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February 10, 2012

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SUBJECT: DISTRICT ATTORNEY CASH CONTROLS FOLLOW-UP

Introductory Remarks

In compliance with Article V, Section 6, of the San Bernardino County Charter and the Board of Supervisor's Policy on Internal Operational Auditing, we have completed a follow-up audit of the District Attorney Cash Controls Review. Our review was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

Objectives, Scope and Methodology

The objective of this follow-up audit was to determine whether the District Attorney's Office implemented the five recommendations contained in an earlier report, *District Attorney Cash Controls Review*, issued on June 9, 2009. We reviewed the period from September 1, 2010 through February 28, 2011. To determine the implementation status of the recommendations, we:

1. Interviewed departmental personnel associated with the cash functions.
2. Obtained and reviewed the appropriate supporting documentation.

Conclusion

One of the recommendations from the previous audit report was implemented. The remaining four recommendations were partially implemented. The lack of reconciliation of the Victim Witness Aid fund since September 2009 is especially significant as it shows a continual internal control deficiency that management has not corrected. No further follow-up of the fully implemented recommendation will be necessary.

A draft report was delivered to the District Attorney's Office on January 24, 2012 and the results were discussed on February 2, 2012.

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: Lack of Segregation of Duties

According to the Internal Controls and Cash Manual 2008 Version (ICCM) chapter 2 no one person should be assigned concurrent duties that would allow him/her complete control over a transaction or an asset.

The following conditions were disclosed during our review:

- The fiscal specialist completes all the steps in the cash process for all petty cash (including checking accounts) except the witness protection petty cash.
- The Office Assistant IV completes all the steps in the cash process except distributing the cash for the witness protection petty cash

The department was not aware of the need to segregate duties associated with the cash process.

Since the department does not separate the duties of maintaining, recording and reconciling cash receipts, an employee can misappropriate cash and conceal it.

Recommendation:

We recommend that management segregate the cash handling and bookkeeping duties. For example, one employee should handle everything associated with custody of cash (collecting cash receipts and preparing deposits), another employee should handle accounting for the cash (recording) and another employee (of a higher ranking job code than the custodian) should handle reconciling the cash and transactions.

Current Status: Implemented.

Management's Response:

As recommended the District Attorney has segregated duties. The recent review finds the Department is in compliance and has implemented the correct procedures.

Auditor's Response:

The Department has implemented actions that will correct the deficiencies noted in the finding.

Finding 2: Lack of Monthly Reconciliation

According to the 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 should complete the fund reconciliation.

The following conditions were disclosed during our review:

- Currently, the department does not perform a monthly reconciliation for the general petty cash and the victim aid petty cash.
- The witness protection fund is reconciled weekly by the Office Assistant IV. The ledger and cash balance is then reviewed by the Assistant Chief, but there is no documentation of a count or review of the reconciliation.
- All of the checking accounts are reconciled monthly but are not reviewed by a higher ranking job code.

The department was not aware of this policy.

Since the department does not complete monthly reconciliations, there is a risk of monies being lost or an employee misappropriating cash and concealing it.

Recommendation:

We recommend that departments reconcile their cash funds at least once a month. An employee other than the fund custodian and of a higher-ranking job code must complete the fund reconciliation.

Current Status: *Partially Implemented.* The Department has begun performing monthly reconciliations of the general petty cash fund. There was documentation of the monthly counts of the Witness Protection fund. We also noted that someone with a higher ranking job code reviewed the reconciliations of the checking accounts. However, the Victims Aid petty cash fund, with an authorized amount of \$300, had not been reconciled since September 2009.

Management's Response:

As recommended, the District Attorney performs monthly reconciliations of the petty cash fund and the recent review finds the Department is in compliance. As recommended, the Department has a higher ranking job code review the reconciliations and the recent review finds the Department in compliance. Additionally, we are in the process of implementing further internal controls by having a copy of the reconciliations sent to management by the 5th of each month for review. Management is periodically visiting each office to review procedures. The Victim Aid petty cash fund box was closed following the last audit.

Auditor's Response:

The Department has implemented actions that will correct the deficiencies noted in the finding.

Finding 3: Inadequate Petty Cash Procedures

According to the ICCM chapter 4, when the cash fund is initially established and/or the fund custodian changes, the department must submit a "Signature/Fund Custodian Authorization" form to the Auditor/ Controller-Recorder's (ACR) office. Chapter 4 also states, a department employee completes a petty cash voucher in permanent ink, stating the date, purpose of the expenditure and the amount to be expended. An authorized department employee approves the voucher. The authorizing employee must be of a higher-ranking job code than the requestor.

The following conditions were disclosed during our review:

- There are two signers for checking accounts that do not have the proper authorization on their "Signature/Fund Custodian Authorization."
- There were three items of seven tested that did not contain an authorization on the receipt and out of those seven items tested there was seven items without vouchers.
- The department accepted an e-mail as authorization for the victim aid petty cash.
- The department used the receipt as the authorization for transactions.

- There was one witness protection receipt not signed by three employees.

Management has recently changed signers at the bank and has not updated the forms with the ACR. The department was not aware of the need for using petty cash vouchers but have a procedure in place as a compensating control for the witness protection fund requiring three signatures for each transaction.

Advance authorization on the "Signature/Fund Custodian Authorization" form increases assurance that transactions are executed in accordance with laws, regulations and management policies. By not using vouchers for petty cash there is an increased risk of a loss due to theft, misappropriation or lost cash receipts.

