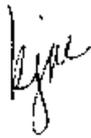


MEMORANDUM
PLACER COUNTY AUDIT COMMITTEE

TO: Honorable Board of Supervisors
FROM: Wayne Nader, Chair, Placer County Audit Committee
DATE: June 23, 2009
SUBJ: Annual Report



ACTION REQUESTED

Receive the Annual Report of the Placer County Audit Committee (Committee).

BACKGROUND

In May 2008, your Board created the Placer County Audit Committee primarily in response to new auditing standards issued by the American Institute of Certified Public Accountants. For fiscal year 2008-09, members of the Committee were Supervisor Jim Holmes, Supervisor Rocky Rockholm, and Wayne Nader, public member.

The purpose of the Committee is to assist your Board in fulfilling your oversight responsibilities by monitoring the financial reporting process, the overall systems of internal control and risk mitigation, compliance with laws and regulations, and the independence and performance of the County's internal and external auditors. To that end, the Committee is required to present annually to the full Board a written report of how it has discharged its duties and met its responsibilities.

REPORT

Over the past year the Committee met four times. At the initial meeting the Committee 1) selected the Chair and Vice-Chair, Wayne Nader and Supervisor Rockholm, respectively, 2) adopted the Audit Committee Charter, 3) reviewed the contract with Gilbert Associates, Inc., external auditors, 4) reviewed the 2008-09 Audit Work Plan for the Internal Audit Division of the Auditor-Controller's Office, and 5) set the meeting schedule for the coming year.

In subsequent meetings, Gilbert Associates met with the Committee to discuss the audits being performed of the County, the Redevelopment Agency, Flood Control District, Tahoe Area Regional Transit and the First 5 Commission for the fiscal year ended June 30, 2008. Those discussions included information regarding the scope and timing of the audits, their understanding of the

County's internal controls, significant accounting policies and their affect on the financial statements, and management's use of estimates in the financial statements. Gilbert Associates also reported that there were no serious difficulties encountered in performing the audits, no disagreements with management and no significant adjustments or disclosures not reflected in the financial statements.

The Internal Audit Manager apprised the Committee of audit projects completed and in process and the resulting findings and recommendations. Projects included, but were not limited to, the following:

- Transient Occupancy Tax audits
- Countywide cell phone audit
- Countywide purchasing policy review
- Credit card reviews (monthly monitoring and bi-annual audit)
- CDRA operational audit
- Quarterly Treasury reviews
- Confidential documents review, and
- Department head change audits.

CONCLUSION

Based on the conversations with Gilbert Associates and the Internal Audit Manager, the Committee believes that the County's system of internal controls is in place and operating effectively and its financial reporting processes are adequate to ensure the financial statements fairly present its financial position.

Copies of the County's Comprehensive Annual Financial Report, Single Audit Report and Management Letter are included in this packet for your review. Copies of all other audit reports issued by either Gilbert or the Internal Audit Division have been presented to the Audit Committee and are available to the full Board upon request.

Enclosures

COUNTY OF PLACER

MANAGEMENT LETTER

FOR THE FISCAL YEAR ENDED JUNE 30, 2008



Gilbert Associates, Inc.
CPAs and Advisors

**Board of Supervisors and Grand Jury
County of Placer
Auburn, California**

In planning and performing our audit of the basic financial statements of the County of Placer (the County) as of and for the fiscal year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal controls. Accordingly, we do not express an opinion on the effectiveness of the County's internal controls.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency. This significant deficiency is described in the Schedule of Findings and Questioned Costs section of the County's reports required by OMB Circular A-133 for the fiscal year ended June 30, 2008.

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe the significant deficiency described above is a material weakness.

Board of Supervisors and Grand Jury
County of Placer
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A current year status update of prior year comments and suggestions are included in the memorandum that accompanies this letter.

This report is intended solely for the information and use of the Board of Supervisors, Audit Committee, Grand Jury, County management, federal awarding agencies, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

February 18, 2009

COUNTY OF PLACER

PRIOR YEAR MANAGEMENT COMMENTS AND RECOMMENDATIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2008

TIMESHEETS

Condition:

The County's payroll system (ACORN) allows employees to enter their own time directly (self-entry). However, many County departments still are using a wide variety of manual and electronic timesheets. Use of non-standardized forms increases the risk of error and of potential future compliance departures. In addition, some departments are inputting timesheets in a "lump sum" fashion (i.e., two weeks worth of time coded to one day). This method of data input limits the capabilities of the payroll system to extract meaningful data for management analysis.

