

# AUDITOR-CONTROLLER/ TREASURER/TAX COLLECTOR



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November 25, 2013

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## **SUBJECT: FOLLOW-UP AUDIT OF THE PUBLIC WORKS-SURVEYOR DIVISION'S TRUST FUNDS**

### **Introductory Remarks**

In compliance with Article V, Section 6, of the San Bernardino County Charter and County Policy 02-02 entitled Internal Operational Auditing, we have completed a follow-up audit of Surveyor Trust Funds of the Public Works Department - Surveyor Division (Department). We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

### **Objectives, Scope and Methodology**

The objective of this follow-up audit was to determine whether the Department implemented the five recommendations contained in the June 18, 2009 report, *Audit of Surveyor Trust Fund*. We reviewed the period from July 1, 2012 through April 11, 2013. To determine the implementation status of the recommendations, we:

- interviewed departmental personnel associated with the agency funds
- obtained and reviewed the appropriate supporting documentation

### **Conclusion**

One of the five recommendations from the previous audit report has been implemented by the Department. No further follow-up on this recommendation will be necessary. Another recommendation was partially implemented and the remaining three recommendations were not implemented.

We sent a draft report to the Department and discussed our observations with management on November 6, 2013. The Department's response to our recommendations is included in this report.

### **Prior Audit's Findings and Recommendations with Current Status**

The details of the prior audit's findings and recommendations and their implementation status are below:

#### **Finding 1: Receipts Were Not Always Deposited Timely**

Per the Internal Controls and Cash Manual (ICCM)—Chapter 3, cash must be deposited by the next business day when the amount of receipts reaches \$1,000. If lesser amounts are collected, deposit at least weekly.

Out of 56 sample receipts, 54 were not deposited timely based on this criteria. Accumulating large sums of money increases the risk of a loss due to theft, misappropriation or lost cash receipts.

#### **Recommendation:**

We recommend that management require staff to prepare deposits when the amount of receipts reaches \$1,000 or if lesser amounts are collected at least weekly.

**Current Status: Partially Implemented.** Though the Department has greatly improved the number of deposits made timely—90% compared to 4% in the original audit period, the audit recommendation has still not been completely implemented.

**Management's Response:** Due to staffing shortages, the Department was not able to fully implement all the previous recommendations. Starting in May 2013, new personnel were assigned to the Surveyor's fiscal section which has corrected all of the findings identified during the follow up cash audit performed in April 2013. The Department has fully implemented the recommendation and deposits are now prepared on a daily basis.

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

#### **Finding 2: Reconciliations Were Not Always Completed Timely**

Per Internal Controls and Cash Manual (ICCM), Chapter 13, upon receipt of the FZ403 report from the ACR each month, the department should reconcile it to the department's records.

During the six-month audit period, only one reconciliation of the trust funds was done. Due to the lack of reconciliation, the office of the Surveyor did not prepare a Request for Transfer document to recognize revenue from its trust funds since June of 2008.

**Recommendation:**

To avoid the delayed recognition of revenue, we recommend that management require that staff reconcile the trust funds to the FZ 403 report and prepare the Request for Transfer document monthly.

**Current Status: Not Implemented.** During the nine month follow-up audit period, the Division prepared only five reconciliations.

**Management's Response:** Due to staffing shortages, the Department was not able to fully implement all the previous recommendations. Starting in May 2013, new personnel were assigned to the Surveyor's fiscal section which has corrected all of the findings identified during the follow up cash audit performed in April 2013. The Department has fully implemented the recommendation and reconciliations are now prepared on a monthly basis.

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

**Finding 3: Disbursements Were Not Always Made Timely**

Per the Internal Controls and Cash Manual (ICCM)—Chapter 13, upon receipt of the monthly FZ403 report the trust fund should be reconciled, all open trust cases should be reviewed and trust money be disbursed as soon as possible in accordance with applicable laws.

Out of 54 samples, 51 disbursements were not timely. These disbursements were for April and May of 2008 but were not completed until August of 2008. Lack of compliance with the Internal Controls and Cash Manual may result in inefficient management of trust accounts and the unauthorized holding of money due to customers.

**Recommendation:**

We recommend that management require staff to disburse trust funds as soon as legally available and at least monthly during the reconciliation process.

**Current Status: Not Implemented.** Of the nine disbursements reviewed, four were not disbursed timely.

**Management's Response:** Due to staffing shortages, the Department was not able to fully implement all the previous recommendations. Starting in May 2013, new personnel were assigned to the Surveyor's fiscal section which has corrected all of the findings identified during the follow up cash audit performed in April 2013.

The Department is now preparing monthly reconciliations which allows for the timely disbursements of refund requests. Once the reconciliation is complete any requests to refund

customers received from the Surveyor's division are being processed if it can be verified that there are no pending trust revenue drawdowns for the project(s) that is/are to be accounted for.

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

**Finding 4: Duties Were Not Always Segregated**

Per the Internal Controls and Cash Manual (ICCM)—Chapter 2, no one person should be assigned concurrent duties that would allow him/her complete control over a transaction or an asset.

Currently, the Fiscal Assistant maintains the trust records. In addition, the Fiscal Assistant has the ability, as a backup to other staff members, to receive cash or checks from clients, produce receipts, complete bank deposits and make deposit distributions.

Without segregating duties, any one person could conceal errors and irregularities in the normal course of his/her duties, which could result in ineffective management of cash and an increased susceptibility to theft.

**Recommendation:**

Management should reassign duties so that no one individual has access to the entire trust fund process. Each of the following functions should be segregated: cash receipting, bank deposits, bank reconciliation, cash disbursements, and maintaining the trust records.

**Current Status: Implemented**

**Finding 5: Disbursements Exceeded the Individual Trust Account Balances**

Per Internal Controls and Cash Manual (ICCM)—Chapter 13, deposits that may need to be returned to the depositor must be uniquely identifiable to prevent a withdrawal exceeding the amount on deposit in a specific trust account.

Five of the 54 sampled, disbursements were made in excess of the individual trust account balances.

**Recommendation:**

Management should ensure that each individual trust fund balance is uniquely identifiable and that disbursements never exceed that balance. Once gone, these funds may be difficult to recover from the overpaid customers.

**Current Status: Not Implemented.** Two of the nine disbursements reviewed were in excess of the individual trust account balances.

**Management's Response:** Due to staffing shortages, the Department was not able to fully implement all the previous recommendations. Starting in May 2013, new personnel were assigned to the Surveyor's fiscal section which has corrected all of the findings identified during the follow up cash audit performed in April 2013.

The Department is now preparing monthly reconciliations which are being used to verify if funds are available before processing disbursements of refunds. In addition, staff is also running FAS queries to identify if there have not been any additional transactions affecting the balance after the monthly reconciliation took place.

**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,

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San Bernardino County

By:   
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LDW:DLM:DH:aeb

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