

County of San Bernardino

Auditor-Controller/Treasurer/Tax Collector
Internal Audits Section

County Fire: Customer Receipting Audit



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May 18, 2015

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SUBJECT: CUSTOMER RECEIPTING AUDIT

In compliance with Article V, Section 6, of the San Bernardino County Charter and County Policy 05-20 entitled Internal Operational Auditing, we have completed an audit of the County Fire Department for the period of October 2013 through March 2014. The primary objective of the audit was to determine if internal controls were in place and effective over the customer receipting through depositing process of the County Fire Department's Hesperia Fire Prevention Office and the Fifth Street Administration Office. We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

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

We sent a draft report to the Department on January 29, 2015 and discussed our observations with management on February 3, 2015. The Department's responses to our recommendations are included in this report.

We would like to express our appreciation to the personnel at the County Fire Department who assisted and cooperated with us during this engagement.

Respectfully submitted,

Larry Walker

Auditor-Controller/Treasurer/Tax Collector
San Bernardino County

By:



Denise Mejico
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Enclosure

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County Fire Department: Customer Receipting Audit

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Summary of Audit Results

Our findings and recommendations are provided to assist management in improving internal controls and procedures relating to the Department's cash receipting process.

The table below summarizes the audit findings and recommendations for this audit engagement. For further discussion, refer to the *Audit Findings and Recommendations* section of this report.

Finding No.	Findings and Recommendations	Page No.
1	Finding: Deposits were not made in a timely manner.	6
	Recommendation: We recommend the Department ensure that cash deposits are performed by the next business day if the amount collected reaches \$1,000 or weekly if lesser amounts are collected.	
2	Finding: Segregation of duties needs improvement at the Hesperia location.	7
	Recommendation: We recommend both Management and staff familiarize themselves with the County's ICCM. Management should reorganize assignments with existing staff to have effective segregation of duties and reduce the risk that any one person could conceal errors or irregularities. Documented supervisory reviews over deposits should be conducted to ensure accuracy.	
3	Finding: Cash handling controls over the safeguarding of cash receipts need improvement.	8
	Recommendation: We recommend a list of all mail receipts should be kept and the receiving, opening and distributing of incoming mail must be handled by, or under the supervision of, an employee other than the cashier or person preparing the deposits. We also recommend that combinations to the safe should be changed when an employee terminates County employment, is transferred to another County department, or is assigned other duties. If there are no staffing changes, safe combinations should be changed at least annually.	



Finding No.	Findings and Recommendations	Page No.
4	Finding: There was no verification of monies collected at the end of each business day.	10
	Recommendation: We recommend that both the supervisor and the cashier are present for closing out procedures.	
5	Finding: The cash shortage of \$40 was not reported to the proper entities.	10
	Recommendation: We recommend that the Department follow the proper steps on how to report cash shortages and losses according to the ICCM guidelines.	

- **Finding 1: Deposits were not made in a timely manner.**

During our review of 134 Permits Plus transactions, 134 transactions were not deposited in a timely manner. 127 out of 134 transactions were not deposited within one week. 7 out of 134 transactions were amounts under \$1,000 that were deposited within one week; however the total amount of the business day's receipts exceeded \$1,000. Therefore, the item was required to be deposited by the next business day. During our review of 4 Envision Connect transactions, 4 transactions were not deposited in a timely manner. These transactions were items that were less than \$1,000 and not deposited within one week. A paid on-call Firefighter acts as the courier to transport deposits twice a month from the Hesperia Office to 5th Street and large sums of deposits are hand-carried by the 5th Street Fiscal Assistant to the Treasury.

- **Finding 2: Segregation of duties needs improvement at the Hesperia location.**

The Office Assistant III/Acting Front Counter Technician (OA III/FCT) is responsible for opening the mail, processing and entering mailed-in checks into the Permits Plus system. She is also responsible for taking walk-in payments, and processing them into the system. She also prepares the deposit for all monies collected. Furthermore, she logs into the system to enter the Supervisor's login ID to authorize the void after the Supervisor reviews and emails her the approval. There is no secondary or supervisory review of the deposit log and monies collected before the items are sent to the Administration Office on 5th Street.



