

County of San Bernardino

Auditor-Controller/Treasurer/Tax Collector
Internal Audits Section

County Library: Cash Controls Audit



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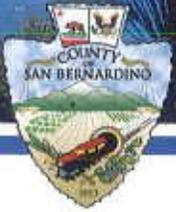
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County Library Cash Controls Audit

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May 9, 2019

Michael Jimenez, County Librarian

County Library
777 E. Rialto Avenue
San Bernardino, CA 92415-0035

SUBJECT: COUNTY LIBRARY CASH CONTROLS 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 County Library (Department) cash controls for the period of July 2017 through June 2018. 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 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 March 26, 2019 and discussed our observations with management on April 3, 2019. The Department's responses to our recommendations are included in this report.

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

Respectfully submitted,

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

By

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Summary of Audit Results

Our findings and recommendations are provided to assist management in improving internal controls and procedures relating to the Department's cash.

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.
Administrative Office, Apple Valley, Bloomington, Chino Hills, Fontana, Hesperia, Highland, Loma Linda and Yucaipa		
1	Monthly bank reconciliations are not being performed.	8
	We recommend the Department start performing monthly reconciliations to be in compliance with the ICCM.	
Apple Valley, Bloomington, Chino Hills, Fontana, Hesperia, Highland, Loma Linda, Yucaipa		
2	Management of the Change Funds needs improvement.	9
	We recommended segregating duties for receiving, depositing, and reconciling cash. The Department should assign one fund custodian with two backup custodians, depending on the size of the branch. We also recommend that access to the safe be limited to the authorized fund custodians and the safe combination be changed annually or when an employee has knowledge of the combination is terminated.	
3	Management is not adhering to the guidelines for properly accounting for cash overages.	12
	We recommend that the Department properly record cash overages to the Cash Overage Fund to properly account for all cash overages, as stated in the ICCM.	
Administrative Office, Bloomington, Chino Hills, Fontana, Highland, Loma Linda and Yucaipa		
4	Deposit procedures could be improved.	13
	We recommend that deposits be reviewed by an employee of a higher-ranking job classification than the preparer and that checks at the Administrative Office be deposited immediately.	



Chino Hills and Fontana		
5	Cash handling controls over safeguarding of cash could be improved.	14
	We recommend that cashiers lock their cash drawers when their drawers are not in use so that cash is properly safeguarded.	
Administration Office		
6	Management of the Petty Cash Fund needs improvement.	15
	We recommend segregating duties so that one person is not allowed to approve the expenditure, write the checks and issue the checks. We also recommend that the Department maintain a log, such as a check register to log each petty cash transaction. Lastly, we recommend that the monthly reconciliations be performed before the 15th of the following month to be in compliance with the ICCM.	



CASH CONTROLS AUDIT

The Department

The San Bernardino County Library (Department) is a dynamic network of 32 branches that serves a diverse population over a vast geographic area. The Department strives to provide equal access to information, technology, programs, and services for all the people who call San Bernardino County home. The Department receives cash from fines and fees paid by patrons.

Cash Funds

The Board of Supervisors, by resolution establishes cash funds for the Departments to facilitate their operations. The Board has delegated the County Auditor-Controller/Treasurer/Tax Collector (ATC) the authority to establish cash funds up to \$2,500. Several different types of cash funds are used throughout the County, including petty cash funds, change funds and cash difference funds.

The Administration Office has one authorized petty cash fund and each of the eight locations we visited has an authorized change fund.

Branch	Petty Cash Fund	Change Fund
Administration Office	\$2,500	
Apple Valley		\$300
Bloomington		\$200
Chino Hills		\$300
Fontana		\$500
Hesperia		\$400
Highland		\$300
Loma Linda		\$200
Yucaipa		\$250

An authorized petty cash fund is used for payment of miscellaneous expenses or charges incurred while performing official County business. An authorized change fund is used exclusively by a cashier or clerk for making change while performing official County business.



Branch Locations

The Library has 32 branches that serve a diverse population by providing educational recreational services for all the people of San Bernardino County. Below are the nine sites that were visited during fieldwork:

- Administrative Office (San Bernardino)
- Apple Valley Newton T. Bass Branch Library (Apple Valley)
- Bloomington Branch Library (Bloomington)
- James S. Thalman Chino Hills Branch Library (Chino Hills)
- Fontana Lewis Library & Technology Center (Fontana)
- Hesperia Branch Library (Hesperia)
- Highland Sam J. Racadio Library & Environmental Learning Center (Highland)
- Loma Linda Branch Library (Loma Linda)
- Yucaipa Branch Library (Yucaipa)



Scope and Objective

Our audit examined the Department's cash controls process for the period of July 2017 through June 2018.

