

# County of San Bernardino

Auditor-Controller/Treasurer/Tax Collector  
Internal Audits Section

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## Public Works - Solid Waste Management: Cash Funds Audit



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# Auditor-Controller/Treasurer/Tax Collector

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**August 6, 2015**

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## **SUBJECT: CASH FUNDS 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 Solid Waste Management Division for the period of July 2014 through January 2015. The primary objective of the audit was to determine whether Solid Waste Management's cash handling controls effectively safeguarded cash assets. 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 concluded that the Department's cash handling controls were generally effective. 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 June 5, 2015 and discussed our observations with management on June 16, 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 Solid Waste Management Division who assisted and cooperated with us during this engagement.

Respectfully submitted,

**Larry Walker**

Auditor-Controller/Treasurer/Tax Collector  
San Bernardino County

By:



**Denise Mejico**

Chief Deputy Auditor

Enclosure

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Date Report Distributed: 8.7.15

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## **Solid Waste Management Division: Cash Funds 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 funds.

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.
<b>Administration, Mid-Valley, Victorville and San Timoteo</b>		
<b>1</b>	<b>Finding:</b> Safeguarding of the change funds need improvement.	<b>7</b>
	<b>Recommendation:</b> We recommend that the Scale Operations Supervisor store his change fund overnight at the Administration Office safe. The Department should consider storing the change funds overnight in the scale house safe.	
<b>Mid-Valley, Victorville and San Timoteo</b>		
<b>2</b>	<b>Finding:</b> Cash handling controls over the safeguarding of cash receipts need improvement.	<b>8</b>
	<b>Recommendation:</b> We recommend that the employee obtain a supervisor's approval of the void at the time of the occurrence for both cash and credit card transactions.	
<b>Landers and Heaps Peak</b>		
<b>3</b>	<b>Finding:</b> Deposits were not made in a timely manner.	<b>9</b>
	<b>Recommendation:</b> 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.	



Finding No.	Findings and Recommendations	Page No.
<b>Administration and Fiscal Offices</b>		
<b>4</b>	<b>Finding:</b> Combinations to the safes have not been changed in accordance with the Internal Controls and Cash Manual.	<b>10</b>
	<b>Recommendation:</b> We recommend that combinations to the safe should be changed when an employee terminates County employment, is transferred to another department, or is assigned other duties. Combinations should be changed at least annually if there are no staffing changes.	
<b>Administration Office</b>		
<b>5</b>	<b>Finding:</b> Management of the Cash Difference (cash shortage) fund needs improvement.	<b>11</b>
	<b>Recommendation:</b> The Scale Operator change funds should be immediately reimbursed with the cash difference fund. The cash difference fund custodian should maintain a log of cash shortages.	

- **Finding 1: Safeguarding of the change funds need improvement.**

*Administration* – The Scale Operations Supervisor I takes his change fund home at the end of the workday.

*Mid-Valley Landfill* – The Scale Operators take their change funds home at the end of the workday.

*Victorville Landfill* – The Scale Operators take their change funds home at the end of the workday.

*San Timoteo Landfill* – The Scale Operators take their change funds home at the end of the workday.

- **Finding 2: Cash handling controls over the safeguarding of cash receipts need improvement.**

*Mid-Valley Landfill* – Employees void their own transactions and do not need a supervisor’s approval for cash voids.



*Victorville Landfill* – Employees void their own transactions and do not need a supervisor’s approval for cash voids.

*San Timoteo Landfill* - Employees void their own transactions and do not need a supervisor’s approval for cash voids.

- **Finding 3: Deposits were not made in a timely manner.**

A review of 134 transactions revealed that six were not deposited in a timely manner.

*Landers Landfill* – Four out of six transactions were deposits from the Landers Landfill.

*Heaps Peak Landfill* – Two out of six transactions were deposits from the Heaps Peak Landfill.

- **Finding 4: Combinations to the safe have not been changed in accordance with the Internal Controls and Cash Manual.**

*Administration* – The combination to the safe, where the change and cash difference funds are stored, had not been changed every year. The last safe combination change occurred about two years ago.

*Fiscal* - The combination to the safe, where the petty cash fund is stored, had not been changed every year. The last safe combination change occurred in November 2010.

- **Finding 5: Management of the cash difference (cash shortage) fund needs improvement.**

*Administration* – The fund was not being used for its intended purpose. Three scale operators were short on their change funds, with the earliest occurring in August 2014, and had not yet been replenished as of fieldwork date in January 2015. The total shortage among the scale operators was \$236. Reconciliations were not performed by an individual of a higher-ranking job code. The fund custodian is the Public Works Operations Superintendent and is of a higher rank than the Scale Operations Supervisor II, who performs the reconciliation.



## CASH FUNDS AUDIT

### 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/Treasurer/Tax Collector (ATC) 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 difference funds. Ordinarily, departments use petty cash funds to buy small items, change funds to make customer change and cash difference 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, ATC Internal Audits Section performs surprise cash counts of these cash funds. Upon demand by the ATC or the Board of Supervisors, a department's Fund Custodian is to give an accounting of the fund.

