



LANE COUNTY

HUMAN RESOURCES DIVISION / 125 East 8th Ave. / Eugene, OR 97401
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W. J. A.

AGENDA COVER MEMORANDUM

AGENDA DATE: February 22, 2006

PRESENTED TO: Board of County Commissioners

PRESENTED BY: Mike Barnhart,

AGENDA TITLE: **REPORT: PRESENTATION OF AUDITOR'S MANAGEMENT LETTER**

I. MOTION

NONE

II. ISSUE

Moss Adams will present the results of the Fiscal Year 2005 audit.

III. DISCUSSION


None – This is an opportunity for questions and comments regarding the results of the annual financial audit.

IV. IMPLEMENTATION/FOLLOW-UP

County staff will proceed with implementation of recommendations based on Management's response (attached).

V. ATTACHMENT

Auditor's Management Letter
Management's Response to Auditor's Management Letter



*2005 Audit Results
Report to the Lane County
Finance and Audit Committee
November 3, 2005*

November 3, 2005

To the Board of County Commissioners
of Lane County, Oregon

In planning and performing our audit of the financial statements of Lane County, Oregon for the year ended June 30, 2005, 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 3, 2005, 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,



James C. Lanzarotta
For Moss Adams LLP



Moss Adams Team

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Audit Findings and Recommendations

Finding	Recommendation
NEW MATTERS	
Trust Fund	
<p>1. The Retiree Benefits Trust Fund is designated as a “trust” to hold assets dedicated for a specific purpose. However, there is no formal trust agreement established for the administration of the plan.</p>	<p>The County should consider formalizing an actual trust agreement, which enables the County to invest retiree benefits at a higher rate of return than is currently available under State law. In addition, future OPEB required accruals will be larger if a formal trust agreement is not established.</p>
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Bank Reconciliations	
<p>2. The county maintains a large amount of small departmental bank accounts that typically have small balances. We have reviewed several of these accounts in the current year audit. In almost all cases, we have found documentation supporting review of bank reconciliations to be lacking. In addition, during discussions with bank reconciliation preparers, we learned that bank reconciliations lack review by another individual.</p>	<p>We recommend that departmental bank reconciliations be reviewed in all cases and that documentation of both the preparation and review be included in the reconciliation.</p>
<p>3. In the case of some departmental bank accounts, there is a lack of segregation of duties when it comes to signing checks and reconciling the account. This represents a potential opportunity for misappropriation of County funds.</p>	<p>We recommend that check signers are prohibited from reconciling bank accounts for which they are authorized check signers.</p>
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Fixed Assets	
<p>4. We noted several disposed pieces of machinery and equipment that did not have a standardized form completed to authorize the disposal of the fixed asset. For the disposals that did have completed forms, we noted no evidence as to why the asset was being removed (i.e. sold, traded-in, scrapped).</p>	<p>When capitalized fixed assets are removed from the County books we recommend the responsible departmental personnel complete a standardized fixed asset disposal form. The form should be reviewed and signed by a manager in that department. We suggest the required documentation of the form be determined by the Finance Department, but should include the reason for the disposition, the method of disposition (i.e. sale, trade-in, transfer to another entity, scrapped, etc.), authorization by an appropriate member of management, and routing instructions to someone in accounting for updating the County’s fixed asset records.</p>

Audit Findings and Recommendations

Finding	Recommendation
NEW MATTERS	
Electronic Data Processing	
<p>5. It was noted that PeopleSoft Financials user access privileges were not reviewed after the v8.8 upgrade to ensure that user access privileges were properly converted. Also it was noted that there appeared to be an excessive number of PeopleSoft users with Administrator roles in key financial modules such as the general ledger and accounts payable as well as users with Budget Approval role privileges.</p>	<p>The County is encouraged to conduct an audit of PeopleSoft Financials user access accounts to ensure that users have access to the functions and data they require for their respective positions, yet cannot access areas that are not necessary. Also the County should consider limiting the number of PeopleSoft Financials users with Administrator and Budget Approval role privileges.</p>
<p>6. The IS and Health and Human Services timekeeping interfaces to the Lane County Timecards (LCTC) system were retired in 2005 and are now captured in PeopleSoft HRMS. There are plans to also retire the Public Works department timecard applications WAS and DAS and make the LCTC system obsolete.</p>	<p>It is recommended that the County continue to standardize its timecard system on a single platform using PeopleSoft HRMS. As the new timecard system is implemented, the cutover should include extensive testing to ensure the process continues to work as expected.</p>

Audit Findings and Recommendations

Finding

Recommendation

RECURRING MATTERS ADDRESSED IN PRIOR AUDITS

Agency Accounts

7. *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.

Accounts Receivable

8. *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.
9. *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 #9 above).

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.

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.

