

AUDITOR-CONTROLLER/ TREASURER/TAX COLLECTOR



COUNTY OF SAN BERNARDINO

- 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830
- 172 West Third Street, First Floor
San Bernardino, CA 92415-0360 • (909) 387-8308 • Fax (909) 387-6716

LARRY WALKER
Auditor-Controller/
Treasurer/Tax Collector

September 27, 2011

Trudy Raymundo, Assistant Director

Public Health Department
351 N. Mt. View, Room 303
San Bernardino, CA 92415-0010

SUBJECT: PUBLIC HEALTH CASH/PREPAID CARD FOLLOW-UP AUDIT

Introductory Remarks

In compliance with Article V, Section 6, of the San Bernardino County Charter, the Board of Supervisor's Policy Statement on Internal Operational Auditing, and the Internal Controls and Cash Manual (ICCM), we have completed a follow-up audit of Public Health's Cash Controls audit for the period of October 1, 2007 through December 31, 2007 and the Prepaid Card audit for the period of July 1, 2008 through June 16, 2009. Our audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing developed by the Institute of Internal Auditors.

Objectives, Scope and Methodology

The objective of this follow-up audit was to determine whether Public Health implemented the recommendations contained in the prior audit reports issued September 24, 2008 and November 18, 2009. To achieve this objective, we:

- interviewed Public Health employees,
- tested a sample of transactions, and
- reviewed and analyzed internal controls.

Conclusion

All of the recommendations from the previous reports were implemented. No further follow-up is deemed necessary.

Prior Audit's Findings and Recommendations with Current Status

The details of the prior audit's findings and recommendations and their implementation status are below:

Finding # 1: Improvement needed over the safeguarding of the cash funds.

Per Internal Controls and Cash Manual (ICCM), Chapter 3, the safe combinations must be changed annually. In addition, during business hours, the safe must be closed when not in use, and cash must be inaccessible to unauthorized persons.

The following conditions were identified during our review:

- The combination of the safe at 172 W. Third Street San Bernardino, 6th floor Fiscal Administration office was not changed in ten years.
- The combination of the safe at 19777 Shelter Way, Devore Animal Control was known by all office assistants and has not been changed as far back as anyone can remember.
- The combination of the safe at 799 E. Rialto Ave, San Bernardino Tuberculosis Program was not changed since 2004-2005.
- The daily receipts and cash at 799 E. Rialto Reproductive Health Program were in a locked cash box in an overhead cabinet in the supervisor's office. The combination of the cash box was known by all five clerks and the key for the overhead cabinet was on the supervisor's desk accessible to all employees.
- Both safes at 351 Mtn. View Ave, San Bernardino Animal Control were not closed or locked during the business hours when personnel were not available in their offices.

The lack of effective control over the security of the safe, key, and combination, and lack of compliance with the County Internal Control and Cash Manual can lead to cash losses where accountability cannot be determined.

Recommendations

Immediately change the combination of the safe, and annually there after. Also, change combination of safe when staff change occurs. Keep the safe locked at all times when not in use and keep the key in a secure place, inaccessible to unauthorized employees.

Management's Response:

- The combination of the safe at 172 W. Third Street has been changed and will be changed every year in the future.
- Staff at 19777 Shelter Way have changed the safe combination and will select only authorized office personnel to have the combination. Only appropriate office personnel will be authorized to have access to cash drawers in order to conduct business.

- The safe at 799 E. Rialto is used by several programs, including Tuberculosis Control (TC). The safe has one combination and contains several keyed drawers, with one drawer assigned to a program.
- The safe combination at 799 E. Rialto has been changed. Effective immediately, a written policy will be implemented providing direction to supervisors to maintain a list of staff members with access to the safe combination. Further instruction will be provided that requires changing the safe combination upon termination of any staff member; updating the access list when staffing changes; and changing the safe combination annually, even if staffing has not changed. Staff members will be directed in writing, with receipt of acknowledgement, that per the Internals Controls and Cash Manual (ICCM), the safe shall remain locked at all times when not in use and the key kept in a secure place inaccessible to unauthorized employees.
- A memo directive to personnel will be distributed at 351 Mtn. View Ave, San Bernardino Animal Control directing personnel to ensure that all safes will be closed and locked at all times.

Current Status:

Implemented

Finding # 2: Separation of duties over cash receipts and deposit could be improved.

Per Internal Controls and Cash Manual (ICCM), Chapters 2 and 4, and 6, no one person should be assigned concurrent duties that would allow him/her complete control over a transaction or an asset. An employee of a higher-ranking job code should perform reconciliation at least monthly.

