



Internal Audit

Finance - Bonds

September 2011

Bernalillo County Internal Audit Finance - Bonds

Executive Summary

SUMMARY OF PROCEDURES

REDW performed an internal audit of Bernalillo County bond issuance procedures and processes. Our internal audit focused on determining if reasonable internal controls were in place and being followed to initiate, track, record and safeguard the County's bonds.

We performed a variety of procedures, including:

- Obtaining an understanding of bond transactions and how they were initiated, executed and recorded.
- Determining whether bonds were properly tracked and proceeds were spent in accordance with Internal Revenue Service (IRS) and County requirements and the budgeted purpose.

SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

We found areas during the course of the audit where controls were functioning properly and established procedures were followed. All expenditures tested for bond proceeds were spent for the correct purpose.

There were no high or moderate risk observations found during the audit. The lower risk observations are included in the attached detailed report.

* * * * *

Further detail of our purpose, objectives, scope, procedures, observations, and recommendations is included in the internal audit report. In that report, management describes the corrective action being taken for each observation.

REDW LLC

December 14, 2011

Bernalillo County Internal Audit Finance - Bonds

Table of Contents

	<u>Page</u>
INTRODUCTION	1
PURPOSE AND OBJECTIVES	1
SCOPE AND PROCEDURES PERFORMED	1
OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES	2

Bernalillo County Internal Audit Finance - Bonds Report

INTRODUCTION

We performed the internal audit services described below solely to assist Bernalillo County in evaluating and testing controls in place to initiate, track, and record County issued bonds. Our services were conducted in accordance with the Consulting Standards issued by the American Institute of Certified Public Accountants, Generally Accepted Government Auditing Standards, and the terms of our contract agreement for internal audit services. Since our procedures were applied to samples of transactions and processes, it is possible that significant issues related to the areas tested may not have been identified. An entrance conference was held on September 19, 2011 at which time most items needed for the audit were requested. The last audit requests were received on November 15, 2011. An exit conference was held on January 12, 2012, and final management responses were received on January 13, 2012.

Although we have included management's responses in our report, we do not take responsibility for the sufficiency of these responses or the effective implementation of any corrective action.

PURPOSE AND OBJECTIVES

Our internal audit objective was to determine if bond proceeds were spent in accordance with IRS regulations and County policies and procedures and to analyze issuance costs for reasonableness.

SCOPE AND PROCEDURES PERFORMED

In order to gain an understanding of the processes and operations for bonds we interviewed the following people:

- Teresa Byrd, Deputy County Manager of Finance
- Barbara Corriz, Budget Accountant
- Cindy Torres, Finance Accountant
- Paul Donisthorpe, Municipal Advisor

In addition to our interviews we read the following:

- Internal Revenue Code (IRC), Section 148 – Arbitrage
- New Mexico State Statute (NMSA 1978) 6-8-10, and certain sections of 6-10

We performed the following test work:

- We selected the three most recent bond sales and tested to determine if:
 - The total bond sale amount was reflected in the Appropriations and Encumbrances schedule (i.e. fully budgeted);
 - The proceeds were expended in accordance with the IRC Section 148 spending requirements;
 - The bond yield was in excess of the interest earned in the Arbitrage Rebate calculations; and,
 - The bond issuance costs were reasonable.
- We selected a statistical sample of 57 expenditures from July 1, 2009, through June 30, 2011, (based on 95% confidence level (CL) and 5% tolerable deviation (TD)) and tested to determine if the expenditure was consistent with the Internal Order and description of the project, and if the expenditure was recorded to the proper department and fund.

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

We identified the following weaknesses relating to bond processes and internal controls:

1) *Bond Yield Analysis*

The County's analysis to determine if the interest income earned is in excess of the bond yield for tax-exempt bonds was not formally documented and thus the County was unable to provide documentation supporting reviews had taken place and the County was in compliance with the IRS requirements. After audit work was completed, the County was able to provide documentation showing compliance with IRS requirements.

Recommendation

The bond yield analysis should be formally documented and contain evidence that it has been reviewed by appropriate personnel. This documentation should be retained for future reference.

Management Response

The arbitrage schedules are sent to the County's financial analyst contractor every six months for evaluation and preparation of arbitrage reports. The current arbitrage reports have been prepared as required for all current county bonds as of June 30, 2011 and are retained in county records. The reports were reviewed and they indicated no arbitrage rebate due. The County will monitor to insure the reports are prepared and reviewed timely.

2) Cross Training

The County utilizes an Excel workbook to consolidate the bond information stored in the SAP software into a more user friendly and summarized format. This workbook is the primary tool used by management to monitor the overall spending of bond monies. Currently, the County relies on one individual for the maintenance of these spreadsheets. Written procedures for updating this workbook have been formulated but never tested.

Recommendation

Due to the complexity of the Excel workbook, another individual should execute the written procedures to ensure the steps outlined are clear and performable. Periodically, this alternate employee should perform the procedures to safeguard the County in the event the primary employee is unavailable to perform this duty.

Management Response

The county’s information for bond balancing is compiled directly from the SAP system, but due to the complexity the SAP system is unable to create the summary financial report that is provided to management on a monthly basis and therefore, is prepared and maintained manually. The summary financial report is reconciled and balanced to the SAP system monthly. The report and the procedures are maintained in a share drive and have been available since 2009. The detailed procedures are currently being tested and updated and will continue to be reviewed on a quarterly basis. In addition to the current review, all prior transactions have been reviewed by a supervisor as part of our standard operating procedures.

* * * * *

This report is intended for the information and use of Bernalillo County management, the audit committee, members of the board of commissioners of Bernalillo County and others within the organization. However, this report is a matter of public record, and once accepted its distribution is not limited.

REDW LLC

December 14, 2011