

County of San Bernardino

Auditor-Controller/Treasurer/Tax Collector
Internal Audits Section

Purchasing Department: Petty Cash Fund Follow-Up Audit



Ensen Mason CPA, CFA

Auditor-Controller/Treasurer/Tax Collector

268 West Hospitality Lane
San Bernardino, CA 92415-0018
(909) 382-3183

Website: www.sbcounty.gov/atc

Fraud, Waste & Abuse Hotline: (800) 547-9540

Auditor-Controller/Treasurer/Tax Collector

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Audit Team

Denise Mejico
Chief Deputy Auditor

Menaka Burkitt
Internal Audits Manager

Carmel Manela, CIA
Supervising Internal Auditor III

Christine Convento
Internal Auditor III



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Auditor-Controller/Treasurer/Tax Collector

Ensen Mason, MBA, CPA, CFA
Auditor-Controller/Treasurer/Tax Collector

Douglas R. Boyd, Sr., ESQ.
Assistant Auditor-Controller/Treasurer/Tax Collector

May 6, 2019

Laurie Rozko, Director
Purchasing Department
777 E. Rialto Avenue
San Bernardino, CA 92415-0760

SUBJECT: PETTY CASH FUND 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 Purchasing Department's Petty Cash Fund. The objective of the audit was to determine if the recommendations for the findings in the Purchasing Department Petty Cash Fund Audit issued on May 29, 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 May 29, 2018. Of the four recommendations from the original audit report, two have been implemented and two have been partially implemented.

We sent a draft report to the Department on February 26, 2019 and discussed our observations with management on March 18, 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 Purchasing Department who assisted and cooperated with us during this engagement.

Respectfully submitted,

Ensen Mason CPA, CFA

Auditor-Controller/Treasurer/Tax Collector

San Bernardino County

By:

Denise Mejico

Chief Deputy Auditor

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Scope and Objective

Our audit examined the controls over the Department's petty cash fund for the period of May 29, 2018 through January 15, 2019.

The objective of this follow-up audit was to determine whether the Department implemented the recommendations contained in the prior audit report, *Purchasing Petty Cash Fund Audit*, issued on May 29, 2018.

Methodology

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

- Interview of Purchasing Department staff
- Examination of original source documents



Prior Finding 1: Approvals for petty cash expenditures were not documented.

According to the Internal Controls and Cash Manual (ICCM) Chapter 4-11, a department employee should complete a petty cash voucher in permanent ink, stating the date, purpose of the expenditure and the maximum amount expected to be expended. Then, an authorized department employee must approve the voucher. The authorized employee must be of a higher-ranking job classification than the requestor.

All 17 petty cash transactions tested did not have an approval on the Petty Cash Voucher.

The department was not familiar with the petty cash disbursement requirements of the ICCM. There is an increased risk of misappropriation of cash funds when proper documented approvals are not required.

Recommendation:

We recommend both management and the fund custodian familiarize themselves with the County's ICCM and use the ICCM's Petty Cash Vouchers to document approvals.

Current Status: Partially Implemented

The Department has started using petty cash vouchers that document the purpose of the reimbursement, description of the item purchased, claimant, and approval of the petty cash request. However, one of the three transactions tested did not have a petty cash voucher attached and did not have any approval documentation.

Management's Response:

Since the date of this audit, Purchasing has reviewed the County's ICCM requirements and standards. Department has implemented a new petty cash request form in which three levels of signatures (Supervisor/Manager and 2 witnesses) are required to access petty cash or to be reimbursed from petty cash.

Auditor's Response:

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



Prior Finding 2: Controls over monitoring of the Petty Cash Fund need to be improved.

According to the Internal Controls and Cash Manual (ICCM) Chapter 4-4, every department with a cash fund must designate an employee to be the fund custodian in charge of the fund and at all times, the fund custodian must be able to account for the fund in the form of cash, vouchers, and receipts. Furthermore, ICCM Chapter 4-7, "Reconcile Cash Funds", states that a critical step in properly maintaining a cash fund is periodic reconciliation. 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 classification completes the fund reconciliation. The fund custodian may complete the reconciliation if it is reviewed and signed by an employee of a higher-ranking job classification. Lastly, ICCM Chapter 4-10 states that the department must maintain a chain of custody with adequate security and documentation for petty cash disbursements. The ICCM further states that departments must maintain a log recording each petty cash transaction.

