

AUDITOR-CONTROLLER/ TREASURER/TAX COLLECTOR



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SUBJECT: ENVIRONMENTAL HEALTH SERVICES CASH CONTROLS

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 an audit of the Department of Environmental Health Services (EHS). Our audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

Executive Summary

During the audit of the Environmental Health Services Cash Controls, it was determined that the EHS did not comply with the Internal Controls and Cash Manual regarding the safeguarding of its assets. Three areas that need improvement were found: access to the two EHS safes, restrictive check endorsements, and receipting procedures.

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 shortage funds. Ordinarily, departments use petty cash funds to buy small items, change funds to make customer change and cash shortage 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 are 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, the ATC Internal Audits Section performs surprise cash counts of these cash funds. Upon request of the ATC or the Board of Supervisors, a department's Fund Custodian is to give an accounting of the fund.

The 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

Our overall objective was to determine whether cash handling controls practiced by the department effectively safeguard cash. Specific audit objectives were to determine whether:

1. The department properly maintained and secured its change fund.
2. The department made deposits timely and intact.
3. The department practiced adequate cashiering controls.

We reviewed internal controls over cash for the period of June 1, 2010 through June 18, 2010. Our audit included surprise cash counts, verification of deposit records, inquiries of staff, observation of cash handling procedures and other audit procedures considered necessary.

Conclusion

As a result of our analysis and tests performed, we concluded that cash handling controls practiced by the department did not always effectively safeguard cash. We determined that:

1. The department did not appear to properly maintain and secure its change fund.
2. The department did not made deposits intact and timely.
3. The department did not practice adequate cashiering controls.

We identified several 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 February 14, 2011 and discussed our observations with management on February 23, 2011. The department's responses to our recommendations are included in this report.

Findings and Recommendations

Finding 1: Noncompliance with Proper Safe Access Procedures and Inadequate Safeguarding of Assets

Per the Internal Controls and Cash Manual, Chapter 3 - Cash Controls, management must:

- Restrict the safe combination to as few employees as possible,
- Keep cash in a cash drawer or cash box not accessible to unauthorized persons and,
- Change the combination to the department's safe when an employee who has knowledge of the combination separates from County employment, is transferred to another County department, or is assigned other duties. If there are no staffing changes, management must change the combination at least annually.

The Internal Controls and Cash Manual, Chapter 2 - Internal Controls, also states that undeposited monies should be physically safeguarded until they are deposited. Management was not aware of and did not communicate these internal control procedures to staff. During our audit, we noted that there are four people with access to the food handlers' safe and five people with access to the safe at the San Bernardino branch of Environmental Health Services. The safe in the food handling center was closed but not locked. Safe combinations have not been changed at least annually. Safe combinations changed in May 2010 although prior to that the combinations had not been changed since before 2009.

Recommendation:

We recommend that management become familiar with the ICCM and communicate the importance of following its procedures to staff. Management should also reduce the number of persons with the safe combinations. In addition, we recommend that management ensures that staff knows to keep drawers and safes locked when not in use and when on breaks or meal periods. Finally, we recommend that management require the safe combinations be changed whenever an employee who has knowledge of the combination leaves the department or is assigned other duties. Even with no staffing changes, the combination must be changed at least annually.

Management's Response:

Management has reviewed the ICCM and has scheduled training for all fiscal staff involved with cash controls. Management has changed all EHS safe combinations and has limited the number of individuals who possess the combination to three (3) individuals per location. Policy has been implemented, and is currently being followed, in that all cash drawers and safes remain locked when not in use. Management will ensure that all safe combinations be changed at least annually, or when an employee who has knowledge of the combination leaves the department or is assigned other duties.

Auditor's Response:

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

Finding 2: Inadequate Check Endorsements

According to the Internal Controls and Cash Manual, Chapter 2 - Internal Controls, undeposited monies should be restrictively endorsed immediately upon receipt. However, during our audit period, undeposited monies were not restrictively endorsed upon receipt. Management was not aware of the need to restrictively endorse checks upon receipt.

Recommendation:

We recommend that the department restrictively endorse checks upon receipt.

Management's Response:

Policy has been implemented to endorse all checks immediately upon receipt over the counter or through the incoming mail. This policy is currently being followed.

Auditor's Response:

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

Finding 3: Inadequate Receipting Procedures

According to the Internal Controls and Cash Manual, Chapter 6 - Receipts, the receiving, opening and distributing of incoming mail must be handled by, or under the supervision of, an employee other than the cashier, bookkeeper, or person preparing the deposits. Two or more employees should be present when mail is opened. The person who opens incoming mail must 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, any other pertinent data, and signatures of the person opening the mail and the cashier to whom the mail receipts are turned over. Chapter 6 also states that unused receipts on hand must be locked in a secure place. The EHS departmental procedure—Standard Operating Procedure 07, Guidelines for Completing a Counter Receipt—require the following to be completed for each receipt: office location, date, supervisory district, received by, received from, address, paid by, description and line item information.

The following conditions were noted during the testing phase of our audit:

- Mail is opened by the receptionist, who is the cashier.
- For payments received through the mail, receipts are not processed immediately.
- Payments received through the mail that are not accompanied by a statement or invoice are not logged prior to being placed in the safe.
- Official receipts were left unattended.
- Auditor found that all of the 78 receipts tested had the supervisory district missing.
- 10 receipts that were for cash were missing a paid stamp as required by departmental policy.
- 1 receipt was out of sequence.
- 4 of the receipts on the Excel log did not have the correct amount on the log.

Management was not aware of the importance of these internal control procedures.

Recommendation:

We recommend that management become familiar with the ICCM and communicate the importance of following its procedures to staff. We also recommend that management install a process for the department to monitor its compliance with the ICCM and communicate its intent to comply with the ICCM to staff on a regular basis. We recommend that management ensure that departmental procedures are distributed to the staff that handles the cash.

Management's Response:

Policy has been implemented to separate the duties between staff opening the mail and staff performing cashiering duties. This policy is currently being followed. Policy has been implemented to immediately receipt payments received through the mail. This policy is currently being followed. Policy has been implemented to log all payments received in the mail that are not accompanied by a statement or invoice prior to being placed in the safe. This policy is currently being followed. Policy has been implemented requiring that all receipts are to be maintained in a locked drawer in which the locking key is maintained in a secure location. This policy is currently being followed. Policy has been implemented to instruct cashiers to indicate the correct supervisory district on all receipts. This policy is currently being followed. Policy has been implemented instructing staff to stamp "paid" on all receipts for cash. This policy is

currently being followed. Management has implemented additional auditing processes to verify that all receipts are issued in sequential order. This policy is currently being followed. Additional auditing of Excel receipt log has been implemented to ensure accuracy of the data entered. This policy is currently being followed.

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 audit.

Respectfully submitted,

Larry Walker

Auditor-Controller/Treasurer/Tax Collector

By:

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