

# County of San Bernardino

Auditor-Controller/Treasurer/Tax Collector  
Internal Audits Section

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## County Fire: Customer Receipting Follow Up Audit



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# Auditor-Controller/Treasurer/Tax Collector

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*The San Bernardino County Auditor-Controller's Office is committed to serving our customers by processing, safeguarding, and providing information regarding the finances and public records of the County. We perform these functions with integrity, independent judgment, and outstanding service. We are accurate, timely, courteous, innovative, and efficient because of our well-trained and accountable staff.*

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**July 18, 2017**

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## **SUBJECT: Customer Receipting 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 on the County Fire Department's Customer Receipting for the period of July 1, 2015 through February 13, 2017. The objective of the audit was to determine if the Department implemented the recommendations from the prior report. 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 May 18, 2015. Of the 5 recommendations from the original audit report, 1 has been implemented, 2 have been partially implemented, and 2 have not been implemented.

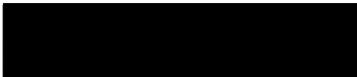
We sent a draft report to the Department on June 13, 2017. The Department's response to the current status of our recommendations is included in this report.

We would like to express our appreciation to the personnel at the County Fire Department who assisted and cooperated with us during this engagement.

Respectfully submitted,

**Oscar Valdez**

Auditor-Controller/Treasurer/Tax Collector  
San Bernardino County

By: 

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Chief Deputy Auditor

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## **County Fire: Customer Receipting Follow Up Audit**

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## Scope and Objective

Our audit examined the Department's Customer Receipting for the period of July 1, 2015 through February 13, 2017.

The objective of this follow-up audit was to determine whether the Department implemented the recommendations contained in the prior audit report, *Customer Receipting Audit*, issued on May 18, 2015.

## Methodology

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

- Interview of Fire Department personnel.
- Examination of original source documents and system generated reports.
- Observation of pertinent cash receipting operations.



### **Prior Finding 1: Deposits were not made in a timely manner.**

The County's Internal Controls and Cash Manual (ICCM) Chapter 3 states that the County Departments must not accumulate large amounts of receipts. Deposits must be made by the next business day when the amount of receipts (including cash, checks and money orders) reaches \$1,000, or at least weekly if lesser amounts are collected.

The following conditions were identified:

- During our review of 134 Permits Plus transactions, 134 transactions were not deposited in a timely manner. 127 out of 134 transactions were not deposited within one week. 7 out of 134 transactions were amounts under \$1,000 that were deposited within one week; however the total amount of the business day's receipts exceeded \$1,000. Therefore, the item was required to be deposited by the next business day.
- During our review of 4 Envision Connect transactions, 4 transactions were not deposited in a timely manner. These transactions were items that were less than \$1,000 and not deposited within one week.
- A paid on-call Firefighter acts as the courier to transport deposits twice a month from the Hesperia Office to 5th Street and large sums of deposits are hand-carried by the 5th Street Fiscal Assistant to the Treasury.

Due to the distance between the Hesperia Office and the Administration Office, deposits are only sent to Administration twice a month. Maintaining large amounts of cash on site potentially increases the chance of theft. Additionally, when the Department's cash receipts are transported by employees, there is an increased risk for the employees' safety and loss of assets.

### **Recommendation:**

We recommend that deposits are made by the next business day when the amount of receipts reaches \$1,000, or at least weekly if lesser amounts are collected. We also strongly recommend that the Department consider utilizing consolidated banking to expedite the depositing of cash and checks. Armored service will be able to transport the monies from the Hesperia Office to a local Bank of America, as it already provides service to the other departments located in the Hesperia Office. This will accelerate the deposit of cash into the County Treasury and eliminate the need for County employees to travel long distances with large amounts of cash.



### **Current Status: Partially Implemented**

The Department enrolled in consolidated banking and had their first armored service pick-up on September 27, 2016. 106 out of 135 transactions tested were not deposited by the next business day when receipts reached \$1,000 or within one week when amounts did not reach \$1,000.

### **Management's Response:**

The Department faces the challenge that most of the permits for which we receive payment reach \$1,000 on a regular basis. We strive to deposit the payments received as soon as possible. We are currently enrolled in consolidated banking with scheduled pick-ups two times per week. The Department is currently working on establishing the Check 21 Scanning System at each location since majority of the payments received over the counter are check transactions. The Department will continue to examine the cash volume received in order to determine if armored pick-ups need to be increased, once the Check 21 has been implemented. It is the Department's understanding that the County's ICCM is in the process of being revised as early as July 1, 2017. The Department will continue to evaluate the deposits process in order to comply with any revisions made to the ICCM.

