

BROWARD COUNTY, FLORIDA

REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS AND MANAGEMENT LETTER
IN ACCORDANCE WITH THE RULES OF THE AUDITOR
GENERAL OF THE STATE OF FLORIDA

FISCAL YEAR ENDED SEPTEMBER 30, 2009

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**Independent Auditors' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Board of County Commissioners of Broward County, Florida

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Broward County, Florida (the County), as of and for the year ended September 30, 2009, which collectively comprise the County's basic financial statements and have issued our report thereon dated March 26, 2010. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Supervisor of Elections Office, a constitutional officer of the County, and the aggregate discretely presented component units, as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiency described in the accompanying schedule of findings and responses as items 2009-01 and 2009-02 to be significant deficiencies in internal control over financial reporting.

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MARCUMGROUP
MEMBER

MarcumRachlin a division of Marcum LLP ▣ marcumrachlin.com

450 East Las Olas Boulevard ▣ Ninth Floor ▣ Fort Lauderdale, Florida 33301 ▣ Phone 954.525.1040 ▣ Fax 954.525.2004

FLORIDA ▣ NEW YORK ▣ NEW JERSEY ▣ CONNECTICUT ▣ GRAND CAYMAN

To the Board of County Commissioners of Broward County, Florida
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A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are not material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the County in the accompanying schedule of findings and responses.

The County's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the County's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of County Commissioners, County management, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



a division of Marcum LLP
Fort Lauderdale, Florida
March 26, 2010

Management Letter in Accordance with the Rules of the Auditor General of the State of Florida

To the Board of County Commissioners of Broward County, Florida

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Broward County, Florida (the County) as of and for the fiscal year ended September 30, 2009, and have issued our report thereon dated March 26, 2010. We did not audit the financial statements of the Supervisor of Elections Office, a constitutional officer of the County, which represents .18% and .05%, respectively, of the assets and revenues of the aggregate remaining fund information. We also did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Supervisor of Elections Office and the aggregate discretely presented component units, are based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters and Schedule of Findings and Responses. Disclosures in that report and schedule, which are dated March 26, 2010, should be considered in conjunction with this management letter.

Separate management letters have been issued for each of the constitutional officers and component units and are included in the respective financial statements of those entities. Those letters should be read in conjunction with this letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditors' reports or schedule.

- Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report except as reported in the accompanying summary schedule of prior audit findings.
- Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the County complied with Section 218.415, Florida Statutes.
- Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, recommendations accompany this report in the schedule of findings and responses.

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MarcumRachlin a division of Marcum LLP ■ marcumrachlin.com

450 East Las Olas Boulevard ■ Ninth Floor ■ Fort Lauderdale, Florida 33301 ■ Phone 954.525.1040 ■ Fax 954.525.2004

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To the Board of County Commissioners of Broward County, Florida
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- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, or abuse, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) control deficiencies that are not significant deficiencies. Matters required to be disclosed by the Rules of the Auditor General are reported in the accompanying schedule of findings and responses.
- Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The County has made these disclosures in the notes to the financial statements.
- Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the County did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the County for the fiscal year ended September 30, 2009, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2009. In connection with our audit, we determined that these two reports were in agreement.
- Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the County's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information of the Board of County Commissioners, County management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.



a division of Marcum LLP
Fort Lauderdale, Florida
March 26, 2010

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FISCAL YEAR ENDED SEPTEMBER 30, 2009

PRIOR YEAR COMMENTS AND STATUS

Financial Statement Findings

The following addresses the status of financial statement findings reported in the fiscal year ended September 30, 2008 schedule of findings:

Matters that are repeated in the accompanying schedule of findings:

- 2008-01 – Capital Assets (revised and included in current year comment 2009-01)
- 2008-02 – FEMA Receivable (revised and included in current year comment 2009-03)
- 2008-04 – Retained Percentages (revised and included in current year comment 2009-11)

Matters that are not repeated in the accompanying schedule of findings:

- 2008-03 – Financial Records
- 2004-04 – Logical Access – Review of Security Logs (Cyborg System)

SCHEDULE OF FINDINGS AND RESPONSES

FISCAL YEAR ENDED SEPTEMBER 30, 2009

I. CURRENT YEAR COMMENTS AND RECOMMENDATIONS

Significant Deficiencies

2009-01 Capital Assets

Criteria

The establishment and maintenance of accurate accounting records for capital assets are necessary to help assure that the County's capital assets are not stolen, misused or subject to undue wear and tear. These records are a necessary element in an on-going governmental capital asset repair and preventative maintenance program and enhance efforts to obtain optimum insurance coverage.

