

# County of San Bernardino

**Auditor-Controller/Treasurer/Tax Collector  
Internal Audits Section**

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## **County Library: Cash Controls Follow-Up Audit**



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# Auditor-Controller/Treasurer/Tax Collector

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*This office is committed to serving our customers by processing, safeguarding, and providing information regarding the finances and public records of the County. We perform these functions with integrity, independent judgment, and outstanding service. We are accurate, timely, courteous, innovative, and efficient because of our well-trained and accountable staff.*

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## Audit Team

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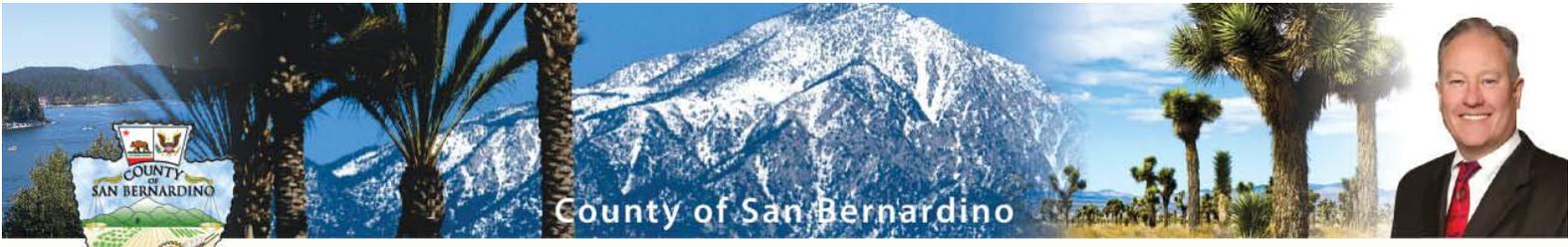
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## County Library Cash Controls Follow-Up Audit

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County of San Bernardino

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**June 30, 2020**

**Michael Jimenez, County Librarian**

County Library  
777 E. Rialto Avenue  
San Bernardino, CA 92415-0035

**SUBJECT: CASH CONTROLS FOLLOW-UP AUDIT**

In compliance with Article V, Section 6, of the San Bernardino County Charter, we have completed a follow-up audit of the County Library (Department) cash controls for the period of June 2019 through fieldwork date of November 19, 2019. The objective of the audit was to determine if the recommendations for the findings in the County Library Cash Controls Audit report dated May 9, 2019 have been implemented. 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 have provided a status of the audit findings identified in the original audit report issued on May 9, 2019. The Department has partially implemented all of the recommendations from the original audit report.

We sent a draft report to the Department on June 10, 2020. The Department’s responses to the current status of our recommendations are included in this report.

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

Respectfully submitted,

**Ensen Mason CPA, CFA**  
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San Bernardino County

By:

**Denise Mejico**      ▾  
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Auditor-Controller Audit Committee

Date Report Distributed: June 30, 2020

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### **Scope and Objective**

Our audit examined the Department's cash controls process for the period of June 1, 2019 through fieldwork date of November 19, 2019.

The objective of this follow-up audit was to determine if the Department implemented the recommendations contained in the prior audit report, *County Library Cash Controls Audit*, issued on May 9, 2019.

### **Methodology**

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

- Interview of Library personnel regarding cash fund management.
- Review of monthly reconciliations for the period of June 1, 2019 through fieldwork date of November 19, 2019.
- Observation of pertinent cash operations.
- Examination of original source documents and system-generated reports.
- Review of cash deposits for the period of June 1, 2019 through fieldwork date of November 19, 2019.



### **Prior Finding 1: Monthly bank reconciliations are not being performed.**

The Internal Controls and Cash Manual (ICCM) Chapter 9-5 states that Departments must reconcile their records to the bank statement by the 15<sup>th</sup> day of the following month.

Monthly reconciliations were not being performed at the following branches:

- Administrative Office
- Apple Valley
- Bloomington
- Chino Hills
- Fontana
- Hesperia
- Highland
- Loma Linda
- Yucaipa

The Department consisted of 32 different branches with different armored service pickup dates. With the amount of branches and deposits being processed, management believed it was difficult to perform the monthly reconciliation. The risk of misappropriation of cash and the risk of accounting errors is increased when monthly reconciliations are not performed.

