

# County of San Bernardino

Auditor-Controller/Treasurer/Tax Collector  
Internal Audits Section

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**Sheriff-Coroner**

**Public Administrator:**

**Interest Income Follow-Up Audit**



**Oscar Valdez**

**Auditor-Controller/Treasurer/Tax Collector**

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# Auditor-Controller/Treasurer/Tax Collector

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## *Mission Statement*

*The San Bernardino County Auditor-Controller's Office is committed to serving our customers by processing, safeguarding, and providing information regarding the finances and public records of the County. We perform these functions with integrity, independent judgment, and outstanding service. We are accurate, timely, courteous, innovative, and efficient because of our well-trained and accountable staff.*

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**April 13, 2016**

**John McMahon, Sheriff-Coroner/Public Administrator**

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

In compliance with Article V, Section 6, of the San Bernardino County Charter and County Policy 05-20 entitled Internal Operational Auditing, we have completed a follow-up audit of the Sheriff-Coroner/Public Administrator Interest Income for the period of March 6, 2014 through February 19, 2015. The objective of the follow-up audit was to determine if the Department implemented the recommendations contained in the prior audit report. We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

We have provided a status of the audit findings identified in the original audit report, *Audit of Sheriff-Coroner/Public Administrator Interest Income*, issued on March 6, 2014. The Department partially implemented the recommendations from the original audit report, after we contacted the Department to begin this follow-up audit.

We sent a draft report to the Department on January 26, 2016. The Department's responses to the current status of our recommendations are included in this report.

We would like to express our appreciation to the personnel at the Department who assisted and cooperated with us during this engagement.

Respectfully submitted,

**Oscar Valdez**

Auditor-Controller/Treasurer/Tax Collector  
San Bernardino County

By: \_\_\_\_\_



**Denise Mejico**  
Chief Deputy Auditor

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# **Sheriff-Coroner/Public Administrator: Interest Income Follow-Up Audit**

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## Objective and Scope

The objective of this follow-up audit was to determine whether the Department implemented the recommendations contained in the prior audit report, *Audit of the Sheriff-Coroner/Public Administrator Interest Income*, issued on March 6, 2014.

Our audit examined the accounting records relating to the Department's Public Administrator excess interest income for the period of March 6, 2014 through the first date of fieldwork, which was February 19, 2015.

## Methodology

In achieving the audit objectives, the following audit procedures were performed including but not limited to:

- Interviews.
- Examination of original source documents.
- Review of last audit or permanent file.
- Review of pertinent documents.



### **Prior 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 the Public Administrator Case Management System (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.

#### **Current Status: Partially Implemented**

The Internal Audits Section contacted the Department to begin fieldwork for the follow-up Audit in February 2015. At the time of fieldwork the Department



provided Auditors with three unapproved Request for Transfers all dated February 2015. The transfers were subsequently approved and processed. Since the original Audit report issued March 6, 2014, these three transfers have been the only transfers created by the Department to move the excess interest retained in the Department's Trust Fund to the County General Fund.

Based on the data provided by the Department, the recommendations of the prior audit were implemented after the Department was contacted by the Auditor to schedule the follow-up audit.

### **Management's Response:**

Quarterly transfers of interest are being submitted and the last quarterly transfer was generated in January 2016 for the quarter ending December 31, 2015. New procedures are being implemented to ensure that this is performed quarterly when the apportionment is received from the County Treasurer. All estates will be reviewed on a monthly basis and a transfer of funds to cover the negative balances and a worksheet will be maintained for tracking the advances and reimbursements. The reimbursements will also be requested at that time for the estates that have funds to pay back the advances. At year's end, all funds owed by estates expected to have funds in the future will be accrued to ensure that the department does not incur the expenses.

### **Auditor's Response:**

The Department's planned actions will correct the deficiencies noted in the finding.

### **Prior 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.

### **Current Status: Partially Implemented**

The Internal Audits Section contacted the Department to begin fieldwork for the follow-up Audit in February 2015. At the time of fieldwork the Department provided Auditors with Department's reconciliation between the County's Financial Accounting System (FAS) and the Public Administrator Case Management Systems (PACMS) dated February 10, 2015. This reconciliation was not reviewed, dated or signed by an employee of a higher ranking job code. This reconciliation has been the only formal reconciliation completed by the Department since the original Audit Report issued March 6, 2014.

Based on the data provided by the Department, recommendations of the prior audit were partially implemented after the Department was contacted by the Auditor to schedule the follow-up audit.

### **Management's Response:**

The division had to have modifications done on the Public Administrator Case Management System (PACMS) in order to be able to capture all the balances for the estates and ensure an accurate reconciliation. This modification was put in operation on January 29, 2016 and the first reconciliation was completed between the NXA fund and the PACMS as of February 2, 2016. This reconciliation will be performed monthly from this time forward to ensure that the information on the county trust fund and the Public Administrator system are accurate. The reconciliation will be submitted to the Deputy Director of the division for his review and signature and then filed with all the supporting documents. All necessary adjustments will be tracked and completed after the 3rd Quarter reconciliation is completed. We are also in the process of creating new procedures to make sure that the data posted into the client accounts and the trust fund are accurate such as the reconciliation of expenses and deposits using PACMS reports and FAS using new GRC codes. We will also implement an auditing system to ensure that client accounts are reviewed for accuracy during the year and before the case is closed by the courts.



**Auditor's Response:**

The Department's planned actions will correct the deficiencies noted in the finding.