



Bill Perrone, CIA  
Internal Audit Manager

June 30, 2009

Assignment 10200

To: Distribution List

Subject: Internal Audit Report: Custody Audit – Financial Report of the Public Administrator/  
Guardian/Conservator's Office

We have completed the Custody Audit - Financial Report on the Public Administrator/Guardian/  
Conservator's Office as of June 30, 2008. We conducted the audit from April through June  
2009.

We thank the staff of the Public Administrator/Guardian/Conservator's Office for their  
cooperation. Their assistance contributed significantly to the successful completion of the audit.

Respectfully submitted,

Signature on file

Bill Perrone, CIA  
Internal Audit Manager

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Civil Grand Jury

## **INTERNAL AUDIT REPORT**

Custody Audit – Financial Report

Public Administrator/Guardian/  
Conservator's Office



Assignment 10102  
June 30, 2009

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## **Executive Summary**

**Conclusion** Based upon the results of our testing, we express an unqualified opinion on \$47,918,289.79 of assets. We did not express an opinion on \$72,599,232.69 of reported Other Restricted Assets. This was because there were no detail reports listing all of the client assets for which Public Administrator/Guardian/Conservator’s Office (PAGC) was responsible. Thus we were unable to confirm the balances without expending an inordinate amount of time by reviewing each of the thousands of client assets.

This Financial Report consists only of verification of reported assets. In addition to this audit, we will be conducting reviews of internal controls in the PAGC. The results of these reviews will be issued in a separate Internal Controls Audit Report.

**Audit Objective And Scope** The objective was to perform a financial audit of the reported assets as specified by the County Charter. The scope of the audit included:

- Testing internal controls over the assets,
- Verifying the existence, valuation and completeness of amounts of the assets,
- Determining whether the assets under the department’s control are presented in conformity with generally accepted accounting principles as of June 30, 2008,
- General Fund (cost centers 4700, 4710, and 4715),
- Trust Fund 361 (private purpose trust fund).

**Audit Background** Santa Clara County Charter Section 602(b) requires an audit upon the vacancy in any office charged with the responsibility for County assets. Mr. Rob Cecil left on February 2008 and Mr. Don Moody became director on September 2008. We mutually agreed to establish the audit date of June 30, 2008.

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

Signature on file

Bill Perrone, CIA  
Internal Audit Manager

## **INDEPENDENT AUDITOR’S REPORT**

Don Moody  
Public Administrator/Guardian/Conservator’s Office  
San Jose, California

We have audited the accompanying Statement of Assets of the Public Administrator/Guardian/ Conservator’s Office (PAGC) as of June 30, 2008. This statement is the responsibility of the PAGC management. Our responsibility is to express an opinion on this statement based on our audit.

Except as discussed in the paragraph below, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement of Assets is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement of Assets. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the Statement of Assets. We believe that our audit provides a reasonable basis for our opinion.

Balances of accounts as initially reported were adjusted for reasons described in Notes 2, 4, 5, 6, 7, and 8. The Statement of Assets (as adjusted) is presented to report the assets for which the manager has custodial responsibility and is not intended to present fairly the financial position and results of operations of the PAGC.

We did not express an opinion on Other Restricted Assets because there were no detail reports listing all of the client assets for which PAGC was responsible. Thus, we were unable to confirm the asset balances without expending an inordinate amount of time by reviewing each of the thousands of client assets. See Note 9 for further details.

In our opinion, except for the amount reported as Other Restricted Assets as discussed above, the adjusted Statement of Assets referred to above, presents fairly, in all material respects, the assets under the control of the department as of June 30, 2008, in conformity with accounting principles generally accepted in the United States of America.

June 30, 2009

Signatures on file

Bill Perrone, CIA	Jena Trinh
Internal Audit Manager	Senior Internal Auditor

Santa Clara County, Internal Audit Division

**COUNTY OF SANTA CLARA  
PUBLIC ADMINISTRATOR/GUARDIAN/CONSERVATOR’S OFFICE  
STATEMENT OF ASSETS  
JUNE 30, 2008**

	General Fund	Trust Fund	Total Reported Assets	Audit Adjustments	Adjusted Balance
<b><u>Assets for which an unqualified opinion is issued</u></b>					
Cash & Investments (Note 2)	\$1,500.00	\$45,697,953.42	\$45,699,453.42	\$64,796.82	\$45,764,250.24
Restricted Cash (Note 3)	-	\$679,666.97	\$679,666.97	-	\$679,666.97
Recorder's Returned Check Receivable (Note 4)	-	\$1,498.00	\$1,498.00	(\$1,498.00)	\$0.00
Interest Receivable (Note 5)	\$660,693.89	\$408,943.07	\$1,069,636.96	\$103,488.45	\$1,173,125.41
Miscellaneous Receivable (Note 6)	\$162,454.78	-	\$162,454.78	(\$162,454.78)	\$0.00
Prepaid-Others (Note 7)	-	-	\$0.00	\$85,176.08	\$85,176.08
Fixed Assets (Note 8)	\$69,835.50	\$0.00	\$69,835.50	\$146,235.59	\$216,071.09
	<u>\$894,484.17</u>	<u>\$46,788,061.46</u>	<u>\$47,682,545.63</u>	<u>\$235,744.16</u>	<u>\$47,918,289.79</u>
<b><u>Assets for which no opinion is issued</u></b>					
Other Restricted Assets (Note 9)	-	\$72,599,232.69	\$72,599,232.69		

The accompanying notes are an integral part of this statement.

