

# County of San Bernardino

Auditor-Controller/Treasurer/Tax Collector  
Internal Audits Section

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## Land Use Services Department: Cash Funds Audit



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**August 14, 2018**

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## **SUBJECT: LAND USE SERVICES DEPARTMENT CASH FUNDS 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 an audit of the Land Use Services Department's cash funds for the period of July 1, 2017 through fieldwork date. The primary objective of the audit was to determine if the Department is in compliance with the Internal Controls and Cash Manual in regards to the controls over their cash funds. 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 identified several procedures and practices that could be improved. We have listed these areas for improvement in the Audit Findings and Recommendations section of this report.

We sent a draft report to the Department on June 7, 2018 and discussed our observations with management on July 2, 2018. The Department's responses to 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,

**Oscar Valdez**

Auditor-Controller/Treasurer/Tax Collector  
San Bernardino County

By:



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Date Report Distributed: 8.14.16

OV:DLM:RM:oac



## Land Use Services Department: Cash Funds Audit

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## Summary of Audit Results

The table below summarizes the audit findings and recommendations for this audit engagement. For further discussion, refer to the *Audit Findings and Recommendations* section of this report.

Finding No.	Findings and Recommendations	Page No.
1	<p>Controls over petty cash funds could be improved.</p> <p>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 that these reviews are documented.</p>	5
2	<p>Controls over change funds could be improved.</p> <p>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.</p>	6
3	<p>Depositing procedures could be improved.</p> <p>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.</p>	8
4	<p>Segregations of duties could be improved.</p> <p>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.</p>	9



## Cash Funds Audit

### The Department

The Land Use Services Department is dedicated to ensuring a balance in the areas of housing, business, and recreational needs for the diverse cultures and communities of San Bernardino County. This is accomplished through comprehensive regional planning and enforcement of building standards, land uses, and environmental impacts.

The Department is comprised of six bureaus:

- Administration Division provides centralized fiscal services, personnel, and customer service support to all Divisions and offices throughout Land Use Services.
- Planning Division oversees land use, community design, and industrial, commercial, and residential development. Planning facilitates the review, processing, and approval of applications for land use and land divisions within the County unincorporated areas; oversees General Plan implementation, updates and annual reports as required by law; maintains, updates, and interprets the Development Code; serves as the County lead for California Environmental Quality Act (CEQA) compliance, oversees the preparation of environmental reports for private and capital improvement projects; reviews and processes mining and reclamation plans in compliance with Surface Mining and Reclamation Act (SMARA); and conducts annual mine inspections to ensure adequate reclamation financial assurances for mining operations.
- Building and Safety administers construction and occupancy standards to safeguard life, health, and property in the unincorporated areas of the County. The Division applies state law and County ordinances and inspects the construction, alteration, relocation, demolition, repair, occupancy, and use of buildings and structures to ensure compliance.
- Code Enforcement administers programs designed to protect the public's safety, welfare, and property through enforcement of County ordinances and state laws related to housing and property.
- Fire Hazard Abatement enforces the Fire and Hazardous Trees Ordinance in the unincorporated portions of the County and provides contract services to specified cities and fire districts within the County.
- The Land Development Division is responsible for review of local area drainage, grading plans, tentative, and final maps, conditioning of new developments and reviewing and processing improvement plans for roads and drainage facilities associated with land development projects in accordance with the San Bernardino County Development Code and General Plan within the County area.



## Cash Funds:

The Department has two petty cash funds and six change funds. The Department uses petty cash funds to buy small items not processed through Auditor-Controller/Treasurer/Tax Collector (ATC) Accounts Payable. The change funds are used exclusively by a cashier or clerk for making change while performing official County business. The Department designates fund custodians to oversee petty cash and change funds. At all times, the fund custodian must be able to account for the fund in the form of cash, vouchers, and receipts. ATC Internal Audits Section (IAS) periodically performs surprise cash counts of these funds.



## Scope and Objective

Our audit examined the Department's cash funds for the period of July 1, 2017 to fieldwork date. We conducted our fieldwork at the Administration office in San Bernardino and the Building and Safety office in Twin Peaks.

The objective of our audit was to determine if the Department is in compliance with the Internal Controls and Cash Manual in regards to the controls over their cash funds.

## Methodology

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

- Interview of Department's staff.
- Review of the Department's policies and procedures.
- Perform walk-through of activities.
- Sampling and examination of original source documents.



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

The 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 that these reviews are documented.



