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January 18, 2013

Gerry Newcombe, Director
Department of Public Works
825 East Third Street
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SUBJECT: DEPARTMENT OF PUBLIC WORKS – TRANSPORTATION ENTERPRISE RISK MANAGEMENT AUDIT

Introductory Remarks, Objectives, Scope and Methodology

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 unannounced audit of the Department of Public Works – Transportation Division's Enterprise Risk Management. Our audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

Our overall objective was to evaluate the effectiveness of the department's monitoring of its cash/agency (trust) funds and how successfully it communicated new or modified policies/procedures to staff. Specific audit objectives were to:

- determine that the department is monitoring its cash/agency (trust) funds at least monthly and that there is evidence of the review.
- determine the department successfully communicates new or modified policies/procedures to staff and that there is evidence of staff receipt.

The review included evaluating management's controls over the items mentioned above during fiscal year 2010-2011.

Conclusion

As a result of our analysis and tests performed, we concluded that the department successfully communicated changes in policy and procedures to staff including proof of staff receipt. It was found that the department did reconcile its petty cash and agency

(trust) funds, although they did not include documentation of review or approval by a higher ranking staff member. We have listed these areas and our recommendations for improvement in the Findings and Recommendations section of this report.

Findings and Recommendations

Finding 1: Petty Cash reconciliations should be improved

The Internal Control and Cash Manual (ICCM), Chapter 4, states reconciliations should be completed monthly. The ICCM also states that the reconciliation should also be reviewed and signed by an employee of a higher ranking job code to ensure that errors and omissions are detected. Reconciliations are prepared monthly, but are reviewed by a person with a lower ranking job code. Management did not monitor staff sufficiently to ensure that this secondary review was performed by a higher ranking employee. If reconciliations are not reviewed by a higher level employee, there is an increased risk of undetected theft and errors.

Recommendation:

We recommend that management ensure all reconciliations are reviewed and approved at least monthly in accordance with the ICCM.

Management's Response:

We have already initiated a process whereby a higher ranking employee now reviews and signs off on monthly petty cash reconciliation. We will continue to monitor the process to minimize the potential errors and omissions.

Auditor's Response:

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

Finding 2: Agency (Trust) fund reconciliations should be improved

Agency (trust) funds are used for money that is held by the County for another agency or entity. The money is not owned by the County and thus there is a higher level of accountability required to ensure that the money is maintained intact and transferred in a timely manner. The Internal Control and Cash Manual (ICCM), Chapter 13, states that reconciliations of these types of accounts should be completed monthly. The ICCM also states that the reconciliation should be reviewed and signed by an employee of a higher ranking job code to ensure that errors and omissions are detected. Agency (trust) fund reconciliations are prepared monthly but are not reviewed by someone other than the person performing the reconciliation. Management did not monitor the process sufficiently to ensure that this review was completed monthly. The reconciliations for the two months that were tested included an unexplained difference between the trust records and the County's Financial Accounting System of \$4,815.74. If the department does not conduct its review and document its approval of the monthly reconciliations, there is an increased risk of undetected theft and errors. In addition, all reconciliations must explain and resolve any differences found.

Recommendation:

We recommend that management ensure all agency (trust) fund reconciliations are reviewed and approved by someone other than the person performing the reconciliation at least monthly. We also recommend that management address differences found during the reconciliation process in a timely manner.

Management’s Response:

Agency reconciliations will be reviewed and approved by an employee of higher ranking job code than the employee preparing the reconciliation and any differences found will be researched and corrected. After further research, the unexplained difference was able to be reduced to \$315.74 representing an amount that was received prior to FY2000 for which no records exist.

Auditor’s Response:

The Department’s planned actions will address the deficiencies for the reconciliation process noted in the finding. However, we recommend that the \$315.74 overage in the fund be deposited in the overage account as explained within the County’s Internal Control and Cash Manual on page 6-8.

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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