

AUDITOR-CONTROLLER/ TREASURER/TAX COLLECTOR



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Auditor-Controller/
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June 10, 2011

Patrick Petre, Director
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400 North Pepper Avenue
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SUBJECT: ARMC - CASH RECEIPTS PROCESS REVIEW

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 review of the Arrowhead Regional Medical Center (ARMC) Cash Receipts Process. Our review was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing developed by the Institute of Internal Auditors.

Background

ARMC is a state-of-the-art, acute care facility providing advanced technology in patient care and support service areas. There are also three off-campus community health centers that provide patient care. ARMC receives payment from various individuals, insurances, government agencies and other entities for services rendered.

The office of the Auditor-Controller/Treasurer/Tax Collector (ATC) has documented some general cash controls in the ICCM for departments with cash funds. However, each department head or authorized designee is responsible to develop and implement the necessary guidelines and procedures required to control, safeguard and handle cash.

Objectives, Scope and Methodology

The specific review objective was to review the ARMC cash receipt process in Patient Accounts for proper segregation of duties.

We reviewed the cash receipts process on February 16, 2011. Our review included observation of the mail receipts process, posting payments to patient accounts and the reconciliation procedures and other review procedures considered necessary.

Conclusion

As a result of our analysis and tests performed, we concluded that the ARMC cash receipt process for Patient Accounts does not have proper segregation of duties.

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

We sent a draft report to the department on May 13, 2011 and discussed our observations with management on May 17, 2011. Management's responses have not been altered in any way and are included below as they were provided to us.

Findings and Recommendations

Finding 1: Mail Receipting Procedures Needs to be Improved

According to the Internal Controls and Cash Manual (2010 Version), Chapter 6, two or more employees should be present when mail is opened. It also states that the person who opens incoming mail is to complete a list, preferably in duplicate and on numbered forms, of the mail receipts received indicating the following items:

- Name of the remitter
- Amount received
- Other pertinent data
- Signatures of the person opening the mail and
- Signature of the cashier who receives the mail receipts.

If this procedure is not feasible due to the large volume of remittances by mail, the person opening the mail must total the cash, checks, and money orders received in a spreadsheet (Excel) or on a calculator tape. Insert alongside the dollar amounts information such as customer initials, account number or other identifying data that can be reconciled after the cashier has written a receipt.

We noted that there is only one person opening the mail (including checks) in the Patient Accounts and Accounting divisions. There is also no list of checks received in the mail until at least two individuals have touched the checks; in the case of checks received in Patient Accounts, there are three people who touch the checks without recording the total number of checks or creating a listing of the checks. There is also no record made of the transfer of checks between any of the steps in the deposit process. Lastly, we noted that if checks are found within other mail or documentation later in Patient Accounts, there is no record made of their receipt or of the transfer of the checks to Accounting for processing. Since the total receipts for the day were over \$150,000, there is a substantial risk of loss or theft with no method of determining who has accountability at any step within the process.

Management is not familiar with the mail receipting section of the ICCM. By not logging checks received through the mail, the department has no record to verify that its staff properly recorded all cash receipts. Also, if staff members do not properly transfer custody of checks, management cannot assign accountability for any lost or misappropriated checks.

Recommendation:

We recommend that management become familiar with the ICCM section entitled *Mail Receipts* (beginning on page 6-7) and ensure that staff is following the procedures described.

Management's Response:

As recommended by Internal Audits, the following step will be added to ARMCs Mail Check Deposit Procedures. This additional step will complete the verification between all the steps in the deposit process and further ensure that there is a segregation of duties.

Effective June 1, 2011, the employee who opens the mail in Patient Accounts and Accounting, will run a tape on the individual check amounts, and the number of checks received in the mail. This tape will be signed by said employees, and will accompany the checks delivered to the Staff Analyst in Accounting. A verification log of said checks delivered to the Staff Analyst will be maintained.

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 review.

Respectfully submitted,

Larry Walker

Auditor-Controller/Treasurer/Tax Collector

By: _____
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