ATC has documented general cash control guidelines in the Internal Controls and Cash Manual (ICCM) for departments with cash funds. Each department head or authorized designee is responsible to develop and implement the necessary guidelines and procedures required to control, safeguard and handle cash.

### The Department

The County of San Bernardino Solid Waste Management Division (SWMD) is a division of the Public Works Department. The Public Works Department provides a broad range of services and infrastructure to help ensure safe and desirable communities for the people of San Bernardino. SWMD is responsible for the operation and management of the County of San Bernardino's solid waste disposal system which consists of five regional landfills, nine transfer stations and thirty-three closed landfills or disposal sites.

The Division also administers the County's solid waste handling franchise program and the refuse collection permit program which authorize and regulate trash collection by private haulers in the unincorporated area.



## Landfills and Transfer Stations

The Division has five regional landfills and nine transfer stations. Below are the three sites that were visited during our fieldwork:

- Mid-Valley Sanitary Landfill (Rialto)
- Victorville Sanitary Landfill (Victorville)
- San Timoteo Sanitary Landfill (Redlands)



## Scope and Objectives

Our audit examined whether the cash handling controls practiced by the Solid Waste Management Division effectively safeguarded cash assets. We conducted our fieldwork at the Division's Administration Office and Fiscal Office, along with three other landfill locations, which were Mid-Valley (Rialto), Victorville (Victorville) and San Timoteo (Redlands). When reviewing cash deposits, all cash handling landfill locations were tested, which were Mid-Valley, Victorville, San Timoteo, Big Bear, Heaps Peak, Landers, Barstow, Phelan and Twenty-Nine Palms.

The objectives of our audit were to:

- Determine if cash assets were properly safeguarded.
- Determine if cash deposits were made on a timely basis.
- Determine if cash funds were managed in accordance with the County's Internal Controls and Cash Manual (ICCM).

## Methodology

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

- Performing surprise cash counts of all the authorized cash funds.
- Reviewing cash deposit records for the period of July 2014 through January 2015.
- Interviewing Solid Waste Management Division personnel.
- Examining original source documents and system generated reports.
- Observing cash handling procedures.



## **Finding 1: Safeguarding of the change funds needs improvement.**

The County's Internal Controls and Cash Manual (ICCM) Chapter 3 states that all cash held overnight should be placed in a safe or a locked file cabinet located in a secure area away from the public.

### **Administration**

The Scale Operations Supervisor I takes his change fund home at the end of the workday.

### **Mid-Valley Landfill**

The Scale Operators take their change funds home at the end of the workday.

### **Victorville Landfill**

The Scale Operators take their change funds home at the end of the workday.

### **San Timoteo Landfill**

The Scale Operators take their change funds home at the end of the workday.

The supervisor carries his change fund home due to daily visits at multiple sites to provide change and in case of emergency when a scale operator is not able to come to work as scheduled. Scale Operators are required to carry their change fund due to their scheduled assignments at multiple locations. When the Department's change funds are carried by employees, there is an increased risk for the employees' safety and loss of assets.

## **Recommendation:**

We recommend that the Supervisor store his change fund overnight at the Administration Office safe. We also recommend the Department consider storing the change funds overnight in the scale house's safe. The number of change funds stored in each scale house safe will be dependent on the number of scale operator windows at each scale house.

## **Management's Response:**

While SWMD (Solid Waste Management Division) does not disagree with the finding, implementation of the auditor's recommendation is not practical in our circumstance. Scale Operators and Scale Supervisors are subject to being assigned to any SWMD facility, are required to maintain possession of their assigned change fund, and are required to take the fund home with them at the end of each workday. SWMD has determined this practice to be an acceptable risk.



## **Auditor's Response:**

Although ATC Internal Audits has a responsibility to report internal control risks noted during an audit, the Department has assumed the potential risk involved and the final decision regarding the implementation of the recommendation remains with SWMD.

## **Finding 2: Cash handling controls over the safeguarding of cash receipts need improvement.**

The County's Internal Controls and Cash Manual (ICCM) Chapter 6 states that adequate controls must be practiced for both the cash receipting functions and voiding transactions. A supervisor's approval of a void should be obtained at the time of the occurrence.

### **Mid-Valley Landfill**

Employees void their own transactions and do not need a supervisor's approval for cash voids.

### **Victorville Landfill**

Employees void their own transactions and do not need a supervisor's approval for cash voids.

### **San Timoteo Landfill**

Employees void their own transactions and do not need a supervisor's approval for cash voids.

Staff is not familiar with the ICCM procedures on voids. Employees only contact their supervisor when a credit card void is needed because a help desk ticket must be submitted to Information Services Department (ISD) in order to reverse the charge.

## **Recommendation:**

We recommend that the employee obtain a supervisor's approval of the void at the time of occurrence for both cash and credit card transactions. We further recommend that, because the supervisor is not physically at each site to approve the void, the supervisor should keep a log of all approved voided transactions as they occur. This log can be matched to the operators' daily reports and voided receipt copies.



