

SANTA MARIA CEMETERY DISTRICT

Agreed-Upon Procedures Report - Internal Controls

For the Fiscal Year Ended
June 30, 2007



*Issued by the Office of Santa Barbara County Auditor-Controller
Robert W. Geis, CPA, Auditor-Controller*

SANTA MARIA CEMETERY DISTRICT
AGREED-UPON PROCEDURES REPORT – INTERNAL CONTROLS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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**INDEPENDENT ACCOUNTANT'S REPORT ON THE APPLICATION OF
AGREED-UPON PROCEDURES**

We have performed the procedures described in Attachment I, which assist the Santa Barbara County Grand Jury in evaluating the Santa Maria Cemetery District's (the District's) internal control structure over receipts and disbursements for the fiscal year ended June 30, 2007. The District's management is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the *Government Auditing Standards*, issued by the Comptroller General of the United States. The sufficiency of the procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representations regarding the sufficiency of the procedures described in Attachment I either for the purpose for which this report has been requested or for any other purpose. The procedures we performed and our associated findings and recommendations are presented below in Attachment I.

We were not engaged to, and did not perform an audit of the matters addressed herein, the objective of which would be the expression of an opinion on such information. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the District's Board of Trustees and the Santa Barbara County Grand Jury and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Robert W. Geis, CPA
November 16, 2007



ATTACHMENT I

PROCEDURES, FINDINGS, RECOMMENDATIONS, AND RESPONSES

Finding No. 1 - Segregation of Duties

We evaluated the Business Manager's key duties and responsibilities to determine if adequate segregation of duties exists at the District.

Presently, the Business Manager prepares and approves claims, collects and deposits cash receipts, performs all payroll duties, and makes entries to the general ledger. To the extent possible, duties should be segregated to serve as a check and balance on an employee's integrity and to maintain the best control system possible.

Although the District's Board of Trustees approves the monthly Financial Report as a mitigating control, the approval was not evidenced through sign-off or sufficient detail, including the month approved, in the meeting minutes.

We recommend the District implement the following procedures to mitigate the risk from insufficient segregation of duties:

- Board sign-off, after the fact, on a detailed list of all District transactions including payroll.
- Perform an analytical review of District revenues and expenditures on a monthly basis.
- Include sufficient detail in the meeting minutes of Board Financial Report approval.

Management's Response:

The Board in the past reviewed a detailed list and did in fact sign off on the expenditures; unfortunately, the reports fell to the wayside. We will begin the practice again.

Revenue Cycle Internal Controls

We performed testing over the District's revenue collection cycle for burials and lot sales. Procedures included verification of the following:

- Revenues were appropriately recorded in the District's burial log.
- Receipts were deposited timely, issued to customers, and recorded in the receipt journal.

- Amounts charged to customers were in accordance with the District’s fee schedule.
- Burial and plot sales were appropriately recorded on the wall map and / or plot book.
- A review of the District’s fee schedule to ensure that all fees were recorded in the District’s financial records.

Finding No. 2 - Untimely Deposits - Our testing in the area of receipts revealed that the District is not making deposits in a timely manner. In our sample of 40 revenue transactions, we noted that 19 were deposited in excess of 10 days. Failure to make timely deposits increases the risk of loss or misuse of funds.

To strengthen controls in this area **we recommend** that deposits be made within 10 days. Furthermore, the District should display signage communicating the policy that cash payments are no longer accepted.

Management’s Response:

The deposits will be made within 10 business days.

Finding No. 3 - Supporting Documentation – Receipts - During our review we noted that the District uses a deposit log and receipt book, however, copies of receipts provided to customers are not maintained. We noted several instances where information in the deposit log was modified from the carbon copy of the original receipt. Lack of sufficient documentation to support customer receipts may result in inaccurate information maintained in the deposit log.

We recommend that the District employ procedures to maintain copies of receipts provided to customers.

Management’s Response:

The journal log is a carbon copy of the receipt given to the customer, the only changes to the journal log were for clarification of who purchased the lots or paid for service fees.