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

Methodology

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

- Performance of surprise cash counts of the authorized cash funds.
- Review of policies and procedures.
- Interview of Library personnel regarding cash fund management.
- Observation of pertinent cash operations.
- Review of cash deposits for the period July 2017 through June 2018.
- Examination of original source documents and system generated reports.



Finding 1: Monthly bank reconciliations are not being performed.

The Internal Controls and Cash Manual (ICCM) Chapter 9-5 states that Departments must reconcile their records to the bank statement by the 15th day of the following month.

Administrative Office, Apple Valley, Bloomington, Chino Hills, Fontana, Hesperia, Highland, Loma Linda and Yucaipa branches:

Monthly reconciliations were not being performed.

The Department consists of 32 different branches with different armored service pickup dates. With the amount of branches and deposits being processed, management believes it is difficult to perform the monthly reconciliation. The risk of misappropriation of cash and the risk of accounting errors increases when monthly reconciliations are not performed.

Recommendation:

We recommend the Department start performing monthly reconciliations to be in compliance with the ICCM. Monthly reconciliations are needed in order to properly maintain a cash fund and determine that all cash transactions during that period have been completely and accurately captured in the Department's records on a timely basis. We recommend using the SAP FAGLB03 – Cash Management/Bank Display and Reporting report for GL code 10000000 - Equity Pool Cash to get the fund cumulative balance. This should be reconciled to the Department's own records of revenues and expenses reported on SAP FAGLL03 – G/L Account Line Items report for GL codes 40008010 to 55415419. Any discrepancies should be reported to General Accounting.

Management's Response:

To meet the requirements of the ICCM Chapter 9-5, the Library Department has taken measures to conduct monthly bank reconciliations by the 15th day of the following month. Effective this month, April 2019, the Department has begun using the SAP FAGLB03 report and the FAGLBLL03 report in order to reconcile deposit slips and to track and report discrepancies. The Department has worked directly with the Auditor-Controller/Treasurer/Tax Collector Department to ensure that this process sufficiently meets the requirements of the ICCM.

Auditor's Response:

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



Finding 2: Management of the Change Funds needs improvement.

The ICCM Chapter 2-3 states that no one person should be assigned concurrent duties that would allow him/her complete control over a transaction or asset. Effective segregation of duties reduces the risk that one person could perpetrate and conceal errors and irregularities in the normal course of his/her duties. The ICCM Chapter 3-3 states that access to where cash is handled should be limited. The safe combination should be restricted to as few employees as possible. The ICCM Chapter 3-4 states that the safe combinations 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.

Apple Valley, Bloomington, Chino Hills, Fontana, Hesperia, Highland, Loma Linda and Yucaipa branches:

- Employees of equal or lower job-ranking codes are receiving cash, counting cash drawers, performing the daily reconciliation of the change fund, preparing and verifying the bank deposits.
- Unauthorized employees have access to the safe.
- Safe combinations are not being updated in a timely manner.

Due to limited staff and the rotation of shifts, the Department has many employees who perform concurrent duties that would allow them to have complete control over a transaction or asset. This includes access to the safe. Not having adequate segregation of duties within the Department between staff members who are responsible for receiving, depositing and reconciling cash and checks increases the risk of misappropriating assets. In addition, too many employees having access to the safe and not changing the safe combination in a timely manner increases the risk of misappropriation of assets.

Recommendation:

We recommended segregating duties for receiving, depositing, and reconciling cash. The Department should assign one fund custodian with two backup custodians, depending on the size of the branch. We also recommend that access to the safe be limited to the authorized fund custodians and the safe combination be changed annually or when an employee who has knowledge of the combination is terminated.



Management's Response:

Segregation of Duties:

The Library Department takes segregation of duties within the cash handling process seriously and makes every attempt to ensure that no one person is assigned concurrent duties that allow him/her complete control over a transaction or asset. Effective immediately the Managers/Fund Custodians within the five largest facilities of the Department (Apple Valley, Chino Hills, Fontana, Hesperia and Highland) will no longer be taking cash transactions from customers to ensure that they become the point of accountability for verifying deposits. Additionally, similar measures will be taken at the remaining 27 branch libraries to minimize the occurrences of one individual having control over the entire cash process. In certain situations Managers/Fund Custodians may be required to take cash transactions and further verify deposits in low staffing situations where no other staff are present to do so.