- **Finding 3: Cash handling controls over the safeguarding of cash receipts need improvement.**

There was no list kept of payments received through the mail at the Hesperia Office. It is unknown as to when the combination to the drop safe was last changed. The previous Front Counter Technician (FCT) left County employment in February 2014 and the previous Supervisor left the Hesperia location in November 2013.

- **Finding 4: There was no verification of monies collected at the end of each business day.**

The Hesperia Office Supervisor does not count out the monies collected at the end of each business day and verify the amount with the receipts issued from Permits Plus.

- **Finding 5: The cash shortage of \$40 was not reported to the proper entities.**

The \$40 shortage was discovered at the Administration Office after a deposit in the amount of \$6,458 was received from the Hesperia Office on October 1, 2013. As of August 5th, 2014, a Request for Relief from Liability memo had not been submitted.



CUSTOMER RECEIPTING AUDIT

The Department

The San Bernardino County Fire Department is a full-service fire department committed to providing the highest level of service in the most efficient and cost effective manner to the citizens and communities that it serves.

San Bernardino County is the largest county at 20,160 square miles, and the Department's jurisdiction encompasses 16,535 square miles of extremely diverse environments that stretch from the Los Angeles County line on the west, to the Colorado River on the east, to the Nevada State line and Kern and Inyo counties on the north. It provides services to more than 60 communities/cities and all unincorporated areas of the County.

The Department also encompasses the following divisions, which are the Office of the Fire Marshall, which includes Community Safety and Fire Prevention; Office of Emergency Services; Fiscal Services and the Communications Center.

The Hesperia Community Safety/Fire Prevention Office

The Community Safety Division is committed to creating a safe community through education, engineering, and fire code enforcement. The division consists of various sections: New Construction, General Inspections, Annual Facilities Permit Program, Fire Investigation, Public Education and Administrative Support Staff. Hesperia is one of four offices in the Community Safety Division, which focuses on fire prevention and protection for citizens and the business community.

Permits Plus System

The Hesperia Office uses Permits Plus to bill and issue receipts to customers for their payments. The Office processes applications and takes payments for various permits, such as construction permits, commercial solar power generating permits, sprinkler and fire pump systems and fire alarm monitoring.

Envision Connect System

On occasion, the Hesperia Office will receive service requests in accordance with Title 19 of the California Code of Regulations (CCR). These are processed through the Envision Connect system. These Title 19 inspection or pre-inspection requests are needed for certain facilities, such as daycares and nursing homes.



Scope and Objectives

Our audit examined the Department's cash receipting process for the period of October 2013 through March 2014. We conducted our fieldwork at the Hesperia Fire Prevention Office and the Administration Office located on 5th Street in San Bernardino.

The objective of our audit was to determine if internal controls were in place and effective over the cash receipting process of the County Fire Department.

Methodology

In achieving the audit objectives, the following audit procedures were performed, including but not limited to:

- Interview of Fire Department personnel.
- Examination of original source documents and system generated reports.
- Observation of pertinent cash receipting operations.



Finding 1: Deposits were not made in a timely manner.

The County's Internal Controls and Cash Manual (ICCM) Chapter 3 states that the County Departments must not accumulate large amounts of receipts. Deposits must be made by the next business day when the amount of receipts (including cash, checks and money orders) reaches \$1,000, or at least weekly if lesser amounts are collected.

The following conditions were identified:

- During our review of 134 Permits Plus transactions, 134 transactions were not deposited in a timely manner. 127 out of 134 transactions were not deposited within one week. 7 out of 134 transactions were amounts under \$1,000 that were deposited within one week; however the total amount of the business day's receipts exceeded \$1,000. Therefore, the item was required to be deposited by the next business day.
- During our review of 4 Envision Connect transactions, 4 transactions were not deposited in a timely manner. These transactions were items that were less than \$1,000 and not deposited within one week.
- A paid on-call Firefighter acts as the courier to transport deposits twice a month from the Hesperia Office to 5th Street and large sums of deposits are hand-carried by the 5th Street Fiscal Assistant to the Treasury.

Due to the distance between the Hesperia Office and the Administration Office, deposits are only sent to Administration twice a month. Maintaining large amounts of cash on site potentially increases the chance of theft. Additionally, when the Department's cash receipts are transported by employees, there is an increased risk for the employees' safety and loss of assets.

