

LOS ANGELES COUNTY AUDITOR-CONTROLLER

Arlene Barrera
ACTING AUDITOR-CONTROLLER

Peter Hughes
ASSISTANT AUDITOR-CONTROLLER

Robert Campbell
DIVISION CHIEF

OFFICE OF COUNTY INVESTIGATIONS

April 16, 2019

Treasurer and Tax Collector **IMPROVEMENT OPPORTUNITIES NOTED DURING LIMITED REVIEW #2017-13727**



NUMBER OF RECOMMENDATIONS

PRIORITY 1

5

CORRECTIVE ACTION REQUIRED
WITHIN 90 DAYS

PRIORITY 2

0

CORRECTIVE ACTION REQUIRED
WITHIN 120 DAYS

PRIORITY 3

0

CORRECTIVE ACTION REQUIRED
WITHIN 180 DAYS



BOARD OF SUPERVISORS

Hilda L. Solis
FIRST DISTRICT

Mark Ridley-Thomas
SECOND DISTRICT

Sheila Kuehl
THIRD DISTRICT

Janice Hahn
FOURTH DISTRICT

Kathryn Barger
FIFTH DISTRICT

#2017-13727

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ARLENE BARRERA
ACTING AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-3873
PHONE: (213) 974-8301 FAX: (213) 626-5427

ADDRESS ALL CORRESPONDENCE TO:
OFFICE OF COUNTY INVESTIGATIONS
500 W. TEMPLE ST., ROOM 515
LOS ANGELES, CA 90012-3756

April 16, 2019

TO: Joseph Kelly
Treasurer and Tax Collector

FROM: Robert G. Campbell, Chief / *by A. Sendengeth*
Office of County Investigations

SUBJECT: **IMPROVEMENT OPPORTUNITIES NOTED DURING LIMITED REVIEW –
#2017-13727**

During a limited review at the Los Angeles County Treasurer and Tax Collector (TTC or Department), we noted areas where TTC can strengthen its internal controls over Public Administrator functions to improve accountability and security over cash marshaled during drayage operations. Please see Attachment I, Table of Findings and Recommendations for Corrective Action, for details of our observations and recommendations. The Auditor-Controller's follow-up process and internal control disclosures are included in Attachment II.

Review of Report

We discussed our report with TTC management. The Department's response (Attachment III) indicates general agreement with our findings and recommendations.

We thank TTC management and staff for their cooperation and assistance during our review. If you have any questions please call me at 213-893-0058, or your staff may contact Supervising Investigator Tim Takara at (213) 893-0800.

RGC:AMS:tt
IOR-2017-13727

Attachments

c: Arlene Barrera, Acting Auditor-Controller
Audit Committee
Audit Division

TREASURER AND TAX COLLECTOR
IMPROVEMENT OPPORTUNITIES NOTED DURING LIMITED REVIEW – #2017-13727

TABLE OF FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION					
	ISSUE	RISK	RECOMMENDATION	P ¹	SUMMARY OF RESPONSE
1	<p>Cash Handling: We found that Public Administrator (PA) staff did not follow TTC/PA cash handling policies in a recent drayage case. Specifically, they:</p> <ul style="list-style-type: none"> Did not immediately secure and count a large amount of cash found at a drayage site. Left cash unattended in a common area accessible to employees and contractors at the drayage site while performing other, lower priority tasks, and again when they left the site for lunch. Did not maintain dual custody over cash. The drayage team leader opened envelopes of cash by herself, without a witness. Did not count all of the cash. Drayage team members counted bands of cash which they assumed contained \$2,000 each, rather than counting each bill. The bank subsequently reported a \$300 shortage in the cash deposit. 	<p>Leaving cash unattended, not securing cash upon discovery, removing cash from a drayage site, opening/handling cash without a witness, and failing to count all cash marshaled at a drayage increases the risk of theft or loss, and compromises the integrity of PA operations. This prevents the PA from determining if all estate assets are properly accounted for, and diminishes public trust and confidence in the PA function.</p>	<p>TTC management ensure that all personnel assigned to the PA function are trained on and aware of policies and procedures for securing, counting, and handling cash and other valuables, including the requirements to immediately secure and count cash upon discovery, to always maintain double custody over cash, and that they have an affirmative responsibility to immediately report policy violations and discrepancies to TTC management.</p>	1	<p>Agree Target Implementation Date: June 30, 2019</p> <p>The department had trained staff on the policies. However, staff did not comply with the policies.</p> <p>To raise the awareness of policies and procedures (P&Ps) in this area and others, the department will constitute a quarterly P&P Reminder, grouped by themes. The P&P Reminder will be a physical listing of the P&Ps that relate to the period's themes. The department will require supervisors and managers to discuss this at all staff meetings and post these centrally at the two PA locations and distribute them via e-mail to all staff.</p>