Finding No. 4 - Headstone Setting Fees - According to California Health and Safety Code § 9083 “a board of trustees may charge a fee to cover the cost of any other service that a district provides or the cost of enforcing any regulation for which the fee is charged.” Furthermore, American Jurisprudence on Municipal Corporations § 174 states that governmental or legislative functions of a municipality cannot be delegated to private entities.

We noted that the District delegated its fee setting authority to a private individual by contractually authorizing him to collect and charge headstone setting fees. Furthermore, these revenues and expenditures are not recorded on the books of the District. Because it is the District’s responsibility and authority to charge fees for marker setting services, the related revenues and expenditures should be recorded in

the District's financial records. The failure to collect and report revenues and expenditures may result in misstatement of the District's financial statements.

We recommend that the District collect and record all headstone setting fees.

Management's Response:

Since Aug 07, the District has been receiving and recording the revenues from the headstone settings and having our staff set the stones.

Accounts Payable Disbursement Cycle Internal Controls

We performed testing over the District's accounts payable disbursement cycle. Procedures included verification of the following for selected accounts payable transactions:

- Payee and amounts agreed to the invoice or other supporting documentation.
- Payments were approved by authorized District personnel.
- Invoice number fields were utilized to prevent duplicate payments.
- Expenditures appeared reasonable as to business purpose.
- The Board of Trustees approved the District's monthly Finance Report.

Finding No. 5 - Supporting Documentation – Invoices - To ensure that purchases made on the District's behalf are for allowable business expenditures, the District should maintain itemized receipts as adequate support. We noted that six charges from our sample size of five credit card statements contained insufficient supporting documentation. Five charges were for recurring Internet service fees and for one charge insufficient detail, a non-itemized restaurant credit card receipt, was obtained to substantiate a \$741 cost for an "awards ceremony."

In our sample of 35 expenditures we noted that one payment was made from a vendor's statement without sufficient detail. Not obtaining adequate support for District expenditures could result in the payment of unauthorized expenditures.

We recommend that a formal credit card policy be adopted guiding the use and restrictions of District credit cards. Furthermore, we recommend that the District require that itemized receipts be maintained for all expenditures. Adequate support for recurring credit card charges should include a copy of the invoice or a service contract.

Management's Response:

The five charges for recurring internet service fees were for the Santa Maria Cemetery District and this is the email account for the District, unfortunately ISP's do not send out monthly statements for their billing.

Finding No. 6 - Invoice Number Field - The invoice number field on the claim form serves as a control over duplicate payments. While to our knowledge there were no duplicate payments for the period we examined, we noted that the invoice number field on the claim form was not always utilized by the District.

We recommend that the District utilize the invoice number field on the claim form when paying invoices. If an invoice number is not provided by a vendor we recommend that the District determine a methodology for applying an invoice number.

Management's Response:

If a claim has an invoice number then I include it in the invoice number field. I will work on creating a system to generate invoice numbers for those that were not numbered.

Payroll Disbursement Cycle Internal Controls

We performed testing over the District's payroll disbursement cycle. Procedures included verification of the following for selected payroll transactions:

- Monthly timecards were signed by employees.
- Pay rates were approved by the District's Board of Trustees and calculated accurately.
- Employees were paid for the appropriate number of hours.
- IRS Form W-4 exemptions were accurately reported to the District's payroll provider, ADP.

Finding No. 7 - Personnel Files - To ensure compliance with applicable District policies and IRS rules and regulations, employee files should be established for all District employees and maintained in accordance with applicable document retention requirements. We noted that personnel files did not exist for two District employees. Furthermore, we noted two instances where IRS Form W-4s were not available to support the number of exemptions filed by the employee.

We recommend that the District employ procedures to maintain current personnel files for employees and retain pertinent documentation in accordance with applicable requirements.

Management's Response:

I provided you with all of the IRS Form W-4's and, with the exception of a retired employee, have personnel files for all other employees. The retired employee has not worked here for over 2 years; therefore, his personnel file was not maintained by our District.