### **Auditor's Response:**

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

### **Prior Finding 2: Segregation of duties should be improved at the Hesperia location.**

The County's Internal Controls and Cash Manual (ICCM) Chapter 2 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 reduces the risk that any one person could perpetrate and conceal errors and irregularities in the normal course of their duties.

The following conditions were noted:

- The Office Assistant III/Acting Front Counter Technician (OA III/FCT) is responsible for opening the mail, processing and



entering mailed-in checks into the Permits Plus system. She is also responsible for taking walk-in payments, and processing them into the system. She also prepares the deposit for all monies collected. Furthermore, in the event of a void, the Supervisor will review the void and email the OA III his approval. Instead of the Supervisor logging in, the OA III will log into the system to enter the Supervisor's login ID to authorize the void.

- There is no secondary or supervisory review of the deposit log and monies collected before the items are sent to the Administration Office on 5<sup>th</sup> Street.

Management is not aware of the ICCM guidelines for proper segregation of duties. Although the Community Safety Hesperia Division has six employees, there is only one employee that is assigned to Fiscal duties. The risk of undetected errors and potential theft increases when duties are not properly segregated.

### **Recommendation:**

We recommend that both Management and staff familiarize themselves with the County's ICCM. Management should reorganize assignments with existing staff to have effective segregation of duties and reduce the risk that any one person could conceal errors or irregularities. We also recommend that an individual with mail receipting duties should not have depositing or cashiering duties. Furthermore, we recommend the supervisor establish a new login ID, which should be kept confidential from his staff. In the event of a void, the supervisor should log into the system and personally authorize the void himself with his login ID. In addition, documented reviews over the deposits should be conducted to ensure accuracy. The review should be performed by someone of a supervisory level.

### **Current Status: Partially Implemented**

The Front Counter Technician is responsible for taking in walk-in payments, processing them into the system and preparing deposits for armored car pick-up. No secondary or supervisory review of deposits is being performed before they are taken by armored car. However, voids are reviewed and authorized by a supervisor before being processed.



### **Management's Response:**

The County's ICCM was redistributed to Management and Supervisors at the OFM Leadership Meeting held on May 16, 2017. A partial hardcopy of the ICCM (Chapters 2-6, 8, and 11) was provided to everyone in attendance. An email was sent later the same day to all Managers and Supervisors with the link to the full County ICCM available online. Supervisors were advised to familiarize themselves with the ICCM and share with Staff engaged in cash handling in order to ensure compliance. Supervisors have shared this information with all necessary staff. Additionally, effective June 12, 2017, the Front Counter Technician (FCT) at the Hesperia office no longer prepares the deposits. The deposits are now prepared by the Office Assistant III (OAIII). In the event the OAIII is not available, the Fire Prevention Specialist shall prepare the deposits that will then be presented and reviewed by the Fire Prevention Supervisor prior to deposit.

### **Auditor's Response:**

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

### **Prior Finding 3: Cash handling controls over the safeguarding of cash receipts need improvement.**

The Internal Controls and Cash Manual (ICCM) Chapter 6 states that the person who opens incoming mail must complete a list of the mail receipts received indicating the name of the remitter, amount received, other pertinent data and the signatures of the person opening the mail and the cashier to whom the mail receipts are turned over. Chapter 3 states that combinations to safes should be changed when an employee who has knowledge of the combination terminates County employment, is transferred to another County department, or is assigned other duties. Even if there are no staffing changes, combinations must be changed annually.

The following conditions were noted:

- There was no list kept of payments received through the mail at the Hesperia Office.



- It is unknown as to when the combination to the drop safe was last changed. The previous Front Counter Technician (FCT) left County employment in February 2014 and the previous Supervisor left the Hesperia location in November 2013.

Management is not aware of the mail receipting guidelines that are outlined in the ICCM. Management is also not aware that safe combinations should be changed at least annually. Mailed receipts may not be adequately recorded or safeguarded when there is no daily listing compiled of what was received in the mail. When there have been no changes to the safe combination, cash may not be adequately safeguarded.