Condition

In the 2009 fiscal year, County personnel performed an analysis of the equipment category and determined that a prior period adjustments of approximately \$35 million and \$9 million to the cost and accumulated depreciation of equipment was required. Additionally, prior period adjustments were determined to be required to the accumulated depreciation for approximately \$3 million and \$7 million for buildings and improvements, respectively.

The initial capital asset roll-forward provided by the County did not reflect the correct additions or deletions by asset category for cost or accumulated depreciation. Our audit procedures disclosed that the capital asset roll-forward included buildings and improvement additions that did not reconcile to the expenditures of the respective funds. We also noted that the beginning balances of the accumulated depreciation on the schedule by asset category did not agree to the amounts reported in the prior year. Further, the deletions to all asset categories were not properly reflected.

Cause

The cause is the lack of maintaining the records properly and not reconciling the amounts in the detailed supporting schedules to the amounts recorded.

Effect

The potential effect was that the financial statements could have been materially misstated.

Recommendation

We recommend that, in the ensuing fiscal year, Finance Department personnel should set up the new acquired capital asset system with the amounts from the audited financial statements and accurately track asset additions, deletions and calculations of depreciation. This record keeping should be kept current and reconciled monthly.

SCHEDULE OF FINDINGS AND RESPONSES

FISCAL YEAR ENDED SEPTEMBER 30, 2009

(Continued)

I. CURRENT YEAR COMMENTS AND RECOMMENDATIONS (Continued)

Views of Responsible Officials and Planned Corrective Action

The County's capital assets include land, equipment and buildings with an historical cost of \$2.6 billion and more than forty thousand individual records. We have determined that the tables associated with the report writer were incorrectly configured. This error caused the duplication of costs at each charge-point for those assets whose costs were split among funding sources. The condition caused an overstatement of historical cost and accumulated depreciation. An adjustment was made to reconcile the detail records with the general ledger and software which remedies this condition and incorporates many efficiencies has been acquired and is being implemented.

2009-02 Port Everglades

Criteria

All agreements that result in reimbursements to the County should be scrutinized to ensure that revenue recognition is appropriate.

Condition

In the 2008 fiscal year, a receivable and a capital contribution was recorded for construction costs incurred that were to be reimbursed to the Port pursuant to an agreement with a cruise company. In the 2009 year, it was determined that these capital cost recovery charges will be paid as part of the guaranteed minimum payments based on passenger movements, and accordingly, revenue should be recognized as payments are received. As such, a prior period adjustment of approximately \$5.4 million was recorded to adjust the prior year receivable improperly recorded.

Cause

The cause was a misunderstanding of the final agreement and the reimbursement process.

Effect

The effect was that revenue was not properly recognized.

Recommendation

We recommend that the Port continue to recognize revenue related to this agreement based on passenger movements and actual payments received.

View of Responsible Individuals

The Port concurs that revenue will continue to be recognized based on passenger movements and actual payments received.

SCHEDULE OF FINDINGS AND RESPONSES

FISCAL YEAR ENDED SEPTEMBER 30, 2009

(Continued)

I. CURRENT YEAR COMMENTS AND RECOMMENDATIONS (Continued)

Control Deficiencies

2009-03 FEMA Receivable

Criteria

Documentation to support the amount that is due to the County from the Federal Emergency Management Agency (FEMA) should be maintained and monitored on a current basis to ensure that reimbursements have been requested for all eligible costs.

Condition

The FEMA website indicated the County is obligated for approximately \$54 million in aid. Of this amount, approximately \$37 million was paid to the County leaving approximately \$17 million still available for reimbursement. There are many projects ongoing where reimbursements have not yet been received. We were unable to validate these amounts and the related potential reimbursements.

Cause

The schedule maintained by the Finance Department does not provide information to determine, by project, costs incurred where reimbursements were not yet requested.

Effect

If reimbursements are less than anticipated, the County's ultimate cost could be greater than expected.

Recommendation

We recommend that the County closely monitor costs and reimbursements for projects in progress.