### **Recommendation:**

We recommended the Department start performing monthly reconciliations in order to comply with the requirements of the ICCM. Monthly reconciliations are necessary in order to properly maintain a cash fund and determine that all cash transactions during that period have been completely and accurately captured in the Department's records on a timely basis. We recommended using the SAP FAGLB03 – Cash Management/Bank Display and Reporting report for GL code 10000000 - Equity Pool Cash to get the fund cumulative balance. This information should be reconciled to the Department's own records of revenues and expenses reported on SAP FAGLL03 – G/L Account Line Items report for GL codes 40008010 to 55415419. Any discrepancies should be reported to General Accounting.

### **Current Status: Partially Implemented**

Monthly reconciliations are being performed. The Department is using SAP reports in order to reconcile to the Department's own records of revenues and expenses. These reconciliations are being reviewed by an employee of a higher-ranking job classification.



However, all 5 monthly reconciliations for the period tested were not reconciled by the 15<sup>th</sup> day of the following month at the following branches:

- Administrative Office
- Apple Valley
- Bloomington
- Chino Hills
- Fontana
- Hesperia
- Highland
- Loma Linda
- Yucaipa

### **Management's Response:**

The five monthly reconciliations that were not reconciled by the 15<sup>th</sup> of the month occurred for a variety of reasons including staff transition, attrition, and lack of cross trained staff to perform these tasks by the given time period. The Department has refined its process, trained additional team members, and added additional expectations for the earlier submission of documents to Library Administration to ensure the ability to meet this monthly deadline. Since November of 2019 following the field visit the Department has been able to complete monthly bank reconciliations by the 15<sup>th</sup> of each month. The Department will continue to maintain this practice moving forward.

### **Auditor's Response:**

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

### **Prior Finding 2: Management of the Change Funds needs improvement.**

The ICCM Chapter 2-3 states that no one person should be assigned concurrent duties that would allow him/her complete control over a transaction or asset. Effective segregation of duties reduces the risk that one person could perpetrate and conceal errors and irregularities in the normal course of his/her duties. The ICCM Chapter 3-3 states that access to where cash is handled should be limited. The safe combination should be restricted to as few employees as possible. The ICCM Chapter 3-4 states that the 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.

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## Prior Audit Findings, Recommendations and Current Status

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Apple Valley, Bloomington, Chino Hills, Fontana, Hesperia, Highland, Loma Linda and Yucaipa branches:

- Employees of equal or lower job-ranking codes are receiving cash, counting cash drawers, performing the daily reconciliation of the change fund, preparing and verifying the bank deposits.
- Unauthorized employees have access to the safe.
- Safe combinations are not being updated in a timely manner.

Due to limited staff and the rotation of shifts, the Department had many employees who performed conflicting duties which enabled individuals to have complete control over a transaction or asset. This included access to the safe. When there is segregation of duties within the Department among staff members who were responsible for receiving, depositing and reconciling cash and checks the risk of misappropriating assets decreases. In addition, when too many employees have access to the safe and not changing the safe combination in a timely manner increases the risk of misappropriation of assets.

### **Recommendation:**

We recommended segregating duties for receiving, depositing, and reconciling cash. The Department should assign one fund custodian with two backup custodians, depending on the size of the branch. We also recommended that access to the safe be limited to the authorized fund custodians and the safe combination be changed annually or when an employee who has knowledge of the combination is terminated.

### **Current Status: Partially Implemented**

The Department adheres to policies and procedures outlined in the ICCM Chapter 3-3 Safeguarding Cash and Chapter 3-4 Cash Handling Procedures. All employees who have access to the change fund are authorized fund custodians. Safe combinations are being changed annually and when an employee who has knowledge of the combination is terminated. Library Pages are now classified as Library Assistants making the majority of the staff Library Assistants. Although they are of equal ranking job codes they are segregating duties for receiving cash, counting cash drawers and performing the daily reconciliation of the change fund at the Apple Valley and Hesperia branches.



However, when we tested 143 cash drawer reconciliations at the remaining branches, there were 24 instances where duties were not segregated at the following branches:

- Bloomington (2)
- Chino Hills (2)
- Fontana (7)
- Highland (3)
- Loma Linda (4)
- Yucaipa (6)

### **Management's Response:**

The Department will maintain segregation of duties in large facilities such as Fontana and Chino Hills where staffing levels permit and eliminate similar findings going forward.

The Department works diligently to ensure the occurrences in which segregation of duties are unable to be met are minimized in all other locations. Times in which the scenario occurs are related to staffing restrictions, specifically, in situations where schedules do not allow for a greater variety of individuals available for verification of cash drawers or deposits. In no instance is a single staff member verifying their own cash reconciliation but instances do occur, though limited, in which an individual may appear a second time in the verification process of a cash drawer or deposit. This occurs at times when no other staff member is available in the facility and time constraints in preparing deposits must be met. In order for the Department to maintain a full segregation of duties it would require additional staff members to be assigned to these locations or staff to travel to these locations for the sole purpose of cash verification and deposits. This is not fiscally feasible for the Department. The Department will continue to refine this process to minimize these occurrences.

