

**INTEROFFICE MEMO**



**DATE** January 12, 2011

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**FROM** **LARRY WALKER**  
Auditor-Controller/Treasurer/Tax Collector

**TO** **GREG DEVEREAUX, CHIEF EXECUTIVE OFFICER**  
County Administrative Office

**SUBJECT** **REVIEW OF DEPARTMENTS' YEAR-END ACCRUAL PACKAGES**

The table below and accompanying legend summarizes financial reporting deficiency areas by department for the 2009-10 fiscal-year-end closing process.

	County Fire	Special Districts	Workforce Development	Public Health	Public Works	Land Use Services	Architecture and Engineering	Airports	Sheriff/Coroner/Public Administrator	Behavioral Health	Human Services Administration
1,2		X	X		X						
3		X	X	X	X	X	X	X	X	X	X
4	X	X	X	X		X	X			X	X
5		X		X		X				X	X
6	X	X			X	X					X
7				X					X		
8	X	X	X	X	X	X	X	X	X	X	X

During review of the accrual packets, the following problems were encountered:

1. Accrual of expenditures for goods or services received after June 30
2. Accrual of expenditures based on the remaining encumbrance amount (encumbrances are not expenditures)
3. Missing or incomplete supporting documentation
4. Supporting documentation not matching accrual amounts
5. No explanation of the methodology used for estimated amounts
6. Incorrect accounting code used on accrual form
7. American Recovery and Reinvestment Act (ARRA) org codes not used for accruals involving ARRA funding
8. Other errors (i.e. missing/wrong accrual form, accrual form not completed/signed)

These deficiencies affect the County's financial reporting, compliance, and operations. The deficiencies indicate a need for management to evaluate its control structure to ensure that management communicates its goals to comply with fiscal-year-end closing processes clearly, frequently, and broadly throughout the department and assign knowledgeable,

experienced staff with governmental accounting skills to review and monitor the departments' internal processes. Avoidable costs and time delays result because of tardy, inaccurate, and incomplete fiscal-year-end accounting information submissions that create delays and repeated rework of financial reports by internal staff and external auditors. Services and operations are degraded over the same period as productive activities are set aside to engage in extra communication, research, rework, and validation to ensure the County's accounting records and audited financial statements are accurate. Misstated financial results and resources distort budgetary and financial results and available resources for planning purposes.

#### Background

In June of each year, the General Accounting Section of the Auditor-Controller/Recorder/Treasurer/Tax Collector (ATC) prepares a 'Year-End Closing Manual' to provide County departments with instructions on how to prepare their year-end accrual package. The General Accounting Section also provides year-end closing process training sessions for departments to attend. Using the 'Year-end Closing Manual', departments prepare their year-end accrual package. Once completed, a copy of the package is mailed to ATC and the original is mailed to their departments' CAO Analyst for review and approval. Since incorrectly prepared packages increase the risks relevant to the accuracy of the County's financial statements, ATC reviews each department's package when it is received.

For the fiscal year ending June 30, 2010, the General Accounting Section used the following criteria to assess the level of risk associated with each year-end accrual package:

- Number of accounting transactions (High/Medium/Low)
- Complexity of accounting transactions (High/Medium/Low)
- Revenue source primarily coming from state/federal agencies (Y/N)
- Inadequate or insufficient supporting documentation submitted in the past year (Y/N)
- Inadequate assembly of year-end accrual package or lack of compliance with the year-end closing instructions (Y/N)

Using these criteria, County Fire, Special Districts, Workforce Development, Public Health, Public Works, Land Use Services, Architecture and Engineering, Airports, Sheriff/Coroner/Public Administrator, Behavioral Health and Human Services Administration were determined to be high risk. The Internal Audit Section (IAS) of the ATC performed the initial review of the packages of the high risk departments, except for County Fire. The General Accounting Section of the ATC reviewed the accrual packets of County Fire and the other County departments.

As shown in the chart on the previous page, departments had several problems within their accrual packets. Following communication with the departments' staff and CAO Analysts, these problems were resolved. The General Accounting Section will discuss the problem areas in the year-end accrual training sessions. Each County department should send at

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least one representative to the training. Additionally, the departments should continually monitor their accrual preparation and review process. It is evident that many departments do not adequately review the accrual packets prior to submittal which may indicate a poor tone at the top within some County departments.

Any questions about this memo should be directed to Mary Barber, Internal Audits Manager, at (909) 386-8860.

cc: Dan Wurl, Fire Chief/Fire Warden  
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