## Management's Response:

1. The Department agrees with the audit findings and has designated a staff member to be the custodian for the petty checking account per ICCM Chapter 4-4 Cash Funds. The department has assigned a fund custodian to the petty cash checking account and monthly reconciliations will be reviewed by an employee of a higher-ranking job classification per ICCM Chapter 4-7.
2. The February 2018 reconciliation did not include a check that was written in the amount of \$40, but still outstanding. This error has been corrected and all checks written and outstanding will be checked against the disbursement log and included in the monthly reconciliation per ICCM Chapter 4-7. The cash overage of \$0.46 will be recorded in the Department's Overage/Shortage log and deposited into to the Department's Cash Overage fund per ICCM Chapter 6-8.
3. The department has initiated a petty cash fund log that will reflect all activity including monthly audits. This log will be verified each month during the monthly reconciliation to ensure accountability per ICCM Chapter 4-10.

## Auditor's Response:

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

## 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.

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

1. Due to the logistical constraints of sending staff to Twin Peaks on a monthly basis, the Department had been previously auditing cash at outlying offices on a quarterly basis. To conduct monthly reconciliations, the Building Official has agreed to the use of Building and Safety staff with a higher-ranking job classification to perform monthly cash audits. This will enable the department to comply with ICCM Chapter 4-7 requirements and detect errors timely. As of June 2018, the Department began monthly reconciliations at all offices on a monthly basis by a higher-ranking staff member per the ICCM Chapter 4-7.
2. The Department agrees with this finding. An employee with a higher-ranking job classification is now reviewing the reconciliations at Administration as well.
3. The Department agrees with this finding. The cash overage of \$0.10 will be recorded in the Department's Overage/Shortage log and deposited into to the Department's Cash Overage fund per ICCM Chapter 6-8.



## **Auditor's Response:**

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

## **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.

## **Management's Response:**

1. Following the ICCM Chapter 9-4, the fiscal staff in Administration complete deposits daily and has them transported by armored carrier the same day. There are rare occasions where there are complications with checks that may require they be held in the safe for a limited period of time. In these cases, notations are made on the deposit recaps for reference. LUS faces seasonal spikes in which some permit fees are due by a specific date. An example of this is the Short Term Private Home Rental Renewal fees. LUS can receive hundreds of checks in a matter of a few days. Each of these



transactions requires some processing time which hinders LUS' ability to deposit checks immediately. For this reason, LUS has submitted a request for exemption from the rule found in Chapter 3; Safeguarding Cash, Paragraph 1, which states deposits must be made immediately.

2. The Department agrees with this finding. The daily deposits were previously verified by the Accounting Technician, or a Fiscal Specialist. They are now being verified by an Administrative Supervisor I, or the Administrative Manager before they are sealed in the deposit bags per the ICCM Chapter 9-4.

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

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

### **Finding 4: Segregations 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.

The department was not aware of the requirement to assign someone other than the individual issuing checks to be an authorized signer. The department was also not aware of the ICCM requirement of opening mail with at least two



employees present. One employee performs the entire cash receipting process at the Twin Peaks location due to the limited availability of staff at that location. When proper segregation of duties do not exist, it increases the risk that a single person could conceal errors and irregularities in the normal course of their duties.

### **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.

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

1. The Department agrees with this finding. The fund custodian for the petty cash checking account is now ensuring that a Check Request is completed and approved, the Petty Cash Disbursement log is completed, and the check is recorded in the Petty Cash Check Register Reconciliation log. The fund custodian then prepares the check before giving it to the authorized signer for signature following the ICCM Chapter 9-4 guidelines for segregation of duties.
2. The Twin Peaks office is staffed with only one Land Use Technician due to low customer count, thus the ability to segregate duties is difficult. The Department utilizes the following procedures to minimize the risk of loss:
  - All payments that are brought to the office by customers are receipted and recorded in either Permits Plus or Accela.
  - The customer is given a receipt for payment at that time. A copy of the receipt accompanies the payment for deposit and distribution purposes.
  - A Fiscal Specialist in the Administrative office prints the reports each day for all offices and reviews the deposits to verify that the receipts match the deposits. This process reduces the risk that any one person could perpetrate and conceal errors and irregularities in the normal course of their duties.
3. The Department agrees with this finding. The mail at the Administrative office is now being opened with two people present per ICCM Chapter 2-3.



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

The Department's actions regarding the petty cash and opening mail procedures will correct the deficiencies in the finding. ATC Internal Audits recognizes the Department's efforts to mitigate controls at their Twin Peaks office and assume the potential risk involved. The final decision regarding the implementation of the recommendation remains with Land Use Services.