¹ **Priority Ranking:** Recommendations are ranked from Priority 1 to Priority 3 based on the potential seriousness and likelihood of negative impact on departmental operations if corrective action is not taken. See Attachment IV for definitions of priority rankings.

TABLE OF FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION					
	ISSUE	RISK	RECOMMENDATION	P ¹	SUMMARY OF RESPONSE
	<ul style="list-style-type: none"> Did not intervene or immediately report the serious violations of TTC asset handling policies to management at the time they observed them. <p>TTC/PA Policy 610.40 – Drayage of Personal Property, requires the drayage team leader to exercise appropriate custody and controls over valuables as they are packed and crated to ensure no loss to the estate.</p> <p>TTC/PA Policy 400.06 - Securing Negotiable Assets, Jewelry & High Value Items, and Firearms requires that when a TTC deputy locates money at an estate, the money “shall be carefully counted in front of the witness.” The Policy also states, “The Deputy shall keep the cursory witness nearby and in immediate attendance at all times throughout the search.”</p>				

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TABLE OF FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION					
	ISSUE	RISK	RECOMMENDATION	P ¹	SUMMARY OF RESPONSE
2	<p>Record Keeping Integrity: The drayage team leader altered a signed Property Sheet to change the amount of cash reported, after the bank determined that the deposit contained \$300 less than indicated. The reason for the change was not noted on the Property Sheet and no entries were made in the TTC case notes to explain the \$300 shortage. Further, the team leader did not notify her supervisor of the shortage.</p> <p>TTC/PA Policy 610.40 - Drayage of Personal Property, states that Property Sheets must not be altered after they are signed by the witness, and directs staff to contact a supervisor if corrections must be made.</p>	<p>Altering a property sheet after it has been finalized and signed by the drayage team leader and a witness compromises the chain of custody over marshaled assets, and the integrity of PA operations. Unaccountable alterations increase the risk that estate assets may be lost or stolen.</p>	<p>TTC/PA management ensure that employees with drayage responsibilities are aware of and comply with TTC/PA Policy 610.40, including the importance of properly documenting changes made to the property sheets to establish accountability over cash and other high value assets, and the requirement to notify a supervisor when corrections must be made.</p>	1	<p>Agree Target Implementation Date: June 30, 2019</p> <p>The department has developed a training on the importance of audit trails and intends to give this training to PA staff by April 1, 2019.</p>
	<p>Property Sheet Procedures: The team leader did not provide the second deputy with a copy of the Property Sheet after he signed it as a witness.</p> <p>TTC/PA Policy 400.06 Securing Negotiable Assets, Jewelry & High Value Items, and Firearms states, "The witness shall sign the property sheet and receive a copy."</p>	<p>Providing the witness with a copy of the Property Sheet serves as a check and control to ensure that the marshaled property is accurately accounted for and reported. When this control is compromised, it increases the risk that estate assets may be lost or stolen.</p>	<p>TTC/PA management remind the PA drayage deputies of TTC/PA Policy 400.06 and the importance of receiving a copy of the signed property sheet to establish accountability over cash and other estate assets.</p>	1	<p>Agree Target Implementation Date: June 30, 2019</p> <p>The department will include this issue in the training mentioned in Recommendation No. 2 as well as in the quarterly Policies and Procedures Reminder.</p>

¹ **Priority Ranking:** Recommendations are ranked from Priority 1 to Priority 3 based on the potential seriousness and likelihood of negative impact on departmental operations if corrective action is not taken. See Attachment IV for definitions of priority rankings.