Santa Barbara County Internal Audit Division’s Response:

IRS Forms W-4 and personnel files for individuals were created and signed subsequent to our request for documentation.

Finding No. 8 - Salary Rates - While conducting our procedures we noted one instance where the appropriate salary authorization and job responsibility information was unavailable for an employee. We noted one additional instance where an employee pay increase was not accurately calculated. Lack of salary authorization information and independent checks on calculation of pay increases the likelihood that employees are under or overpaid.

We recommend that the District obtain and maintain current salary authorization information for all employees. Furthermore, pay increases should be verified by an additional individual before payment.

Management’s Response:

I have since provided the personnel file and the Salary schedule along with a copy of the MOU. I have since corrected the employee’s salary and will in the future have the Financial Director review all salary increases.

Santa Barbara County Internal Audit Division’s Response:

The personnel file was created subsequent to our request for the file.

Other Procedures

Other areas we performed procedures over included the Angel of Hope Monument agreement, vehicle maintenance and use of the District’s Suburban, cell phone use, board authorization of health insurance for retirees, and burial plots purchased by Board Members and / or employees.

Finding No. 9 - Angel of Hope Land Use and Monument Maintenance – The District’s Board of Trustees accepted the donation of an Angel of Hope statue on March 20, 2006. We reviewed documentation including legal opinions related to the Angel of Hope Monument. We noted that the District has no agreement in place for the sale / use of cemetery land, brick sales, or future maintenance of the monument and surrounding grounds related to the angel project. The lack of an agreement is a failure of internal control procedures and could result in various legal complications.

Furthermore, we noted that the District retained two attorneys to determine whether an individual board member had a financial interest in the sale of bricks related to the project. The attorney’s legal opinions differed depending upon assumption of facts. Attorney fees for the District amounted to \$646 and \$5,178 in fiscal years ended 2006 and 2007, respectively. July 1, 2007 through October 4, 2007, attorney fees paid by the District amounted to \$15,219. Increased attorney’s fees result in a decrease in revenues available to fund District operations.

We recommend that the District enter into an agreement for the angel project that includes the criteria listed above. Furthermore, any board member with a potential conflict of interest, even through appearance, should abstain from voting on the agreement.

Management's Response:

In regards to the Angel of Hope, it was the Board's understanding that the Angel was being gifted to the District and were not aware of the Angel Groups intention to continue to sell bricks after the monument was placed on Public land.

Finding No. 10 – Vehicle Use and Maintenance – We reviewed the District Suburban's maintenance invoices noting that the Suburban averaged approximately 14 miles per day during the fiscal year ended June 30, 2007. The number of miles appears excessive solely for business purposes. IRS requires an employer to annually report all applicable wages and fringe benefits earned by its employees during the previous calendar year. The IRS further holds that allowing personal use of a business vehicle by an employee constitutes a taxable benefit which must be reported on the annual IRS Form W-2. During the tax year 2006, we noted that taxable benefits related to personal use of the District vehicle were not included on employees' IRS Form W-2's.

We recommend that the District evaluate whether the Suburban is used for personal purposes and if so, report the fringe benefit on IRS Form W-2.

Management's Response:

I do not use the vehicle for personal use at all.

Finding No. 11 – Cell Phone Plan – We noted that the District spent \$1,041 during the fiscal year ended 2007 on cell phones. Using cell phones instead of radios may result in less funding available for District operations.

We recommend that the District evaluate the business necessity of cell phones and potential cost savings from utilizing radios.

Management's Response:

Our current cell phone contract was up in Oct 07. That contract has been discontinued and we currently have only 1 cell phone for the District.

Procedures we performed on the board authorization over health insurance for retirees and burial plots purchased by Board Members and / or employees included a review of the District's board authorization for retiree health benefits and scanning the computer generated burial plot book. We noted that neither the District Manager nor any Board of Trustee members acquired burial plots within the last two years.