

County of San Bernardino

Auditor-Controller/Treasurer/Tax Collector
Internal Audits Section

Land Use Services Department: Cash Funds Follow-Up Audit



Ensen Mason CPA, CFA

Auditor-Controller/Treasurer/Tax Collector

268 West Hospitality Lane
San Bernardino, CA 92415-0018
(909) 382-3183

Website: www.sbcounty.gov/atc

Fraud, Waste & Abuse Hotline: (800) 547-9540

Auditor-Controller/Treasurer/Tax Collector

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Audit Team

Denise Mejico
Chief Deputy Auditor

Menaka Burkitt
Internal Audits Manager

Carmel Manela, CIA
Supervising Internal Auditor III

Melanie Cortez, CPA
Internal Auditor III



Land Use Services Department

Cash Funds Follow-Up Audit

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Auditor–Controller/Treasurer/Tax Collector

Ensen Mason, MBA, CPA, CFA
Auditor–Controller/Treasurer/Tax Collector

Douglas R. Boyd, Sr., ESQ.
Assistant Auditor–Controller/Treasurer/Tax Collector

October 23, 2019

Terri Rahhal, Director

Land Use Services Department
385 N. Arrowhead Ave. 1st Floor
San Bernardino, Ca 92415

SUBJECT: CASH FUNDS FOLLOW-UP AUDIT

In compliance with Article V, Section 6, of the San Bernardino County Charter and County Policy 05-20 entitled Internal Operational Auditing, we have completed a follow-up audit of the Land Use Services Department’s (Department) cash funds for the period of September 2018 to June 2019. The objective of the audit was to determine whether the recommendations for the findings in the Land Use Services Cash Funds Audit report dated August 14, 2018 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 August 14, 2018. Of the four recommendations from the original audit report, three have been implemented and one has been partially implemented.

We sent a draft report to the Department on September 13, 2019. 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 Land Use Services Department who assisted and cooperated with us during this engagement.

Respectfully submitted,

Ensen Mason CPA, CFA

Auditor-Controller/Treasurer/Tax Collector
San Bernardino County

By: _____

Denise Mejico

Chief Deputy Auditor

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Date Report Distributed: 10.29.19

EM:DLM:MKC:oac



Scope and Objective

Our audit examined the Department's internal controls over cash funds as of June 26, 2019.

The objective of this follow-up audit was to determine whether the Department implemented the recommendations contained in the prior audit report, *Land Use Services Department Cash Funds Audit*, issued on August 14, 2018.

Methodology

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

- Review of the Department's policies and procedures
- Surprise cash counts of authorized funds
- Interview of Department staff
- Examination of original source documents



Prior Finding 1: Controls over petty cash funds could be improved.

The Internal Controls and Cash Manual (ICCM) Chapter 4-4 Cash Funds states every department with a cash fund must designate an employee to be the fund custodian in charge of the fund. The fund custodian must be able to account for the specific physical location(s) of all assets that make up the fund including cash, cards and any bank accounts in which the fund is held. In addition Chapter 4-7 requires County departments to reconcile their cash funds at least once a month. An employee other than the fund custodian and of a higher-ranking job classification should complete the fund reconciliation. The fund custodian may complete the reconciliation if it is reviewed and signed by an employee of a higher-ranking job classification. Chapter 4-10 also states that departments must maintain a log recording each petty cash transaction.

The following conditions were noted during our field visits:

- A fund custodian was not designated for the petty cash checking account located at the Administration office.
- Monthly reconciliations are performed, but are not being reviewed by an employee of a higher-ranking job classification than the fund custodian or preparer. We also found that the February 2018 reconciliation was overstated by \$40.46.
- The department did not maintain petty cash fund logs indicating deposits, disbursements and a running balance.

The lack of a designated fund custodian for the petty cash checking was an oversight by the department. Due to the department staffing limitations, the reconciliations were not being prepared at least monthly. Management was not aware of ICCM's requirement to have an employee of a higher-ranking job classification review reconciliations. The fund custodian did not maintain a formal log due to the inactivity of the petty cash fund. When individuals have access to the entire cash process and cash funds are not reconciled monthly and reviewed by an employee of a higher-ranking job classification, the risk of misappropriation is increased. When a fund custodian is not officially designated, there is no accountability of departmental cash funds.

Recommendation:

We recommend the department immediately designate a fund custodian for the petty cash checking account. We also recommend that management review the ICCM and maintain petty cash logs to keep records of current fund balances. Furthermore, reconciliations should be



prepared at least monthly and reviewed by an individual of a higher-ranking job classification and these reviews should be documented.

Current Status: Implemented

The Department adheres to policies and procedures outlined in the ICCM Chapter 4-4 Cash Funds. The Department has designated a fund custodian for the petty cash checking account and updated the Signature Authorization form for each change in fund custodian. Also, the Department adheres to policies and procedures set forth in Chapter 4-10. The department maintains a log for the petty cash checking account displaying activity within the account. Although monthly reconciliations are performed by the fund custodian and reviewed by an employee of a higher job classification, an overage of \$0.46 was not deposited into the Cash Overage Fund per the ICCM Overage procedures and the petty cash checking fund was not reconciled to its authorized amount. The \$0.46 will need to be deposited into the Cash Overage Fund in accordance with ICCM Overage procedures.

Prior Finding 2: Controls over change funds could be improved.