### **Recommendation:**

We recommend that both Management and staff familiarize themselves with the County's ICCM. A list of all mail receipts should be kept and the receiving, opening and distributing of incoming mail be handled by, or under the supervision of, an employee other than the cashier or person preparing the deposits. We also recommend that combinations to the safe be changed when an employee terminates County employment, is transferred to another County department, or is assigned other duties. If there are no staffing changes, combinations should be changed at least annually.

### **Current Status: Not Implemented**

The Department does not maintain a list of all mail receipts. Receiving, opening and distribution of incoming mail is not handled by, or under the supervision of, an employee other than the cashier who prepares the deposits. The Department did not maintain a log of safe combination changes, therefore it could not be determined if safe combination changes are being made in accordance with the County's ICCM.

### **Management's Response:**

The Hesperia office has now established a log where all payments received via incoming mail will be recorded by the OAI, with close supervision from the Fire Prevention Supervisor, or designee. The FCT enters the information into the appropriate system. The OAI then prepares the deposit, which is verified by the Fire Prevention Supervisor. The Hesperia office has a current Office Assistant II (OAI) vacancy. Once the OAI position is filled, the duty of opening incoming



mail will then be assigned to this position in order to segregate the duties of opening mail and preparing deposits. Additionally, the Department has now established a log of safe combination changes that will be made in accordance with the County's ICCM.

### **Auditor's Response:**

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

### **Prior Finding 4: There was no verification of monies collected at the end of each business day.**

The ICCM's Chapter 6 states that at the end of each business day, the supervisor in charge must close out the registers. The cashiers must count out their cash trays and turn over the receipts and count sheets to the supervisor, and the supervisor must then recount the cash in the presence of the cashiers. Chapter 2 states that all transactions and pertinent events should be accurately and properly recorded on documents and records and that assets should be recorded.

The Hesperia Office Supervisor does not count out the monies collected at the end of each business day and verify the amount with the receipts issued from Permits Plus.

Management is not aware that monies collected should be verified by someone other than the cashier. Receipts may not be adequately recorded or safeguarded when there is no daily verification.

### **Recommendation:**

We recommend that both the supervisor and the cashier are present for closing out procedures to ensure the daily sales are counted and verified correctly.

### **Current Status: Not Implemented**

Monies collected are not verified at the end of each business day by the cashier or the supervisor.



### **Management's Response:**

The Fire Prevention Supervisor is now reviewing all monies collected at the end of each day and all deposits prepared by the OAI. The Fire Prevention Supervisor verifies the deposit log with the receipts and payments on hand prior to deposit.

### **Auditor's Response:**

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

### **Prior Finding 5: The cash shortage of \$40 was not reported to the proper entities.**

The County's Internal Controls and Cash Manual (ICCM) Chapter 5 states that in the event a shortage of \$200 or less occurs, the Department must report the shortage to the Auditor-Controller/Treasurer/Tax Collector's (ATC) Internal Audits Section (IAS) by submitting a "Request for Relief from Liability" memo. If a cash shortage is due to fraud, embezzlement or theft, the Department should immediately report the shortage to the Department Head, law enforcement agency, Risk Management Division and the ATC's IAS.

The following conditions were identified in our review:

- The \$40 shortage was discovered at the Administration Office after a deposit in the amount of \$6,458 was received from the Hesperia Office on October 1, 2013. The Fiscal Assistant indicated she received \$204 in cash, instead of \$244 that was indicated on the deposit log. The monies were deposited into the Treasury in the amount of \$6,418.
- As of August 5, 2014, a Request for Relief from Liability memo had not been submitted.

The Department is not aware of the ICCM guidelines on how to handle cash shortages and losses. If cash shortages and losses are not adequately investigated and reported to the proper authorities, the risk of embezzlement and misappropriation of funds significantly increases.

### **Recommendation:**

We recommend that both Management and staff familiarize themselves with the County's ICCM. We also recommend that the Department follow



the proper steps to report cash shortages and losses according to the ICCM guidelines. We further recommend that the Department make a thorough attempt to confirm any shortage by recounting the cash, reviewing all of the transactions for the period and comparing the check and money order amounts to the receipts written.

**Current Status: Implemented**

The Department has reported the shortage by submitting the Request for Relief from Liability memo on August 11, 2015.