

County of San Bernardino

Auditor-Controller/Treasurer/Tax Collector
Internal Audits Section

Probation Department: Prepaid Cards and Petty Cash Follow-Up Audit



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Auditor-Controller/Treasurer/Tax Collector

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Probation Department

Prepaid Cards and Petty Cash Follow-Up Audit

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June 20, 2019

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SUBJECT: PREPAID CARDS AND PETTY CASH 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 Probation Department (Department)’s prepaid cards and petty cash for the period of July 1, 2018 through April 26, 2019. The objective of the audit was to determine whether the recommendations in the Probation Department Prepaid Cards and Petty Cash Audit issued on May 11, 2018 were 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 May 11, 2018. Of the six recommendations from the original audit report, four have been implemented and two have been partially implemented.

We sent a draft report to the Department on May 30, 2019 and discussed the results of the audit with management on June 4, 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 Probation Department 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 Probation Department's prepaid cards and petty cash for the period of July 1, 2018 to April 26, 2019.

The objective of this follow-up audit was to determine whether the Department implemented the recommendations contained in the prior audit report, *Probation Department Prepaid Cards and Petty Cash Audit*, issued on May 11, 2018.

Methodology

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

- Interview of Probation Department's staff.
- Perform walk-through of activities.
- Review of the Department's policies and procedures.
- Examination of original source documents and system generated reports.
- Review of pertinent documents.



Prior Finding 1: Management of the petty cash funds and prepaid cards can be improved.

According to the County's Internal Controls and Cash Manual (ICCM), Chapter 2-4, access to assets should be controlled in order to safeguard them. All transactions and pertinent events should be accurately and properly recorded on documents and records. Chapter 4-11 states that petty cash vouchers should be presented to the fund custodian, who is responsible for maintaining and disbursing from the fund. Chapter 19-4 also states that departments that distribute prepaid cards must designate an employee to be the custodian in charge of these cards.

The following conditions were identified:

- Employees other than the designated fund custodian were disbursing petty cash funds.
- Employees other than the designated fund custodians were disbursing prepaid cards.
- The petty cash checking fund was not reconciled to the authorized amount.

The department was not aware that only the fund custodian should have access to petty cash funds and prepaid cards. In addition, the department has determined there is a discrepancy in petty cash checking, but has been unable to identify the cause. Having unauthorized employees handling petty cash funds and prepaid cards increases the potential for misappropriation.

Recommendation:

We recommend the department ensure that only employees designated as fund custodians have access to petty cash funds and prepaid cards. The department should also reconcile the petty cash checking fund to the authorized amount of \$3,100 on a monthly basis.

Current Status: Partially Implemented

The Department has ensured that only employees designated as fund custodians have access to prepaid cards. However, employees other than the designated



fund custodians were disbursing petty cash funds. Of the 17 petty cash disbursements reviewed, one was not disbursed by a designated fund custodian. Also, the Department has not reconciled the petty cash checking fund to the authorized amount of \$3,100 on a monthly basis.

Management's Response:

The Probation Department has internal policies and procedures to ensure full adherence to the County's Internal Cash Control Manual, including ensuring that petty cash disbursements are carried out only by designated fund custodians. The single occurrence of disbursement by a non-fund custodian was the result of an emergency situation in which staff deemed it necessary to go against normal protocols. The Department has ensured that the situation is not repeated by designating an alternate fund custodian to assume backup responsibilities.

The Department recognizes the second element of this finding as a need for a simple summary documentation that includes the total (Year-to-Date) cumulative bank reconciliations (monthly disbursements), in order to balance to the authorized amount of \$3,100. Currently the department conducts separate monthly bank reconciliations.

Auditor's Response:

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

Prior Finding 2: Internal Audits Section was not properly notified of the changes in cash fund locations or prepaid cards shortage.

The ICCM Chapter 4-4 requires the department to notify ATC Internal Audits Section (IAS) of all changes in the physical location(s) where the fund assets reside. Chapter 5-4 states that in the event a shortage of \$200 or less occurs, the department must report the shortage to IAS by submitting a request for Relief of Liability memo.



The following conditions were identified:

- The department did not notify IAS when the \$300 and \$500 petty cash funds changed from the Central Juvenile Detention and Assessment Center to Probation's Administration office.
- The Gilbert Street Unit had a prepaid cards shortage of \$150 that was not reported to IAS.

The department was not aware of the requirement to notify IAS of changes in cash fund locations. In addition, prepaid cards were being disbursed to Probation Officers without being recorded on the control log. When ATC's IAS is not notified of all petty cash fund locations and prepaid card shortages, this can lead to inaccurate accounting of assets, and increase the potential for misappropriation.

Recommendation:

We recommend management notify IAS of all physical location(s) where cash funds reside. We also recommend the department follow the proper steps to report shortages according to the ICCM guidelines. We further recommend management implement procedures that properly document the chain of custody of prepaid cards. This could be accomplished by requiring proper authorization, signatures and documentation for all prepaid cards on hand.

Current Status: Partially Implemented

The Department has implemented procedures that properly document the chain of custody of prepaid cards. The Department now requires proper authorization, signatures and documentation for all prepaid cards on hand. However, the following conditions were identified:

- The Department has still not notified IAS of the updated location(s) of the \$300 and \$500 petty cash funds moved from the Central Juvenile Detention and Assessment Center to Probation's Administration office.



