



Audit Report on Transition of Treasurer to Treasurer Elect December 31, 2008

Presented to the
Doña Ana Audit Committee and Doña Ana Board of County
Commissioners

by the Internal Audit Department
Milton Duran, CPA, CIA
County Internal Auditor



January 25, 2009

David Gutierrez, Treasurer
Jill Johnson, Deputy Treasurer
Chris Barela, Director, Detention Center

Re: Audit Report on Transition of Treasurer to Treasurer Elect as of December 31, 2008

The audit was conducted pursuant to the request of County Management and consent of the Doña Ana Audit Committee in its memorandum dated December 12, 2008. This limited scope audit included verification of cash, cash investments, and fixed assets under the control of the Treasurer's office as of December 31, 2008.

There were five findings noted in this report; two of which are considered significant. The findings, recommendations and management's responses are described in this report.

The audit results have been discussed with the current Treasurer, David Gutierrez, as well as Jill Johnson, the Deputy Treasurer, Nasreen Nelson, Controller and Chris Barela, Director, Detention Center. Their responses to the findings are provided in this report. Former Treasurer, Jim Schoonover, could not be reached for responses or comments to the findings contained in the report.

Personnel in the Treasurer's Office were cooperative and provided their assistance during the course of this audit. We wish to thank Nancy Montoya, Pat Shilling, and Alma Villa for their cooperation and assistance during our procedures.

Respectfully,

MA Duran

Milton Duran, CPA, CIA
Internal Auditor

Cc:

Doña Ana County Board of County Commissioners
Mr. Brian Haines, County Manager,
Doña Ana County Internal Audit Committee
Jim Schoonover, former County Treasurer, (unable to deliver report)

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TRANSITION PROCEDURES

I. INTRODUCTION

1.1 Background:

The audit was conducted pursuant to the request of County Management and consent of the Doña Ana Audit Committee in its memorandum dated December 12, 2008. The limited scope audit was to identify, confirm, and ensure control over assets under the custody of the current Treasurer during transition to the Treasurer Elect at December 31, 2008.

1.2 Audit objectives and scope:

The objectives of the audit were:

1. To make observations of assets utilized by the Treasurer's Office to would assist in establishing the inventory of the assets, confirm of values and validate control procedures related to those assets.
2. To evaluate compliance with County policy regarding security of assets and accountability of assets.
3. To provide a report on the existence, controls and security of identified assets during the transition period.
4. The audit was limited to observation of procedures performed during the period from December 1, 2008 through January 12, 2009. The accounting system was assumed reliable for recording and reporting capitalized assets for the Treasury's Office

1.3 Methodology: The audit procedures included observation and interviews with key personnel. In addition tests were made on re-counting of petty cash, verification of cash investments, and documentation of bank reconciliations. The final December, 2008 deposit was reviewed and reconciled to the cash count. Fixed assets inventories were reviewed and tested for existence on a sample basis. In addition other relevant evidence on procedures was observed and documented.

The audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

II. REVIEW OF TREASURY REPORTS

The Treasurer monthly prepares a disclosure report of Cash and Investments which is presented to the Board of County Commissioners. The report contains ending balances as of December 31, 2008 on petty cash, bank balances on all accounts, investment balances, and schedules on bond obligations.

The report balances as reported by the Treasury as of December 31, 2008 were reconciled with balances contained herein except as noted. Detailed exhibits are shown in Section IV below.

III. FINDINGS AND RESPONSES

Findings Classifications and Grading Levels of Operational Comments

The Internal Audit Department has published a definition and grading of financial findings in a separate communication. The scale is summarized as follows:

Internal Audit defines *INTERNAL CONTROL findings* according to the Government Auditing Standards definition of deficiencies.

- Type I - an internal control deficiency
- Type II - a significant deficiency
- Type III - a material weakness

Finding #1- Unprocessed and un-deposited tax payments received by mail. This is considered a significant finding, Type II. During the count and verification of cash and investments at December 31, 2008, it was noted that a tray of tax payments received by mail were unprocessed. The tray contained tax payment received by mail some days prior. The payments were processed under the direction of the new Treasurer between January 5, 2009 and January 9, 2009. The total of the payments was \$751,000, all of which were processed and deposited by January 9, 2009. The delayed processing of these funds understated investments and resulted in a lost opportunity for interest income.

#1 Recommendation. It is recommended daily procedures be established to ensure processing of mail receipts. Proper fiscal policy and procedures require cash and checks to be deposited on timely basis for the County to benefit from investment opportunity and interest income. The new Treasurer has been made aware of this condition and has instituted procedures to insure timely processing of receipts.

#1 Management response by David Gutierrez, County Treasurer

The Treasurer has established a procedure that requires the tellers to process the mail on a daily basis so that cash and checks are deposited timely. This is the same effective process that was used when the Treasurer was in office 1997-2004.

Finding #2- Use of funds from Inmate Welfare Funds. This is considered a significant finding, Type II. A review of the Inmate Welfare fund activity disclosed periodic expenditures for the current and prior fiscal years that were not appropriate expenditures from this fund. The Inmate Welfare fund is currently administered by the Detention Center management. The Detention Center Director and staff have signatory authority although there is no evidence that it was established by ordinance. The Director has sole signatory for disbursements less than \$500. Disbursements in excess of \$500 required a second signature.