In addition, the Department is preparing to implement new technologies to reduce the exchange of cash including self-service payment stations that accept cash and card payment methods as well as credit card readers at service desks. These items are included in the Department's approved 2020/21 fiscal year budget. The Department has also recently implemented a new mobile application that integrates online payment which supplements the current website payment portal.



### **Auditor's Response:**

The Department has assumed the potential risk involved and the final decision regarding the implementation of the recommendation remains with the Department.

### **Prior Finding 3: Management is not adhering to the guidelines for properly accounting for cash overages.**

The ICCM Chapter 5-3 states that cash overages and shortages should not be netted or combined together. The ICCM Chapter 6-8 states that Departments should deposit all overages into the Cash Overage Fund (Fund 1046 – Dept. 241) using the agency's Department code (640) as the Org code and SAP GL Account 40809970 – Other Revenue (California Government Code Section 29375). The Departments must make an effort to identify and notify the payees of the overage when the overage exceeds \$10.

Overages were not being reported separately and were being combined with the deposits at the following branches:

- Apple Valley
- Bloomington
- Chino Hills
- Fontana
- Hesperia
- Highland
- Loma Linda
- Yucaipa

The Department was not aware of the ICCM policies and procedures regarding cash overages. When overages are not properly reported, they are unaccounted for and the Department would be unable to notify the payees of any overages exceeding \$10.

### **Recommendation:**

We recommended that the Department record cash overages to the Cash Overage Fund to properly account for all cash overages, as stated in the ICCM.



### **Current Status: Partially Implemented**

We tested 182 cash drawer reconciliations and found 6 cash overages. Cash overages were reported at the Bloomington, Highland and Loma Linda branches. However, there were 2 instances where the Department did not report cash overages to the Cash Overage Fund at the Chino Hills and Fontana branches.

### **Management's Response:**

The two instances in which the Department did not report cash overages were traced back to a missing formula in two cells of the spreadsheet which the Department uses to calculate overages. The two tabs in the spreadsheet correlating to the two locations (Chino Hills and Fontana) did not auto total overages and thus the overages for those two locations were missed. This issue has since been corrected as well as an additional procedure implemented to audit the spreadsheet for errors. Since this implementation no other overages have been missed by the department.

The Department intends to maintain this practice to ensure its adherence to the ICCM Chapter 6-8.

### **Auditor's Response:**

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

### **Prior Finding 4: Deposit procedures could be improved.**

The ICCM Chapter 9-4 states that supervisors must verify that deposits are intact and document evidence of review. It also states that receipts of checks and money orders should be processed immediately.

Deposits were not being approved by an employee of a higher-ranking job classification. Therefore, there was no supervisory review present on deposits at the Bloomington, Chino Hills, Fontana, Highland, Loma Linda and Yucaipa branches.

3 of the 4 check deposits, totaling \$3,791 were not deposited immediately upon receipt at the Administration office.

Due to limited staff and the rotation of shifts, employees performed many functions which included preparing and reviewing the deposit. Management was unfamiliar with the guidelines and procedures stated in the ICCM regarding depositing checks immediately.



When an independent review is not performed by an employee of a higher-ranking job classification, transactions may not have been correctly recorded and assets accounted for. When Departments accumulate large amounts of receipts, this increases the chances of misappropriation of assets.

### **Recommendation:**

We recommended that deposits be reviewed by an employee of a higher-ranking job classification than the preparer. We also recommended that the Department process their checks immediately using their desktop scanner.

### **Current Status: Partially Implemented**

The deposits are being approved by an employee of a higher-ranking job classification at the Fontana and Loma Linda branches. However, when we tested 36 deposits at the remaining branches, there were 17 instances where deposits were not reviewed by an employee of a higher-ranking job classification at the following branches:

- Bloomington (2)
- Chino Hills (11)
- Highland (2)
- Yucaipa (2)

Out of the 6 check deposits tested, 1 check was not deposited until 2 business days after receipt at the Administrative office.

### **Management's Response:**

The Department makes every effort to ensure that deposits are reviewed by an employee of a higher-ranking job classification. In many situations this is not operationally feasible for the department due to a lack of higher ranking staff in a facility at any given time. In many facilities there are only 1 or 2 staff members of a higher ranking job classification. Due to hours of operation and staff schedules higher ranking staff may not be available to verify deposits at the time they need to be prepared. In these instances a staff member of an equal job ranking will prepare these deposits. These staff, although of the same job ranking, are designated "cash fund custodians" for the facilities and have been authorized by the department to perform these duties.