The following conditions were identified during our review:

- The Fiscal Assistant at 351 Mtn. View Ave, San Bernardino Animal Control, collects cash and issues cash receipts, reconciles and reviews daily receipts to source documents, and prepares the deposits of the location for BRINKS to deposit.
- No higher-ranking personnel reviews or reconciles the Fiscal Assistant's transactions or work at 351 Mtn. View Ave, San Bernardino Animal Control.

Without segregating duties, any one person could conceal errors and irregularities in the normal course of his/her duties, which could result in ineffective management of cash and an increased susceptibility to theft.

Recommendations

The Fiscal Assistant's duties must be segregated by reorganizing existing staff's assignments. Separate the following duties: cash receipting, deposit preparation, and reconciliation of cash to receipts. A higher-ranking personnel must review or reconcile the Fiscal Assistant's transactions and sign off on the reconciliation or review.

Management's Response:

Segregation of the Fiscal Assistant duties will occur with the assignment of reconciliation and receipt preparation to be reviewed daily by the Office Assistant IV or the Supervising Animal Control Officer II that are currently assigned by the program.

Current Status:

Implemented

Finding # 3: Controls for safeguarding of the Change Fund were not adequate.

The San Bernardino County Internal Controls and Cash Manual and good internal controls require management to encourage employees to memorize the combination and keep secured. Per the Internal Controls and Cash Manual (ICCM), Chapters 4 and 16, every department with a cash fund must designate an employee to be the fund custodian in charge of the fund. Each department head is to provide the ACR with a form that contains original signatures of the employees who are deputized/authorized designees to sign forms on behalf of the department head such as Signature/Fund Custodian Authorization form.

The following conditions were identified during our review:

- Locations safe combinations were not kept confidential. The Accounting Technician (Custodian of petty cash and cash difference funds) at 172 W. Third Street San Bernardino, 6th floor Fiscal Administration Office maintains a list of locations authorized safe combination holders and their combinations.
- The list of authorized safe combination holders was not updated.
- There was no Fund Custodian Authorization form or authorized fund custodian for the change fund.

The lack of compliance with the County manual requirements may result in future cash losses.

Recommendations

Ensure employees do not share the safe combination. Update the list of locations authorized safe combination holders and their combinations and keep the list with a higher ranking personnel's computer password protected. Also, immediately designate an employee to be the change fund custodian and provide the ACR with the Signature/Fund Custodian Authorization form.

Management's Response:

- The reason why the combinations are kept in one location is in case of an emergency and the office staff needs access to the contents. Unfortunately, there is no way to get this information unless it is available, hence the reason why it is maintained in the safe within the FAS office. With the exception of the Administrative Manager the other staff who have access to said safe do not have after hour access to any Public Health locations. This should allow the office safes to be unavailable to those without authorized access.
- The list is updated now, all requests for combination changes require prior approval from FAS and the list will be updated as needed.
- A cash fund custodian designation has been submitted for FY 2008/09 and will be updated each fiscal year.

Current Status:

Implemented

Finding # 4: Management of the Cash Funds needs to be improved.

Internal Controls and Cash Manual (ICCM), Chapter 5, requires the replenishment of the cash shortage fund when accumulated shortages reach 75% of the authorized amount or \$100, whichever is lower. Per the Internal Controls and Cash Manual (ICCM), Chapter 4, 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 code completes the fund reconciliation. This independent review will help to ensure that transactions have been correctly recorded.

The following conditions were identified during our review:

- The Fiscal Administration office at 172 W. Third Street San Bernardino, 6th floor was not always replenishing the cash difference fund when the accumulated shortages reach 75% of the authorized amount or \$100, whichever is lower.

- There was no evidence that the Petty Cash and Cash Difference funds have been reconciled and initialed monthly to the authorized amount by an independent higher ranking personnel at 172 W. Third Street San Bernardino, 6th floor Fiscal Administration office.

Lack of compliance with Internal Controls and Cash Manual may result in ineffective management of cash, and errors and irregularities could go undetected.

Recommendations

Replenish the cash shortage fund when accumulated shortages reach 75% of the authorized amount or \$100, whichever is lower. In addition, assign an employee other than the fund custodian and of a higher-ranking job code to complete the fund reconciliation, initial and date the document as evidence of performing the reconciliation.

Management's Response:

- The Accounting Technician responsible for completing this paperwork has been reminded of the limits and the need to request replenishment.
- The Supervising Accountant II within FAS will audit monthly and, by show of initials, will indicate that the petty cash fund is intact and ensure the appropriate paperwork is completed.

