

County of San Bernardino

Auditor-Controller/Treasurer/Tax Collector
Internal Audits Section

Public Works - Solid Waste Management: Cash Funds Follow-Up Audit



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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 Solid Waste Management Division for the period of August 7, 2015 through July 18, 2016. The objective of the audit was to determine if the recommendations for the findings reported in the August 6, 2015 audit of the cash receipting process 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 6, 2015. Of the 5 recommendations from the original audit report, 3 have been implemented, 1 has been partially implemented, and the Division decided not to implement 1 of the recommendations.

We sent a draft report to the Department on December 8, 2016. The Department's responses to our recommendations are included in this report.

We would like to express our appreciation to the personnel at the Solid Waste Management Division who assisted and cooperated with us during this engagement.

Respectfully submitted,

Oscar Valdez

Auditor-Controller/Treasurer/Tax Collector
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By:



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**Solid Waste Management Division:
Cash Funds Follow-Up Audit**

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Scope and Objective

Our audit examined the Division's cash handling controls for the period of August 7, 2015 through July 18, 2016. We conducted our fieldwork at the Division's Administration Office and Fiscal Office. When reviewing cash deposits, Heaps Peak and Landers were the only cash handling landfill locations that were tested.

The objective of this follow-up audit was to determine whether the Department implemented the recommendations contained in the prior audit report, *Public Works - Solid Waste Management: Cash Funds Audit*, issued on August 6, 2015.

Methodology

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

- Reviewing cash deposit records.
- Interviewing Solid Waste Management Division personnel.
- Examining original source documents and system generated reports.



Prior Finding 1: Safeguarding of the change funds needs improvement.

The County's Internal Controls and Cash Manual (ICCM) Chapter 3 states that all cash held overnight should be placed in a safe or a locked file cabinet located in a secure area away from the public.

Administration

The Scale Operations Supervisor I takes his change fund home at the end of the workday.

Mid-Valley Landfill

The Scale Operators take their change funds home at the end of the workday.

Victorville Landfill

The Scale Operators take their change funds home at the end of the workday.

San Timoteo Landfill

The Scale Operators take their change funds home at the end of the workday.

The supervisor carries his change fund home due to daily visits at multiple sites to provide change and in case of emergency when a scale operator is not able to come to work as scheduled. Scale Operators are required to carry their change fund due to their scheduled assignments at multiple locations. When the Department's change funds are carried by employees, there is an increased risk for the employees' safety and loss of assets.

Recommendation:

We recommend that the Supervisor store his change fund overnight at the Administration Office safe. We also recommend the Department consider storing the change funds overnight in the scale house's safe. The number of change funds stored in each scale house safe will be dependent on the number of scale operator windows at each scale house.

Current Status: Not Implemented

Scale Operations Supervisors and Scale Operators still take their change funds home at the end of their workday. Management of the Solid Waste Management Division has accepted the risk involved with this practice.



Management's Response:

While Solid Waste Management Division (SWMD) agrees with the finding, the implementation of the recommendation is not practical in our circumstance. Scale Operators and Scale Supervisors are subject to being assigned to any SWMD facility throughout the County on short notice. Often, Scale Operators do not work at the same location on subsequent days, and therefore storing the Scale Operators' change funds in the scale house safe is not a viable solution. Likewise, Scale Supervisors are also subject to being sent to any location throughout the County as emergency relief / backup with little notice. Storing the Scale Supervisors' funds at the Administration office is not a viable solution due to time constraints and the logistics of dispatching the Supervisors to remote locations. Scale Operators and Scale Supervisors are required to maintain possession of their assigned change fund and to take the fund home with them at the end of each workday. Based on the historical success of this practice, SWMD has determined it to be an acceptable risk.

Auditor's Response:

Although ATC Internal Audits has a responsibility to report internal control risks noted during an audit, the Department has assumed the potential risk involved and the final decision regarding the implementation of the recommendation remains with SWMD.

Prior Finding 2: Cash handling controls over the safeguarding of cash receipts need improvement.

The County's Internal Controls and Cash Manual (ICCM) Chapter 6 states that adequate controls must be practiced for both the cash receipting functions and voiding transactions. A supervisor's approval of a void should be obtained at the time of the occurrence.

Mid-Valley Landfill

Employees void their own transactions and do not need a supervisor's approval for cash voids.

Victorville Landfill

Employees void their own transactions and do not need a supervisor's approval for cash voids.



San Timoteo Landfill

Employees void their own transactions and do not need a supervisor's approval for cash voids.

Staff is not familiar with the ICCM procedures on voids. Employees only contact their supervisor when a credit card void is needed because a help desk ticket must be submitted to Information Services Department (ISD) in order to reverse the charge.

Recommendation:

We recommend that the employee obtain a supervisor's approval of the void at the time of occurrence for both cash and credit card transactions. We further recommend that, because the supervisor is not physically at each site to approve the void, the supervisor should keep a log of all approved voided transactions as they occur. This log can be matched to the operators' daily reports and voided receipt copies.

Current Status: Implemented

Employees receive approval for voids from Scale Operation Supervisors at the time of occurrence, and a log of voids is maintained by Scale Operation Supervisors.