TABLE OF FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION					
	ISSUE	RISK	RECOMMENDATION	P ¹	SUMMARY OF RESPONSE
4	Documentation of Training: While TTC/PA staff are trained on relevant policies, they do not formally acknowledge that they received, understand, and agree to follow the policies presented in the training.	A formal acknowledgement of training provides additional reinforcement to staff that the matters trained on are significant, increasing the likelihood of compliance. Formal acknowledgements also provide support for administrative and other corrective actions when non-compliance occurs.	TTC should consider implementing periodic cash handling training for all PA staff and should retain documentation of the training, such as a signed acknowledgement from each trainee that they received, understand, and agree to follow the policies and requirements presented in the training.	1	Agree Target Implementation Date: June 30, 2019 See response to No. 1 regarding periodic training. The department will evaluate the feasibility of linking the training to the Countywide Learning Management System for appropriate tracking.
5a	TTC Policies: TTC/PA should develop more proscriptive policies and controls for handling cash and cash equivalents, to provide unambiguous guidance for PA staff with cash handling responsibilities.	Clearly defined, proscriptive policies and procedures, particularly in high risk areas such as cash handling, may assist employees in complying with internal control requirements, and promotes accountability.	TTC/PA management consider revising TTC/PA policies to include specific requirements that: <ul style="list-style-type: none"> • Upon discovery, staff establish and maintain dual custody over cash and equivalents until the cash has been documented, counted for deposit, and secured in a deposit envelope or equivalent container. • Cash never be left unattended. • Cash above a threshold amount be reported immediately to a supervisor, and after being inventoried and secured, transported without delay for deposit at a bank or in the TTC's vault. 	1	Agree Target Implementation Date: April 1, 2019 In addition to the quarterly P&P trainings mentioned in Recommendation No. 1, the department will identify the policies specific to cash handling to be revised.

¹ **Priority Ranking:** Recommendations are ranked from Priority 1 to Priority 3 based on the potential seriousness and likelihood of negative impact on departmental operations if corrective action is not taken. See Attachment IV for definitions of priority rankings.

TABLE OF FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION					
	ISSUE	RISK	RECOMMENDATION	P ¹	SUMMARY OF RESPONSE
5b			<p>TTC/PA Management should also evaluate the feasibility of:</p> <ul style="list-style-type: none"> Obtaining assistance of the Sheriff's in securing and transporting large amounts of cash and other valuables/firearms when located at a drayage, to ensure the safety of PA staff and the security of the marshaled property. Using technology, such as body-worn or portable cameras, to document drayage field operations to provide independent assurance that drayages are conducted in accordance with applicable policies and controls, and to assist in resolving claims of loss, theft, or impropriety. 		<p>Agree Target Implementation Date: June 30, 2019</p> <p>The department will evaluate the feasibility of both recommendations, the first by June 30, 2019, and the second, given the complexity of the matter, by June 30, 2020.</p>

¹ **Priority Ranking:** Recommendations are ranked from Priority 1 to Priority 3 based on the potential seriousness and likelihood of negative impact on departmental operations if corrective action is not taken. See Attachment IV for definitions of priority rankings.

FOLLOW-UP AND INTERNAL CONTROL DISCLOSURES

***FOLLOW-UP
PROCESS***

The Auditor-Controller (A-C) has a follow-up process designed to provide assurance to the Board of Supervisors (Board) that departments are taking appropriate and timely corrective action to address audit recommendations. Within six months of the date of an audit report, departments must submit a Corrective Action Implementation Report (CAiR) detailing the corrective action taken to address all recommendations in the report. Departments must also submit documentation with the CAiR that demonstrates the corrective action taken. We will review departments' reported corrective action and supporting documentation, and report the results to the Board. For any recommendations not fully implemented, departments must report the status of corrective action within six months after our first follow-up report is issued.