The following conditions were noted during the review of the petty cash fund:

- During our surprise cash count on January 9, 2018 the fund custodian could not account for \$5.77.
- There were no monthly reconciliations of the petty cash fund.
- The department maintains receipts for each petty cash transaction, however, a log showing a running total is not maintained.

The Department presumes the shortage resulted from an error in reconciling balances at the transfer of custodianship in January 2016 and was unaware of the requirements of the ICCM to reconcile their petty cash fund and to maintain a petty cash transaction log. Without proper accounting for the petty cash fund, including reconciliations and a log, the risk of misappropriation of cash funds is increased.

Recommendation:

We recommend that both the Management and staff familiarize themselves with the County's ICCM. We also recommend that the Department follow proper steps to report cash shortages and losses, perform monthly reconciliations of the petty cash fund, and create and maintain a Petty Cash Transaction Log as shown in Chapter 4-22, Exhibit 4-F.



Current Status: Partially Implemented

The following conditions were noted during our review:

- The shortage of \$5.77 was reported to the Auditor-Controller/Treasurer/Tax Collector (ATC) Internal Audits Section (IAS) through a "Request for Relief from Liability" memo on February 8, 2018 and was approved by IAS on April 9, 2018. However, this shortage has still not been submitted to Accounts Payable for replenishment.
- The Department has been performing monthly reconciliations of the petty cash fund. The fund custodian performs the monthly reconciliation of the petty cash fund which is being reviewed and signed by an employee of a higher-ranking job classification.
- The Department is maintaining a petty cash log showing a running balance.

We additionally found that the Department has not replenished their petty cash fund prior to the end of the fiscal year, June 2018.

Further Recommendation:

We recommend that the Department replenish their cash funds prior to the end of the fiscal year, as long as the replenishment amount is greater than or equal to \$25, to ensure that expenditures are recorded in the year in which they are incurred. The Department should also replenish their cash fund when they have used 75% of the authorized amount.

Management's Response:

Petty cash fund has been replenished. This function has been added to our checklist for end of the fiscal year closing procedures.

Auditor's Response:

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



Prior Finding 3: Controls over safeguarding of cash and cash equivalents need to be improved.

According to the Internal Controls and Cash Manual (ICCM) Chapter 3-4, "Safeguarding Cash", departments that receive or hold cash must change combinations to safes 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.

It is unknown as to when the combination to the safe was last changed. It has not been changed since the last change of fund custodians which occurred in January 2016.

Management and staff were not aware of the safe combination change requirements of the ICCM. Cash and cash equivalents are susceptible to unauthorized access and potential theft if controls are not in place to effectively safeguard them.

Recommendation:

We recommend that management immediately change the safe combination and thereafter 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. Furthermore, we recommend that the both Management and staff familiarize themselves with the County's ICCM.

Current Status: Implemented

The Department changed the safe combination on May 15, 2018 when an employee who had knowledge of the combination transferred to another County department.



Prior Finding 4: Petty cash disbursements were made for unallowable expenses.

According to the ICCM Chapter 4, page 4-10, "Petty Cash Limitations", an authorized petty cash fund is used for payment of miscellaneous expenses or charges incurred while performing official County business. Furthermore, reimbursement from petty cash is prohibited for employee travel, meals, or mileage, regardless of the amount unless expressly authorized in writing by the Auditor-Controller/Treasurer/Tax Collector's Accounts Payable Supervisor.

During our testing of 17 petty cash transactions, there were 2 transactions for meals that did not include authorization in writing by the ATC Accounts Payable Supervisor.

The Department was unaware that meals provided for trainings are not allowable uses of petty cash fund. Unallowable petty cash fund expenditures could lead to an increase in risk of misappropriation of assets and incorrect accounting records.

Recommendation:

We recommend that employee meal and travel expenses request be on an employee reimbursement form. Also, we recommend that management and staff become familiar with the County's Internal Controls and Cash Manual regarding petty cash limitations.

Current Status: Implemented

All petty cash reimbursements tested were made for allowable expenses.