Recommendation:

We recommend that the department complete the "Signature/Fund Custodian Authorization" form, including proper cash authorization, for those individuals who have access to the cash process and turn those into the ACR. We also recommend that the department follow the procedures for petty cash disbursements in the Internal Controls and Cash Manual, located on pages 4 - 8 and 4 - 9.

Current Status: *Partially Implemented.* We reviewed the Signature/Fund Custodian Authorization forms and noted the check signers had the appropriate authorization to process cash fund transactions. However, the following conditions still existed:

- Petty cash vouchers were not consistently used.
- Receipts were not provided for every petty cash transaction.
- The signature of the approving official was not documented on the petty cash voucher.

Management's Response:

As recommended, the District Attorney has completed the Signature Fund Custodian Authorization forms and the recent review finds the Department in compliance. As recommended, petty cash vouchers are now consistently used, receipts are provided for every petty cash transaction and the signature of the approving official is now documented on the petty cash voucher.

Auditor's Response:

The Department has implemented actions that will correct the deficiencies noted in the finding.

Finding 4: Inadequate Bank Account Procedures

According to the ICCM Chapter 9, when checks are voided, write the word "VOID" on the face of the check and tear the signature line from the check. Also, it is a good business practice to avoid having outstanding items (checks, adjustments, etc) longer than six months. Chapter 9 explains how all checks must include the following: be pre-numbered, be imprinted with the official bank account title, and display the words "Void six months from issue date."

The following conditions were disclosed during our review:

- Voided checks were not marked "Void" on the face.
- All voided checks have the signature line still intact, whether signed or not.
- All check stock is missing the display of "Void six months from issue date."
- The funeral/burial fund reconciliation had outstanding items dating prior to June 26, 2007.
- The general petty cash reconciliation had outstanding items dating prior to May 23, 2006.
- The special appropriation reconciliation has outstanding items dating prior to June 29, 2007.
- The witness coordination reconciliation has outstanding items dating prior to June 28, 2007.
- The witness protection reconciliation has outstanding items dating prior to April 10, 2008.

The department did not want to void long outstanding items for fear that they may still be processed by the bank. The department was not aware of the need to display "Void six months from issue date" on the check stock.

Banks do not honor checks dated over six months, thus the department's records do not represent what is actually outstanding.

Recommendation:

We recommend that department complete reviews of reconciliations monthly and document those reviews completed. Also, we recommend that the department stale date any check that has not been presented for payment within six months of the issue date and include the phrase "Void six months from issue date" on the face of their checks. To finish, we recommend that the department insure that checks be voided correctly with the word "Void" written or stamped on the face of the check and the signature line torn off.

Current Status: *Partially Implemented.* During the audit period, the outstanding items for the fund reconciliations were processed in a timely manner except for the Witness Coordination account, which had checks outstanding for longer than six months. Additionally, a voided check for the Witness Protection account did not have the signature line removed to prevent reuse of the check.

Management's Response:

As recommended the Witness coordination account which had checks outstanding for longer than six months have been cleared, as of November 2011 and now each month during the reconciliation any checks outstanding for longer than six months are cleared.

As recommended, Cal Wrap program voided checks have "void" written on check and the signature is torn from check. All checks have been stamped with "void six months from issue date".

As recommended, Cal Wrap monthly petty cash reconciliations will be conducted by the Assistant Chief of Operations and the Administrative Services Staff Analyst.

Auditor's Response:

The Department has implemented actions that will correct the deficiencies noted in the finding.

Finding 5: Inadequate Policies and Procedures

According to the ICCM chapter 2, all transactions should be properly authorized. Authorizations can take many forms, such as laws, ordinances, standard practice manuals, Board resolutions, approved budget, written policies, and manager's signature. Chapter 2 also states, undeposited monies should be restrictively endorsed immediately upon receipt and physically safeguarded until they are deposited. Further the ICCM chapter 3 states, the department must deposit cash receipts by the next business day when the amount of receipts reaches \$1,000. If lesser amounts are collected, the department should deposit cash receipts at least weekly.

The following conditions were disclosed during our review:

- There is no written policy that states what an allowable expense is for the Victim Aid Account.
- Negotiable instruments such as checks are not restrictively endorsed upon receipt or locked up until deposit.
- The department had one transaction that was held for 15 days prior to deposit.

Management was not aware of the need to have written policy on allowable costs. Also management was not aware of the need to restrictively endorse checks upon receipt. The department was gathering information for the transaction that was deposited late.

Since the department does not have written policy of what is an allowable cost under the Victim Aid Account cash could be misappropriated. Additionally, since the department did not effectively endorse or physically safeguard their deposits there is a higher risk of monies being lost or misappropriated. If a department does not make deposits timely, they can accumulate large sums of money. Accumulating large sums of money increases the risk of a loss due to theft, misappropriation or lost cash receipts.

Recommendation:

We recommend that the department create written policy and procedures for the Victim Aid Account, including an explanation of what is an allowable cost for the account. Endorse checks upon receipt and that the department locks up the undeposited monies

until they are deposited. We also recommend that management make a deposit whenever receipts reach \$1,000 or at least weekly. In the event of gathering information, the department should complete the deposit within one week, and then complete a transfer to correct the entry when the documentation is received.

Current Status: *Partially Implemented.* The Department established written policies that describe allowable costs for this fund. Additionally, checks were restrictively endorsed when received and secured until deposited. However, seven out of sixteen transactions were not deposited timely in compliance with the ICCM.

Management's Response:

As recommended, deposits are made when receipts total \$1,000 and deposits are made at least weekly even if the receipts do not total \$1,000.

Auditor's Response:

The Department has implemented actions that will correct the deficiencies noted in the finding.

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

Respectfully submitted,

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Date Report Distributed: 2/21/12