***MANAGEMENT'S
RESPONSIBILITY
FOR INTERNAL
CONTROLS***

As indicated in County Fiscal Manual Section 1.0, management of each County department is primarily responsible for designing, implementing, and maintaining a system of internal controls that provides reasonable assurance that important departmental and County objectives are being achieved. Internal controls should sustain and improve departmental performance, adapt to changing priorities and operating environments, reduce risks to acceptable levels, and support sound decision-making.

Management must monitor internal controls on an ongoing basis to ensure that any weaknesses or non-compliance are promptly identified and corrected. The A-C's role is to assist management by performing periodic assessments of the effectiveness of the department's internal control systems. These assessments complement, but do not in any way replace, management's responsibilities over internal controls.

***LIMITATIONS OF
INTERNAL
CONTROLS***

Any system of internal controls, however well designed, has limitations. As a result, internal controls provide reasonable but not absolute assurance that an organization's goals and objectives will be achieved. Some examples of limitations include errors, circumvention of controls by collusion, management override of controls, and poor judgment. In addition, there is a risk that internal controls may become inadequate due to changes in the organization, such as reduction in staffing or lapses in compliance.



JOSEPH KELLY
TREASURER AND TAX COLLECTOR

COUNTY OF LOS ANGELES TREASURER AND TAX COLLECTOR

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Fifth District

April 3, 2019

TO: Robert G. Campbell, Chief
Office of County Investigations
FROM: Joseph Kelly *JK/KC*
Treasurer and Tax Collector

SUBJECT: **RESPONSE TO AUDITOR-CONTROLLER IMPROVEMENT
OPPORTUNITIES NOTED DURING LIMITED REVIEW – #2017-13727**

My Department has reviewed the Auditor-Controller's report, findings, and recommendations noted above. For your review, attached are the corrective actions planned and/or taken to address the recommendations within the timeframes established by the respective priority ranking.

Recommendation 1: TTC management ensure that deputized PA staff and staff with cash handling responsibilities are trained on and are aware of policies and procedures for securing, counting, and handling cash and other valuables, including the requirements to immediately secure and count cash upon discovery, to always maintain double custody over cash, and that they have an affirmative responsibility to immediately report policy violations and discrepancies to TTC management.

Response: Agree.

Target Implementation Date: June 30, 2019.

The matter identified in the investigation was staff non-compliance with established policies, on which staff had been trained but did not comply.

To raise the awareness of policies and procedures in this area and others, we will constitute a Policies & Procedures (P&P) Reminder, grouped by themes, every quarter. The Reminder will be a physical listing of the P&Ps that relate to that quarter's themes. We will require supervisors and managers to discuss these at all staff meetings, we will post these centrally in our two PA locations, and we will distribute these via email to all staff.

Robert G. Campbell, Chief
April 3, 2019
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Recommendation 2: TTC/PA management ensure that employees with drayage responsibilities are aware of and comply with TTC/PA Policy 610.40, including the importance of properly documenting changes made to the property sheets to establish accountability over cash and other high value assets, and the requirement to notify a supervisor when corrections must be made.

Response: Agree.

Target Implementation Date: June 30, 2019.

TTC has developed a training on the importance of audit trails and we intend to give this training to the PA staff by April 1, 2019.

Recommendation 3: TTC/PA management remind the PA drayage deputies of TTC/PA Policy 400.06 and the importance of receiving a copy of the signed property sheet to establish accountability over cash and other estate assets.

Response: Agree.

Target Implementation Date: June 30, 2019.

We will include this issue in the training mentioned in Recommendation Number 2 as well as in the quarterly Policies and Procedures Reminder.

Recommendation 4: TTC should consider implementing periodic cash handling training for all PA staff, and should retain documentation of the training such as a signed acknowledgement from each trainee that they received, understand, and agree to follow the policies and requirements presented in the training.

Response: Agree.

Target Implementation Date: June 30, 2019.

