

County of San Bernardino

**Auditor-Controller/Treasurer/Tax Collector
Internal Audits Section**

Aging and Adult Services- Public Guardian-Conservator: Cash Funds Follow-Up Audit



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Aging and Adult Services-Public Guardian-Conservator Cash Funds Follow-Up Audit

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June 20, 2019

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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 Aging and Adult Services-Public Guardian-Conservator's (Department) cash funds for the period of August 1, 2018 through March 28, 2019. The objective of the audit was to determine whether the recommendations in the Aging and Adult Services-Public Guardian-Conservator's Cash Funds Audit issued on June 27, 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 June 27, 2018. The three recommendations from the original audit report have been partially implemented.

We sent a draft report to the Department on May 29, 2019 and discussed our observations with management on May 30, 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 Aging and Adult Services-Public Guardian-Conservator who assisted and cooperated with us during this engagement.

Respectfully submitted,

Ensen Mason CPA, CFA
Auditor-Controller/Treasurer/Tax Collector
San Bernardino County

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Date Report Distributed: June 20, 2019

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Scope and Objective

Our audit examined Aging and Adult Services-Public Guardian-Conservator's (Department) cash funds from August 1, 2018 to March 28, 2019.

The objective of this follow-up audit was to determine whether the Department implemented the recommendations contained in the prior audit report, *Aging and Adult Services-Public Guardian-Conservator's Cash Funds Audit*, issued on June 27, 2018.

Methodology

In achieving the audit objective, 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 source documents



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

The Internal Controls and Cash Manual (ICCM) Chapter 4-11 states that for petty cash disbursements, an employee must complete a petty cash voucher, stating the date, purpose of expenditure and amount. The employee purchasing the items should return with itemized receipts and change. Petty cash advances must be closed within one week from the date of advance. Chapter 4-10 also states petty cash should not be used to purchase any one item in excess of \$250. In addition, the Department's Petty Cash Disbursement Procedures states the employee will return all receipts and any change to the Fund Custodian by the date specified on the petty cash voucher. Furthermore, the ICCM Chapter 3-4 states that changes to safe combinations should be made 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 identified when we reviewed 27 petty cash transactions:

- 13 petty cash vouchers were not filled out with the date that receipts and/or change were due to the Fiscal Unit.
- Four advances were not closed within one week.
- Two advances did not have itemized receipts of final purchases.
- A petty cash voucher's purpose of expenditure did not match with the purchases listed on the itemized receipts.
- A cash allowance exceeding \$250 was disbursed from the petty cash fund.

We additionally found that the Department was unable to provide a record of the last safe combination change of where the petty cash is stored.

The Department was not familiar with the specific requirements related to petty cash funds as outlined in the ICCM. The Department was aware that the records of safe combination changes should be kept, but has been unable to locate them due to office relocation. There is an increased risk of misappropriation when petty cash transactions are not properly



recorded. Without a record of safe combination changes, the Department may not be in compliance with the requirements in the ICCM.

Recommendation:

We recommend that the Department review the ICCM's petty cash policies and procedures as well as limitations. Petty cash vouchers should be completely filled out and advances should be returned with itemized receipts and any change within one week. We also recommend the Department change the combination to safes at least annually or when an employee who has knowledge of the combination terminates County employment, is transferred to another department, or is assigned other duties. We further recommend records of safe combination changes are maintained.

Current Status: Partially Implemented

The Department has reviewed the ICCM's petty cash policies and procedures during a Department fiscal meeting. However, the following conditions were identified when we reviewed 26 petty cash transactions:

- Five petty cash vouchers were not completely filled out with the date that receipts and/or change were due to the Fiscal Unit.
- Five transactions did not have a settlement date or receipt date when returned to the fiscal unit, therefore it could not be determined whether the advances were closed within one week.
- One petty cash voucher did not have an itemized receipts, therefore it could not be determined if the requested amount matched receipts.
- Two cash allowances exceeding \$250 were disbursed from the petty cash fund.

Also, the Department is commingling the petty cash account and the Citizens Business Bank Trust Account. Of the 26 petty cash transactions tested, 15 were reimbursed by the Citizens Business Bank Trust Account instead of going through the proper approval process through the Auditor-Controller/Treasurer/Tax Collector.

The Department did, however, change the combination to the safe and maintain a record of the safe combination changes.



Management's Response:

The Office of the Public Guardian (OPG) staff continue to include documentation detailing the use of petty cash for extenuating circumstances not outlined in the county's Internal Cash Control Manual (ICCM), which are deemed necessary to meet the fiduciary responsibility of disbursing conservatee funds and providing for the health, welfare and safety of conservatees, as mandated by California Probate Code.

In April 2019, PDD released OPG 699, *Office of the Public Guardian Funds Request and Receipt*. This form incorporates the department approval process in addition to consolidation of various cash control documents, including the *Petty Cash Voucher* and *Petty Cash Receipt*. Following receipt of the printed forms and training of OPG staff, OPG implemented use of OPG 699 as of June 2019.

OPG is currently working with ATC staff to explore solutions (i.e. exceptions) to ensure cohesive alignment of the business practice needs as court-appointed conservators with County policies and procedures to ensure compliance with mandates governing the fiduciary responsibilities of the department.

OPG conducted additional one-on-one training with the Fund Custodians to ensure proper completion of all documentation. Additionally, department leadership incorporated periodic internal audits to ensure early identification of future training concerns.