Cash Fund Custodians:

All branch libraries have a designated Cash Fund Custodian assigned at each location. This has been the regular practice of the Department for several years. Effective immediately the Department will begin to assign a primary and backup Cash Fund Custodians according to the number of safe combination holders described in the list below.

Safe Combination Controls:

A full assessment per branch library was conducted by the Administration Office to determine the minimum number of required safe combinations holders per site while maintaining customer accessibility to services and complying with the ICCM Chapter 3-3. This assessment took into consideration branch library operating hours, staffing levels, staff schedules and impacts to branch library operations. Through this assessment it was determined 24 branch libraries would maintain three staff members as designated safe combination holders. In certain circumstances where neither the Cash Fund Custodian nor Backup Cash Fund Custodians are present a safe combination may need to be provided to an additional staff member to ensure customer service needs are met. Following these situations the Department will change the safe combination accordance with ICCM Chapter 3-4. These libraries include the following branches:

- Adelanto Branch
- Barstow Branch
- Big Bear Lake Branch
- Bloomington Branch
- Cal Aero Preserve Branch
- Carter Branch



- Chino Branch
- Crestline Branch
- Joshua Tree Branch
- Kaiser Branch
- Lake Arrowhead Branch
- Loma Linda Branch
- Lucerne Branch
- Mentone Branch
- Montclair Branch
- Muscoy Branch
- Needles Branch
- Phelan Branch
- Running Springs Branch
- Summit Branch
- Trona Branch
- Twentynine Palms Branch
- Wrightwood Branch
- Yucca Valley Branch

The remaining eight branch libraries will require additional safe combination holders to ensure that cashier shift changes can occur as needed throughout open hours. Below are the remaining eight libraries with the designated amount of safe combination holders noted:

- Chino Hills Branch - 7
- Fontana Branch - 7
- Apple Valley Branch - 5
- Highland Branch - 5
- Hesperia Branch - 5
- Grand Terrace Branch - 4
- Rialto Branch - 4
- Yucaipa Branch - 4

Additionally, operational changes have been made to the practice of tracking safe combination changes to ensure that safe combinations are changed as required per the ICCM Chapter 3-4. These changes include an improved notification system for safe combinations needing change when staffing changes at a given location as well as staff redundancy in ensuring that combinations are changed at least once per year in situations where staffing has not changed.

Auditor's Response:

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



Finding 3: Management is not adhering to the guidelines for properly accounting for cash overages.

The ICCM Chapter 5-3 states that cash overages and shortages should not be netted or combined together. The ICCM Chapter 6-8 states that Departments should deposit all overages into the Cash Overage Fund (Fund 1046 – Dept. 241) using the agency’s Department code (640) as the Org code and SAP GL Account 40809970 – Other Revenue (California Government Code Section 29375). The Departments must make an effort to identify and notify the payees of the overage when the overage exceeds \$10.

Apple Valley, Bloomington, Chino Hills, Fontana, Hesperia, Highland, Loma Linda and Yucaipa branches:

Overages are not being reported separately and are being combined with the deposits.

The Department was not aware of the ICCM policies and procedures regarding cash overages. When overages are not properly reported, they are unaccounted for and the Department would be unable to notify the payees of any overages exceeding \$10.

Recommendation:

We recommend that the Department record cash overages to the Cash Overage Fund to properly account for all cash overages, as stated in the ICCM.

Management’s Response:

Following the initial findings of the audit, the Library Department brought all cash overages current per the ICCM Chapter 5-3 and will continue to do so going forward. Cash overages are now regularly tracked, variances noted, and overages remitted to the Cash Overage Fund. Shortages are also tracked and submitted to the Auditor-Controller/Treasurer/Tax Collector Department on a monthly basis.

Auditor’s Response:

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



Finding 4: Deposit procedures could be improved.

The ICCM Chapter 9-4 states that supervisors must verify that deposits are intact and document evidence of review. It also states that receipts of checks and money orders should be processed immediately.

Bloomington, Chino Hills, Fontana, Highland, Loma Linda and Yucaipa branches:

Deposits were not being approved by an employee of a higher-ranking job classification. Therefore, there was no supervisory review present on deposits.

Administrative Office:

3 of the 4 check deposits were not deposited immediately upon receipt.

