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July 16, 2009

Granville M. Bowman, Director of Public Works

Department of Transportation
825 East Third Street
San Bernardino, CA 92415

SUBJECT: TRANSPORTATION 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 Department of Transportation (TRA). 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 are 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 safeguard cash. Specific audit objectives were to determine whether:

1. The department properly maintained and secured its cash funds.
2. The department made deposits timely and intact.
3. The department practiced adequate controls for safeguarding assets.

We reviewed internal controls over cash for the period of October 1, 2008 through December 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 department did not always effectively safeguard cash. We determined that:

1. The department did not appear to properly maintain and secure its cash funds.
2. The department made deposits intact; however, they were not always timely.
3. The department did not practice adequate controls for safeguarding assets.

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 June 10, 2009 and discussed our observations with management on June 18, 2009. 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: Management of cash funds needs to be improved

The County's Internal Controls and Cash Manual (1/08), requires the following:

1. All transactions and pertinent events should be accurately and properly recorded on documents and records (Chapter 2).
2. 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 should complete the fund reconciliation (Chapter 4).
3. When a request for petty cash is made, an authorized department employee, which is of a higher-ranking job code than the requestor, needs to approve the voucher (Chapter 4).
4. Petty cash may not be used to purchase services over \$25.00 per invoice or receipt without advance written approval by the ACR-Accounts Payable Supervisor (Chapter 4).
5. Checks should display the words "Void six months from issue date" (Chapter 9).

The following conditions were disclosed during our review:

- Petty cash funds did not have a detailed record of all transactions that occurred, including a current fund balance. Also, it appeared that the person responsible for maintaining the petty cash checking account fund had a difficult time keeping track of receipts since they were being turned in from fourteen different outlying sites.
- Reconciliations on cash funds were not performed.
- Expenditures made from the petty cash checking account fund did not have proper supervisory approval.
- The petty cash fund was used to purchase services without prior authorization from the Accounts Payable Supervisor.
- One check written in September 2006 remained outstanding; the face of the checks did not read "Void six months from issue date."

The department is not practicing the required guidelines for cash fund management as stated in the Internal Controls and Cash Manual. Without effectively practicing the internal controls as stated in the Internal Controls and Cash Manual, the risk of cash funds being misappropriated significantly increases.

Recommendation:

We recommend that management complete the following:

- Implement procedures to have a register for every petty cash fund.
- Ensure all cash funds are reconciled on a monthly basis by someone other than the fund custodian and disbursed according to the guidelines prescribed in the County's Internal Controls and Cash Manual.

- Stale-date any check that has not been presented for payment within six months of issue date and include the phrase "Void six months from issue date" on the face of the checks.
- Establish a separate petty cash fund for the outlying sites that frequently use the petty cash.

Management's Response:

Department concurs with the auditor's findings of these conditions and our response is as follows:

- Implementing procedures to have a register for the petty cash fund.
- Ensure that all cash funds are reconciled on a monthly basis by someone other than the fund custodian and disbursed according to the guidelines prescribed in the County's Internal Controls and Cash Manual.
- Stale-date any check that has not been presented for payment within six months of issue date and include the phrase "Void 180 days from issue date" on the face of the checks.

Auditor's Response:

The Department's response addresses planned actions to correct deficiencies noted in the finding.

Finding 2: Safeguards for cash need to be improved

The ICCM requires the following:

1. Safe combinations should be changed when an employee who has knowledge of the combination terminates County employment, is transferred to another County department, or is assigned other duties. Even if there are no staffing changes, combinations must be changed annually (Chapter 3).
2. A restrictive endorsement stamp needs to be used on all checks and money orders as soon as received (Chapter 3).
3. During breaks or lunches of cashiers, provisions should be made to fix accountability for monies received by the individual providing relief for the cashier (Chapter 6).
4. The person who opens incoming mail is to complete a list, preferably in duplicate and on numbered forms, of the mail receipts received (Chapter 6).

The following conditions were disclosed during our review:

- The safe combination to the safe located at the Contracts section had not been changed in at least three years.
- Check receipts were endorsed only when the deposit was prepared weekly and not immediately when received.

- When the Contracts section secretary was not in, the receipts bag was handled by at least five other staff members, which included a staff member belonging to another section.
- The Permits section did not keep a log of payments received by mail. Therefore, the actual date payments were received could not be determined.
- Checkbooks and receipts were not secure.
 - ◆ One checkbook located in an outlying site was kept in an unlocked desk drawer, easily accessible to other employees while another outlying site's checkbook contained three blank pre-signed checks.
 - ◆ The Contracts section kept the receipts bag in a desk drawer that had no locking device while the Permits section kept receipts in a bin that was located on the Fiscal Assistant's desk.

The department is not practicing the proper cash handling safeguards and controls as stated in the Internal Controls and Cash Manual. The department becomes more susceptible to misappropriations related to cash without the enforcement of adequate safeguards.

Recommendation:

We recommend that management complete the following:

- Ensure the safe combination is changed at least annually and that checks be immediately endorsed upon receipt.
- Implement procedures to have a log of all receipts received by mail.
- Communicate cash handling guidelines stipulated in the County's Internal Controls and Cash Manual, especially those relating to safeguarding cash.
- Periodically monitor and enforce these controls to ensure they are being properly performed.

Management's Response:

Department concurs with the auditor's findings of these conditions and our response is as follows:

- The Contracts Division has instituted new procedures that include no longer using the safe for the storage of monies.
- The monies are in a locked box in a locked drawer.
- Checks are being endorsed with a stamp provided by the Accounting Office as they are received in Contracts and Permits Divisions.
- All monies are taken to the Accounting Office daily by Contracts and Permits Divisions.
- A chain of custody has been established so when the secretary is away from her desk the next staff signs in and verifies the monies. The Division does not want to have any time that a customer has to wait for an employee to be able to purchase plans and special provisions.

- The Permits Division has instituted new procedures as well with keeping a log of all checks received.
- Permits Division sends customers to the Accounting Office to obtain a receipt if they bring in cash.
- Permits have put their monies in a locked box in a locked cabinet.
- The Accounting Office has updated the department "Cash, Check, Money Order and Receipt Handling Procedures".
- The Operations Division will not have any petty cash or checkbooks in the outlying area yards. They will maintain one checkbook in the administrative office in a locked area.
- The Department will periodically monitor the cash control procedures to ensure they are being followed.

Auditor's Response:

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

Finding 3: Failure to make timely deposits

The ICCM, Chapter 3 – Cash Controls, states that County departments must deposit cash receipts by the next business day when the amount of receipts reaches \$1,000. If lesser amounts are collected, deposits should be made at least weekly. On five occasions, the department accumulated cash receipts of over \$1,000 which were not deposited by the next business day. The department makes deposits once per week, regardless of the amount collected. Maintaining large amounts of cash significantly increases the risk of loss due to misappropriation of cash assets.

Recommendation:

We recommend that management ensure that cash receipts be deposited by the next business day when the amount of receipts reaches \$1,000 or at least weekly.

Management's Response:

Department concurs with the auditor's findings of these conditions and our response is as follows:

- The Accounting Office has updated their procedures to make deposits daily.

Auditor's Response:

The Department's response addresses actions taken to correct deficiencies noted in the finding.

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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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