Audit Findings and Recommendations

Finding	Recommendation
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RECURRING MATTERS ADDRESSED IN PRIOR AUDITS

Electronic Data Processing

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| <p>10. 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 make 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.</p> | <p>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.</p> |
| <p>11. The County's password policy was recently changed to require password changes to occur every 6 months. This extended length of time may not effectively protect passwords from being compromised, thus negating the benefits of password controls.</p> | <p>It is encouraged that passwords are changed every 90 days. This is simple to do and enhances the effectiveness of the security controls. Otherwise, it is easier for passwords to become compromised and for employees to share passwords, thus negating the benefits of password controls.</p> |

Audit Findings and Recommendations

Finding	Recommendation
RECURRING MATTERS ADDRESSED IN PRIOR AUDITS	
Electronic Data Processing	
<p>12. The County is lacking a formal, written disaster recovery plan. Without a written disaster recovery plan, the County may be unable to effectively manage during the recovery effort. Lack of coordination, clear planning, and direction of staff can all be evident without a disaster recovery plan to provide guidance.</p> <p>13. The County does not conduct regular restoration tests of its backup media. As such, it is unclear whether the County will be able to successfully restore critical data as needed and in a timely manner.</p>	<p>A written disaster recovery plan should be comprehensive in scope covering staff roles and responsibilities, system recovery steps, data restoration procedures, and maintaining continued business operations. It would be prudent for the County to test the disaster recovery plan to ensure the viability of the plan and the timeliness of its execution. System recovery testing and backup tape restoration should be conducted periodically and the tests should be documented and formalized to be included with the County's overall business continuity planning. Doing so will prepare the County for continuing operations in the event of an unforeseen disaster.</p> <p>To augment the disaster recovery planning efforts, it is recommended that the County institute regular testing of backup media to ensure that critical data, such as historical financial records, can be retrieved if necessary. Regular restoration testing is also a good measure of the soundness of the backup process and can help prepare IT staff for recover operations in the aftermath of a disastrous event.</p>
Lane Workforce Partnership	
<p>14. <i>Administrative agreement with Lane Workforce Partnership (LWP):</i> 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.</p>	<p>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.</p>



Management Response to Audit Findings and Recommendations

February 22, 2006

1. Trust Fund

The Retiree Benefits Trust Fund is designated as a "trust" to hold assets dedicated for a specific purpose. However, there is no formal trust agreement established for the administration of the plan.

The County should consider formalizing an actual trust agreement, which enables the County to invest retiree benefits at a higher rate of return than is currently available under State law. In addition, future OPEB required accruals will be larger if a formal trust agreement is not established.

Response: Management intends to take a conservative investment strategy where the retirement benefits of employees are concerned, and will weigh the possibility of a higher rate of return against the attendant risks. The GASB required accruals are to be based on a discount rate that reflects actual returns and are therefore not dependent upon the formation of a trust.

2. & 3. Bank Reconciliations

The county maintains a large amount of small departmental bank accounts that typically have small balances. We have reviewed several of these accounts in the current year audit. In almost all cases, we have found documentation supporting review of the bank reconciliations to be lacking. In addition, during discussions with bank reconciliation preparers, we learned that bank reconciliations lack review by another individual.

We recommend that departmental bank reconciliations be reviewed in all cases and that documentation of both the preparation and review be included in the reconciliation.

In the case of some departmental bank accounts, there is a lack of segregation of duties when it comes to signing checks and reconciling the account. This represents a potential opportunity for misappropriation of County funds.

We recommend that check signers are prohibited from reconciling bank accounts for which they are authorized check signers.

Response: Based on a previous internal review, county financial staff has undertaken an initiative to replace most of these accounts with procurement cards. We are currently in the midst of a pilot project and intend to roll out procurement card use countywide within the next two months. There are three accounts where an authorized signer also completes the reconciliation: one for \$500 that will be closed when procurement cards are available, one for

\$500 where proper controls have now been implemented, and one trust account that is currently under review. Departments have been advised as to the recommendation that all reconciliations be independently reviewed and documented.

4. Fixed Assets

We noted several disposed pieces of machinery and equipment that did not have a standardized form completed to authorize the disposal of the fixed asset. For the disposals that did have completed forms, we noted no evidence as to why the asset was being removed (i.e. sold, traded-in, scrapped).

When capitalized fixed assets are removed from the County books we recommend the responsible departmental personnel complete a standardized fixed asset disposal form. The form should be reviewed and signed by a manager in that department. We suggest the required documentation of the form be determined by the Finance Department, but should include the reason for the disposition, the method of disposition (i.e. sale, trade-in, transfer to another entity, scrapped, etc.), authorization by an appropriate member of management, and routing instructions to someone in accounting for updating the County's fixed asset records.

Response: Financial Services does not have a policy requiring a standardized form for asset dispositions. The current form is designed to facilitate information sharing, and it is not intended to document formal authorization to dispose of assets. Financial Services does not manage the county's fixed assets nor authorize disposal, but rather accounts for these transactions on the county books. The completed forms clearly stated that the assets were either sold or traded.

5. Electronic Data Processing

It was noted that PeopleSoft Financials user access privileges were not reviewed after the v8.8 upgrade to ensure that user access privileges were properly converted. Also it was noted that there appeared to be an excessive number of PeopleSoft users with Administrator roles in key financial modules such as the general ledger and accounts payable as well as users with Budget Approval role privileges.

