



Andrew N. Hamilton, CPA Orange County Auditor-Controller



Management Letter on Review of the Treasurer's Schedule of Assets as of December 31, 2022

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

Audit Number 2208
Report Date: November 30, 2023

Internal Audit



OFFICE OF THE
ORANGE COUNTY AUDITOR-CONTROLLER

ANDREW N. HAMILTON, CPA
AUDITOR-CONTROLLER

DATE: November 30 2023

TO: Honorable Board of Supervisors

FROM: Michael Steinhaus, Audit Manager

SUBJECT: Management Letter on Review of the Treasurer's Schedule of Assets as of December 31, 2022

We identified one finding during our review of the Treasurer's Schedule of Assets as of December 31, 2022. The attached Management Letter contains our finding and recommendation and management's response. We appreciate the Treasurer-Tax Collector's assistance during this engagement. If you have any questions please contact me at 714-834-6106.

Other recipients:

Members, Audit Oversight Committee
Jason Prole, Director of Investments
Brian Winn, Accounting/Compliance Manager
Salvador Lopez, Chief Deputy Auditor-Controller
John Lim, Auditor II
Foreperson, Grand Jury
Robin Stieler, Clerk of the Board
Eide Bailly LLP, County External Auditor

Management Letter

Pursuant to GOV Section 26920(a), We have reviewed, in accordance with the Statements for Accounting and Reviews Services promulgated by the Accounting and Review Services Committee of the AICPA, the Treasurer's Schedule of Assets (Schedule) as of December 31, 2022, and issued our report thereon dated October 31, 2023.

In performing our review, we identified one finding that we determined to be a reportable condition. See Attachment A for additional information on reportable conditions. This letter does not affect our report on the Schedule dated October 31, 2023.

We discussed this finding with the Treasurer-Tax Collector (T-TC) and have incorporated their response into this letter. T-TC's response was not subject to the review procedures applied in the review of the Schedule and, accordingly, we express no conclusion on the response. We will follow up on the status of T-TC's response according to our follow-up procedures.

Michael Steinhaus

Michael Steinhaus
Santa Ana, California
November 30, 2023

Finding #1: Untimely Reconciliation by Auditor-Controller
Noncompliance

Criteria

Per GOV Section 26905, the Auditor-Controller (A-C) was required to reconcile A-C's books with T-TC's books as of the close of business of the month of December 2022 by January 31, 2023.

GOV Section 26920(a) states that "[this] review shall include... verifying that the records of the county treasurer and auditor are reconciled pursuant to Section 26905." GOV Section 26905 states that "no 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 as stated on the books of the auditor."

Condition

A-C reconciled A-C's books with T-TC's books as of the close of business for the month of December 2022 on February 27, 2023.

Cause

Miscommunication between T-TC and A-C regarding what documents T-TC needed to provide A-C, and by when T-TC needed to provide those documents to A-C.

Effect

A-C did not comply with GOV Section 26905 for December 2022.

Recommendation

We recommend that T-TC provide its books to A-C before reconciling FIS Quantum to FAS since that reconciliation is not necessary for A-C to reconcile A-C's books with T-TC's books.

T-TC Management's Response

The A-C has now requested, and the T-TC will provide the T-TC books which are the cash and investment balances in Quantum on a modified cash basis, by the 10th of each month so that the A-C can complete the required reconciliation between the A-C books and T-TC books as per GOV Section 26905.

Attachment A: Reportable Conditions

Reportable conditions involve deficiencies in internal control or noncompliance with laws and regulations that we identified during our review and that, may have a material effect on the Schedule. A deficiency in internal control 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.

We classify reportable conditions into three categories: material weaknesses, significant deficiencies, and noncompliance. The following terms have the meanings attributed as follows:

Material weakness. A deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.

Probable. The future event or events are likely to occur.

Significant Deficiency. A deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Noncompliance. Acts of omission or commission by the entity, either intentional or unintentional, which are contrary to the prevailing laws or regulations. Such acts include transactions entered into, by, or in the name of, the entity or on its behalf by those charged with governance, management, or employees. Noncompliance does not include personal misconduct (unrelated to business activities of the entity) by those charged with governance, management, or employees of the entity.