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2004 Audit Results
Report to the Lane County
Finance and Audit Committee
February 15, 2005

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To the Finance and Audit Committee of Lane County, Oregon

In planning and performing our audit of the financial statements of Lane County, Oregon for the year ended June 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, during our audit we became aware of matters that are an opportunity for strengthening internal controls and operating efficiency. The attachment that accompanies this letter summarizes our comments and suggestions regarding those matters. We would like to mention that although these matters are not materially significant, to the financial statements, they may be significant to a financial statement user and should be addressed accordingly. This letter does not affect our report dated November 1, 2004, on the financial statements of Lane County, Oregon. We have already discussed these comments with various Lane County, Oregon personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Very truly yours,

Mary Case

For Moss Adams LLP

Mary Case

Moss Adams Team

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Finding

Recommendation

NEW MATTERS

Agency Accounts

- Maintenance of trust bank accounts: During review
 of a trust bank account it was noted the balance of
 individual accounts were tracked on a combination
 of paper and Excel spreadsheets. These
 recordkeeping devices are not particularly efficient
 or effective in tracking who owes what at a given
 time.
- A basic software package to track the monies held in trust accounts is recommended. The implementation of a new package would allow recordkeeping to provide better information in a timely fashion. This recommendation should be considered for the tracking and reconciling of all trust accounts.
- 2. LaneCare program: The County previously used Peace Health as the contract manager for the LaneCare program. The County's policy was to receive mental health dollars from the State, withhold a County administrative fee, and remit the remaining dollars to Peace Health. Over the past six years, Peace Health received over \$7.6 million more in receipts than it had expended. In 2003 the County took over the contract management responsibilities from Peace Health, and thus took over the \$7.6 million which the County had expensed in fiscal years 1998 through 2003. As a result the County should not have expensed the funds, as they had access to the funds upon request.

On its 2004 comprehensive annual financial report, the County prepared a correcting prior period adjustment to increase both the County Health and Human Service's cash and Health and Human Service's fund balance by \$7.6 million as of June 30, 2003. In order to prevent this type of oversight in future years, it is recommended the County closely monitor significant agency payments to ensure proper accounting with the underlying agency administrative agreements.

Grants

On pages 161 and 162 of the Comprehensive Annual Financial Report the County reported the Schedule of Expenditures of Federal Awards (SEFA). These are all federal expenditures, which the County recognized under generally accepted accounting principles. Funds for grants are primarily received on the reimbursement basis. As such, the County spends the money, and is then reimbursed shortly thereafter by a federal agency, or pass through agencies. As stipulated by OMB Circular A-133, the basis for the SEFA should be all federal expenditures recorded during the year. However, the County prepares its SEFA from federal revenue recorded during the year. While this is a fair estimation, it is not in compliance with Office of Management and Budget Circular No. A-133.

We recommend the County provide support for the SEFA based on federal awards expended for each federal program.

Finding Recommendation

Accounts Receivable

- 4. Completeness of Accounts Receivable: County departments are responsible for invoicing and collecting accounts receivable. These procedures managed on a departmental basis, and are not standardized throughout the County. Current practice requires the finance department to inquire of the individual departments for amounts collected within 2 months after year end. This amount is then recorded as the accounts receivable balance. While this is a reasonable estimate, it fails to capture all accounts which have been invoiced.
- It is recommended that each department remain responsible for invoicing and collection. However, each department should have written procedures which include reporting all amounts invoiced as of the reporting date. While each department may have slightly different procedures to meet its particular needs, the procedures none the less should meet general criteria recommended by the finance department.
- 5. Allowance for Uncollectible Accounts: When credit is extended, some amount of uncollectible receivables is inevitable. The County does not maintain an allowance for uncollectible accounts. The reason is because the County estimates its receivables based on amounts collected 60 days past year-end. Therefore an allowance has not been necessary in the past. However, the County needs to begin recording all amounts invoiced in its accounts receivable balance (see finding #4 above).

As soon as the County changes its policy for recording accounts receivable, it is recommend each department estimate an allowance for uncollectible accounts based on a history of past records of payments. With this information the County will be able to begin recording an appropriate allowance for uncollectible accounts.

Internal Audit

- 6. Internal audit independence: The County's internal auditor has a possible independence conflict with a key employee in a County department. Such a personal impairment to independence does not allow the internal auditor to be independent related to matters in that department.
- It is recommended the County continue to adhere to Generally Accepted Government Auditing Standards over internal audit functions. For specific matters relating to that particular department, the County should utilize another employee, or contract out the internal audit work.
- Internal audit follow-up: There are internal audit reports that have been issued, and no action has been taken..

We recommend the County encourage implementation of internal audit recommendations in a timely manner. If the suggestions offered in the report are not deemed practical currently, we suggest the items are reconsidered annually.

Finding

Recommendation

Fund Balance

8. Negative fund balance in Fair Board's fund: It's encouraging to see a positive change in the Fair Board's fund balance as of June 30, 2004. Certainly the Fair Board management should be commended for their efforts in reducing the financial deficit. Despite the improving outlook in the near term, issues still remain regarding financial stability and viability of fairground facilities.

It is recommended the County continue to monitor this fund deficit, as one or two years of success will not entirely turn the Fair Board's finances around.

Finance Department

9. Inadequate staffing in the finance area: Over the course of the past six months the County has lost both its financial services manager and its accounting supervisor. Both positions play a key role in monitoring internal controls over the finance area. In particular the accounting supervisor plays a strong role in monitoring the maintenance of the general ledger.

