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March 9, 2010

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Solid Waste Management Division
222 W. Hospitality Lane, 2nd Floor
San Bernardino, CA 92415-0017

SUBJECT: SOLID WASTE MANAGEMENT DIVISION CASH CONTROLS FOLLOW-UP 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 a follow-up audit of Solid Waste Management Division's (SWMD) Cash Controls audit conducted in 2008. Both audits were conducted in accordance with the International Standards for the Professional Practice of Internal Auditing developed by the Institute of Internal Auditors.

Objectives, Scope and Methodology

The objective of this follow-up audit was to determine whether SWMD implemented the recommendations contained in the prior audit report, *Audit of Solid Waste Management Cash Controls* issued October 3, 2008. To achieve this objective we:

- Interviewed SWMD employees
- Reviewed and analyzed internal controls

Conclusion

Of the six recommendations from the previous audit report, four have been implemented by SWMD and two partially implemented. No further follow-up of the implemented recommendations will be necessary.

A draft report was delivered to SWMD on 12/22/2009, and the results were discussed on 01/06/2010. Solid Waste Management response was received on 02/02/2010. Management's responses have not been altered in any way and are included below as they were provided to us.

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: Lack of Safeguarding Cash

Cash Box:

The receptionist at the front desk of the SWMD's Main Office keeps checks and any cash received in a small unsecure drawer underneath her computer monitor. The drawer is accessible from the public side of the receptionist desk.

Change Funds:

The Change Fund Custodians are required by the department to carry their individual change fund on their person at all times and are required to take the fund home with them in the evenings and on weekends. Change Funds are not able to be secured in safes at scale locations and issued by a supervisor each morning. Scale Operators need to have change available immediately upon arrival at scale location and cannot wait for Change Fund to be delivered to them. Scale Operators must carry \$750 on their person, in their vehicles and secure it in their homes at all times. Supervisors are required to carry \$2,000. Having Scale Operators and Supervisors carry large sums of cash increases the risk of theft and misappropriation of county assets.

Recommendation:

Cash Box

The receptionist should be provided with a small lock box/cash drawer that should be kept in an area that is inaccessible to the public.

Change Funds

Change funds should be secured at each site in a safe. A designated employee should be responsible for the entire amount of the change funds, and assign and distribute the cash to operators each morning. Additionally, supervisors responsible for the \$2,000 portions of the change fund should either secure the funds at the main facility or at the scale site nearest their home.

Current Status:

Partially implemented. SWMD provided the receptionist with a small lock box immediately after the audit. The cash box was locked in a small locked file cabinet in the reception area not accessible to the public.

The Change Fund Custodians are still required by the department to carry their individual change fund on their person at all times and are required to take the fund home with them in the evenings and on weekends.

Management Response:

To eliminate the need for individual change funds for Scale Operators, SWMD analyzed the risks, costs, space, and servicing needs associated with installing cash dispensing machines at nine of their ten disposal sites. SWMD is not planning to install these machines at this time due to the high cost compared to the past low risk of loss experienced by SWMD. Additionally installing cash dispensing machines will increase potential for burglary at locations with cash machines installed.

Auditor's Response:

The Office of the Auditor/Controller-Recorder has a responsibility to report internal control weaknesses noted during an audit. Since SWMD has final responsibility for the risk, the final decision regarding the implementation of the recommendation remains with SWMD.

Finding 2: Incorrect Use of Cash Shortage Fund

The Cash Shortage Fund Custodian keeps the Cash Shortage Fund on her person to be utilized as a Change Fund on weekends in an emergency. Rather than using the cash shortage fund to reimburse their change fund when shortages occur, Change Fund Custodians will short daily deposits and leave their change fund intact.

Recommendation:

We recommend that the department increase the amount of the department's change funds with proper controls to allow the Custodians to better serve the needs of the scale operators on weekends and in emergencies. In addition, management should require the Change Fund Custodians and the Cash Shortage Fund Custodian to follow County Policy regarding reimbursement for shortages discovered in the daily cash receipts.

Current Status:

Partially implemented. On November 18, 2008, SWMD's imprest fund was increased by the Board of Supervisors. SWMD provided cash handling procedures training to relevant staff. However, due to a misunderstanding, SWMD instructed its Change Fund Custodians to short daily deposits and leave the change fund intact when a shortage occurs. The County of San Bernardino Internal Controls and Cash Manual (ICCM) chapters 9 & 10 requires that all collections be deposited intact into appropriate banking accounts. Supervisors must verify that deposits are intact. In addition, Chapter 4 of the ICCM states that if a cash shortage incurs in the Change Fund when receiving or paying out cash while performing official duties, the change fund clerk will be reimbursed immediately from the Cash Shortage Fund.

Management Response:

SWMD distributed the proper cash shortage/cash overage procedures to its Scale Operations staff on 1/6/2010. In addition Scale Supervisors conducted and are continuing field trainings with staff to review the procedures. Field reviews began in January 2010 and will be completed with all Scale Operator staff by February 12, 2010.

Auditor's Response:

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

Finding 3: Personal Funds Were Commingled With the Change Fund

The Change Fund Custodian added personal funds to balance the change fund at the end of the day. The surprise cash count located the miscounted \$5.00 bill and therefore the Change Fund had an overage of \$5.00.

Recommendation:

Management should instruct all Change Fund Custodians to never commingle personal funds with County Funds. If a cash shortage is suspected or occurs due to a cash handling error, the steps detailed in Chapter 5 of the ICCM should be followed to report the shortage and replenish the Change Fund.

Current Status:

Implemented.

Finding 4: Failure to Make Timely Deposits

The Heaps Peak Landfill, Barstow Landfill, Phelan Landfill, and Victorville Landfill have cash receipts picked up by armored transport for delivery to the bank only twice a week and keep excessive cash receipts on site for longer than one business day. Additionally, the Mid-Valley Landfill did not deposit the cash receipts the following business day on August 9, 2007.

Recommendation:

Schedule daily armored transport pick-ups at Heaps Peak Landfill, Barstow Landfill, Phelan Landfill and Victorville Landfill, and require cash receipts at the Mid-Valley Landfill to be deposited the next business day to reduce excessive cash receipts kept at those locations and to be in compliance with the new County of San Bernardino Internal Controls and Cash Manual dated January 2008 which requires that "Deposits of all monies collected must be made when

the dollar amount reaches \$1,000, or at least weekly if lesser amounts are collected.”

Current Status:

Implemented.

Finding 5: Lack of Timely Reconciliation of Petty Cash Fund

The Petty Cash Fund is not reconciled monthly and the checking account is not reconciled to the authorized fund amount. The lack of timely reconciliation caused a \$14.77 shortage to remain undiscovered until the surprise cash count was performed.

Recommendation:

Reconciliation of the Petty Cash Fund should be performed at least monthly by an employee other than the fund custodian and of a higher-ranking job code. In addition, management should implement procedures to reconcile bank and book balances of the checking account to the authorized amount and follow the steps listed in Chapter 5 of the ICCM if any shortage is discovered.

Current Status:

Implemented.

Finding 6: Noncompliance with Proper Safe Access Procedures

Safe combinations at SWMD were not changed when employees left the department or even annually.

Recommendation:

For all safes with a combination lock, management should implement procedures to change the combinations at least annually or when an employee who has knowledge of the combination leaves the department.

Current Status:

Implemented.

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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
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