**COUNTY OF SANTA CLARA  
 PUBLIC ADMINISTRATOR/GUARDIAN/CONSERVATOR’S OFFICE  
 NOTES TO THE STATEMENT OF ASSETS  
 JUNE 30, 2008**

**Note 1 Summary of Significant Accounting Policies**

Introduction

The Statement of Assets of the PAGC is prepared in accordance with generally accepted accounting principles (GAAP) as applicable to governmental units, in accordance with the Governmental Accounting Standards Board. The Statement of Assets is presented to report the assets for which the PAGC has responsibility and is not intended to present fairly the financial position and results of operations of the PAGC. The following is the summary of significant accounting policies.

Basis of Accounting

The PAGC accounts for its financial activities in the General Fund (using the modified accrual basis of accounting) and the Private Purpose Trust Fund (using the accrual basis of accounting). The Private Purpose Trust Fund is used to account for the resources of conservatees. These resources are restricted to a specified purpose that benefits the individuals.

Under the modified accrual basis of accounting, revenues and related accounts receivable are recognized when they are both “measurable and available.” Measurable means the amount can be determined. Available means the amounts are collectible within an established period. At the County that period is 180 days. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place.

**Note 2 Cash and Investments**

The cash and investment balances consist of the following:

	General			Audit	
	Fund	Trust Fund	Total Reported	Adjustment	Adjusted Balance
Cash-Commingled [1]	\$0.00	\$45,692,953.42	\$45,692,953.42	\$64,796.82	\$45,757,750.24
Cash-Imprest [2]	\$1,500.00	\$5,000.00	\$6,500.00	\$0.00	\$6,500.00
<b>Total</b>	<b>\$1,500.00</b>	<b>\$45,697,953.42</b>	<b>\$45,699,453.42</b>	<b>\$64,796.82</b>	<b>\$45,764,250.24</b>

[1] Commingled cash balance represents client cash deposited in the County’s commingled pool. Monthly, the Internal Audit Division audits the cash in the pool; therefore, Internal Audit did not include testing for the commingled cash pool in this custody audit. However, for purposes of identifying all cash at 6/30/08, the audit adjustment represents cash balances not recorded in SAP. The unrecorded balances were cash held in a separate bank account at 6/30/08 and not in the commingled account. Since November 2008, when the County switched to a new

bank, these cash balances previously in separate bank accounts are now included in the commingled account.

[2] The imprest balances consist of \$1,500 cash and \$5,000 debit cards. The imprest cash is used to purchase immediate need items for clients.

**Note 3    Restricted Cash**

The amount represents cash reserved for burial services. The cash is held in a stand-alone bank account and is not included in the County commingled cash account.

**Note 4    Recorder’s Returned Checks Receivable**

PAGC incorrectly used this general ledger account, which is solely used by the Clerk-Recorder’s Office. The error occurred prior to 2003 as the balance was carried over when the County converted to SAP. The audit adjustment was made to clear out the account.

**Note 5    Interest Receivable**

Interest receivable in the Trust Fund represents quarterly interest allocation from the Controller-Treasurer Department for funds invested in the County’s commingled cash account. Interest receivable in the General Fund consists of residual interest, the difference between what was paid from the quarterly interest allocation and the interest the client would have earned if they invested it individually. The adjustment represents the fourth quarter residual interest receivable that was not recorded at June 30, 2008.

**Note 6    Miscellaneous Receivable**

In prior years, PAGC recorded residual interest (discussed in Note 5 above) in the miscellaneous receivable account. The receivable has been paid but the accrual was never reversed. The audit adjustment clears out the account balance.

**Note 7    Prepaid-Others**

Pre payments of burial plots and/or burial services are made either by client prior to conservatorship or by PAGC after conservatorship. The audit adjustment is made to reflect the prepayments made.

**Note 8    Fixed Assets**

Fixed assets are shown at original cost. Since PAGC fixed assets are accounted for in the General Fund, book value depreciation is not computed. The fixed asset balance consists of one equipment and low value assets (original costs of less than \$5,000). Low value assets include items such as computers, monitors, printers, servers, etc. The audit adjustment consists of subtracting low value assets that have been disposed of (\$60,959) and adding low value assets that should have been but were not recorded in SAP (\$207,194.09).

Furniture and Equipment	\$8,876.50
Low Value Assets	<u>\$207,194.59</u>
Total Fixed Assets	<u><u>\$216,071.09</u></u>

**Note 9 Other Restricted Assets**

PAGC holds real property, personal property, securities, etc. for clients that are under court appointed conservatorship. The amount reported by PAGC is based upon the appraised value in the Inventory and Appraisal Report filing to the court within 90 days of being appointed permanent conservator.

We did not express an opinion on Other Restricted Assets as there were no detail reports listing all of the client assets for which PAGC was responsible. Thus, we were unable to confirm the asset balances without expending an inordinate amount of time by reviewing each of the thousands of client assets. The reported balance included assets that have been distributed or disposed. Additionally, the reported balance included duplicate balances for assets that have been transferred from the conservatorship account to the trust account but the asset balances remain in both accounts. Also, there were unrecorded trust asset balances (as no Inventory and Appraisal Report is required) and unrecorded balances for assets acquired subsequent to the filing of Inventory and Appraisal Report.