Current Status:

Implemented

Finding # 5: Cash & Cash equivalent handling controls were inadequate.

Per the Internal Controls and Cash Manual (ICCM), Chapter 6, at the start of each business day, the cashier must count and sign for the change funds in his/her possession. At the end of the day, once the supervisor starts the close out for the day's business, the cashier must count out the change fund, total and sign the count sheet. Per the Internal Controls and Cash Manual (ICCM), Chapter 3, use a restrictive endorsement stamp on all checks and money orders as soon as received. The Internal Controls and Cash Manual, Chapter 6, requires obtaining supervisor's approval of the void receipt at the time of occurrence, printing the word "VOID" in large letters on the receipt and initialing, and attaching all copies of voided receipts to the receipt book.

The following conditions were identified during our review:

- Lack of documentation of neither cash signed out each morning from the safe nor cash signed in at the end of day at 19777 Shelter Way, Devore Animal Control.
- At the start of each business day at 351 Mtn. View Ave. San Bernardino Animal Control, the cashiers were not signing for the cash in their possession.
- Checks at 799 E. Rialto Ave. San Bernardino Reproductive Health Program were not always endorsed as soon as received.
- The Tuberculosis Program at 799 E. Rialto Ave. San Bernardino and 351 Mtn. View Ave. San Bernardino Animal Control were not always obtaining the supervisor's approval of the void at the time of occurrence.

Lack of effective control over cash and cash equivalent could result in ineffective management of cash and susceptibility to theft.

Recommendations

Management should make sure that at the start of each business day, the cashier counts and signs for the change funds in his/her possession, and at the end of the day, counts out the change fund, totals and signs the count sheet. Management should make sure that checks are endorsed as soon as received and obtain the Supervisor's approval of the void at the time of occurrence.

Management's Response:

- In the morning and at the end of the day staff at 19777 Shelter Way, Devore Animal Control counts the funds in their drawer to confirm the funds in their assigned drawer. For both counts they sign a cash count form to document the amount of money with their signature.
- Currently Office Assistants count their assigned drawer to confirm the funds in their drawer at 351 Mtn. View Ave. San Bernardino Animal Control.
- Staff members at 799 E. Rialto Ave. San Bernardino Reproductive Health Program will be directed in writing, with receipt of acknowledgement that per the ICCM, all checks and money orders shall be stamped with the County's endorsement stamp as soon as received.
- Tuberculosis Control's cashiering protocol at 799 E. Rialto Ave. San Bernardino requires staff to submit voided receipts along with the regular receipts at the end of the clinic for supervisor review and approval. The protocol will be amended to include obtaining a supervisor's approval of the void at the time of occurrence. Animal Control at 351 Mtn. View Ave. San Bernardino will advise staff to obtain supervisor's approval of void's at the time of occurrence.

Current Status:

Implemented

Finding # 6: No documented departmental policies and procedures are available for staff.

Per the Internal Controls and Cash Manual (ICCM), Chapter 3, each department head or authorized designee has the responsibility to develop and implement the necessary guidelines and procedures required to ensure the control, safeguarding and handling of cash and cash equivalents.

Our review disclosed that there were no documented departmental policies and procedures at 799 E. Rialto Ave. San Bernardino Reproductive Health Program. Without the necessary guidelines, staff are not aware of the appropriate controls to adhere to when performing their respective job functions

Recommendations

Management should develop and implement the necessary guidelines and procedures, and communicate the necessary policies and procedures to assist personnel in effectively performing their job duties.

Management's Response:

Effective immediately, all staff will be provided with a copy of the pertinent sections of ICCM dealing with Cash Controls. The complete ICCM will be sent to all clinic supervisors and made readily available for staff members at the various clinics. Additionally, staff members will be provided with a copy of the current Department of Public Health "Cashiering Procedures" manual. All staff will be required to execute an acknowledgement receipt.

Current Status:

Implemented

Finding #7: Lack of Monthly Reconciliation

According to the Internal Controls and Cash Manual (ICCM) Chapter 20, departments must ensure that reconciliations are done at least once per month. An additional reconciliation must be conducted on June 30 of each fiscal year, or the last business day prior to June 30 if that date falls on a weekend. Out of 11 offices visited during testing, all of the offices did not perform proper monthly reconciliation procedures for prepaid cards on hand. Two offices completed

reconciliations but do not have adequate documentation of the reconciliation or review of the reconciliation. The department was not aware of the need to reconcile prepaid cards as cash. Since the department does not complete monthly reconciliations, there is a risk of monies being lost or an employee misappropriating cash equivalents and concealing it.

