

## Oxnard Treasury-related audit findings status

(Received from Phil Molina 3-16-17)

-----Original Message-----

From: Molina, Phillip <[phillip.molina@oxnard.org](mailto:phillip.molina@oxnard.org)>

To: CA Maven <[microcapmaven@aol.com](mailto:microcapmaven@aol.com)>

Sent: Thu, Mar 16, 2017 6:17 pm

Subject: Re: CONFIDENTIAL ATTORNEY-CLIENT COMMUNICATION Re: A VOID OF SOURCE DOCUMENTS

George,

To my knowledge and after that last review with Finance and the auditors concerning what was submitted to the auditors all of our progress in the Treasurer's Department have been accepted by the auditors.

FYI, this is the list of my responses to the auditor's findings that relate (directly or indirectly) to the Treasurer's Department.

Hope this helps.

City Manager's Team:

These are some of the findings among the 111 that the auditors identified in the June 2015 and June 2016 audits, which appear to impact the City Treasurer's Office. I have appended in blue my responses to those findings and am forwarding them to the Auditors directly for their response.

1.

**Finding Number 2014-001**

Condition

The City has formal compensated absences policies regarding the maximum amount of hours that an employee can accrue and the annual maximum amount of hours that an employee can cash out. However, we noted several instances where employees had hours accrued that exceeded the maximum limits stated in the policies.

**City staff in the Treasurer's office are aware of the limitations and alternatives that the City and unions have agreed to follow.**

2.

**Finding Number 2014-002**

Condition

We noted that the bank reconciliations reconciled the balances of cash and investments held in financial institutions to the City's Treasurer Report. However, the reconciling items noted in this reconciliation were not posted to the general ledger which resulted in a significant variance between the balances reported the City's Treasurer Report and the general ledger.

The Treasurer's Department on a monthly basis prepares the bank verification where we make sure all the deposits have been recorded. Staff also verifies that all the disbursements including checks, warrants, ACH transfers and EFTs are posted in the bank statement. If either deposits or any disbursement is not posted staff prepares a worksheet showing those amounts, which they will reconcile in the next month's bank statement, and staff forwards them to the Finance Department. It is the Finance Department staff than that uses the worksheet and the bank statements provided to them by the Treasurer's staff to reconcile that number to the general ledger accounts. The Treasurer's Department is one month behind with its verification of the bank statements.

3.

**2015-015 MW** The City has ineffective controls affecting some key financial reporting processes including weaknesses in transactional and supervisory reviews over cash, receivables, capital assets, and construction in progress, accounts payable, and long-term liabilities.

**The City Treasurer's Department received a surprise field audit review this year by the auditors. The auditor looked at the cash handling, safekeeping, reconciliation of cashier drawers, and the transfer of the daily cash to the Security guards. We were informed that the staff performed the necessary cash function properly and that there was double custody of the cash at all times.**

4.

**2015-024 MW** Cash with fiscal agents accounts were not reconciled monthly to the general ledger.

The bank reconciliation process should include reconciling cash with fiscal agents.

**This is the responsibility of the Finance Department as the City Treasurer has no access to the cash with the fiscal agent(s), who generally are 3rd party holders of the required sequestered cash for the bonds that the City issued.**

5.

**2015-028 MW** Daily cash receipts posting to the general ledger were not reconciled to cash entries and to bank activities. Therefore deposits in transit were not tracked for bank reconciliation. The finance department management needs training from current software provider on how the cash related modules should be interacting, reports used to tie out the modules, and if there are keys that links those modules together.

**The Treasurer's staff prepares the cash deposits, which automatically generates and interphases with the HTE system. The cash deposit receipts are prepared daily and submitted to the Finance Department. With the staff shortage the submittal of the daily receipts might be**

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**days behind. It is the Finance Department that matches the HTE cash accounts to the daily bank deposits and disbursements.**

6.