The Department will continue to minimize the occurrences of these situations. Corrections have been made as possible and any partial or continuing noncompliance is the direct result of staffing limitations.



The Department recognizes the error in the one check not being deposited until 2 business days after receipt. This was an error by a former staff member and has not occurred since. The Department has implemented further protocols to ensure that checks are deposited on the same date of receipt and does not anticipate this occurring in the future.

### **Auditor's Response:**

The Department has assumed the potential risk involved and the final decision regarding the implementation of the recommendation remains with the Department.

### **Prior Finding 5: Cash handling controls over safeguarding of cash could be improved.**

The ICCM Chapter 6-4 states that it is the cashier's responsibility to keep the cash drawer locked when not in use.

The cash drawers were kept unlocked when not in use at both the Chino Hills and Fontana branches.

Due to a high volume of customers and having to move away from the cash drawer temporarily, cashiers may leave the drawer unlocked in between and during sales. Leaving the drawer unlocked while not in use increases the risk of theft.

### **Recommendation:**

We recommended that cashiers lock their cash drawers when their drawers are not in use so that cash is properly safeguarded.

### **Current Status: Partially Implemented**

The cash drawer at the Chino Hills branch was locked; however one cash drawer at the Fontana branch was unlocked when not in use.

### **Management's Response:**

The Department has strict guidelines for the safeguarding of cash including the locking of cash drawers when not in use.



As outlined in the Library Policy and Procedure Manual, Section IV.E.4.ii and Section IV.E.5iii, Accuracy and Accountability: “At a service desk, the cashier must keep their cash drawer locked at all times except as needed to access for a transaction.”

Staff are held accountable through the disciplinary process when observed not meeting this expectation. In addition, the library regularly communicates this expectation through ongoing training and staff meetings. This expectation is also part of the new hire training that all staff are required to participate in.

**Auditor’s Response:**

The Department’s actions and planned actions will correct the deficiencies identified in the finding.

**Prior Finding 6: Management of the Petty Cash Fund needs improvement.**

The ICCM Chapter 4-10 states that the Department must maintain a chain of custody with adequate security and documentation for petty cash disbursements. Departments must maintain a log recording each petty cash transaction. Chapter 4-11 states that petty cash checking accounts must track outstanding checks written against the account. In addition, Chapter 4-7 states that County Departments must reconcile their cash funds at least once a month. Chapter 9-5 further states that Departments must reconcile their records to the bank statement by the 15th day following the month.

The following conditions were identified during our review of the Administrative Office:

- An employee had the ability to maintain records, write checks and issue the checks.
- All five petty cash payments received were not pre-approved for payment by another employee.
- All five petty cash payments received were not entered into a petty cash log.
- Two of the five petty cash checking monthly reconciliations were performed 2–7 business days late.

Due to Department staffing limitations, one employee was able to perform multiple functions such as approving the expenditure, writing the check and issuing the checks. The Department was not aware of the ICCM policies and procedures regarding petty cash and maintaining the logs. Monthly reconciliations were sometimes performed late due to staffing limitations. When there is an inadequate segregation of duties and management is not properly following the ICCM’s guidelines for their petty cash funds, there is an increased risk of misappropriation of cash funds.



### **Recommendation:**

We recommended segregating duties so that one person is not allowed to approve the expenditure, write the checks, and issue the checks. We also recommended that the Department maintain a log, such as a check register to log each petty cash transaction. Lastly, we recommended that the monthly reconciliations be performed before the 15th of the following month to be in compliance with the ICCM.

### **Current Status: Partially Implemented**

The Department adheres to policies and procedures outlined in the ICCM Chapter 4-10 Petty Cash – Disbursements and Chapter 4-11 Petty Cash Checking – Replenishment. Duties have also been segregated so that one person is no longer allowed to approve the expenditure, write the checks and issue the checks. The Department maintains a petty cash log. However, when we tested 5 monthly reconciliations, 1 reconciliation was performed 21 business days after the required completion date.

### **Management's Response:**

The reconciliation that was performed 21 business days late occurred during a period of transition of duties and assignments from one staff member to another. Since this occurrence the Department has not had any further instances in which reconciliations have been performed outside of the appropriate time period.

The Department will continue to follow the policies and procedures outlined in the ICCM for Petty Cash as well as perform all reconciliations on time.

### **Auditor's Response:**

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