Regarding the periodic training, see response to Number 1. We will evaluate the feasibility of linking the training to the Countywide Learning Management System for appropriate tracking.

Recommendation 5a: TTC/PA management consider revising TTC/PA policies to include specific requirements that:

Robert G. Campbell, Chief
April 3, 2019
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- Upon discovery, staff establish and maintain dual custody over cash and equivalents until the cash has been documented, counted for deposit, and secured in a deposit envelope or equivalent container.
- Cash never be left unattended.
- Cash above a threshold amount be reported immediately to a supervisor, and after being inventoried and secured, transported without delay for deposit at a bank or in the TTC's vault.

Response: Agree.

Target Implementation Date: April 1, 2019.

In addition to the quarterly policies and procedures trainings mentioned in Recommendation Number 1 above, we will identify the policies specific to cash handling to be revised.

Recommendation 5b: TTC/PA Management should also evaluate the feasibility of:

- Obtaining assistance of the Sheriff's in securing and transporting large amounts of cash and other valuables/firearms when located at a drayage, to ensure the safety of PA staff and the security of the marshaled property.
- Using technology, such as body-worn or portable cameras, to document drayage field operations to provide independent assurance that drayages are conducted in accordance with applicable policies and controls, and to assist in resolving claims of loss, theft, or impropriety.

Response: Agree.

Target Implementation Date: June 30, 2020.

We will evaluate the feasibility of both recommendations, with the first by June 30, 2019, and the second, given the complexity of the matter, by June 30, 2020.

Should you have any questions, you may contact Nai-len Ishikawa, Assistant Treasurer and Tax Collector, of my staff at (213) 974-2139 or nishikawa@ttc.lacounty.gov.

NWI:bp

PRIORITY RANKING DEFINITIONS

Auditors use professional judgment to assign rankings to recommendations using the criteria and definitions listed below. The purpose of the rankings is to highlight the relative importance of some recommendations over others based on the likelihood of adverse impacts if corrective action is not taken and the seriousness of the adverse impact. Adverse impacts are situations that have or could potentially undermine or hinder the following:

- a) The quality of services departments provide to the community,
- b) The accuracy and completeness of County books, records, or reports,
- c) The safeguarding of County assets,
- d) The County's compliance with pertinent rules, regulations, or laws,
- e) The achievement of critical programmatic objectives or program outcomes, and/or
- f) The cost-effective and efficient use of resources.

Priority 1 Issues

Priority 1 issues are control weaknesses or compliance lapses that are significant enough to warrant immediate corrective action. Priority 1 recommendations may result from weaknesses in the design or absence of an essential procedure or control, or when personnel fail to adhere to the procedure or control. These may be reoccurring or one-time lapses. Issues in this category may be situations that create actual or potential hindrances to the department's ability to provide quality services to the community, and/or present significant financial, reputational, business, compliance, or safety exposures. Priority 1 recommendations require management's immediate attention and corrective action within 90 days of report issuance, or less if so directed by the Auditor-Controller or the Audit Committee.

Priority 2 Issues

Priority 2 issues are control weaknesses or compliance lapses that are of a serious nature and warrant prompt corrective action. Priority 2 recommendations may result from weaknesses in the design or absence of an essential procedure or control, or when personnel fail to adhere to the procedure or control. These may be reoccurring or one-time lapses. Issues in this category, if not corrected, typically present increasing exposure to financial losses and missed business objectives. Priority 2 recommendations require management's prompt attention and corrective action within 120 days of report issuance, or less if so directed by the Auditor-Controller or the Audit Committee.

Priority 3 Issues

Priority 3 issues are the more common and routine control weaknesses or compliance lapses that warrant timely corrective action. Priority 3 recommendations may result from weaknesses in the design or absence of a procedure or control, or when personnel fail to adhere to the procedure or control. The issues, while less serious than a higher-level category, are nevertheless important to the integrity of the department's operations and must be corrected or more serious exposures could result. Departments must implement Priority 3 recommendations within 180 days of report issuance, or less if so directed by the Auditor-Controller or the Audit Committee.