**2015-029 SD** Pooled cash batches are a summary of various batches by module. There are multiple batches per modules: accounts payable, accounts receivable, payroll, and cash receipts batches. Newly-hired finance management have not found logic of how system entries are batched together. Current batching is very labor intensive to review.

Finance department staff needs training from current software provider on how the cash-related modules should be interacting, reports used to tie out the modules, and if there are keys that links those modules together.

**Not a Treasurer's Department matter.**

7.

**2015-035 MW** There was no supervisory review of EFT entries.

Payment/posting against cash had been inconsistent and made to the wrong accounting period.

Staff needs additional training in handling EFTs and postings should be reviewed regularly. The payment period needs to be distinguished from invoice period.

**Posting against cash is performed in the Finance Department. In the Treasurer's Department t**

**here is supervisory review of EFT's before they are disbursed, except for payments to Delta Dental and CalPERS, which are issued directly by the Finance Department staff before the City Treasurer has t**  
**he**

**opportunity to review them. All other ACH and EFT transactions are performed under a double custody method where no one person can initiate and complete an ACH or EFT transaction alone. And only 4 people in the Treasurer's Department know the security codes, again except for the Delta Dental and CalPERS wires. The Treasurer's staff submits the source documents for every entry into the system for ACHs and EFT transaction directly to the Finance Department.**

8.

**2015-038 MW** CDC checks and deposits were coded to the wrong pooled cash fund (997 – general vs. 998 – CDC).

Review HTE report against bank EFT posting by accounts payable (AP) personnel needs to be done monthly.

**This may well be part of the reason for the excess amount in the CDC checking account. However, when Finance or Successor Agency receives and submits checks for the CDC, and do not clearly identify in the paper worksheet the proper bank account it will be deposited into the account listed on the paper worksheet. We have now instructed Finance Staff and Successor Agency staff to bring any deposits for the Successor Agency (CDC) to the back room for special handling to assure that the proper account number is used.**

9.

**2015-039 MW** Recording of CDC loan principal repayment wire to the City was inadvertently reversed in the general ledger causing City and CDC pooled cash funds to be out of balance. Journal voucher has been prepared to correct. Review HTE report against bank EFT posting by accounts payable (AP) personnel needs to be done monthly.

**See response above.**

10.

**2015-040 SD** A separate bank account was maintained for CDC Successor Agency. However, in collapsing of prior RDA funds (421-425) into new Successor Agency fund (429), an error in the journal voucher left balances in City pooled cash fund (997) per general ledger. After further investigation, adjustments had been made to correct the error.

Joint review of prior cash transfers between the City and CDC Successor Agency is needed. Non-standard journal entries especially those affecting cash transactions between City and CDC Successor Agency should be reviewed by CFO, not only to evaluate the accounting treatment, but also to consider compliance with state laws and regulations affecting former RDAs. The Economic Development Department head should be consulted as appropriate.

**See response above.**

11.

**2015-041 SD There were no procedures in place to perform internal audits of cash receipts in various locations within the City organization.**

**Random audits of cash receipts should be performed.**

**The Treasurer's Department staff performed a surprise cash reconciliation audit of the MRF and provided guidance and direction to the Department Head, supervisory staff and line staff and suggestions for improving the cash controls.**

It was suggested that daily cash pickup instead of once a week pick up by security should be implemented to mitigate potential for loss. Initial steps have begun for example the City Clerk old unbound cash receipts have been replaced with bound pre-numbered receipts. The Treasurer's have reviewed the petty process in many departments and will continue to provide training for all other departments this year.

12.

**2015-042 SD There are no written procedures in place for reconciliation of daily cash receipts.**

**Cash receipts should be reconciled to general ledger postings daily.**

The Treasurer's staff is in the process of preparing written procedures for many of the daily functions performed by staff. There is a cash management manual, which is being updated to conform with City Codes and State law. Staff follows the procedures that have been handed down over the years and will be working with other departments and consultants to prepare written instructions of the function performed.

13.