Given the responsibilities of these two positions, it is imperative that strong consideration be given to replacing both positions with equally experienced individuals. It is recommended the County place a significant emphasis on replacing its financial services manager and accounting supervisor.

Electronic Data Processing

10. The interfaces between PeopleSoft HRMS, payroll-general ledger, and PeopleSoft Financials do not always compute the expected dollar amount associated with an employee's time. Apparently, rounding errors occur during the upload from the payroll-general ledger interface and posting to the general ledger.

Although the dollar variances appear to be immaterial on a payroll by payroll basis, it is still recommended that the County develop a process to validate coding and hash totals for the payroll calculations and distribution to the general ledger.

11. A process is underway to develop design specifications for new time entry interfaces for the IS and Health and Human Services Departments. This process will also expect to take into consideration the replacement of LCTC. However, the scope of the replacement project does not currently include the Public Works timecard interfaces DAS and WAS.

Given that DAS and WAS directly interfaced with LCTC, it is recommended that the County explore the possibility of including DAS and WAS as part of the replacement plans. As a result, all the County's timecard systems will be standardized on a single platform using PeopleSoft development tools. As the new timecard system is implemented, the cutover should include extensive testing to ensure the process continues to work as expected.

Finding

Recommendation

- 12. An independent security expert has not reviewed the County's external connections or security policies and procedures. An independent security expert can provide an objective analysis of the County's security posture and recommendations for improvement. In addition, the security expert can perform penetration testing against the network perimeter and internal hosts to help expose potential vulnerabilities. While the County and RIS maintain network security expertise on staff, vulnerability analysis should not be limited from a network perspective. As part of a holistic approach, additional analysis should focus on security policies and procedures, incident response, security operations, and disaster recovery planning.
- We recommend the County consider the use of an independent information security expert to provide an unbiased and objective opinion of the County's security posture.

- 13. Restoration testing of data backup media is not performed regularly. Restoration testing is the most reliable method to ensure that data was written to tape correctly and that the backup process is sound.
- 14. During the 2003 fiscal year, the County was lacking a disaster recovery plan for its critical information systems and communications. However, it was reported that the County is making concerted efforts to developing a disaster recovery plan in 2004 that includes collapsing and consolidating server equipment and utilizing a warm site for recovery operations.

Given the high likelihood that backup media will deteriorate over time, it is recommended that data restoration testing occur on a monthly basis to ensure the integrity of older, backed up data, and the soundness of the backup process. It can also be used as an effective exercise to test disaster recovery scenarios.

These efforts are steps in the right direction. In creating the disaster recovery plan, the County should consider all critical business processes that rely primarily on the computing systems. A disaster recovery planning committee should be developed that includes employees for all the County's agencies. These internal stakeholders can provide input as to the criticality of their systems. County constituents should be given primary consideration in how the County will continue to serve them during the aftermath of a disastrous event. Once the disaster recovery plan is developed, it should be updated annually and tested to ensure its feasibility and timeliness of its execution.

Finding

Recommendation

15. Although the County maintains a password policy that follows industry best practices for accessing the PeopleSoft applications, a similar password policy is not in place for accessing the network. The most notable difference is the lack of password aging. That is, users are not required to change their network passwords after a fixed amount of time. While there appears to be a valid business reason for this, involving the concerns of the Sheriff's Office, there should be more of a balance between these concerns and network security.

We recommend the County research potential solutions to the password aging issue. Possible solutions may include leveraging the capabilities of the Windows 2003 domain and group policy.

RECURRING MATTERS ADDRESSED BY PRIOR AUDITORS

- 16. Excessive Number of Bank Accounts: Bank accounts are inherently risky, and require reconciliation on a monthly basis. There are approximately 40 bank accounts in the County's name. This is primarily due to the fact there are a number of different cash receipt points at outlying cities spread across the County.
- The County should consider the necessity of each of its bank accounts. When cash is received in a relatively remote area of the County, a deposit account could be shared by a number of different collection points. All bank accounts not considered necessary should be closed out.
- 17. Completeness of Bank Accounts: The County has a number of trust accounts, for which it holds funds for other individuals and entities. In the past year the Finance Department has identified several bank accounts in the County's name of which they were previously unaware. Several of these bank accounts related to immaterial amounts held for mental health services. This discovery of unknown bank accounts raises a question as to the possible existence of other accounts in the County's name.

The County should request listings of all bank accounts held in their name from banks within the County. We also suggest the County review its guidelines, and the monitoring of those guidelines, over the opening, use, and closing, of its bank accounts.

Finding

Recommendation

18. Administrative agreement with Lane Workforce Partnership (LWP): LWP is reported as a discretely presented component unit in the County's Comprehensive Annual Financial Report. LWP contracts with the County to provide management and administrative staff necessary to perform LWP's services. A signed administrative agreement with LWP has not been in effect since June 30, 1997. While the County does provide LWP's management staff, the County is not responsible for a number of LWP's liabilities, does not provide significant funding for LWP, does not hold title to LWP's assets, and does not have any right to LWP's surpluses. For the protection of both parties, and to eliminate the opportunities for conflicts, it is important for a written agreement specifying the rights and obligations of both the County and LWP. It is our understanding that a new administrative agreement is indeed underway. Given the unique relationship between the County and LWP, it is recommended the County follow through with this in a timely manner.