## Management's Response:

SWMD has implemented the Auditor's recommendation.

## Auditor's Response:

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

### **Finding 3: 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.

During our review of 134 transactions from all nine landfills, six were not deposited in a timely manner. All six were not deposited within one business day when receipts exceeded \$1,000.

#### **Landers Landfill**

- Four out of the six transactions were deposits from the Landers Landfill.

#### **Heaps Peak Landfill**

- Two out of the six transactions were deposits from the Heaps Peak Landfill.

Brinks Transport makes armored truck pickups once a week on Wednesdays at the Landers Landfill. Although Garda Transport is scheduled to make pickups Mondays through Saturdays at the Heaps Peak Landfill, pickups may not occur due to bad weather or driving conditions. Maintaining large amounts of cash on site increases the potential of theft.

## 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 further recommend that the department consider increasing the frequency of armored truck pickups to two or three times a week at the Landers location. Additionally, when the armored truck fails to make a scheduled pickup, the department should keep a record of the occurrence, as the department is paying for this pickup service.



## **Management's Response:**

While SWMD does not disagree with the finding, deposits made through armored car service are coordinated through the Auditor's office. Deposits greater than \$1,000 are sometimes delayed beyond one business day due to the disposal sites' pick-up schedules or lack of pick-ups. These depositing delays were a direct result of armored car service that did not make their scheduled pick-ups. In January 2015, without prior notice, the armored car service for the Heaps Peaks Transfer Station reduced its daily service schedule at that site to a Mon-Wed-Fri schedule and did not provide service on the Monday holiday, January 19, 2015.

SWMD has requested, through the Auditor's office, an increase in scheduled armored car service for the Landers Landfill and Heaps Peak Transfer Station and await response as to the availability of increased services. SWMD has implemented a log to track service by the armored car companies.

## **Auditor's Response:**

The Department's actions will correct the deficiencies noted in the finding. ATC Internal Audits recognizes that the Department has been consistently active in their efforts to increase the frequency of armored service for these remote areas. Internal Audits would also like to clarify that armored car service is coordinated through the Controller Division of the Auditor-Controller/Treasurer/Tax Collector Department.

## **Finding 4: Combinations to the safes have not been changed in accordance with the Internal Controls and Cash Manual.**

The County's Internal Controls and Cash Manual (ICCM) 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.

### **Administration**

The combination to the safe, where the change and cash difference funds are stored, had not been changed every year. The last safe combination change occurred about two years ago.



## **Fiscal**

The combination to the safe, where the petty cash fund is stored, had not been changed every year. The last safe combination change occurred in November 2010.

Staff was not aware that safe combinations should be changed at least annually. When there have been no changes to the safe combination, cash may not be adequately safeguarded.

## **Recommendation:**

We recommend that staff familiarize themselves with the County's ICCM. 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, combinations should be changed at least annually.

## **Management's Response:**

Following this audit, SWMD changed the Combinations / keys to all SWMD safes. SWMD management will ensure that safe combinations / keys are changed in accordance with the Internal Controls and Cash Manual in the future.

## **Auditor's Response:**

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

## **Finding 5: Management of the Cash Difference (cash shortage) Fund needs improvement.**

The County's Internal Controls and Cash Manual (ICCM) Chapter 5 states that when a cash handling error shortage occurs, the department should notate the amount of reimbursement to the cashier's change fund, the date of occurrence and the name of the cashier who incurred the shortage on a cash deficit list. The department should reimburse the cashier's change fund for the amount of the shortage. The ICCM 4-7 also states that 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. The fund custodian may complete the reconciliation if it is reviewed and signed by an employee of a higher-ranking job code.



## **Administration**

The following conditions were noted:

- The cash difference fund was not being used for its intended purpose.
  - Three scale operators were short on their change funds, with the earliest occurring in August 2014, and had not yet been replenished as of fieldwork date in January 2015. The total shortage among the scale operators was \$236.
  
- Reconciliations were not performed by an individual of a higher-ranking job code.
  - The fund custodian is the Public Works Operations Superintendent and is of a higher rank than the Scale Operations Supervisor II, who performs the reconciliation.

The Supervisor was not aware of the ICCM guidelines for reimbursement from the cash shortage (cash difference) fund to the Scale Operator change funds nor was he aware of the reconciliation needing to be performed by an individual of a higher-ranking job code than the fund custodian. Scale Operators may not be able to provide change if their change fund is depleted. In addition, when there is no independent review of the cash shortage fund, cash may not be correctly accounted for.

## **Recommendation:**

We recommend that the Scale Operator change funds be immediately reimbursed using the cash difference fund. We further recommend that the cash difference fund custodian be changed to the Scale Operations Supervisor II, and that the Public Works Operations Superintendent perform the reconciliation. In addition, the cash difference fund custodian should maintain a log of cash shortages, in accordance with the ICCM guidelines.

## **Management's Response:**

SWMD has implemented the Auditor's recommendation.

## **Auditor's Response:**

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