**2015-043 MW** The process of preparing, reviewing, and approving journal entries was not properly designed. The CFO or acting CFO was responsible to review hundreds of journal entries, many of them affected cash, which rendered the control ineffective. The accounting system is not set up to record standard recurring entries.

Journal entries that affect cash should be thoroughly reviewed. However, the review process should be designed so that there are various levels of review. Recurring journal vouchers pre-approved via an amortization schedule should not need approval by CFO. In addition, monthly journal vouchers should be standardized and supporting documentation should be maintained.

**The City Treasurer is working with the CFO to establish the proper controls by segregating the approval from the authority to disburse money so that an important separate level of review happens, before it impact the journal entries.**

14.

**2015-045 MW** Journal entries were posted to CDC Successor Agency Fund cash without adequate supporting documentation.

Journal entries should be reviewed along with appropriate documentation. Sufficient documentation should be maintained with the journal entry voucher.

**See response above.**

15.

**2015-047 MW** Journal vouchers and accounts payable check registers are not separated by type of transactions in the pooled cash general ledger detail. Both are currently shown as type "AJ" and description "Journal Summary". Miscellaneous journal vouchers review for accuracy is not efficient.

Obtain technical support from 'HTE' to see if there are options or other processes to separate AP check registers and journal vouchers by type.

**A Finance Department issue.**

16.

**2015-050 SD** Cash and investments were not reported at fair market value.

Fair value adjustments should be determined at least quarterly, included in the Treasurer's quarterly reports, and posted to the general ledger.

**The Treasurer's office**

**produces monthly investment reports to Council, staff and Finance Department which shows the**

**fair market value amount for each investment, which is provided by**

**AvantGard APS2 (**

**HTE**

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**Sungard. That information is provided to the Finance Department monthly when the investment report is prepared. However, due to shortages in staffing that report is 2 months behind.**

**Items dealing with "wire"**

17.

**2015-030 SD** Check numbers were not in sequential order (Duplication/Skipping). Problem stems from manual assignment of EFT check numbers.

The Treasurer's Office should assign sequential control numbers to each wire. The Finance Department should enter the information into the accounting system.

**The Treasurer's Department**

**forwards the source documents for each ACH and EFT directly to the Finance Department. The Finance Department assigns check numbers**

**to each ACH and EFT transactions for purposes of posting them into the general ledger.**

**Before the change, the Finance staff assigned check numbers based on the list of unused check numbers, which could made it appear as though an ACH or EFT was issued earlier than it actually was.**

For example, if 'check' numbers 5,6,and 7 were used on Feb 13th, and the next check run used 'check' numbers 10,11, 12 on Feb 15th, the unused numbers 8 and 9 would be used for 2 ACH transaction on February 16th making it appear as though the ACH transaction were out of order.

The Treasurer has suggested that any check numbers that are not used in the proper sequence need to be VOIDED so that the HTE ledger reflects the voided check and thus prevents the use of stale numbers to be used. Since the check number is imprinted on the blank check stock at the same time as the body of information is printed the check sequencing issue can be prevented as long as staff voided unused stale check numbers.

18.

**2015-032 SD** The Treasurer did not review all supporting documentation prior to signing the check or wire transfer authorization.

The Treasurer or designated individual in the Treasurer's Office should review all supporting documentation prior to signing the check or wire transfer authorization.

**The Treasurer is working with the City Manager, Assistant City Manager and CFO to develop a good working arrangement that allows for the Treasurer to review ALL SUPPORTING DOCUMENTATION prior to signing the checks, wires, and ACH transactions.**

19.

**2015-033 SD** Proper documentation of wire transfers was not maintained by the Finance Department.

The Finance Department should maintain a complete copy of the wire transfer authorization package, including all supporting documentation.

**The Treasurer's staff provides Finance with source documents for each wire, EFT and ACH transaction.**

20.

**2015-034 SD** There were no written procedures related to electronic payments and responsibilities of the requesting department, Treasurer's Office, and Finance Department are not clearly defined. The Treasurer's Office did not have a current list of authorized signers.