Recommendation:

We recommend the County provide training to all employees on the payroll time self-entry process, the County use one standardized timesheet, and the County implement a policy that time be entered on a day-by-day basis instead of in a "lump sum".

Management Response:

We agree with the auditor's recommendations.

Status:

Partially implemented. All timesheets created outside the ACORN payroll system must be approved by the Auditor Controllers office before use. Commencing July 1, 2008 the Auditor Controllers office will be working with one of their consultants to create an excel timesheet interface that could be used by all County departments.

COUNTY OF PLACER

PRIOR YEAR MANAGEMENT COMMENTS AND RECOMMENDATIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2008

CASH RECEIPTS – PLACER COUNTY LAND USE SYSTEM (PLUS)

Condition:

The County uses the Placer County Land Use System (PLUS) for tracking and monitoring land-based fees such as, permits, inspections, and code enforcement. The PLUS system is a decentralized cash collection system and is used by various departments throughout the County. During our review of the internal controls over the PLUS cash receipts process, we noted the following:

- 1) Transactions are tracked by a technician who is logged onto the PLUS system at the time of the transaction. There is no time-out session or mandatory log-out of the system if staff changes occur during the daily shift. As such, once a technician is logged into the system, cash can be collected and processed by any individual. If cash shortages were to occur, it would be difficult to identify the individual responsible.
- 2) Supervisors using the PLUS system do not regularly change passwords. This increases the likelihood of shared or improperly attained passwords and could result in unauthorized transactions.
- 3) Currently employees who process cash receipts have the ability to request voids from the PLUS system project manager without obtaining department supervisor approval. This increases the likelihood of potential theft of cash receipts.

Recommendation:

We recommend the following:

- 1) When an employee changes shifts, the employee should be required to log-out of the PLUS system. Additionally, the County should consider modifying the PLUS system to automatically log-off employees with prolonged absences from the cash receipts drawer.
- 2) Passwords should be changed frequently and in accordance with the County's policy.
- 3) Voids should not be processed by the project manager without obtaining proper authorization. Additionally, we recommend that the County consider running daily void reports to be reviewed and monitored by an individual independent from the cash receipting process.

COUNTY OF PLACER

PRIOR YEAR MANAGEMENT COMMENTS AND RECOMMENDATIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Management Response:

CDRA Response:

- 1) PLUS does not have a mandatory log-out capability. Technicians are trained to log out of the system when leaving a workstation at the front counter. This is common practice. It is also common practice for a technician to use the same front counter workstation for an entire day. This workstation is normally not shared with other technician staff. As a result, cash shortages can be tracked and responsible individuals can be identified.

In order to enhance PLUS to provide for mandatory log outs, our Information Technology Supervisor estimates that a cost in excess of \$50,000 would be needed to program this enhancement. At this time the cost/benefit is prohibitive.

- 2) PLUS does not have the ability to enforce mandatory password changes. It is currently the responsibility of PLUS users to maintain, change and safeguard their passwords. Traditionally, this has been the policy for password maintenance. As a result of Auditor recommendation, a new policy will be initiated requiring staff to change their passwords every six months. Enforcement of this policy will be the responsibility of supervisors. An e-mail reminder will be sent every six months to all PLUS users to change their password. Password changes will be monitored by the PLUS System Administrator.
- 3) The ability to void receipts is password protected. Security restricts users that have the ability to void transactions. The password has been provided to Supervisors of counter technicians.

Status:

- 1) Not implemented. CDRA has determined that implementation is not cost beneficial.
- 2) Implemented.
- 3) Partially implemented. CDRA has determined that password protection is appropriate mitigation control.

COUNTY OF PLACER

PRIOR YEAR MANAGEMENT COMMENTS AND RECOMMENDATIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2008

PROCUREMENT PROCESS

Condition:

Procurement procedures are an important internal control function of the County's purchasing practices. While reviewing and testing the County's procurement procedures, we selected a sample of contracts entered into that were greater than the County's bid threshold. These contracts were examined to ensure that contract bidding policies were followed when required. In one instance we noted that a department initiating a contract obtained approval from the Board of Supervisors office directly without going through the Procurement Services Department as required by the County's bidding policies. Additionally, several of the contracts examined were not required to be processed through the County bidding procedures; however, documentation to support this conclusion was not maintained by the Procurement Services Department or the departments initiating the contracts.

Recommendation:

We recommend that the Procurement Services Department reiterate and enforce the County's procurement policies and contract bidding procedures when required. This is necessary to ensure the County's adopted internal control policies are properly followed.

Additionally, we recommend that the Procurement Services Department maintain documentation when it is determined that bidding procedures are not required to be followed for a particular contract. Maintaining documentation to these conclusions eliminates confusion and supports that the contract has been properly authorized.

