



Bill Perrone, CIA  
Internal Audit Manager

June 3, 2008

Assignment 10180

To: Distribution List

Subject: Internal Audit Report - Bank Reconciliations – Preparation and Resolution Timeliness

We have completed an audit of the bank account reconciliations including timing and resolution of reconciling items. We conducted the audit from November 2007 through March 2008.

We thank the employees from the various departments for their cooperation. Their assistance contributed significantly to the successful completion of the audit.

Respectfully submitted,

(signatures on file)

Vinod K. Sharma  
Controller-Treasurer

Bill Perrone, CIA  
Manager, Internal Audit

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Sandra Dalida, Chief Financial Officer, Social Services Agency  
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Board of Supervisors  
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## **Internal Audit Report**

### **Bank Reconciliations – Preparation and Resolution Timeliness**



Assignment 10180  
June 3, 2008

# Table of Contents

	<b>Page</b>
<b>Executive Summary .....</b>	<b>1</b>
<b>Conclusion .....</b>	<b>1</b>
<b>Audit Objective .....</b>	<b>1</b>
<b>Audit Scope.....</b>	<b>1</b>
<b>Audit Background .....</b>	<b>1</b>
<b>Findings and Recommendations.....</b>	<b>3</b>
<b>1. Two Public Guardian cash sweep accounts’ balances do not link to valid general ledger accounts.....</b>	<b>3</b>
<b>2. For the Public Guardian’s December 2007 reconciliations, there is \$74,578 absolute value of unresolved differences exceeding 60 days. ....</b>	<b>3</b>
<b>3. For December 2007, two Public Guardian sweep reconciliations reported \$14,923 absolute value of unidentified differences. ....</b>	<b>4</b>
<b>Response from Public Guardian.....</b>	<b>5</b>

## Executive Summary

**Conclusion** In our opinion, except of the three bank accounts listed below, the audit verified that 1) bank reconciliations are being done for the latest month, 2) there are no unreconciled differences and 3) there are no reconciling items over two months old.

At July 31, 2007, the County was responsible for 58 disbursement bank accounts. Of these accounts, 17 were non-compliant at that time. By December 31, 2007, eight were brought into compliance, two had been closed, two are monitored by Internal Audit and the owner agency must report its progress to the Finance and Government Operations Committee, two remain non-compliant for legitimate business reasons and three Public Guardian accounts remain non-compliant. The Public Guardian accounts 1) fail to reconcile to a proper general ledger account, 2) have unreconciled differences and 3) have items over two months old. The details are explained in the findings listed below.

The Social Services Agency's Adult and Aging Services Department and the Public Guardian's Office are in agreement with all our findings and recommendations contained in this report.

**Audit Objective** The audit objective was to verify that 1) a bank reconciliation was done for the latest month, 2) there were no unreconciled differences and 3) there were no reconciling items over two months old.

**Audit Scope** The scope of the audit included:

- Verifying that all bank account reconciliations are current per the Controller-Treasurer's Cash Handling Policy and Procedures.
- Verifying that all bank accounts do not have any unreconciled differences and do not have any reconciling items over two months old.

**Audit Background** The County of Santa Clara is in the process of procuring its operational banking services from a bank that will better provide services to the County. To ease the transition, it is imperative that all bank accounts be properly reconciled by the time of transfer. We conducted this audit at the request of the former controller to identify those accounts that failed to meet the standards referenced in this audit's scope.

We conducted our audit in accordance with the Professional Practices Framework established by the Institute of Internal Auditors.

Details about our findings and recommendations are provided below.

(signatures on file)

Vinod K. Sharma  
Controller-Treasurer

Bill Perrone, CIA  
Manager, Internal Audit

Brian P. Mark, CIA  
Sr. Internal Auditor

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## Findings and Recommendations

### Finding 1

#### **Two Public Guardian cash sweep accounts' balances do not link to valid general ledger accounts.**

For December 2007, the SSA/SSI and E-Transfers sweep accounts fail to properly identify to a general ledger account. Since these are sweep accounts, by definition they should be cash general ledger accounts that have a zero balance on the general ledger and at the bank. The reconciliations both list general ledger account "2100320 A/P PAG Support and Care" in the header, which is not a cash account. The SSA/SSI Sweep does not identify the adjusted balance to any cash account. The E-Transfers sweep account identifies the adjusted balance as "imprest/petty cash"; however, the Public Guardian does not have an "imprest/petty cash" account recorded in the trust fund.