The Finance Department should review the EFT payment process to improve the current procedures. After approval by appropriate departments, all EFTs should be received by the Finance management. Finance management will review for proper department approvals, general ledger coding, and supporting documentation (including budget support). Finance management will

forward to Treasurer's Office for disbursements. No department should send wire requests directly to the Treasurer's Office.

**There are specific written directions and instructions by Bank of America for handling ACH and EFTs in the City Treasurer's Office and online. The instructions and computer system require a special key fob from 2 different people to access a randomly generated code to enter and a different code to complete each transaction as well as security codes to open access to the computer wire services. Except for Delta Dental and CalPERS, wires which are completed totally in the Finance Department all other ACH and EFTs must be processed with the two independent staff in the Treasurer's Department.**

21.

**2015-036 MW** Payroll wires recorded through a journal voucher covered two accounting periods.  
Split payroll journal voucher according to wire dates.

Items dealing with "treasurer"

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22.

**2015-025 MW** Bank accounts were opened without the Treasurer's Office's knowledge.  
Only the Treasurer should be allowed to open bank accounts on behalf of the City. All bank statements should be sent directly to the Treasurer's Office. The Treasurer's Office should review the bank statements, retain the original, and send copies to the personnel who prepares the bank reconciliation.

**The Treasurer's Department will be in possession of all the extra bank accounts by February 17th. We are allowing this extended number of days so that each bank account handler can receive the January bank statements to reconcile their accounts before we take possession. We have already taken possession of the Recreation Department savings account. The only other exception are the 3 RaboBank bank accounts. There is a final meeting scheduled for Tuesday the 14th where the Culteral**

**Community Services Director, City Attorney, City Auditors, City Treasurer, CFO and staff will review the documents and determine who does the money in those bank account belong to. After which a process will be fixed for correcting any problem with the three bank accounts.**

23.

**2015-026 SD** Finance department did not have access to complete

monthly bank statements or complete outstanding checklists for all accounts.

The Treasurer's Office should forward copies of all bank statements to the Finance Department. All back-up documentation used in reconciliations prepared by the Treasurer's Office and other departments, i.e., outstanding checklists and deposits in transit listings, should be provided to the Finance Department.

**One year ago, the Treasurer's Department provided the Finance Department management staff with access to the City's bank account statements online. The Treasurer's staff is one month behind in verifying the bank statements. We are currently completing the December 2016 bank verification. When we complete each verification we forward the statement (copies) along with our worksheet and other source documents to the Finance Department. Once we get the staffing we need, it is expected that bank verification will be done within 2 weeks of receiving the statement from the banks.**

**24.**

**2015-027 SD** The Finance Department did not have access and history of prior reports used for reconciliation. All processes and reports needed for the reconciliation process had to be discovered and requested by finance management. Finance manager needs to have a full understanding of all Treasury activities to assess if there are any procedures or reporting that can be used to make the monthly bank reconciliation more efficient across departments. The Finance Department and Treasurer's Office should establish procedures to enhance cooperation.

**Treasurer's staff and Finance Staff work closely together very well multiple times each week. We look forward to more positive interaction between staff and the cross training that comes with knowing each department better.**

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**2015-049 SD** The Treasurer's Office did not maintain a complete and accurate Treasury ratings report.

Treasury ratings should be monitored to comply with investment policies. The Treasurer's Office should prepare the report quarterly.

**Since December 2016, the Treasurer has proper ratings for every investment that needs a rating. Instruments of the United States 'Treasuries'**

do not get a rating because they are secured by the full faith and credit of the United State Government. There may be times when a GSE (U.S. Government sponsored Enterprise), an agency instrument, has only one rating company provide a rating. There is no law that requires a government to pay the cost of more than one rating company. On occasion there will be an instrument with only one rating from either Fitch, S&P, Moody's or F  
DIC.

CDs are purchased from time to time, and the City purchases a face value of less than \$245,000 so that the both the premium and earned interest is covered by FDIC.