The County is encouraged to conduct an audit of PeopleSoft Financials user access accounts to ensure that users have access to the functions and data they require for their respective positions, yet cannot access areas that are not necessary. Also the County should consider limiting the number of PeopleSoft Financial users with Administrator and Budget Approval role privileges.

Response: Financial Services will review all user access accounts. Given our decentralized financial processes, the current number of users with "budget approval" authority does not appear excessive. "Budget Approval" is required to approve a transaction so that it will route to Financial Services for processing. Each department would need at least one approver, plus adequate backup for when the approver is not available. A review of the roles at that time reflects between one and three approvers for most departments, which would be expected.

6. *Electronic Data Processing*

The IS and Health and Human Services timekeeping interfaces to the Lane County Timecards (LCTC) system were retired in 2005 and are now captured in PeopleSoft HRMS. There are plans to also retire the Public Works department timecard applications WAS and DAS and make the LCTC system obsolete.

It is recommended that the County continue to standardize its timecard system on a single platform using PeopleSoft HRMS. As the new timecard system is implemented, the cutover should include extensive testing to ensure the process continues to work as expected.

Response: The County has undertaken a proactive initiative to implement a new online timecard system. This was a substantial undertaking, and departments were phased in to allow adequate customization and training. One department is not yet live on the new timecard system, however, implementation is underway and we anticipate that to be completed in May.

RECURRING MATTERS ADDRESSED IN PRIOR AUDITS

7. *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.

Response: Certain trust funds are tracked using software programs provided by or required by grantor agencies, while some trust accounts are not reconciled on a monthly basis. A review of options for accounts receivable software is currently underway and will include a review of the use of these programs for tracking trust accounts.

8. *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.

Response: As noted in item 7 above, a review of options for accounts receivable software is currently underway. Implementation will include a review of policies and procedures.

9. 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 recommended 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.

Response: Implementation of this recommendation will occur once a decision has been made as to an appropriate county-wide accounts receivable system.

10. Independent Security Review:

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 make 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

Response: The County recently completed an external security audit utilizing the requirements of the State's Health Alert Network. Although this was Health Department focused, there was some attention given to perimeter security. We regularly perform perimeter scans utilizing internal staff. Externally-provided security audits and vulnerability testing has not yet been funded on a countywide or regional basis.

11. Password Policy:

The County's password policy was recently changed to require changes to occur every 6 months. This extended length of time may not effectively protect passwords from being compromised, thus negating the benefits of password controls.

It is encouraged that passwords are changed every 90 days. This is simple to do and enhances the effectiveness of the security controls. Otherwise, it is easier for passwords to become compromised and for employees to share passwords, thus negating the benefits of password controls.

Response: The County's password policy was review and updated during 2005 and strengthened controls were adopted. Implementation of stronger password policies has met with much resistance from executive level management. The topic will need to be reviewed by the Technology Management Team prior to implementation of further changes.

12. EDP - Disaster Recovery Plan:

The County is lacking a formal, written disaster recovery plan. Without a written disaster recovery plan, the County may be unable to effectively manage during the recovery effort. Lack of coordination, clear planning, and direction of staff can all be evident without a disaster recovery plan to provide guidance.

A written disaster recovery plan should be comprehensive in scope covering staff roles and responsibilities, system recovery steps, data restoration procedures, and maintaining continued business operations. It would be prudent for the County to test the disaster recovery plan to ensure the viability of the plan and the timeliness of its execution. System recovery testing and backup tape restoration should be conducted periodically and the tests should be documented and formalized to be included with the County's overall business continuity planning. Doing so will prepare the County for continuing operations in the even of an unforeseen disaster.

Response: Some progress has been made in areas related to HIPAA compliance, which is addressed in Lane County's Administrative Procedures Manual. IS has dedicated .5 FTE toward disaster recovery and business continuity planning, however it is anticipated that this will be a multi-year development effort regionally and will be an ongoing task within the IS department to align with and complement regional efforts. This is an area that has received little governance interest and virtually no funding.

13. EDP – Restoration tests

The County does not conduct regular restoration tests of its backup media. As such, it is unclear whether the County will be able to successfully restore critical data as needed and in a timely manner.

To augment the disaster recovery planning efforts, it is recommended that the County institute regular testing of backup media to ensure that critical data, such as historical financial records, can be retrieved if necessary. Regular restoration testing is also a good measure of the soundness of the backup process and can help prepare IT staff for recover operations in the aftermath of a disastrous event.

Response: Although some testing has been completed, a plan and schedule, along with allocation of the needed resources needs to be created and followed. It is planned that this recurring work will be built into the standard IT service offerings related to business continuity and disaster recovery planning and implementation, already in progress.

14. Administrative Agreement with Lane Workforce Partnership (LW):

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.

Response: Drafting of the new administrative agreement is underway, and measured progress is being made given the challenges of bringing all executive level parties to the table at the same time, and balancing the demands of other high-level projects.
