

County of San Bernardino

Auditor-Controller/Treasurer/Tax Collector
Internal Audits Section

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



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SUBJECT: 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 Department of Aging and Adult Services-Public Guardian-Conservator's Cash Funds as of fieldwork date. The primary objective of the audit was to determine whether the Department has appropriate controls in place 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.

This report is a result of control deficiencies observed during an audit conducted on the Department's travel procedures. We identified 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 May 11, 2018 and discussed our observations with management on May 31, 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 Department of Aging and Adult Services-Public Guardian-Conservator who assisted and cooperated with us during this engagement.

Respectfully submitted,

Oscar Valdez

Auditor-Controller/Treasurer/Tax Collector
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Aging and Adult Services – Public Guardian - Conservator:

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 the petty cash fund could be improved.</p> <p>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.</p>	5
2	<p>Bank accounts are not reconciled monthly.</p> <p>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.</p>	7
3	<p>Controls over the Department's Special Purpose Checking Account and Trust Account could be improved.</p> <p>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.</p>	8



Cash Funds Audit

The Department

The Department of Aging and Adult Services (DAAS) provides services to seniors, at-risk individuals, and adults with disabilities to improve or maintain choice, independence and quality of life so they may age in place, in the least restrictive environment. Under the direction of the California Department of Aging (CDA), DAAS serves as the federally designated Area Agency on Aging (AAA) for the County of San Bernardino and is responsible for administering programs under the Older American Act.

Under DAAS and by court appointment, the Public Guardian-Conservator acts as conservator of last resort for individuals found to be gravely disabled or who lack the capacity to manage their finances and provide their own care. A conservator is responsible for the conservatee's care, custody, and control. Responsibilities include determining where the conservatee lives and ensures his/her daily needs are met.

Cash Funds

The Board of Supervisors, by resolution, establishes cash funds for County departments to facilitate their operations. Ordinarily these funds are used for buying small items, making customer change, or reimbursing cash shortages. The Board has delegated to the County Auditor-Controller/Treasurer/Tax Collector (ATC) the authority to establish cash funds up to \$2,500.

The Department has one petty cash fund and six bank accounts. The bank accounts are as follows:

- Wells Fargo Conservatee Account (VJY) – used as primary trust account.
- Bank of America Consolidated Banking (NLJ) – used to transfer balances to VJY at the end of the month.
- Wells Fargo Consolidated Banking (NLJ) - used to transfer balances to VJY at the end of the month.
- Wells Fargo Investment Fund Account (NXB) – savings account holding conservatees' monies.



- Citizens Business Bank (CBB) – special purpose checking account which was increased from \$2,500 to \$50,000 through a board resolution on March 26, 2013.
- Wells Fargo Petty Cash Checking Account.

The Department uses petty cash, their Special Purpose Checking Account and their Trust Accounts to make purchases on behalf of the conservatees in their care.



Scope and Objective

Our audit examined the Department's cash, as of fieldwork date.

The objective of this audit was to determine whether the Department has appropriate controls in place over their cash funds.

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



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 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.

Management Response:

Enhanced controls over the petty cash fund are currently in place and continue to be strengthened, including enhanced documentation practices to detail extenuating circumstances not outlined in the ICCM or otherwise deemed exceptions to the ICCM due to the fiduciary responsibility of disbursing conservatee funds, as mandated by California Probate Code.

In January 2018, the Fiscal Unit relocated from the Department of Aging and Adult Services (DAAS) Administration office in San Bernardino to the Office of the Public Guardian (OPG) office located at 222 W. Brookside Avenue, Redlands. Co-location of the Fiscal Unit facilitates enhanced processes in cash fund requests, handling and reconciliation, as well as enriched training. Additionally, OPG purchased a new Fiscal Unit safe, also located on-site. A Combination Log is in use and mounted to the inside of the safe for ready access. Safe combinations will be changed 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.

OPG continues to work collaboratively with the Human Services Program Development Division (PDD) to develop comprehensive tools and policies to further strengthen cash fund documentation and controls.

Auditor's Response:

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



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.

Management Response:

Certified monthly reconciliations of the OPG bank accounts were completed through September 2017. Due to circumstances beyond the control of the OPG, certified monthly reconciliations of bank accounts were suspended as of October 2017 due to SAP conversion; OPG, ATC and outside vendors continue to collaborate to remedy this issue.



Certified bank account reconciliations are performed by a County approved independent certified public accounting firm. However, SAP conversion eliminated many reports previously utilized to reconcile bank record and transactions documented in the OPG case management system, Panoramic.

As required by Probate Code, all conservatee accounts undergo mandated yearly accounting reviews. All financial transactions executed on behalf of conservatees are reviewed and audited during the accounting by Deputy County Counsel, conservatee's appointed counsel, Probate Referee, conservatee, assigned Deputy Public Guardian, the Public Guardian Fiscal Unit, Public Guardian Management and the Court. Additionally, accountings are subject to audit by the Social Security Administration and United States Department of Veterans Affairs.

The OPG Fiscal Unit will continue to conduct non-certified monthly reconciliations until the reporting mechanisms and interface between Panoramic and SAP can be rectified.

The OPG utilizes the Petty Cash checking account to ensure compliance with Federal, State and Court mandates to manage conservatees' finances in a timely and efficient manner. As most vendors will not accept third-party payments, OPG utilizes the Petty Cash account for emergency or time sensitive payments, such as emergency home repairs or medical/personal care needs. Due to the business need for a Petty Cash fund, the Director of the Department of Aging and Adult Services/Public Guardian, and the Deputy Director/Chief Public Guardian, are the authorized Petty Cash checking account fund custodians.

Auditor's Response:

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

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.



Management Response:

Enhanced controls over the Department's Special Purpose Checking Account and Trust Account are currently in place and continue to be strengthened. The relocation of the Fiscal Unit in January 2018 facilitates enhanced internal control policies and procedures on disbursements, cash handling and transaction reconciliation. OPG implemented enhanced documentation procedures and continues to work collaboratively with PDD to develop comprehensive tools and policies to further strengthen documentation and controls.

Auditor's Response:

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