them during their Quantum upgrade, which was originally expected to be completed in 2017. Phase 1 of the upgrade was finalized in September 2021 and T-TC planned on adding these accounts to Quantum by February 28, 2022.

Effect

These accounts totaling \$18,999,283 are included in the Schedule of Assets as of March 31, 2022, but could not be reconciled pursuant to Government Code Section 26905 because they were 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

Treasurer-Tax Collector Management's Response

Since 2016, the T-TC has and continues to properly report all assets (including all County Treasury bank accounts) of the County Treasury in the Treasurer's books and in the Quarterly Schedule of Assets reports using the modified cash basis of accounting. The Treasurer's books include cash and investment balances in Quantum and any reconciling items, including these County Treasury stand-alone bank accounts. T-TC management did complete the set-up of these bank accounts in Quantum on April 27, 2022 during the post go-live phase of the recent Quantum upgrade.



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




OFFICE OF THE TREASURER-TAX COLLECTOR
SHARI L. FREIDENRICH, CPA, CCMT, CPFA, ACPFIM



POST OFFICE BOX 4515
SANTA ANA, CA 92702-4515
octreasurer.com

INTERDEPARTMENTAL COMMUNICATION

Date: July 26, 2022
To: Frank Davies, CPA, Auditor-Controller
From: Shari L. Freidenrich, CPA, Treasurer-Tax Collector 
Subject: Response to Management Letter on Review of the Schedule of Assets Held by the County Treasury as of March 31, 2022

We have provided our response to the single finding in the management report.

Finding #1: Accounts Not Recorded in Quantum
Condition

During our review of the Treasurer-Tax Collector (T-TC) bank reconciliation as of March 31, 2022, we noted two Sheriff accounts totaling \$11,378,951 and two John Wayne Airport accounts totaling \$7,620,332 were reported on the Schedule as of March 31, 2022, but were 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.

Treasurer-Tax Collector Response

Since 2016, the T-TC has and continues to properly report all assets (including all County Treasury bank accounts) of the County Treasury in the Treasurer's books and in the Quarterly Schedule of Assets reports using the modified cash basis of accounting. The Treasurer's books include cash and investment balances in Quantum and any reconciling items, including these County Treasury stand-alone bank accounts. T-TC management did complete the set-up of these bank accounts in Quantum on April 27, 2022 during the post go-live phase of the recent Quantum upgrade.

Please contact myself and James Kim if you have any questions.

Cc: James Kim, Assistant Treasurer-Tax Collector
Michael Steinhaus, CPA, Audit Manager

Mission: Ensure safe and timely receipt, deposit, collection and investment of public funds.