The current reconciliation format originated with previous Public Guardian staff employees. The newly appointed accounting manager is reviewing and revising this process.

Reconciling bank account balances to the general ledger enables the account owner to identify adjusting entries needed by the bank or by the account owner to properly report the cash balances. Additionally, dated transactions can be identified and corrected as needed. Adjusting the bank balance to an unknown amount reduces the reconciling entries' creditability.

### Recommendation 1

The Public Guardian's Office should revise these accounts' reconciliation formats to assure the reconciled balances agree or can be traced to an amount recorded in the general ledger. [Priority 2]

### Finding 2

#### **For the Public Guardian's December 2007 reconciliations, there is \$74,578 absolute value of unresolved differences exceeding 60 days.**

There are two Public Guardian bank accounts where the December 2007 reconciliations have unresolved differences of \$74,578 absolute value exceeding 60 days. The Trust Warrant account has warrants payable differences between the bank and general ledger totaling \$69,497 that exceed 60 days. Of that total, \$6,476 dates back to July 1998. In addition, the Public Guardian's SSA/SSI Sweep account has reconciling items totaling \$5,081 that exceed 60 days.

Since resolution of older items diminishes with time, these differences continue unchanged each month. The current manager is unaware of the causes at this time but has plans in place to bring the accounts current.

The Controller-Treasurer's cash handling policy manual requires resolution of bank-to-book differences within 60 days. Adherence to this policy helps assure the general ledger balances' reliability. Unresolved problems complicate the transition to a new operating bank. Removing the items exceeding 60 days would net to increasing the warrants payable by \$65,300.

**Recommendation 2.1** To correct the general ledger and to facilitate a smooth transition to the new operational bank, the Public Guardian should, after further research, adjust the general ledger to the current bank balance by removing all noncurrent identified differences. [Priority 2]

**Recommendation 2.2** For future unidentified transactions' timely resolutions, the Public Guardian should research these transactions when discovered. If a transaction cannot be resolved within 60 days and the likelihood of resolution appears remote, the Public Guardian should adjust the general ledger at that time. [Priority 2]

**Finding 3**

**For December 2007, two Public Guardian sweep reconciliations reported \$14,923 absolute value of unidentified differences.**

For Public Guardian, the SSA/SSI and E-Transfer sweep accounts reported unreconciled absolute value differences of \$9,006 and \$5,917, respectfully in December 2007. Of the total \$14,923 absolute value, there is \$9,442 (63.3%) that is dated December 2005 and prior. The current accounting manager is researching the nature of these items and plans to adjust the appropriate records as necessary.

The Controller-Treasurer's cash handling policy manual requires resolution of bank-to-book differences within 60 days. Adherence to this policy assures the general ledger balances' reliability and eases the transition to a new operating bank.

**Recommendation 3.1** The Public Guardian should proceed with adjusting the books and records as needed for the current unidentified differences. [Priority 2]

**Recommendation 3.2** To minimize reoccurrence, the Public Guardian should research reconciling items when discovered and adjust the books and records accordingly. [Priority 2]

# County of Santa Clara

Social Services Agency  
Department of Aging and Adult Services

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Bank Account Reconciliations

Page 5



## MEMORANDUM

June 2, 2008

To: Brian Mark, Sr. Internal Auditor

Cc: Bill Perrone, CIA, Manager, Internal Audit  
John V. Guthrie, Director, Finance Agency  
Lee Engle, PAG/C Accounting Manager  
Will Lightbourne, Social Services Agency Director

From: *Betty* Betty F. Mals, Acting Public Guardian  
Director, Department of Aging & Adult Services

**Subject: Findings of the Internal Audit Report**

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PAG/C Accounting Manager, Lee Engle, and I had an exit conference with Bill Perrone and Brian Mark to discuss the findings of the Internal Audit Report – “Bank Reconciliation Preparations and Resolution Timeliness” which was completed on April 25, 2008. We agree with the findings and recommendations contained therein. PAG/C is in the process of implementing all of the recommendations and expect to be in full compliance within a short period of time.

If you have any questions, please feel free to contact me at (408) 577-2626.

Thank you.