

# JAMES MOORE & CO., P.L.

CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable County Council Members  
of the County of Volusia, Florida:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Volusia, Florida, as of and for the year ended September 30, 2006, which collectively comprise the County of Volusia, Florida's basic financial statements as listed in the table of contents and have issued our report thereon dated February 7, 2007. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Clerk of the Circuit Court, County of Volusia, Florida and Emergency Medical Foundation, Inc., as described in our report on the County of Volusia, Florida's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by the auditors.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the County of Volusia, Florida's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County of Volusia, Florida's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described below.

### **VOTRAN Accounting**

The County contracts with McDonald Transit Associates, Inc (McDT), to manage and operate its public transit system, or VOTRAN. To carry out its responsibilities under the contract, McDT established Volusia Transit Management, Inc. (VTM), a wholly owned subsidiary of McDT.

As part of its operations, VTM maintained several bank accounts to receive and expense funds for operating activities not the direct responsibility of the County, and for paratransit services to transport Medicaid-eligible recipients.

In the performance of our audit procedures, it was noted the finance director at VOTRAN had incompatible duties related to the handling of cash. These duties/responsibilities included check preparation, check signing, bank deposit preparation, recording of cash receipts, review of bank reconciliations and preparation of journal entries for submission to the County's Accounting department. Although a second signature was required on each check, a stamp was often used as the second signature. In addition, check registers were manually prepared.

Internal controls are designed to safeguard assets and help prevent or detect losses from employee dishonesty or error. In the performance of our audit procedures, no improprieties related to the VOTRAN cash accounts were found. However, we believe the following practices should be implemented to improve internal control as well as efficiency:

- Mail should be opened by an employee independent of accounting, and a record of cash receipts maintained.
- The person preparing bank reconciliations should not have related cash receipt or disbursement duties. Bank statements, canceled checks, and enclosures should be received by someone other than employees maintaining cash records. Such items should be periodically reviewed prior to completion of the reconciliation. Unusual items noted during the review should be investigated promptly.
- Bank deposits should be prepared by someone independent of the cash recording process.

A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

### **Management Comments**

Our report on internal control over financial reporting has been presented in the previous section of this report. The purpose of this section is to disclose conditions, which do not materially affect the financial statements of the County of Volusia, Florida. The following comments and recommendations are made to assist the County Council and management in administering future operations.

#### **Risk Management**

The County is self insured for certain risks such as workers' compensation, general liability, automobile liability, and property damage. Annually, the County obtains actuary reports to determine estimated losses outstanding for those risks. Currently, the primary use of the actuary report is to record the estimated claims liability for financial statement reporting purposes. The actuary report includes information on trends and anticipated maximum loss exposures by type and year.

1) We recommend the County have an independent analysis of the information in the actuary report. This analysis should include the identification of unexpected trends, large changes in estimates, and the expected penetration of reinsurance. This information is critical in determining the suitable amount of reinsurance coverage and should be used to skillfully negotiate premiums with the reinsurer. Throughout the year, the County should also have an analysis performed of the underlying claims data to determine if claims are being managed efficiently and effectively. For example, some of the analyses the County should address are claims closure rates, average costs per claim, costs per medical only claims, and claims per adjuster. This information should then be compared to industry benchmarks. Armed with this data, the County could rest assured they have mitigated overall risk to the maximum extent possible.

2) Risk Management does not have written policies documenting job responsibilities and daily functions, procedures to be performed on a regular basis, month-end procedures, or internal controls. We recommend Risk Management reinforce policies in a formal written document to ensure employees are adhering to the policies and internal controls. Such policies should include but are not limited to the following:

- Personnel job descriptions.
- Duties to be performed by staff.
- Documentation of internal controls.
- Policy in regards to administration of invoices.
- Policy in regards to approval of payments and reserve estimates.
- Policy requiring frequent status update documentation in claim files.
- Documentation of reports to be run on a regular basis.
- Dollar thresholds requiring additional reviews.
- Items required to be reported to the claims committee.

The creation of a policy document will reduce the risk of deviation from policy, provide guidelines for improved workflow, and enable easier transitions in case of employee turnover.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the County of Volusia, Florida's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the County Council and management, the Auditor General of the State of Florida, and respective federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Daytona Beach, Florida  
February 7, 2007