- The Department has reported the Gilbert Street Unit prepaid cards shortage of \$150. However, it was noted that the following two shortages have not been reported to IAS:
 - A shortage for fiscal year 2013/2014 for \$12 was discovered by the Department on 9/18/18.
 - A shortage for fiscal year 2017/2018 for \$40 was discovered by the Department on 11/13/18.

Management's Response:

The Department is including official notification of the updated location(s) of the \$300 and \$500 petty cash funds moved from the Central Juvenile Detention and Assessment Center to Probation's Administration office with this Management Response.

The Department is also preparing a Board Agenda Item, scheduled for July 16, 2019, to request Relief from Liability for the \$12 and \$40 shortages identified above.

Auditor's Response:

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

Prior Finding 3: Monthly inventory counts and reconciliations for prepaid cards could be improved.

The ICCM's Chapter 19-9 states that inventories must be conducted by at least two employees to record and verify individual counts and must be observed by the card custodian. In addition, an employee of a higher-ranking job classification must review and sign off on the count. It also states that departments must ensure that reconciliations are also done at least once per month. The reconciliation serves a different purpose than conducting inventories. Reconciling ensures that the amount on hand, per inventory records, is the proper amount based on purchases and distributions. An employee other than the card custodian and of a higher-ranking job classification should complete the reconciliation. The card



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:

- The department conducts monthly inventory counts, but the count sheets do not have documented reviewer signatures.
- Monthly reconciliations are not prepared in accordance with the steps outlined in the ICCM.

The department had interpreted the ICCM only required that the June 30th inventory count needed a reviewer signature. The department also considered the monthly "Inventory Audit" to be both the inventory count and reconciliation. When inventory counts are not reviewed and monthly reconciliations are not performed, errors and omissions may not be discovered in a timely manner.

Recommendation:

We recommend management document the reviews of their monthly inventory counts by signing off on the count sheets. The review should be done by an employee of a higher-ranking job classification than the card custodian. We also recommend that monthly prepaid card reconciliations be performed in accordance with the ICCM.

Current Status: Implemented

The Department has documented the reviews of their monthly inventory counts by signing off on the count sheets. The review is done by an employee of a higher-ranking job classification than the card custodian. The Department has also performed monthly prepaid card reconciliations in accordance with the ICCM.

Prior Finding 4: Controls over prepaid cards could be improved.

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 900 E. Gilbert Street Unit did not have a record of when the safe combination was last changed.

Fund Custodians were not aware of the requirement of changing the safe combinations annually. When there have been no changes to the safe combination, prepaid cards may not be adequately safeguarded.

Recommendation:

We 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 also recommend records of safe combination changes are documented.

Current Status: Implemented

The Department has changed 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. The Department's records of safe combination changes are documented.

Prior Finding 5: There was no prior written authorization approving the distribution of prepaid cards.

The ICCM's Chapter 19-11 "Distributions" requires that a department employee completes a prepaid card request form stating the date, prepaid card merchant, purpose of distribution, and intended recipient of card, and the amounts to be distributed (specifying the quantity of each denomination). The employee must sign and date the request. In addition, a pre-designated department employee other than the card custodian approves and signs the request. The authorizing employee must be of a higher-ranking job code than the requestor.

Prior verbal approvals to distribute cards are provided by a pre-designated



employee and card distributions are recorded in logs. However, the 104th Street, 900 E. Gilbert Street and Ramona Avenue offices do not document their approvals on requests before cards are distributed to the requestor.

The Department was not aware of the ICCM requirements of a written approval from a pre-designated employee other than the card custodian when distributing prepaid cards. Obtaining proper authorization and documented signatures as stated in the ICCM helps ensure that proper chain of custody is documented.

Recommendation:

We recommend that management implement procedures where a pre-designated department employee other than the card custodian approves and signs prepaid card requests. The authorizing employee should be of a higher-ranking job classification than the requesting employee.

Current Status: Implemented

The Department has implemented procedures where a pre-designated department employee other than the card custodian approves and signs prepaid card requests. The authorizing employee is of a higher-ranking job classification than the requesting employee.

Prior Finding 6: Payment vouchers for prepaid cards purchased were not sent to IAS for review and approval.

According to the ICCM Chapter 19-5 "Purchasing Prepaid Cards", the department must submit each payment document for the purchase of prepaid cards to IAS regardless of the number of purchases made. IAS must review and approve the payment voucher and then forward the payment document to ATC Accounts Payable Section (AP).

IAS randomly selected a payment voucher for testing and it was not submitted to IAS for review and approval. The amount of the voucher was \$1,082.19.

The Department did not ensure all documentation was submitted to IAS prior to purchasing prepaid cards. There is an increased risk the



Department could purchase prepaid cards in excess of the amount that has been approved by the County's Board of Supervisors.

Recommendation:

We recommend the Department submit the required documentation to IAS for each prepaid cards purchase by coding these purchases to GL Account # 53003206. With the recent County-wide implementation of the new SAP Enterprise Financial Management System, the new object code used for prepaid cards has changed from 3206 to 53003206.

Current Status: Implemented

All 10 tested prepaid card purchases were coded to GL Account # 53003206.