Management Response:

The County Executive Office's office concurs that an oversight was made on one contract. The Procurement Services Division is not staffed to conduct the competitive process for every County contract. It is common and accepted practice for the Departments of Public Works, Facility Services, Health and Human Services, the County Executive Office and others to seek competitive bids or proposals in accordance with Chapters 3 through 5 of the Purchasing Policy Manual, and occasionally to prepare contracts that are exceptions to competitive bidding in accordance with Chapter 1.3 of the Purchasing Policy Manual. In these cases, Department heads must, in accordance with Chapter 2 of the Purchasing Policy Manual, obtain approval from the Board of Supervisors to sign and execute the resulting contracts. The Procurement Services Division offers assistance on these competitive processes and provides advertising services to meet the requirements of the Purchasing Policy Manual, Chapter 5.

In accordance with the audit's first recommendation, the Procurement Services Division conducts departmental training sessions when possible. In the past year, the Purchasing Manager and Senior Buyer conducted three of these two-hour departmental training sessions (HHS, Planning and Building). In addition, the Purchasing Manager conducted twenty-six training sessions that provided extensive training on County purchasing and credit card policies to all three hundred ninety County Credit Card Holders.

COUNTY OF PLACER

PRIOR YEAR MANAGEMENT COMMENTS AND RECOMMENDATIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Additionally, when violations of the Purchasing Policy become known to the Purchasing Manager, he will determine whether to confirm the purchase (Confirming Purchase Order) or to direct the appropriate department to take a request to the Board of Supervisors to approve the unauthorized purchase after the fact. In the past year, four departments have been required to seek Board approval to pay invoices that resulted from gross Purchasing Policy violations.

- When the Procurement Services Division processes a contract that does not require bidding in accordance with Chapter 1.3 of the Purchasing Policy Manual, the applicable sub-section of Chapter 1.3 will be noted in a Buyer's Memo in the contract file, or in the Performance Accounting System Notepad for the Purchase Order, Blanket Purchase Order or Contract. This process is in accordance with the Audit's second recommendation. We agree that County departments should also document all decisions regarding competition and will include this in future training agenda.

Status:

Implemented.

EMERGENCY RELIEF FOR FEDERALLY OWNED ROADS - DAVIS BACON ACT

Condition:

The Davis-Bacon Act requires an entity receiving federal assistance funds for construction projects in excess of \$2,000 to monitor contractors and sub-contractors to ensure that laborers and mechanics are being paid the federal prevailing wage established for the locality of the project as established by the U.S. Department of Labor. During our review of certified payroll records for the labor costs charged to the Emergency Relief for Federally Owned Roads program, we noted that in monitoring the labor rates the County was testing the certified payroll records based on State prevailing wages rather than Federal prevailing wages. The project was originally to be funded with State grants but the funding source changed to federal when it became available. Consequently, if there are job classifications that have a federal wage rate that is higher than the State rate, it is possible that those job classifications were paid the incorrect rate.

Recommendation:

We recommend that should there be a similar occurrence in the future, the County retest the certified payroll to ensure that wage rates meet federal guidelines.

COUNTY OF PLACER

PRIOR YEAR MANAGEMENT COMMENTS AND RECOMMENDATIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Management Response:

The Department of Public Works acknowledges that the certified payroll records were verified against the State prevailing wage rates. This project was an emergency slide repair project that restored the main access route to the community of Foresthill. At the time the project was bid and awarded, federal funding had not been authorized for this repair work. The authorization was not received until the project was under construction and the bid documents had already been drafted as if we were going to be funding the project with local funds and no federal funding was going to be involved. We did not issue a contract change order to include federal prevailing wage rates as part of the construction contract once the federal funding was authorized since the State prevailing wage rates were equal to or greater than the federal prevailing wage rates at the time. However, in the future, we will make certain to incorporate the federal prevailing wage rates whenever federal funds become involved in a project.

Status:

Implemented.

SECTION 8 HOUSING VOUCHER PROGRAM – WAITING LIST

Condition:

Except as provided under federal regulations 24 CFR section 982.203 (Special admission [non-waiting list]), all families admitted to the section 8 program must be selected from the waiting list. Selection from the waiting list generally occurs when the County notifies a family whose name reaches the top of the waiting list to come in to verify eligibility for admission. The County has not added anyone to the waiting list since 2001.

Recommendation:

We recommend that the County maintain and update the required waiting list.

Management Response:

Placer County opened the Section 8 Housing Choice voucher waiting list on October 2, 2007 and closed it on October 12, 2007.

Status:

Implemented.