Recommendations

We recommend that the department update policies and procedures to ensure that reconciliations are done at least once per month as noted in the newly issued chapter of the ICCM. The policies and procedures should also include that an additional reconciliation must be conducted on June 30 of each fiscal year, or the last business day prior to June 30 if that date falls on a weekend.

Management's Response:

The Department's current policies and procedures include reconciliation in our Year End Procedures and conformed with the ICCM at the time of the April 2009 Audit. The procedure is revised to ensure that reconciliations are done at least once per month to conform with ICCM changes issued in June 8, 2009. Fiscal and Administrative Services (FAS) started the monthly inventory and reconciliation on September 2009.

Current Status:

Implemented

Finding #8: Lack of Segregation of Duties

According to the ICCM Chapter 20, the department should assign duties so that no one individual has access to the entire prepaid card process. Each of the following functions must be segregated: purchasing, receipting, distributing, inventorying, reconciling, and reporting. All of the offices visited during testing did not properly segregate duties. The department was not aware of the need to segregate duties associated with the prepaid cards process. Since the department does not entirely separate the duties of maintaining, recording and reconciling prepaid cards, an employee can misappropriate prepaid cards and conceal it.

Recommendations

We recommend that department update policies and procedures to ensure that each of the following functions be segregated: purchasing, receipting, distributing, inventorying, reconciling, and reporting as noted in the newly issued chapter of the ICCM.

Management's Response:

Currently, purchasing function is initiated by the program. Fiscal and Administrative Services (FAS) process and approved the payment documents. The fund custodian from the program handles the card distribution and log maintenance. Inventory and reconciliation is conducted monthly by FAS staff. The Department will review and revise current procedures to ensure proper segregation of duties or functions.

Current Status:

Implemented

Finding #9: Inadequate receipting and documentation of transfer of custody

According to the ICCM Chapter 20, the department should distribute prepaid cards according to the following procedures:

1. A department employee completes a prepaid card request form in permanent ink, stating the date, prepaid card merchant, purpose of the distribution, and intended recipient of the card(s), and the amounts to be distributed (specifying the quantity of each denomination). The employee must sign and date the request.
2. 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.
3. The requesting employee presents the request to the card custodian. When possession of a card transfers from the card custodian to the requestor, the written log must be signed by the requesting employee to document receipt of the cards.
4. After the cards are received from the card custodian, the employee distributes them to the appropriate recipients. At a minimum, recipients must print and sign their name and date the prepaid card request to document their receipt of the prepaid cards. Departments must also follow any documentation requirements that are specific to the program or function for which they are distributing prepaid cards.
5. The employee will return the request form signed by the card recipient as well as any undistributed cards to the card custodian.
6. After verifying that all requested cards have been accounted for by reconciling the cards transferred to the requestor and any undistributed cards to the total amount requested, the card custodian places all undistributed cards back into inventory and adjusts the written log accordingly.

Out of 11 offices visited during testing, 10 offices did not have proper receipting and distribution procedures. The following conditions were noted during the testing phase of our audit:

- The Clinic Operations has one main custodian of the gas cards, when the cards are given to outlying offices the outlying office is the only signature obtained for the transfer.
- The Clinic Operations (two locations tested) does not document the signature of the end recipient.
- The Clinic Operations issued several cards that had no value (when originally purchased from the vendor) and had to reissue replacement cards to the same recipients but did so without documentation of the reissue.

The department was not aware of the need for documentation of receipting and distribution of prepaid cards. Since the department does not document transfers and distribution, there is a risk of prepaid cards being lost or an employee misappropriating and concealing it.

Recommendations

We recommend that department update policies and procedures to ensure that the distribution procedures are at a minimum equivalent to those listed above as noted in the newly issued chapter of the ICCM.

Management's Response:

The Department will review and revise current distribution procedures to ensure proper documentation of prepaid cards. The Department is working to standardize the distribution procedure using the receipt and issuance log to properly document the distribution of all prepaid cards.

Current Status:

Implemented

Finding #10: Lack of Distribution of Policies and Procedures

According to the ICCM Chapter 20, the department must develop written procedures for distributing and handling prepaid cards prior to acquiring them. Procedures must include instructions on: maintaining a chain of custody with adequate security and documentation, maintaining a continuous written log documenting card receipts, distributions, intradepartmental movement (prepaid cards for a single program distributed to multiple locations) and related documentation, conducting monthly inventories of cards on hand, conducting monthly reconciliations of cards on hand, and reporting annual inventory to ACR.

