

County of San Bernardino

Auditor-Controller/Treasurer/Tax Collector
Internal Audits Section

Purchasing Department: Petty Cash Fund Audit



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The San Bernardino County Auditor-Controller's Office is committed to serving our customers by processing, safeguarding, and providing information regarding the finances and public records of the County. We perform these functions with integrity, independent judgment, and outstanding service. We are accurate, timely, courteous, innovative, and efficient because of our well-trained and accountable staff.

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SUBJECT: Purchasing Petty Cash Fund 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 Purchasing Department's cash handling controls over its petty cash fund for the period of June 1, 2017 through the date of fieldwork. The primary objective of the audit was to verify that the Purchasing Department's cash handling controls effectively safeguard cash assets. 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 May 10, 2018 and discussed our observations with management on May 14, 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 Purchasing Department who assisted and cooperated with us during this engagement.

Respectfully submitted,

Oscar Valdez

Auditor-Controller/Treasurer/Tax Collector
San Bernardino County

By:



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Purchasing Department: Petty Cash Fund Audit

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Summary of Audit Results

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

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	Approvals for petty cash expenditures were not documented.	4
	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.	
2	Controls over the monitoring of the Petty Cash Fund need to be improved.	4
	We recommend that the both Management and staff familiarize themselves with the County's ICCM. We also recommend that the Department follow the 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.	
3	Controls over safeguarding of cash and cash equivalents need to be improved.	6
	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.	
4	Petty cash disbursements were made for unallowable expenses.	6
	We recommend that employee meal and travel expense requests 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.	



PETTY CASH FUNDS

Background

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. To establish or increase cash funds in excess of \$2,500, departments must submit a request directly to the Board of Supervisors, then to ATC. Although the various funds may differ in amount or purpose, the general guidelines governing their establishment, maintenance, dissolution, and reconciliation are basically the same. Every department with a cash fund must designate an employee to be the fund custodian in charge of the fund. At all times, the fund custodian must be able to account for the fund in the form of cash, vouchers, and receipts. The fund custodian must also be able to account for the specific physical location(s) of all assets that make up the fund including cash, cards (credit, procurement debit or gift) and any bank accounts in which the fund is held. Periodically, ATC Internal Audits Section (IAS) will perform surprise cash counts of departmental cash funds. Upon demand of ATC or the Board of Supervisors, the custodian entrusted with the fund is to give an accounting of the fund.

ATC has documented general cash control guidelines in the Internal Controls and Cash Manual (ICCM) for departments with cash funds. Each department head or authorized designee is responsible to develop and implement the necessary guidelines and procedures required to control, safeguard and handle cash.

The Department

The County of San Bernardino Purchasing Department provides procurement services, administers contracts, manages vendor relationships, oversees procurement card program operations, and implements the electronic procurement system. Divisions include printing services and graphic design, mail and courier services, and surplus property disposition and storage services. The Purchasing department has a \$1,500 petty cash fund which is used for small purchases.



Scope and Objective

Our audit examined the controls over the department's petty cash fund for the period of June 1, 2017 through January 9, 2018.

The objective of this audit was to verify that the Purchasing Department's cash handling controls effectively safeguard cash assets.

Methodology

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

- Interview of Purchasing Department staff
- Walk-through of activity
- Examination of original source documents



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.

Management's Response:

The Purchasing Department agrees with and has implemented this recommendation.

Auditor's Response:

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

Finding 2: Controls over the 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 our 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 the both Management and staff familiarize themselves with the County's ICCM. We also recommend that the Department follow the 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.

Management's Response:

The Purchasing Department agrees with and will implement this recommendation and is now using a transaction log.

Auditor's Response:

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



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.

Management's Response:

The Department has implemented this recommendation.

Auditor's Response:

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

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 the 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 expense requests 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.

Management's Response:

Buyers were reimbursed for local professional development meetings that included lunch. All requests for reimbursement will now be handled with the employee reimbursement form. The Department has also developed written internal guidelines and procedures to be used for staff training, in addition to the ICCM.

Auditor's Response:

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