The funds are to be used for the benefit of the inmates. A review of expenditures noted expenditure of funds which were either inappropriate use of welfare funds or used instead of using regularly budgeted funds that were available. This is type of expenditure circumvents the budget and procurement processes. The environment does not provide appropriate levels of internal controls and segregation of duties to ensure funds are properly and legally used. The lack of controls and oversight deem the fund as a high risk area.

Additionally, the accounting for this fund is incomplete in that income and expenditures are not reflected in the accounts of the County. The entry to record activity is netted against accounts payable and does not record income received or expenditures by type of expenses.

This has resulted in understatement of revenues of \$128,009.38 and \$77,573.07 in fiscal year 2008 and 2009, respectively. It has also resulted in an understatement of expenditures of \$104,690.04 and \$52,086.09 in fiscal years 2008 and 2009, respectively. Failure to properly record income and expenditures is a significant failure of internal controls.

#2 Recommendation: (a) It is recommended that the Finance Department on a regular basis review the detailed reconciliations and confirm and record required adjustments to reflect to actual activity of the fund. (b) It recommended that signature authority be removed from the Director and personnel in the Detention Center since the environment has no internal controls or adequate segregation of duties over said fund. Funds should be placed in the custody of the Treasurer and expenditure requests should follow appropriate County procurement and payment request processes. (c) An advisory committee should be established to provide guidance to Detention Center management on the appropriate use of funds.

#2 Management responses by Nasreen Nelson, Controller:

The Detention Center will establish proper internal controls and submit to the Treasurer's department, a detailed list of receipts and disbursements that need posting. The reconciliation of all bank accounts and recording of all cash entries are the main responsibilities of the Treasurer's department.

#2 Management response by C. Barela, Detention Center:

Aramark through its Accounting Representative will provide the Detention Center complete documents supporting account reconciliations on a monthly basis. The Detention Center will provide the Treasurer's office with reconciliations and any supporting documents, including details for any adjustments required. Complete detail listings of receipts and disbursement from the welfare fund will also be provided.

Finding #3 Account Reconciling Items: This is considered an internal control deficiency, Type I finding. A review of various bank account reconciliations revealed three bank accounts required accounting adjustments.

A) The Las Cruces Housing Authority bank account is not reconciled to the General Ledger. An adjustment is required by Finance Department recognized revenues. Net required adjustment is \$500,425.50.

B) Juvenile Trust bank account does not reconcile to Custodian's (Aramark) Detail Balance List by Inmate Report. For several months the bank balance is over the Inmate Detail Report. The account should be reconciled monthly and adjusted as required.

C) Adult Trust bank account does not reconcile to Custodian's (Aramark) Detail Balance List by Inmate Report. The bank balance has not balanced for several months. The discrepancy varies month to month. The Aramark Accounting representative suspects a system issue and will investigate account to resolve problem. Complete reconciliations with supporting detail must be provided monthly.

#3 Recommendations:

Recommendation on item A. The Housing Authority bank account should reconcile to the related general ledger accounts. It is acknowledged information from the Las Cruces Housing Authority must first be obtained to effect the proper adjustment by Dona Ana County. Interim and possibly estimated adjustments should be effected to ensure the accounts reconcile to the actual bank balance. A final year end entry could then be made for the final adjustment.

Recommendation on item B and C: Under the terms of the contract, Aramark has primary responsibility to process inmates and account for the Inmate Trust accounts. Doña Ana County accounts for the account through the Treasurer's office. In fulfilling its fiduciary responsibility, Aramark must provide the Detention Center accounting specialist with the appropriate basic information on receipts and disbursements, evidence of reconciliation of each trust account, and supporting detailed inmate identification. The information should be timely and in sufficient detail to enable confirmation of the reconciliation. In the event the accounts are not reconciled, the information shall be returned by the Detention Center accounting specialist to Aramark until remedied. Upon review and acceptance of the reconciliation, the information shall be provided by the Detention Center specialist to the Treasurer's office to enable the appropriate recordation of the activity and reconciliation to the Trust bank balances. The trust nature of the accounts require by law, complete and appropriate fiduciary care. All parties collectively have the responsibility to account and report the trust accounts properly.

#3 Management response by Nasreen Nelson, Controller:

3A This finding was brought up by Kriegel & Co. (external auditors) originally. The County does not record any budget for the Housing authority currently. We are working on this and will discuss the issue with management for advice.

3B and 3C. The Detention Center is responsible for reconciling all bank accounts and provides details to the Treasurer's office for recording of all cash entries. The Detention Center Department should provide adequate documentation and assist the Treasurer's Department with this process.

#3 Management response by C. Barela, Detention Center:

Aramark through its Accounting Representative will provide the Detention Center complete documents supporting account reconciliations on a monthly basis. The Detention Center will provide the Treasury with reconciliations and any supporting documents including details for any adjustments required.

