

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

October 18, 2011

Art Gomez, Deputy Administrative Officer

Human Services Group
150 South Lena Road
San Bernardino, CA 92415-0515

SUBJECT: HUMAN SERVICES ADMINISTRATION ENTERPRISE RISK MANAGEMENT AUDIT

Introductory Remarks, Objectives, Scope and Methodology

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 an audit of the Human Services Group's Enterprise Risk Management. Our audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

Our overall objective was to evaluate the effectiveness of the department's monitoring of its cash/agency (trust) funds, expenditure/revenue transactions, and actual to budget figures and how successfully it communicated new or modified policies/procedures to staff. Specific audit objectives were to:

- determine that the department is monitoring its cash/agency (trust) funds, expenditure/revenue transactions, and actual to budget figures at least monthly and that there is evidence of the review.
- determine the department successfully communicates new or modified policies/procedures to staff and that there is evidence of staff receipt.

The review included evaluating management's controls over the items mentioned above during fiscal year 2010-2011.

Conclusion

As a result of our analysis and tests performed, we concluded that the department successfully communicated changes in policy and procedures to staff including proof of staff receipt. In addition, the department prepared monthly expenditure and revenue reports including documentation of management's review or approval. However, it was

found that the department did not reconcile its petty cash or agency (trust) funds every month. The department also prepared monthly budget to actual reports but the department did not document management's review or approval of these reports. We have listed these areas and our recommendations for improvement in the Findings and Recommendations section of this report.

Findings and Recommendations

Finding 1: Petty Cash reconciliations could be improved

The Internal Control and Cash Manual (ICCM), Chapter 4, states reconciliations should be completed monthly. The ICCM also states that the reconciliation should also be reviewed and signed by an employee of a higher ranking job code to ensure that errors and omissions are detected. The department did not perform cash fund reconciliations for a three month period. Management did not have sufficient controls in place to ensure compliance. If the department does not complete and review monthly reconciliations, there is a risk of undetected theft and errors. In addition, it implies there might be a lack of sufficient control over other items within the department. Timely management oversight helps establish tone at the top that flows through an organization.

Recommendation:

We recommend that management ensure all reconciliations are prepared, reviewed and approved at least monthly.

Management's Response:

We agree with this finding and recommendation. Steps have been taken to ensure reconciliation and verification of the petty cash accounts on a monthly basis. A procedure that requires input of the verification into a hard copy spreadsheet that is maintained by higher ranking ASD Finance staff has been established.

Auditor's Response:

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

Finding 2: Agency (Trust) fund reconciliations should be completed monthly

Agency (trust) funds are used for money that is held by the County for another agency or entity. The money is not owned by the County and thus there is a higher level of accountability required to ensure that the money is maintained intact and transferred in a timely manner. The Internal Control and Cash Manual (ICCM), Chapter 13, states that reconciliations of these types of accounts should be completed monthly. The ICCM also states that the reconciliation should be reviewed and signed by an employee of a higher ranking job code to ensure that errors and omissions are detected. The department does not perform agency (trust) fund reconciliations. Management was

unaware of the need to prepare reconciliations for these funds. If the department does not complete and review monthly reconciliations, there is a risk of undetected theft and errors. In addition, timely management oversight helps establish tone at the top that flows throughout an organization.

Recommendation:

We recommend that management ensure all agency (trust) fund reconciliations are prepared, reviewed and approved at least monthly.

Management's Response:

We agree with this finding and recommendation. A procedure has been established to perform a monthly reconciliation of trust funds that will be reviewed and signed off by an employee of higher ranking. Our Auditing Division performs reconciliations for the trust funds. The reconciliation is completed by a Supervising Fiscal Specialist and the review is completed by an Accountant III.

Auditor's Response:

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

Finding 3: Documentation of delegation of authority over, or management's review of, budget to actual figures should be improved

By directive from the County Administrative Office (CAO), each department is to submit budget adjustments on a quarterly basis, thus a review of budget to actual figures should be conducted at least quarterly. Per the "Internal Control-Integrated Framework" by the Committee of Sponsoring Organizations of the Treadway Commission (IC-IF), "there is a growing tendency to push authority downward to bring decision-making closer to front-line personnel [and...] such increased delegation may carry an implicit requirement for a higher level of employee competence, as well as greater accountability. It also requires effective procedures for management to monitor results."

Though budget to actual comparisons were prepared monthly, there was no documentation of review or approval by an employee of a higher-ranking job code. There was no formal departmental policy allowing lower level employees to assume this responsibility from management. If the department does not document its review and approval, there is a risk that management may overlook a month and will not be aware if the initial expenditure and/or revenue assumptions need to be adjusted and whether revenues and expenditures are aligned with its expectations for meeting operational objectives.

Recommendation:

We recommend that management either create and implement a policy formally delegating their authority over the budget to actual comparisons or document their

monthly review and approval of these figures. If a policy is adopted, it should include guidelines on when an issue must be escalated to management.

Management's Response:

We agree with this finding and recommendation. A series of Excel files (workbooks) containing queries that can be refreshed anytime was created by ASD Finance staff years ago to compare actual transactions to budget and has been utilized almost daily for information purposes. A formal procedure that requires monthly review and approval had not been established.

As a result of this recommendation a formal procedure has been established that requires monthly verification of expenditures vs. budget that utilizes these existing files and FAS. On the first business day of each month an ASD Finance Accounting Technician will open each file, refresh the existing query and print the workbook. The Accounting Technician will then query FAS via EAP2 for each budget unit to verify the amounts produced by the Excel query. Copies of the Excel file and the FAS query will be submitted to the ASD Finance Administrative Supervisor II for verification and signature. Files will be retained by the Accounting Technician in a central file.

Auditor's Response:

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

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

By:

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

Quarterly copies to:

Chief Executive Officer
Board of Supervisors (5)
Grand Jury (2)

Audit File (2)

Date Report Distributed: 11/2/11