AUDITOR/CONTROLLER-RECORDER
COUNTY CLERK

COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830
RECORDER • COUNTY CLERK • 222 West Hospitality Lane, First Floor
San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-9050

LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK, CGFM
Assistant Auditor/Controller-Recorder
Assistant County Clerk

December 23, 2008

Bill Postmus, Assessor
Office of the Assessor
172 W. Third Street, 5th Floor
San Bernardino, CA 92415

SUBJECT: AUDIT OF ASSESSOR CASH CONTROLS

Introductory Remarks

In compliance with Article V, Section 6, of the San Bernardino County Charter, the Board of Supervisor's Policy Statement on Internal Operational Auditing, and the Internal Controls and Cash Manual (ICCM), we have completed a cash controls audit of the Assessor's Office (ASR). Our audit was conducted in accordance with the Standards for the Professional Practice of Internal Auditors.

Background

The Board of Supervisors, by resolution, establishes cash funds for county departments to facilitate their operations. The Board has delegated the County Auditor/Controller-Recorder (ACR) the authority to establish cash funds up to $2,500. Several different types of cash funds are used throughout the County, including petty cash funds, change funds, and cash shortage funds. Ordinarily, departments use petty cash funds to buy small items, change funds to make customer change and cash shortage funds to reimburse cash shortages that occur during daily operations. Although these cash funds may differ in amount and purpose, the general guidelines governing their establishment, maintenance, dissolution and reconciliation is the same. Departments designate a fund custodian to be in charge of the fund. At all times the fund custodian must be able to account for the fund in the form of cash, vouchers and receipts. Periodically, ACR Internal Audits Section performs surprise cash counts of these cash funds. Upon demand of ACR or the Board of Supervisors, a department's Fund Custodian is to give an accounting of the fund.

ACR has documented some general cash controls in the ICCM for departments with cash funds. However, each department head or authorized designee is responsible to develop and implement the necessary guidelines and procedures required to control, safeguard and handle cash.

Objectives, Scope and Methodology

Our overall objective was to determine whether cash handling controls practiced by the ASR effectively safeguard cash. Specific audit objectives were to determine whether:

1. ASR properly maintained and secured its change fund.
2. ASR made deposits timely and intact.
3. ASR practiced adequate cashiering controls.
4. ASR properly maintained and secured its petty cash fund.

We reviewed internal controls over cash for the period of March 1, 2008 through May 31, 2008. Our audit included surprise cash counts, verification of deposit records, inquiries of staff, observation of cash handling procedures and other audit procedures considered necessary.

Conclusion

As a result of our analysis and tests performed, we concluded that cash handling controls practiced by the ASR did not always effectively safeguard cash. We determined that:

1. ASR did not appear to properly maintain and secure its change fund.
2. ASR made deposits intact; however, they were not always timely.
3. ASR did not practice adequate cashiering controls.
4. ASR did not appear to properly maintain and secure its petty cash fund.

We identified several procedures and practices that could be improved. We have listed these areas and our recommendations for improvement in the Findings and Recommendations section of this report.

We sent a draft report to ASR on 10/07/08 and discussed our observations with management on 10/16/08. The department's responses to our recommendations are included in this report.

Findings and Recommendations

Finding 1: Unauthorized Change Funds.

According to the Internal Controls and Cash Manual (ICCM), Chapter 4, to establish a cash fund, departments must submit a memo to the ACR Internal Audits Section

requesting authority to establish a cash fund. If the amount is over $2,500, the department must also obtain approval from the Board of Supervisors. All requests must state the purpose and justification for establishing the fund. According to the Administrative Supervisor in the San Bernardino office, these change funds were developed informally when district offices started charging fees for maps copies, print outs, etc. by the staff holding back a few dollars so that they could make change in the future. In addition, the district office in Big Bear uses its cash to purchase stamps for office use. The staff was probably unaware that there was a formal procedure for establishing and maintaining these funds. Since the department did not establish their change funds properly, the revenues were not reported correctly. The department using the change fund as a petty cash increases the risk of a loss due to theft, misappropriation or lost cash receipts.

Recommendation:
All revenues should be deposited in the appropriate revenue source code. Any overages should be deposited into the Cash Overage Fund (Fund AOV-Dept OVR) using the agency's Org code and Revenue Source code 9970 - Other Revenue. (California Government Code, Section 29375). We also recommend that the department follow the procedures for establishing a new change fund in the Internal Controls and Cash Manual, located on page 4-3.

Management's Response:
We concur with the finding that we have unauthorized change funds. However, the Assessor's Office has previously established separate revenue source codes designated for each type of revenue (e.g., exclusion fees, maps, PIMS access, etc.) and revenues are currently deposited into the appropriate one. Change funds will be formally established for each district location. The Big Bear district has been advised to discontinue making purchases from their cash fund.

