

AUDITOR-CONTROLLER/ TREASURER/TAX COLLECTOR



COUNTY OF SAN BERNARDINO

- 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830
- 172 West Third Street, First Floor
San Bernardino, CA 92415-0360 • (909) 387-8308 • Fax (909) 387-6716

LARRY WALKER
Auditor-Controller/
Treasurer/Tax Collector

March 6, 2014

John McMahon, Sheriff-Coroner/Public Administrator
655 East Third Street
San Bernardino, CA 92415-0061

**SUBJECT: AUDIT OF SHERIFF-CORONER/PUBLIC ADMINISTRATOR INTEREST
 INCOME**

Introductory Remarks

In compliance with Article V, Section 6, of the San Bernardino County Charter and County Policy 02-02 entitled Internal Operational Auditing, we have completed an audit of the office of the Sheriff-Coroner/Public Administrator (Public Administrator) to determine its compliance with Probate Code Section 7642 (b). We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

Background

One of the primary functions of the office of the Sheriff-Coroner/Public Administrator (Public Administrator) is to administer decedents' estates if no personal representative has been appointed. Administration of decedents' estates includes collecting and safeguarding assets, paying debts based on the ability of the estate to pay, and distributing remaining assets to those legally entitled.

The Public Administrator Trust Fund, with a balance of \$3.3 million as of October 15, 2013, is pooled with monies held by the County Treasurer on behalf of the County, school districts, community college districts, and certain special districts within the County; as such, the fund receives interest apportioned by the County Treasurer on a quarterly basis.

Objectives, Scope and Methodology

Our overall objective was to determine whether the office of the Sheriff-Coroner/Public Administrator (Public Administrator) is transferring the residual interest from money held in the trust fund to the General Fund in accordance with California Probate Code Section 7642 (b). We reviewed the interest transactions and investment documentation for the period of July 1, 2011 through June 30, 2012. Our audit procedures included reviewing supporting documentation and interviewing Public Administrator staff directly involved in the administration process to gain an understanding of how the revenue procedures are performed.

Conclusion

As a result of our analysis and tests performed, we concluded that the Public Administrator should have transferred the residual interest from money held in the trust fund to the general fund. We also determined that the trust fund had not been reconciled to the Public Administrator's records during the audit period.

We have listed our observations and our recommendations for improvement in the Findings and Recommendations section of this report.

We sent a draft report to the Public Administrator on January 14, 2014 and discussed our observations with management on January 21, 2014. The Public Administrator's responses to our recommendations are included in this report.

Findings and Recommendations

Finding 1: The Sheriff-Coroner/Public Administrator should transfer excess interest into the General Fund.

According to Probate Code 7642 (a), the Public Administrator must credit each estate with the highest rate of interest or dividends that the estate would have received if the funds available for deposit had been individually and separately deposited. Probate Code 7642 (b) continues that any interest or dividends credited to the account of the Public Administrator in excess of the amount credited to the estates per subdivision (a) shall be deposited in the County General Fund. In the process of conducting our review, we found that there were no transfers of interest from the Public Administrator Trust Fund to the County General Fund. Per the Public Administrator, the Trust Fund had accumulated over \$46,000 in excess interest.

The Public Administrator retained the excess interest and used it as a source from which to pay time sensitive debts (such as funeral costs) of decedents whose assets were pending liquidation rather than using it to support general County operations.

Recommendation:

The Public Administrator should transfer the total amount of excess interest currently retained in the Trust Fund to the County General Fund and make quarterly transfers of future excess interest.

We recommend that the Public Administrator use general fund appropriations to pay time sensitive debts (such as funeral costs) of decedents whose assets are pending liquidation. The amount paid would be a loan to the estate. The Public Administrator should ensure that:

- The loan transaction is recorded in the estate's account in PACMS.
- A GRC code, unique to each estate, is used to identify payments made on behalf of the non-solvent decedent in the County's Financial Accounting System (FAS).
- Once the estate is solvent, the amount loaned is returned to the General Fund using the unique GRC code and the loan is marked as repaid in PACMS.

Management's Response:

All excess interest will be transferred to the Public Administrator General Fund quarterly. When additional funds are needed by individual estates to pay for required expenditures, fund advances will be made to the estate accounts for the required amounts. The monies loaned will be tracked by using GRC codes in FAS and as a payable in PACMS with a unique code. When estate assets are liquidated, the loans will be repaid back to the General Fund immediately prior to any distributions of assets.

Auditor's Response:

The Public Administrator's actions will correct the deficiencies noted in the finding.

Finding 2: The Public Administrator Trust Fund should be reconciled to Public Administrator records on a quarterly basis.

We found that reconciliations of the trust fund were not performed during the audit period. According to the County Internal Controls and Cash Manual, upon receipt of the FZ403 report from ATC each month, the Public Administrator must reconcile it to the Public Administrator's records and all open trust cases must be reviewed at the time of reconciliation to determine whether the trust money can be disbursed.

The monthly reconciliations were not done because the Public Administrator staff was not aware of the Internal Controls and Cash Manual requirements to reconcile trust accounts monthly. Without monthly reconciliations, there is a heightened risk of fraud, theft, and the disbursement of funds in a non-timely manner and/or in excess of a specific estate's balance.

Recommendation:

We recommend that management have the trust fund reconciled upon receipt of the Trust and Agency Detail Listing by General Reporting Category (FZ403 Report) each month. Additionally, management should ensure reconciliations prepared by staff are reviewed, dated and signed by an employee of a higher-ranking job code.

Management's Response:

A reconciliation of the Public Administrator estate balances to the NXA cash balance will be completed and submitted quarterly to Sheriff's Administration.

Auditor's Response:

The Public Administrator's actions will correct the deficiencies noted in the finding.

Thank you very much for the cooperation extended by your staff during the course of this audit.

Sincerely,

Larry Walker
Auditor-Controller/Treasurer/Tax Collector
San Bernardino County

By:  _____
Denise Mejico
Chief Deputy Auditor

LDW:DLM:DML:oac

Quarterly copies to:
Board of Supervisors (5)
Chief Executive Officer (2)
Grand Jury (2)
Auditor-Controller Audit Committee

Date Report Distributed: 3.10.14