The ICCM Chapter 4-7 Cash Funds requires County departments to reconcile their cash funds at least once a month. An employee other than the fund custodian and of a higher-ranking job classification should complete the fund reconciliation. The fund custodian may complete the reconciliation if it is reviewed and signed by an employee of a higher-ranking job classification.

The following conditions were identified:

- Monthly reconciliations were not performed at the Twin Peaks location.
- Reconciliations were not reviewed by an employee of a higher-ranking job classification than the fund custodian at both Administration and Twin Peaks offices.
- The change fund was not reconciled to the authorized amount at the Twin Peaks location.

Management was not aware of ICCM's requirement to have an employee of a higher-ranking job classification review reconciliations. Due to limited staff at the Twin Peaks location, monthly reconciliations were not prepared or reviewed. When monthly reconciliations are not prepared, errors could remain undetected for a significant period of time.



Recommendation:

We recommend that management ensure that reconciliations are prepared monthly and reviewed by an individual of a higher-ranking job classification than the fund custodian. We also recommend that the change fund be reconciled to authorized amount of \$100 at the Twin Peaks office. If it is determined that an amount cannot be reconciled, the department should follow the proper procedures in the ICCM related to overages and shortages.

Current Status: Partially Implemented

The Department adheres to policies and procedures outlined in the ICCM Chapter 4-7 Cash Funds. Monthly reconciliations are performed at the Twin Peaks location and are reviewed by an employee of a higher-ranking job classification at both the Administration Location and Twin Peaks location. Further, the change fund at Twin Peaks has been accounted for and reconciled to its authorized amount.

However, the following condition was additionally found during our review:

An employee other than the designated fund custodian had access to the change fund and was making change for cash payments and performing monthly reconciliations without proper authorization.

Further recommendation:

We recommend the department ensure that only employees designated as fund custodians have access to the change fund.

Management's Response:

In the outlying offices, it is not always possible for the assigned fund custodian to be the only employee to have access to the change fund due to absences, and multiple customers that are being assisted at the same time. In order to mitigate risk, the department implemented a dual custody approach with two signatures for every transaction, including access to the change funds.

Management was not aware that a back-up fund custodian could be authorized in offices where staffing is limited. The department has submitted a second fund custodian authorization for this staff member.

Auditor's Response:

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



Prior Finding 3: Depositing procedures could be improved.

The ICCM Chapter 9-4 Bank Accounts states that a department should not accumulate large amounts of receipts. For receipts of checks and money orders, deposits should be processed immediately. It also states that supervisors must verify that deposits are intact and document evidence of review.

The following conditions were identified when we tested 144 deposit transactions:

- Eight transactions where checks were not deposited immediately.
- 30 transactions where supervisory review of deposits were not documented.

Large volumes of payments received through the mail can take several days to process, resulting in deposit delays. Management was not aware of the ICCM requirement related to supervisory review of all deposits. Maintaining checks larger than necessary increases the risk of loss, theft or embezzlement. The risk of undetected errors increases when there is no supervisory review of deposits.

Recommendation:

We recommend all checks or money order receipts be deposited immediately in accordance to the ICCM. We also recommend the department implement procedures requiring supervisory review of all deposits.

Current Status: Implemented

The Department adheres to policies and procedures outlined in the ICCM Chapter 9-4 Bank Accounts. The Request for Exemption was approved by the Auditor-Controller/Treasurer/Tax Collector and the Department was granted approval to deposit any check that is less than \$1,000 within seven (7) calendar days of receipt and any check that is over \$1,000 within three (3) calendar days of receipt. During seasonal spikes, the Department is allowed up to a maximum of seven (7) calendar days to deposit checks. Auditor tested a sample of deposits and determined checks were deposited in accordance with these terms. It was further determined supervisory review was performed for each deposit tested.



Prior Finding 4: Segregation of duties could be improved.

The ICCM Chapter 2-3 states that no one person should be assigned concurrent duties that would allow them complete control over a transaction or an asset. Effective segregation of duties reduce the risk that any one person could perpetrate and conceal errors and irregularities in the normal course of their duties. Chapter 6-7 Mail Receipts states that the receiving, opening and distributing of income mail must be handled by, or under the supervision of an employee other than the cashier, bookkeeper, or person preparing the deposits. The ICCM also requires that two or more employees should be present when mail is opened. The department may choose to use video surveillance when staff is limited.

The following conditions were identified:

- The same individual has signing authority and can issue checks from the petty cash checking account at the Administration Office.
- A single employee at the Twin Peaks location is responsible for accepting payments, issuing receipts, recording payments into receipting system, and preparing deposits.
- Only one employee is present when incoming mail is opened at the Administration Office.

Recommendation:

We recommend that management review the ICCM requirements and develop procedures that will achieve proper segregation of duties or mitigating controls over the cash receipts process. We also recommend the Department require mail to be opened by at least two employees or implement mitigation controls when only one employee is available.

Current Status: Implemented

The Department adheres to policies and procedures outlined in the ICCM Chapter 2-3. The department designated two individuals to divide the responsibilities for preparing and signing checks. A Fiscal Specialist at the Administration Office reviews deposit reports submitted from the fund custodian at the Twin Peaks location. Also, the Department adheres to policies and procedures outlined in Chapter 6-7 Mail Receipts. There are now two individuals present when incoming mail is opened at the Administration Office.