Due to limited staff and the rotation of shifts, employees perform many functions which include preparing and reviewing the deposit. Management is unfamiliar with the guidelines and procedures stated in the ICCM regarding depositing checks immediately. When an independent review is not performed by an employee of a higher-ranking job classification, transactions may not have been correctly recorded and assets accounted for. When Departments accumulate large amounts of receipts, this increases the chances of misappropriation of assets.

Recommendation:

We recommend that deposits be reviewed by an employee of a higher-ranking job classification than the preparer. We also recommend that the Department process their checks immediately using their desktop scanner.

Management's Response:

Deposit Procedures:

Effective immediately all Supervisors/Cash Fund Custodians at branch libraries have been designated as "verifiers" for all deposits created within their facilities. The Library Policy and Procedures Manual has been updated to reflect this change and all supervisors have been notified via email and in the April 2019 Branch Manager Meeting. Lower-ranking staff will now be assigned as preparers of deposits with higher-ranking staff acting as the verifiers.

Check Deposits:

Checks received by the Administration Office are now being processed immediately to Wells Fargo Commercial Electronic Office (CEO) utilizing a



Desktop Deposit Scanner. The Department is following the guidelines and directions listed on Chapter 22 of the ICCM for Remote Deposit Procedures.

Auditor's Response:

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

Finding 5: Cash handling controls over safeguarding of cash could be improved.

The ICCM Chapter 6-4 states that it is the cashier's responsibility to keep the cash drawer locked when not in use.

Chino Hills and Fontana branches:

The cash drawers were kept unlocked when not in use.

Due to a high volume of customers and having to move away from the cash drawer temporarily, cashiers may leave the drawer unlocked in between and during sales. Leaving the drawer unlocked while not in use increases the risk of theft.

Recommendation:

We recommend that cashiers lock their cash drawers when their drawers are not in use so that cash is properly safeguarded.

Management's Response:

Per the Library Policy and Procedures Manual IV.E.4.ii. Accuracy and Accountability, all cashiers are expected to maintain their cash drawers locked/secured at all times during their cashiering shifts. Supervisors and staff have been reminded of this expectation through Branch Manager Meetings (January 2019 and March 2019), Branch Staff Meetings, and through email communication following the initial audit. This expectation is also regularly communicated to all incoming staff through their initial staff training process.

Auditor's Response:

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



Finding 6: Management of the Petty Cash Fund needs improvement.

The ICCM Chapter 4-10 states that the Department must maintain a chain of custody with adequate security and documentation for petty cash disbursements. Departments must maintain a log recording each petty cash transaction. Chapter 4-11 states that petty cash checking accounts must track outstanding checks written against the account. In addition, Chapter 4-7 states that County Departments must reconcile their cash funds at least once a month. Chapter 9-5 further states that Departments must reconcile their records to the bank statement by the 15th day following the month.

The following conditions were noted during our review of the Administrative Office:

- An employee has the ability to maintain records, write checks and issue the checks.
- All five petty cash payments received were not pre-approved for payment by another employee.
- All five petty cash payments received were not entered into a petty cash log.
- Two of the five petty cash checking monthly reconciliations were performed after the 15th day of the following month.

Due to Department staffing limitations, one employee can perform multiple functions such as approving the expenditure, writing the check and issuing the checks. The Department was not aware of the ICCM policies and procedures regarding petty cash and maintaining the logs. Monthly reconciliations are sometimes performed late due to staffing limitations. When there is an inadequate segregation of duties and management is not properly following the ICCM's guidelines for their petty cash funds, there is an increased risk of misappropriation of cash funds.

Recommendation:

We recommend segregating duties so that one person is not allowed to approve the expenditure, write the checks and issue the checks. We also recommend that the Department maintain a log, such as a check register to log each petty cash transaction. Lastly, we recommend that the monthly reconciliations be performed before the 15th of the following month to be in compliance with the ICCM.

Management's Response:

Internal Procedures to ensure Segregation of Duties for Petty Cash have been implemented by the Department to ensure that one person is not allowed to approve the expenditure, write the checks, and issue the checks. A lower-ranking



staff will prepare checks for payment, a mid-ranking staff will then approve the expenditure, and lastly a higher-ranking staff will then sign the check for payment. In addition, a Petty Cash Transaction Log will be implemented immediately to maintain a running balance of the Petty Cash account.

Finally, the Petty Cash account is now being regularly reconciled by the 15th of the following month and the Department will continue to maintain this practice moving forward.

Auditor's Response:

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