Views of Responsible Officials and Planned Corrective Action

FEMA reimburses costs as incurred up to the obligated amount of the Project Worksheet; those projects whose actual expenses exceeded the initial obligated amount are not reimbursed until formal closeout. The County has requested final inspection of all projects that are ready to be closed but FEMA has only recently provided the personnel to close those projects. In addition, some of the permanent work associated with Hurricane Wilma has not yet been completed and many projects that have been processed by FEMA are awaiting final insurance determination. A detailed schedule, by project and by location is constantly monitored and updated.

SCHEDULE OF FINDINGS AND RESPONSES

FISCAL YEAR ENDED SEPTEMBER 30, 2009

(Continued)

I. CURRENT YEAR COMMENTS AND RECOMMENDATIONS (Continued)

2009-04 Landfill Closure Liability

Criteria

Pursuant to GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs*, in determining the current period expense and liability, total estimated capacity should be based on the expected usable landfill, which is generally the constructed portion. Further, the estimated capacity should mirror the tonnage applicable to the constructed areas reported to the Environmental Protection Agency.

Condition

During the 2009 fiscal year, the South Ash Monofill landfill was expanded and capacity increased from 35 acres to 46 acres. However, we noted that the total estimated capacity used to calculate the current year expense and liability did not change from the prior year. Further inquiry indicated that the total estimated capacity being used to calculate the current period costs were 60 acres of land, which is the total acreage of land, a portion of which had not yet been constructed.

Cause

The total estimated capacity used to calculate current period expense and liability was incorrectly set at the full permitted acreage at inception, instead of at the constructed capacity.

Effect

The expense and liability related to the landfill was revised to use the appropriate total estimated capacity.

Recommendation

We suggest that the County consider having the engineers who prepare the Financial Assurance Cost Forms for the County's landfill certify the capacity of the landfill as well as the cost estimates.

Views of Responsible Officials and Corrective Action

Waste and Recycling Services concurs that the total constructed portion of the landfill is the appropriate measure to use for current period costs and landfill closure liability. Staff received the final volume quantities of the expanded Ash Monofill based on the annual survey completed by an independent engineering firm.

SCHEDULE OF FINDINGS AND RESPONSES

FISCAL YEAR ENDED SEPTEMBER 30, 2009

(Continued)

I. CURRENT YEAR COMMENTS AND RECOMMENDATIONS (Continued)

2009-05 Bank Reconciliations

Criteria

The prime function of a properly executed bank reconciliation is to ascertain that the books and records of the County and the records maintained by the depository are in agreement. As such, the department responsible for the bank reconciliations should have proper documentation to support all reconciling items included on the bank reconciliation.

Condition

We noted that the County's concentration account bank reconciliation included a reconciling item of approximately \$1.7 million. After inquiry of various County personnel, it was determined that this reconciling item did not reflect an actual cash transaction, but rather related to bond issuance costs for the Aviation department that were improperly recorded.

Cause

Bond issuance costs were improperly recorded as an increase to cash rather than as another asset or deferred charge.

Effect

Cash was overstated for \$1.7 million and bond issuance costs were understated by the same amount.

Recommendation

We recommend that County personnel perform a detailed review of all reconciling items to ensure that they are appropriate.

Views of Responsible Officials and Corrective Action

Records, Taxes and Treasury (RTT) correctly identified bond costs as a reconciling item in the bank reconciliation and notified the responsible agency, but the correcting entry was not timely. Procedures have been put in place for the Accounting Division to communicate with RTT to ensure that any reconciling items requiring an entry are identified and recorded.

2009-06 Cash Receipts

Criteria

Assets and related revenues should be recorded in the applicable accounting period to ensure the financial statements are fairly presented.

SCHEDULE OF FINDINGS AND RESPONSES

FISCAL YEAR ENDED SEPTEMBER 30, 2009

(Continued)

I. CURRENT YEAR COMMENTS AND RECOMMENDATIONS (Continued)

Condition

While performing our audit procedures on subsequent receipts, we noted that in several instances, checks received for insurance settlements were not deposited on a timely basis. We noted that a check for \$1,002,637.78, dated July 2, 2009, was not deposited until October 2009. In addition, a check for \$320,318, dated April 10, 2009, was not deposited until October 2009.

Cause

These checks were for insurance settlements that had to be approved by the Board prior to being deposited.

Effect

Adjusting journal entries were required to be proposed in order to accurately record the asset and revenue in the correct period.