Recommendation:

We recommend that deposits are made by the next business day when the amount of receipts reaches \$1,000, or at least weekly if lesser amounts are collected. We also strongly recommend that the Department consider utilizing consolidated banking to expedite the depositing of cash and checks. Armored service will be able to transport the monies from the Hesperia Office to a local Bank of America, as it already provides service to the other departments located in the Hesperia Office. This will accelerate the deposit of cash into the County Treasury and eliminate the need for County employees to travel long distances with large amounts of cash.

Management's Response:

We are in the process of setting up armored car transport from the High Desert Government Center on a daily basis. In addition, we will be participating in Consolidated Banking.



Auditor's Response:

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

Finding 2: Segregation of duties should be improved at the Hesperia location.

The County's Internal Controls and Cash Manual (ICCM) Chapter 2 states that no one person should be assigned concurrent duties that would allow them complete control over a transaction or an asset. Effective segregation of duties reduces the risk that any one person could perpetrate and conceal errors and irregularities in the normal course of their duties.

The following conditions were noted:

- The Office Assistant III/Acting Front Counter Technician (OA III/FCT) is responsible for opening the mail, processing and entering mailed-in checks into the Permits Plus system. She is also responsible for taking walk-in payments, and processing them into the system. She also prepares the deposit for all monies collected. Furthermore, in the event of a void, the Supervisor will review the void and email the OA III his approval. Instead of the Supervisor logging in, the OA III will log into the system to enter the Supervisor's login ID to authorize the void.
- There is no secondary or supervisory review of the deposit log and monies collected before the items are sent to the Administration Office on 5th Street.

Management is not aware of the ICCM guidelines for proper segregation of duties. Although the Community Safety Hesperia Division has six employees, there is only one employee that is assigned to Fiscal duties. The risk of undetected errors and potential theft increases when duties are not properly segregated.

Recommendation:

We recommend that both Management and staff familiarize themselves with the County's ICCM. Management should reorganize assignments with existing staff to have effective segregation of duties and reduce the risk that any one person could conceal errors or irregularities. We also recommend that an individual with mail receipting duties should not have depositing or cashiering duties. Furthermore, we recommend the supervisor establish a new login ID, which should be kept confidential from his staff. In the event of a void, the supervisor



should log into the system and personally authorize the void himself with his login ID. In addition, documented reviews over the deposits should be conducted to ensure accuracy. The review should be performed by someone of a supervisory level.

Management's Response:

We are in the process of revising our procedures to ensure segregation of duties and reduce the risk that any one person could conceal errors or irregularities. We collaborated with our IT [Information Technology] support to create a login for the supervisor, Joe Zuccaro. He is now personally logging into the system to approve all voids. In addition, Mr. Zuccaro (or designee in his absence) reviews the daily deposits to ensure accuracy.

Auditor's Response:

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

Finding 3: Cash handling controls over the safeguarding of cash receipts need improvement.

The Internal Controls and Cash Manual (ICCM) Chapter 6 states that the person who opens incoming mail must complete a list of the mail receipts received indicating the name of the remitter, amount received, other pertinent data and the signatures of the person opening the mail and the cashier to whom the mail receipts are turned over. Chapter 3 states that combinations to safes 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.

The following conditions were noted:

- There was no list kept of payments received through the mail at the Hesperia Office.
- It is unknown as to when the combination to the drop safe was last changed. The previous Front Counter Technician (FCT) left County employment in February 2014 and the previous Supervisor left the Hesperia location in November 2013.

Management is not aware of the mail receipting guidelines that are outlined in the ICCM. Management is also not aware that safe combinations should be changed at least annually. Mailed receipts may not be adequately recorded or



safeguarded when there is no daily listing compiled of what was received in the mail. When there have been no changes to the safe combination, cash may not be adequately safeguarded.

Recommendation:

We recommend that both Management and staff familiarize themselves with the County's ICCM. A list of all mail receipts should be kept and the receiving, opening and distributing of incoming mail be handled by, or under the supervision of, an employee other than the cashier or person preparing the deposits. We also recommend that combinations to the safe be changed when an employee terminates County employment, is transferred to another County department, or is assigned other duties. If there are no staffing changes, combinations should be changed at least annually.