#3 Management response by David Gutierrez, County Treasurer:

Currently the Treasury Department receives the reconciliations for items B) and C) and makes entries to the general ledger so the bank balance and the general ledger are in agreement. The relationship with Aramark is fiduciary; there is no knowledge by the Treasury Department of the business at the Detention Center and therefore there can be no responsibility taken for confirming detail transactions

Finding #4- Outstanding checks and escheatment requirements. This is considered an internal control deficiency-a Type I finding. During the review of bank reconciliations it was noted that several bank accounts have outstanding checks that are dated more than one year ago. There was \$3,479.68 of outstanding payroll checks in the Wells Fargo general account and a total of \$421.36 of vendor's payments which were dated over one year ago. There is no evidence the department met compliance with escheatment requirements.

At the request of Internal Audit, the Legal department prepared and provided the Treasury department with a research document describing the Escheatment laws and applicability under New Mexico state statutes.

#4Recommendation: It is recommendation that Treasury review escheatment requirements and appropriately `complies with reporting and depository requirements for all bank accounts in their custody.

#4 Management response by David Gutierrez, County Treasurer.

The County Treasurer will review the escheatment requirement and take appropriate action.

Finding #5- Petty Cash fund. This is considered an internal control deficiency, Type I finding. During the counts and observations of petty cash in the Utilities department an additional petty cash fund was discovered in the amount of \$100.00. Department routinely uses both funds to process utility payments. Staff indicates that both funds have been in their custody for several years. There is no accounting record of this fund. The Finance Department was informed of the additional fund.

#5 Recommendation: It is recommended that Finance acknowledge this fund and record the second Petty Cash fund in the custody of the Utilities Department and routinely include the fund in the list for periodic confirmation.

#5 Management response by Nasreen Nelson, Controller

Based on our research we discovered that the second petty cash box was issued correctly. However the way it was posted was incorrect. It was posted to an expense account versus the Petty Cash account. Finance will prepare a journal entry to correct to the appropriate account.

**Dona Ana County Office of the Treasurer
Treasury Account Summary
December 31, 2008**

		Account Balances at 31-Dec-08	Audit notes
Cash on Hand:			
		\$	
11100	Cash Treasurer's Department	1,400.00	
11200	Petty Cash - Other Departments	<u>6,462.05</u>	
	Total	7,862.05	
Cash in Banks:			
11103	Wells Fargo Depository Account	62,486,951.86	note (4)
11106	Bank of the West-Confiscated Assets	590,901.49	
11107	Citizens Bank-DAC-LC HA	1,757,793.26	note (1)
11114	Bank of America-DACDC Inmate Welfare Trust	154,190.80	note (3)
11116	Wells Fargo-DACDC Juvenile Account	252.20	note (2)
11117	Wells Fargo-DACDC Main Inmate Trust	46,735.04	
11120	NMFA Reserve Account-Flood	175,433.22	
11123	US Bank-Reserve 2001A & B	221,502.13	
11125	US Bank-Reserve 2001B SAD	556,005.35	
11130	US Bank-2001A-Excess Sinking Fund Account	-	
11131	US Bank 2001B-Excess Sinking Fund Account	-	
11132	DAC-Chaparral Waste Water Grant	100.00	
11311	US Bank-Interest Fund-Detention	422,867.69	
11312	US Bank-Capitalized Interest Fund-Detention	0.90	
11313	US Bank-Debt Service Reserve Fund-Detention	2,412,000.00	
11315	US Bank-Construction Fund-Detention	154,632.13	
11316	US Bank-Revenue Fund-Detention	603,227.35	
11413	US Bank-(DATF) Debt Service Reserve-Water System	461,007.50	
11420	US Bank-(DATF) Capitalized Interest-2001A-SAD	170,609.40	
11421	US Bank-(DATF) Capitalized Interest-2001B-SAD	431,106.30	
11422	US Bank-2001A-Administration Expense Account	10,355.36	
11423	US Bank-2001B-Administration Expense Account	29,511.03	
11430	Bank of Albuquerque-PILT 2004A Debt Service	13.10	
11431	Bank of Albuquerque-PILT 2004A Debt Service Reserve	986,823.80	
11432	Bank of Albuquerque-PILT 2004A Acquisition	-	
11460	Earned Premium/Discount	1,379.23	
	Returned Checks	43.00	
	Sub-total	71,681,304.19	

(Continued)

(continued from prior page)

Investments:

11112	Investments--Detail on page 4	(detail below)	55,451,173.65
11113	Wells Fargo Healthcare Custody Account-MMC		204,828.65
11900	Total all bank accounts		\$ 127,337,306.49
	Total all Participating Funds		\$ 127,337,306.49

- (1) The Las Cruces Housing Authority accounts not reconciled. An adjustment is required by Finance Department recognized revenues. Net required adjustment is \$500,425.50
- (2) Juvenile Trust Account does not reconcile to Custodian (Aramark) detail balance list by inmate. Bank balance over by \$ 46.86.
- (3) Adult Trust Account does not reconcile to Custodian (Aramark) detail balance list by inmate. Bank balance over by \$ 10,772.37.
- (4) Bank account should be adjusted for outstanding checks beyond one year in accounting to NM State escheatment requirements. Total effect \$3,910.04