Recommendation

We recommend that the Agency receiving such checks notify the Accounting Department so that the amounts are recorded on the books and records in the proper accounting period.

Views of Responsible Officials and Planned Corrective Action

Cash receipts are normally deposited within 72 hours of receipt and are recorded in the accounting records. Insurance settlements must be reviewed by the County Attorney and approved by the Board of County Commissioners. Two checks for insurance claims were received just prior to the recess, but the County disputed the amounts and thus the deposits were not made until a later date. The auditor suggests a better treatment would be to record the pending deposit as a receivable and we concur. In the future, at year end, the Accounting Division will communicate with Risk Management to ascertain whether there are any undeposited insurance proceeds in order to ensure that year end entries are recorded.

2009-07 End User Administration – Periodic Reviews

Criteria

Periodic reviews of end user accounts provides additional assurance that end user access is appropriate, reducing the risk of errors that create segregation of duties or excessive access issues. The reviews also ensure that all terminated employees and temporary user accounts are properly deactivated per County policy.

SCHEDULE OF FINDINGS AND RESPONSES

FISCAL YEAR ENDED SEPTEMBER 30, 2009

(Continued)

I. CURRENT YEAR COMMENTS AND RECOMMENDATIONS (Continued)

Condition

While ETS has a policy and performs periodic reviews of end user accounts, the policy and procedures have not being uniformly followed throughout the County. Since the County uses a partially decentralized IT support model, there are applications/systems that are not currently being periodically reviewed to ensure that access is appropriate.

Cause

While formal policy and procedures exist, they are not being adhered to by all departmental IT teams.

Effect

Terminated employees could have active user accounts and/or active employees could have excessive or incorrect access.

Recommendation

We recommend deploying ETS' policy and procedures to all departmental IT teams along with tools to enable and ensure periodic reviews are performed.

Views of Responsible Officials and Corrective Action

Although Network Access is promptly deactivated for terminating employees, the administration of many user applications is decentralized. The County believes that its systems are secure because terminated employees cannot access the network, but it agrees that End User Administration should be further standardized in order to insure terminated employees are removed from financial applications. Enterprise Technology Systems will work with the responsible agencies to standardize end user administration processes for its financial software systems

2009-08 TaxSys End User Administration

Criteria

Access administration ensures that employees and other users of key applications are provided access in accordance to their roles and responsibilities via a standardized, formal process in which all access requests are reviewed and approved by authorized process/application owners prior to creation/modification. Inadequate access administration creates the risk that users have excessive access and are able to perform activities or modify data without detection.

SCHEDULE OF FINDINGS AND RESPONSES

FISCAL YEAR ENDED SEPTEMBER 30, 2009

(Continued)

I. CURRENT YEAR COMMENTS AND RECOMMENDATIONS (Continued)

Condition

Key segregation of duties scenarios were identified to ensure that the data that is generated via TaxSys is reliable and accurate to enable reliance on the application controls versus manual controls. Based upon data provided by the County's TaxSys IT administrator and TaxSys support, we identified the access types and then compared the accesses. Accordingly, the results indicated that there were cases of excessive access and segregation of duties issues. We noted that certain end users have the ability to assess fees, perform the bill preparation and tax collection, creating a segregation of duties issue.

Cause

The cause of the issue is due to incorrect access assignments.

Effect

Segregation of duties issues could create unauthorized transactions or activities to occur without detection.

Recommendation

We recommend developing and reviewing a segregation of duties matrix and procedures to ensure that end user access is in compliance to the matrix.

Views of Responsible Officials and Corrective Action

The TaxSys application was newly implemented in August 2009, with users and user roles developed and implemented by the vendor. An internal audit review of the system began in January/February 2010, and additional system administration functionality was put in place by the vendor at that time. Since then, a full user role review has taken place and roles have been redefined in conjunction with internal and external audit requests. In addition, Records Taxes and Treasury has implemented a TaxSys user change request policy and periodic access review of users and role assignments. The final process and user role changes will be completed by June 2010. The Division is also working with Enterprise Technology Services (ETS) Division to implement an online workflow-driven user access request process, which will be similar to that of the ETS User Access Request Form.

2009-09 TaxSys Wachovia Lockbox

Criteria

The lockbox provides a standardized approach to obtain bank data without risk of modification or errors as it is generated by the bank automatically. Ensuring that the file is protected and un-modified at all times prior to being uploaded into TaxSys guarantees that the data is accurate, per Wachovia, and correctly represents the County's bank balance and activities (transactions) over that time period.