Management's Response:

We are in the process of creating a procedure to ensure a list of all mail receipts is received, opened, receipted, and distributed by an employee other than the person responsible for preparing the deposits.

A new combination safe has been placed in the Hesperia office for less than one year and no employee with the combination has left the department during this time. Therefore, the combination to the safe has not been changed. This replaces the previous safe which was too small for our purposes and used two keys to remove the contents. The staff utilizes the drop slot on the top to insert payments for convenience and security purposes during the day. The safe is emptied nightly and its contents are placed in the new combination safe overnight.

To ensure this ICCM requirement continues to be followed, the OFM Administrative Supervisor issued a memo on February 20, 2015, requiring the recipients of the memo to abide by the County's ICCM and established July 1st as the required date the safe combination be changed if there has been no change in staffing.

Auditor's Response:

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



Finding 4: There was no verification of monies collected at the end of each business day.

The ICCM's Chapter 6 states that at the end of each business day, the supervisor in charge must close out the registers. The cashiers must count out their cash trays and turn over the receipts and count sheets to the supervisor, and the supervisor must then recount the cash in the presence of the cashiers. Chapter 2 states that all transactions and pertinent events should be accurately and properly recorded on documents and records and that assets should be recorded.

The Hesperia Office Supervisor does not count out the monies collected at the end of each business day and verify the amount with the receipts issued from Permits Plus.

Management is not aware that monies collected should be verified by someone other than the cashier. Receipts may not be adequately recorded or safeguarded when there is no daily verification.

Recommendation:

We recommend that both the supervisor and the cashier are present for closing out procedures to ensure the daily sales are counted and verified correctly.

Management's Response:

The closing out procedure now requires that the supervisor count and verify the daily sales with the Front Counter Technician (cashier) at the close of the business day.

Auditor's Response:

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

Finding 5: The cash shortage of \$40 was not reported to the proper entities.

The County's Internal Controls and Cash Manual (ICCM) Chapter 5 states that in the event a shortage of \$200 or less occurs, the Department must report the shortage to the Auditor-Controller/Treasurer/Tax Collector's (ATC) Internal Audits Section (IAS) by submitting a "Request for Relief from Liability" memo. If a cash shortage is due to fraud, embezzlement or theft, the Department should



immediately report the shortage to the Department Head, law enforcement agency, Risk Management Division and the ATC's IAS.

The following conditions were identified in our review:

- The \$40 shortage was discovered at the Administration Office after a deposit in the amount of \$6,458 was received from the Hesperia Office on October 1, 2013. The Fiscal Assistant indicated she received \$204 in cash, instead of \$244 that was indicated on the deposit log. The monies were deposited into the Treasury in the amount of \$6,418.
- As of August 5th, 2014, a Request for Relief from Liability memo had not been submitted.

The Department is not aware of the ICCM guidelines on how to handle cash shortages and losses. If cash shortages and losses are not adequately investigated and reported to the proper authorities, the risk of embezzlement and misappropriation of funds significantly increases.

Recommendation:

We recommend that both Management and staff familiarize themselves with the County's ICCM. We also recommend that the Department follow the proper steps to report cash shortages and losses according to the ICCM guidelines. We further recommend that the Department make a thorough attempt to confirm any shortage by recounting the cash, reviewing all of the transactions for the period and comparing the check and money order amounts to the receipts written.

Management's Response:

The department agrees with the above recommendation. To comply with the recommendation, the OFM Administrative Supervisor issued a memo on February 20, 2015, requiring the recipients of the memo to abide by the County's ICCM. In addition, all OFM leadership personnel will receive training on the ICCM during the next Quarterly Leadership Meeting scheduled for May 2015.

According to the ICCM guidelines, the proper steps to report cash shortages and losses were followed after the shortage was discovered by ATC. A Request for Relief from Liability memo was submitted as of August 26, 2014.

Effective immediately, the department will make a thorough attempt to confirm any shortage by exhausting all attempts to reconcile the period in question. If a shortage still exists after these attempts, the department will follow the proper steps to report shortages according to the ICCM.



Auditor's Response:

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