Prior Finding 3: 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.

During our review of 134 transactions from all nine landfills, six were not deposited in a timely manner. All six were not deposited within one business day when receipts exceeded \$1,000.

Landers Landfill

- Four out of the six transactions were deposits from the Landers Landfill.

Heaps Peak Landfill

- Two out of the six transactions were deposits from the Heaps Peak Landfill.



Brinks Transport makes armored truck pickups once a week on Wednesdays at the Landers Landfill. Although Garda Transport is scheduled to make pickups Mondays through Saturdays at the Heaps Peak Landfill, pickups may not occur due to bad weather or driving conditions. Maintaining large amounts of cash on site increases the potential of theft.

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 further recommend that the department consider increasing the frequency of armored truck pickups to two or three times a week at the Landers location. Additionally, when the armored truck fails to make a scheduled pickup, the department should keep a record of the occurrence, as the department is paying for this pickup service.

Current Status: Partially Implemented

A random sample of 44 transactions were selected from Heaps Peak and Landers sites. Out of the 44 transactions, 13 were not deposited within one business day when receipts exceeded \$1,000, or at least weekly when lesser amounts were collected. However, the Department maintains a record of missed scheduled armored car pickups.

Landers Landfill

- 9 out of the 13 transactions were deposits from the Landers Landfill.

Heaps Peak Landfill

- 4 out of the 13 transactions were deposits from the Heaps Peak Landfill.

ATC Internal Audits recognizes that the Department has been consistently active in their efforts to increase the frequency of armored service for these remote areas.

Management's Response:

SWMD Scale Operators prepare deposits and place them in a locked safe at the site in accordance with ICCM guidelines. At that point, SWMD personnel have complied, to the extent possible, with ICCM guidelines regarding safeguarding of cash receipts. Deposits not being made in a timely manner are a result of service inconsistencies by the contracted armored car service. A log is kept at each site when armored service does not show up, and the ATC's Treasurer Division is notified by SWMD as soon as it is confirmed that a pick-up was missed. SWMD



has worked with the Treasurer's Division to schedule more frequent armored pick-ups at remote sites, and we currently have service at least three times a week for these sites.

Auditor's Response:

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

Prior Finding 4: Combinations to the safes have not been changed in accordance with the Internal Controls and Cash Manual.

The County's Internal Controls and Cash Manual (ICCM) 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.

Administration

The combination to the safe, where the change and cash difference funds are stored, had not been changed every year. The last safe combination change occurred about two years ago.

Fiscal

The combination to the safe, where the petty cash fund is stored, had not been changed every year. The last safe combination change occurred in November 2010.

Staff was not aware that safe combinations should be changed at least annually. When there have been no changes to the safe combination, cash may not be adequately safeguarded.

Recommendation:

We recommend that staff familiarize themselves with the County's ICCM. We also recommend that combinations to the safe should 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: Implemented

The combination to the safe at the Administration office was last changed April 21, 2016 and the safe at the Fiscal office was last changed July 13, 2016.

Prior Finding 5: Management of the Cash Difference (cash shortage) Fund needs improvement.

The County's Internal Controls and Cash Manual (ICCM) Chapter 5 states that when a cash handling error shortage occurs, the department should notate the amount of reimbursement to the cashier's change fund, the date of occurrence and the name of the cashier who incurred the shortage on a cash deficit list. The department should reimburse the cashier's change fund for the amount of the shortage. The ICCM 4-7 also states that County departments must reconcile their cash funds at least once a month. An employee other than the fund custodian and of a higher-ranking job code 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 code.

Administration

The following conditions were noted:

- The cash difference fund was not being used for its intended purpose.
 - Three scale operators were short on their change funds, with the earliest occurring in August 2014, and had not yet been replenished as of fieldwork date in January 2015. The total shortage among the scale operators was \$236.
- Reconciliations were not performed by an individual of a higher-ranking job code.
 - The fund custodian is the Public Works Operations Superintendent and is of a higher rank than the Scale Operations Supervisor II, who performs the reconciliation.

The Supervisor was not aware of the ICCM guidelines for reimbursement from the cash shortage (cash difference) fund to the Scale Operator change funds nor was he aware of the reconciliation needing to be performed by an individual of a higher-ranking job code than the fund custodian. Scale Operators may not be able to provide change if their change fund is depleted. In addition, when there is no independent review of the cash shortage fund, cash may not be correctly accounted for.



Recommendation:

We recommend that the Scale Operator change funds be immediately reimbursed using the cash difference fund. We further recommend that the cash difference fund custodian be changed to the Scale Operations Supervisor II, and that the Public Works Operations Superintendent perform the reconciliation. In addition, the cash difference fund custodian should maintain a log of cash shortages, in accordance with the ICCM guidelines.

Current Status: Implemented

The cash difference fund custodian maintains a log of cash shortages and funds are reimbursed immediately using the cash difference fund. The Scale Operations Supervisor is the cash difference fund custodian. Although the Scale Operations Supervisor performs reconciliations of the cash difference fund, they are reviewed and signed by the Public Works Operations Superintendent.