SCHEDULE OF FINDINGS AND RESPONSES

FISCAL YEAR ENDED SEPTEMBER 30, 2009

(Continued)

I. CURRENT YEAR COMMENTS AND RECOMMENDATIONS (Continued)

Condition

The lockbox data, prior to being uploaded into TaxSys is stored in an unencrypted and unsecured network file directory. This creates the potential for unauthorized changes to be made to the file.

Cause

The cause of the issue is the lack of encryption and/or security controls to prevent unauthorized modifications.

Effect

The risk that the data uploaded into TaxSys is not complete or accurate.

Recommendation

We recommend that the County implement additional controls to ensure that the file cannot be modified while stored on the network directory.

Views of Responsible Officials and Corrective Action

Records Taxes and Treasury (RTT) Division completes scheduled lockbox file transfers from the bank each day. The lockbox files are transferred in encrypted format from the bank and stored on a division-maintained server in both encrypted and decrypted formats. TaxSys end users browse to this location each day to upload the files into the TaxSys application for posting. The share where these lockbox files reside is only available to four individuals and three system administrators in RTT, and is not available through the County's Active Directory network infrastructure. The four individuals are those involved with the lockbox import process, or backup staff.

The TaxSys application does not have the capability to store and/or encrypt/decrypt files. RTT has approached the vendor with requests to support encryption, but there is no capability to decrypt data as part of the upload and posting process. In order to compensate for this issue, RTT management has instituted procedures which require verification of data input and output by responsible individuals in several sections within the agency.

Other Matters

2009-10 Self-Insurance Fund

Criteria

Internal service funds have a cost-reimbursement objective. A significant surplus or deficit in an internal service fund could indicate that participating funds are not properly reporting the costs of the goods or services they receive from the internal service fund. Thus, a long-term, significant surplus could be evidence that the user funds are being overcharged.

SCHEDULE OF FINDINGS AND RESPONSES

FISCAL YEAR ENDED SEPTEMBER 30, 2009

(Continued)

I. CURRENT YEAR COMMENTS AND RECOMMENDATIONS (Continued)

Condition

We noted that revenues exceeded expenses in the self-insurance fund by approximately \$6 million in 2009, resulting in ending net assets of \$23 million, as compared to \$17 million in the prior year.

Cause

Revenues exceeded expenses in the fund for several years and charges to other County funds have not been adjusted.

Effect

Based on the substantial level of unrestricted net assets in this fund, it appears that other County funds may be overcharged for their contribution for insurance costs.

Recommendation

We recommend that County personnel review the activity in the self-insurance fund and determine the appropriate level of funding required from other County funds.

Views of Responsible Officials and Corrective Action

The County concurs that the unrestricted balance in this account has increased in recent years. The Accounting Division will review the activity in the account and make recommendations concerning the appropriate level of funding.

2009-11 Retained Percentages

Criteria

Retained percentages, which represent amounts withheld from contractors for completed work pending satisfactory approval of their phase of a construction project, should be classified as an expenditure and recorded on the books as a retainage payable simultaneously with the payment to the contractor.

Condition

As part of our audit procedures, we obtained a schedule supporting the retained percentages reflected on the books and records as of the fiscal year end. Our review of this schedule disclosed that there are numerous amounts which have been outstanding in excess of one year, that have had no activity.

Cause

The Purchasing and Accounting Divisions may not be reducing or eliminating old retained percentages that have been satisfied.

SCHEDULE OF FINDINGS AND RESPONSES

FISCAL YEAR ENDED SEPTEMBER 30, 2009

(Continued)

I. CURRENT YEAR COMMENTS AND RECOMMENDATIONS (Continued)

Effect

Retained percentages liability accounts may be overstated.

Recommendation

We suggest that County personnel determine the status of the projects related to these outstanding amounts, and the validity of the amounts recorded.

Views of Responsible Officials and Corrective Action

As a result of measures adopted by Purchasing in FY2007 and refined in 2008, retained percentages more accurately reflect the correct vendor balances, however inactive projects reflected \$973,000 at the end of fiscal year 2009. Accounting and Purchasing have actively worked to resolve these balances, which have been reduced to approximately \$400,000, \$120,000 of which is in litigation. Purchasing and Accounting will work with the remaining agency to resolve its balances.