Auditor's Response:
The Department's planned actions will correct the deficiencies noted in the finding.

Finding 2: Lack of Segregation of Duties.

Per ICCM, Chapter 2, management should not assign any one person concurrent duties that would allow him/her complete control over a transaction. The district offices have one person completing all transactions associated with the change funds. Auditor noted that it may be difficult to segregate the cash process, because there are a limited number of employees in the district offices. Since the department does not separate the duties of maintaining, recording and reconciling cash receipts, an employee could misappropriate cash and conceal it.

Recommendation:
We recommend that management segregate the cash handling and bookkeeping duties. For example, one employee should handle everything associated with custody of cash (collecting cash receipts, preparing deposits, and disbursements), another

employee should handle accounting for the cash (recording) and another employee should handle reconciling the cash and transactions.

Management's Response:
We concur with this finding. Management will review the current cash handling procedures with district staff. Efforts will be made to segregate duties whenever possible; however, in the smaller districts due to very small staffs, this may prove to be difficult. We feel that risk exposure is low due to the relatively small amount of cash being handled (a $60 cash drawer and typically less than $70 in receipts weekly).

Auditor's Response:
The Department's response provides a plan to correct the deficiencies described in the finding only for larger district offices. It does not clearly correct or provide a plan to correct the deficiencies in the smaller district offices.

The office of the Auditor/Controller-Recorder recommends that for district offices too small for proper segregation of duties, the office seal the daily cash, z-tapes and vouchers in a non-reusable bank bag. Bank bags are available from the Fund Accounting Section of the office of the Auditor/Controller-Recorder at no cost. The bags should then be safeguarded in the district office's safe. Weekly (or more frequently if possible), the bags should be taken to the Administration office. There should be a form documenting the change of custody from the cashier to the person transporting the bags and then to the person receiving the bags in Administration. One Administration staff person should reconcile the cash, Z-tapes and vouchers. Another Administration staff member should create the deposit. This would provide a proper segregation of duties.

Finding 3: Lack of Accountability for Cash.

Management should assign each employee his or her own cash box as noted in Chapter 3 of the ICCM. The district offices kept the change funds in locked cabinets or desk drawers, and kept the key nearby for any employee to work from the cash box. The funds are left accessible to everyone in the department because there is not one single person assigned to receive cash. Since the department does not effectively limit the access to the cash funds, there is a risk of monies being lost or misappropriated.

Recommendation:
We recommend that management either designate one person to receive cash receipts or assign all employees who receive cash receipts his/her own cash box.

Management's Response:
We concur that there is a lack of accountability for cash as defined in the paragraph above; however, we would like to clarify that cash is always kept locked and secured when an employee is not present. Management will review the current cash handling procedures with district staff. One person will be designated to receive cash receipts in the larger districts as recommended. In the smaller districts, efforts will be made to

segregate duties whenever possible; however, due to very small staffs, this may prove to be difficult. We feel that risk exposure is low due to the relatively small amount of cash being handled (a $60 cash drawer and typically less than $70 in receipts weekly).

Auditor's Response:
The Department's response provides a plan to correct the deficiencies described in the finding only for larger district offices. It does not clearly correct or provide a plan to correct the deficiencies in the smaller district offices.

The office of the Auditor/Controller-Recorder recommends that, for district offices too small for proper segregation of duties, cash drawers be counted whenever cashiers change and the count and transfer of custody be documented in writing.

Finding 4: Noncompliance with Proper Safe Access Procedures.

Per the ICCM, Chapter 3, management must change the combination to the department's safe when an employee who has knowledge of the combination terminates County employment, is transferred to another County department, or is assigned other duties. If there are no staffing changes, management must change the combination at least annually. The department does not change the safe combination at least annually. Management was unaware of this policy. Since the department did not change the combination, an unauthorized individual may gain access to the safe and misappropriate cash.

Recommendation:
We recommend that management require the safe combination be changed whenever an employee who has knowledge of the combination leaves the department or is assigned other duties. Even with no staffing changes, the combination must be changed at least annually.

Management's Response:
We concur that the safe combination had not been changed in more than one year. The safe combination has been changed effective 10/23/08. This will be done annually from now on.

Auditor's Response:
The Department's actions will correct the deficiencies noted in the finding.

Finding 5: Failure to Make Timely Deposits.