The Public Health administration does not have documentation of the programs receipt and use of the internal policies and procedures for the prepaid cards processes. 10 of the 11 offices visited were unaware of the written policies and procedures produced by management. One office used the interoffice memo from the Auditor Controller-Recorder's office dated June 25, 2008 as the operating procedures. Because of this one office was able to process a prepaid card purchase on an employee reimbursement form and another office purchased gift certificates with Petty Cash. The department was not aware of the need to have policies and procedures for prepaid cards. If the department does not have current policies and procedures, prepaid cards could be lost or misappropriated.

Recommendations

We recommend that department update and distribute policies and procedures for all prepaid cards processes.

Management's Response:

The Department developed policies and procedures to ensure ACR's 06/25/08 New Fiscal Year End requirements for prepaid cards are met. The Department's current policies and procedures will be reviewed and revised to ensure it is consistent with the Revised County's Internal Controls and Cash Manual issued last June 8, 2009. It will be distributed and implemented to all programs.

Current Status:

Implemented

Finding #11: Inadequate continuous documentation

According to the ICCM Chapter 20, the department must develop written procedures for distributing and handling prepaid cards prior to acquiring them. Procedures must include instructions on maintaining a continuous written log documenting card receipts, distributions, intradepartmental movement (prepaid cards for a single program distributed to multiple locations) and related documentation. Further, ICCM Chapter 2 states, all county managers are responsible for safeguarding assets, providing reliable financial records and complying with applicable laws and regulations. By establishing appropriate internal controls, management is provided reasonable assurance that their objectives are being met in a supportive control environment. Out of the 11 offices visited 4 did not keep adequate documentation of the cards on hand and issued. The following conditions were noted during the testing phase of our audit:

- The Maternal Child and Adolescent Health program did not maintain a continuous log of cards on hand in the fiscal office.
- One of the Clinical Operations program did not have documentation of distribution of one gift card.
- Another two of the Clinical Operations programs did not have a continuous log for distribution of prepaid cards on hand.
- During our count in Hesperia there was a \$10.00 gas card on the continuous log as on hand that could not be located.

This office did not keep a log because they used the purchase documentation and distribution information instead. Without proper documentation of cards on hand and issued, prepaid cards could be lost or misappropriated.

Recommendation:

We recommend that the department maintain continuous written logs for documenting card receipts, distributions, and intradepartmental movement (including merchant, Card account number or ID, and Card denomination). Further, we recommend that the department complete a "Request for Relief from Liability" memo and submit it to the Internal Audits Section of the ACR per the instructions in Chapter 5 of the ICCM for the \$10.00 gas card that could not be located.

Management's Response:

The Department is working to standardize the distribution procedure and programs were instructed to maintain a continuous receipt and issuance log.

FAS submitted a "Request for Relief from Liability" for the \$10.00 gas card that could not be located. It was determined that it was a clerical error. The card was issued to the client but not logged.

Current Status:

Implemented

Finding #12: Prepaid cards purchased that were not reported by Management

According to the ICCM Chapters 20, the department should maintain departmental financial records of your operations and prepare reports as required by law and/or County policy. We found three purchases of prepaid cards that were not recorded on the 6/30/2008 inventory or the purchases log for fiscal year 2009. Cards from two of these purchases were on hand at the date of the counts. The department was not aware of the need to closely track the prepaid

card inventory. Since the department does not properly track prepaid cards, there is a risk of monies being lost or an employee misappropriating cash equivalents and concealing it.

Recommendations

We recommend that department update policies and procedures to ensure that the departmental maintains financial records of your operations and prepare reports as required by law and/or County policy as noted in the newly issued chapter of the ICCM.

Management's Response:

On June 25, 2008 the Department received a memo from ACR requesting all departments to conduct a physical inventory of prepaid cards as a new fiscal year-end procedure. Due to a short notice there were cards that were not reported in the 06/30/2008 inventory. As the program became aware of the need to track all prepaid cards, the cards purchased prior to 06/30/2008 were logged and tracked accordingly. The Department will update policies and procedures in order to monitor and track future purchases of prepaid cards and in general is discouraging the use of prepaid cards.

Current Status:

Implemented

Thank you very much for the cooperation extended by your staff during the course of this audit.

Respectfully submitted,

Larry Walker

Auditor-Controller/Treasurer/Tax Collector
Count of San Bernardino

By: _____

Mark Cousineau, CPA, CIA, CGAP, CITP
Chief Deputy Auditor
Internal Audits Section

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