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September 16, 2009

Roger Weaver, Director
Fleet Management Department
210 North Lena Road
San Bernardino, CA 92415-0842

SUBJECT: FLEET MANAGEMENT CASH CONTROLS AUDIT

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 an audit of the Fleet Management Department (Department). Our audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

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 department effectively safeguarded cash assets. The specific audit objective was to determine whether the department 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, 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 department did not always effectively safeguard cash. However, we determined that the department appeared 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 the department on July 31, 2009 and discussed our observations with management on August 11, 2009. The department's responses to our recommendations are included in this report. Management's responses have not been altered in any way and are included below as they were provided to us.

Findings and Recommendations

Finding 1: Inadequate Petty Cash Procedures

Per the Internal Controls and Cash Manual (ICCM), page 4-10, a department employee must complete the petty cash voucher in permanent ink, stating the date, purpose for expenditure and the amount to be expended. An authorizing employee of a higher-ranking job code than the requestor must approve the voucher. The employee receiving the cash signs the voucher and presents it to the fund custodian. During the audit period, department employees did not obtain pre-authorization for petty cash expenditures. In addition, staff did not sign to verify receipt of funds when reimbursed. Without adequate petty cash procedures, the risk of a petty cash fund being misappropriated increases.

Recommendation:

The department should assign an authorizing employee of a higher ranking job code than the requestor to approve expenditures and have employees sign to verify receipt of funds.

Management's Response:

We agree with the Finding and Recommendation and have revised our procedures to correct the deficiency. Rather than using a petty cash voucher (as outlined in the ICCM), we are utilizing a payment voucher. This document is signed by the employee requesting payment and approved by the employee's supervisor or their designee. For petty cash (cash on hand) disbursements, we require the employee name, vehicle and department be submitted to us. This is then initialed and dated by the supervisor.

Auditor's Response:

The Department's response addresses plans of action to correct deficiencies noted in the finding.

Finding 2: Noncompliance with Proper Safe Access Procedures

Per the ICCM, page 3-3, the department is required to change safe combinations when an employee who has knowledge of the combination terminates County employment, is transferred to another County Department, or is assigned other duties. However, if there are no staffing changes, combinations still must be changed at least annually. The department has not changed the combination to the safe in the last year. Additionally, a department employee, who had been assigned other duties, still had the key and knew the combination to the safe. Without proper safeguarding of assets, an individual can open the safe and misappropriate the cash funds.

Recommendation:

The Department should change the combination to the safe when an employee is assigned other duties or leaves the department. Even with no staffing changes, the safe combination must be changed at least annually.

Management's Response:

We agree with the Finding and Recommendation and have implemented a revised policy/procedure to correct the deficiency. The two safe combinations were changed in September and will be changed annually. When employees entrusted with these accounts or combinations are re-assigned or leave the department, the combinations will be changed again.

Auditor's Response:

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

Finding 3: Lack of Monthly Reconciliation

Per the ICCM, page 4-7, county departments must reconcile their cash funds at least once a month. An employee other than the fund custodian and of a higher ranking job code must complete the reconciliation. This independent review will help to ensure that the account reconciles properly to the bank balance and to the authorized amount. During the audit period, the Department did not prepare a monthly reconciliation of their cash on hand. Furthermore, the department did not assign a higher ranking employee to complete the reconciliations. As a result, the department was not aware of a \$470 cash shortage.

Recommendation:

A higher ranking employee should perform a monthly reconciliation of the petty cash funds both to the bank balance and the authorized fund amount. The department should investigate and take appropriate measures to resolve any shortage or overage in the fund in accordance with the ICCM, chapter 4 and 6.

Management's Response:

We agree with the Finding and Recommendation and we are reconciling the petty cash (cash on hand) funds monthly. This is being accomplished by a higher-ranking level employee (Motor Fleet Superintendent). Additional research has yielded documentation and justification to account for much of the identified \$470 "shortage." There remains a shortage of \$242.82. However, the additional effort that will be required to further reduce this shortage amount will far exceed the benefit due to the age of the shortage. Therefore:

A "Request for Relief of Liability" and related FAS Payment Voucher was submitted (shortages of Motor Pool \$115.95) on August 6, 2009.

We will submit a "Request for Relief Liability" and related FAS Payment Voucher for the Garage as appropriate.

Auditor's Response:

The Department's planned actions as well as the actions taken will correct the deficiencies noted in the finding.

Finding 4: Improper Use of Petty Cash Fund

Per the ICCM, page 4-9, the department shall make no disbursement for services in excess of \$25 from the petty cash fund unless expressly authorized in writing by the ACR- Accounts Payable Supervisor.

During the audit period, the Department reimbursed four receipts for services above \$25 without pre-approval from the Accounts Payable Supervisor. Management stated they were unaware of this policy.

Recommendation:

The department should request written pre-approval from the ACR-Accounts Payable Supervisor before using petty cash for services over \$25.

Management's Response:

We agree with the Finding and Recommendation and have revised our policies and procedures to adhere to the requirement.

Auditor's Response:

The Department's actions will 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

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