The ICCM, Chapter 3, requires departments to deposit cash receipts by the next business day when the amount of receipts reaches $1,000. If lesser amounts are collected, the department should deposit cash receipts at least weekly. The district offices hold receipts until someone in the office goes into the Administration office, located in San Bernardino. Some of the offices held very old receipts, both cash and checks, the oldest noted was from July 2007. According to the district offices, they only

make deposits periodically because it is not cost effective to drive to San Bernardino to turn in deposits. If a department does not make deposits timely, they can accumulate large sums of money. Accumulating large sums of money increases the risk of a loss due to theft, misappropriation or lost cash receipts.

Recommendation:
We recommend that deposits of all monies collected be turned into Administration when the dollar amount reaches $1,000, or at least weekly if lesser amounts are collected.

Management's Response:
We concur with this finding. Efforts will be made to make weekly deposits and, in cases where the amount exceeds $1,000, daily deposits. Deposits are centrally processed by the Admin Services division located in San Bernardino. For the valley districts, weekly deposits won't be a problem as they already come to the San Bernardino location weekly to pickup mail; however, for the districts located in the high desert and out as far as Yucca Valley and Needles, deposit will likely be brought in monthly. We feel that risk exposure is low due to the relatively small amount of cash being handled (a $60 cash drawer and typically less than $70 in receipts weekly).

Auditor's Response:
The Department's response provides a plan to correct the deficiencies described in the finding only for the valley district offices. It does not clearly correct or provide a plan to correct the deficiencies in the high desert district offices.

As stated in the auditor's response to finding 2, the office of the Auditor/Controller-Recorder recommends that the outlying district should seal the daily cash, z-tapes and vouchers in a non-reusable bank bag. Bank bags are available from the Fund Accounting Section of the office of the Auditor/Controller-Recorder at no cost. The bags should then be safeguarded in the district office's safe. Weekly, the bags should be taken to the Administration office. There should be a form documenting the change of custody from the cashier to the person transporting the bags and then to the person receiving the bags in Administration. Sealing the bags, keeping them secured, and providing a chain of custody will increase internal controls over cash even if the weekly deposit goal is not achieved. In addition, this method will allow non-fiscal staff to deliver the bags when traveling to San Bernardino for an unrelated reason.

Finding 6: No documented departmental policies and procedures available to staff to follow.

According to the ICCM, Chapter 3, each department head or authorized designee has the responsibility to develop and implement the necessary guidelines and procedures required to ensure the control, safeguarding and handling of cash and cash equivalents. The departmental policies or procedures in place for the change funds were not distributed to the district offices. Without the necessary guidelines, staff is not aware of the appropriate controls to adhere to when handling and maintaining cash.

Recommendation:
We recommend that management distribute the necessary guidelines and procedures to the staff that handles the cash.

Management's Response:
We do NOT concur with this finding. The Assessor's Office has an established policy on Cash Control (P10-24) which was provided to the auditor at the exit interview. It is available on the department's intranet site and in hard copy in each work unit. Management will review the policy with staff to ensure proper cash handling.

Auditor's Response:
The office of the Auditor/Controller-Recorder has a responsibility to report any and all deficiencies noted during an audit. The policies were not provided during the audit. The Department's review of the policy with staff will correct the deficiencies noted in the finding.

Finding 7: Non Compliance with Proper Receipt Voiding Procedures.

The ICCM, Chapter 6, requires obtaining supervisor's approval of void receipts at the time of occurrence, printing the word "VOID" in large letters on the receipt and initialing, and attaching all copies of voided receipts to the receipt book. There was no departmental policy requiring supervisor approval of voids. Instead, the void was noted on the register tape and reconciled at the end of the day. Management was unaware of this policy. The lack of compliance with the proper void procedures increases the risk of a loss due to theft, misappropriation or lost cash receipts.

Recommendation:
We recommend that management require supervisory approval of voided receipts at the time of occurrence.

Management's Response:
We concur with this finding. Management will review proper receipt voiding procedures with staff. Supervisors will be required to approve all voided receipts at the time of occurrence. Efforts will be made to implement this procedure in the smaller districts but due to limited staff and the possibility that the supervisor may be out in the field at the time of a void, there may be times this is not possible. We feel that risk exposure is low due to the relatively small amount of cash being handled (a $60 cash drawer and typically less than $70 in receipts weekly).

Auditor's Response:
The Department's response provides a plan to correct the deficiencies described in the finding only for larger district offices. It does not clearly correct or provide a plan to correct the deficiencies in the smaller district offices.

Anyone of a higher job code and not a casher themselves can approve voids if so authorized by your department. Authorizing more staff to approve voids might correct the deficiencies noted in the finding.

Thank you very much for the cooperation extended by your staff during the course of this audit.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By: _____
Howard Ochi, CPA
Chief Deputy Auditor
Internal Audits Section

Copies to:

County Administrative Officer
Board of Supervisors (5)

Audit File (3)
Date Report Distributed: 12/30/08

LDW:HMO:DH:LL:mah