OPG partially agrees with the fourth finding notes as "Two cash allowances exceeding \$250 were disbursed from the petty cash fund." Due to the business need and fiduciary responsibility, both expenditures were deemed extenuating circumstances and included documentation detailing the conservatees' needs and management approval.

Auditor's Response:

The Department's actions and planned actions for proper completion of documentation will correct the related deficiencies noted in the finding. However, the Department accepts the potential risk of using petty cash for conservatee expenses. The final decision regarding the implementation of the recommendation remains with the Department.



Prior Finding 2: Bank accounts are not reconciled monthly.

The ICCM Chapter 3-3 states that Departments must reconcile bank accounts monthly by someone other than the cashier or the person who makes the deposits.

As of our fieldwork date, we noted the following:

- The most recent reconciliation for the bank accounts noted below was performed for the month ending June 30, 2017.
 - Bank of America NLJ account
 - Wells Fargo NLJ, VJY and NXB accounts
 - Citizens Business Bank CBB account
- The Petty Cash Checking Account did not have an authorized fund custodian.

The Department was unaware that reconciliations of these bank accounts should be performed monthly. Due to the sudden passing of the previous fund custodian, the Department had not yet selected a new fund custodian for the petty cash checking account. Without periodic reconciliations, errors in the bank statements could remain undetected for a significant period of time. Without an authorized fund custodian, the Department had no access to the account.

Recommendation:

We recommend the Department perform monthly reconciliations of all bank accounts used by the Department, as stated in the ICCM. We also recommend the Department evaluate their Petty Cash Checking Account to determine if there is a legitimate business need. The Department should either immediately designate a new fund custodian for the account or close the account if there is no business need.

Current Status: Partially Implemented

As of our fieldwork date, we noted the following:

- The most recent reconciliation for the bank accounts noted below was performed for the month ending February 28, 2018.



- Bank of America NLJ account
- Wells Fargo NLJ and VJY
- Citizens Business Bank CBB account
- The Department has determined that there is a legitimate business need for their Petty Cash Checking Account and has designated two new fund custodians.

Management's Response:

A County-approved, independent certified public accounting firm continues to perform certified monthly reconciliations of the OPG bank accounts. Due to circumstances beyond the control of OPG and the vendor, reconciliations were temporarily suspended for many months due to SAP conversion. Upon resolution of the interface and reporting issues between SAP and the OPG software, monthly reconciliations resumed; however, due to changes in available reports and data from SAP, reconciliations take significantly longer to complete. Since the time of the most recent audit, the independent certified public accounting firm completed an additional twelve months of bank reconciliations.

Auditor's Response:

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

Prior Finding 3: Controls over the Department's Special Purpose Checking Account and Trust Account could be improved.

The ICCM Chapter 2 –3 states that all transactions should be properly authorized and approved, which establishes responsibility. In addition, all transactions and pertinent events should be accurately and properly recorded on documents and records. Sufficient and relevant data should be recorded to provide an audit trail and to document evidence that a transaction took place. An audit trail allows an independent person to validate a specific transaction by tracing it from summary report to original documentation. Assets should also be recorded and access to and use of valuable assets should be controlled.



The following conditions were identified when we reviewed 27 transactions from the Citizens Business Bank CBB and Wells Fargo VJY accounts:

- Four requests did not have an approval or clear justification for purchases.
- Three disbursements were missing receipts or appropriate documentation.
- Two disbursements had receipts that did not total to the requested amount.
- Two disbursements were not signed out on the Cashed Check Log.

We additionally found that a disbursement made on October 27, 2017 had not yet been closed by providing itemized receipts, as of fieldwork date. Instead, the money was kept in a safe and was being spent as needed, without additional approvals.

The Department has an obligation under court mandates and Probate Code to process cash disbursements to provide services for conservatees in their care, sometimes within a short turnaround time. When cash transactions from the Department's Special Purpose Checking and Trust Accounts are not properly recorded and accounted for, the risk of misappropriation from the conservatees' accounts increases.

Recommendation:

We recommend both management and staff familiarize themselves with the County's ICCM. We further recommend the Department strengthen their internal control policies and procedures on disbursements to protect their conservatees' assets while ensuring their needs are met. The Department should also immediately cease the practice of keeping partially spent cash advances for extended periods of time. Cash advances should be obtained for preapproved purposes, spent immediately and then itemized receipts and any change should be returned.

Current Status: Partially Implemented

The Department has familiarized themselves with the County's ICCM during a Department fiscal meeting, and has ceased the practice of keeping partially



spent cash advances for extended periods of time. However, the Department did not update their internal control policies and procedures on disbursements. When we tested 25 transactions, 7 purchases did not have an approval or clear justification.

Management's Response:

OPG continues to work collaboratively with the Human Services Program Development Division (PDD) to develop comprehensive tools, policies and procedures to further strengthen, clarify and update cash fund documentation and controls. OPG internal control policies and procedures are undergoing review and revision through the established process.

OPG respectfully disagrees with the finding noted above indicating "7 purchases did not have an approval or clear justification." Each of the cited transactions were completed for Conservatees residing in their own home, utilizing the Conservatees' funds maintained in the Citizens Business Bank revolving checking account.

OPG believes the recently developed OPG 699, *Office of the Public Guardian Funds Request and Receipt*, provides a more comprehensive and straightforward mechanism to document approval of extraordinary or extenuating circumstances.

Auditor's Response:

The Department accepts the potential risk involved in not documenting approvals and justifications for all transactions. The final decision regarding the implementation of the recommendation remains with the Department.