

AUDITOR-CONTROLLER/ TREASURER/TAX COLLECTOR



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April 11, 2013

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Fleet Management Department
210 North Lena Road
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SUBJECT: FLEET MANAGEMENT DEPARTMENT CASH CONTROLS AUDIT

Introductory Remarks

In compliance with Article V, Section 6, of the San Bernardino County Charter, County Policy 02-02 on Internal Operational Auditing, and the Internal Controls and Cash Manual (ICCM), we have completed an audit of the Fleet Management Department (Department). Our audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

Background

The Board of Supervisors, by resolution, establishes cash funds for County departments to facilitate their operations. The Board has delegated to the County Auditor-Controller/Treasurer/Tax Collector (ATC) the authority to establish cash funds up to \$2,500. Several different types of cash funds are used throughout the County, including petty cash funds, change funds, and cash shortage funds. Ordinarily, departments use petty cash funds to buy small items, change funds to make customer change, and cash shortage funds to reimburse cash shortages that occur during daily operations. Although these cash funds may differ in amount and purpose, the general guidelines governing their establishment, maintenance, dissolution and reconciliation is the same. Departments designate a fund custodian to be 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. Periodically, ATC's Internal Audits Section (IAS) performs surprise cash counts of these cash funds. Upon demand of ATC or the Board of Supervisors, a department's Fund Custodian is to give an accounting of the fund.

ATC has documented some general cash controls in the ICCM for departments with cash funds. However, each department head or authorized designee is responsible for developing and implementing the necessary guidelines and procedures required to control, safeguard and handle cash.

On May 19, 2012, at approximately 11:30 p.m., three petty cash lockboxes were stolen from the Fleet Management Department. As a result of the theft, IAS conducted an audit of the internal controls associated with the Department's cash handling practices.

Objectives, Scope and Methodology

The objective was to determine whether cash handling controls practiced by the Department effectively safeguarded cash assets.

We reviewed internal controls over the safeguarding and handling of cash for the period of May 1, 2012 through July 31, 2012. Our audit included inquiries of staff and other audit procedures considered necessary.

Conclusion

As a result of our audit, we concluded that cash handling controls practiced by the department did not always effectively safeguard cash assets.

We identified several procedures and practices that could be improved. We have listed these areas and our recommendations for improvement in the Findings and Recommendations section of this report.

We sent a draft report to the Department on March 5, 2013, and discussed our observations with management on March 14, 2013. The Department's responses to our recommendations are included in this report.

Findings and Recommendations

Finding 1: The Department's cash controls do not ensure cash assets are adequately safeguarded.

According to the Internal Controls and Cash Manual (ICCM), page 3-3, all County departments must secure County funds held overnight in a safe or in a locked file cabinet that is out of the view of the public. Cash should never be left in a drawer or overhead cabinet overnight, even if it is locked.

A theft of petty cash occurred in the Fleet Management Department. The cash funds were stored in lockboxes in the overhead cabinet at each of the Fund Custodians' desks. One lockbox key was left unsecured in an unlocked desk drawer. Additionally, transactions involving petty cash were typically performed in the view of employees.

The Fleet Management Department previously used a safe, but it was sent to surplus in 2010 because it was no longer working properly. The Department replaced the safe in June 2012, after the theft. Previously, management felt the lockboxes were adequately secured. Insufficient safeguarding measures, such as not securing cash funds in a safe, increase the risk of theft by employees or others.

Recommendation:

We recommend that management strengthen its oversight over the Department's assets, including cash, by ensuring that sufficient security measures are in place to effectively safeguard the Department's assets. Management should develop formal asset security procedures. Periodically, management should formally instruct staff regarding the procedures and document this instruction.

Department personnel should adequately secure all cash funds and ensure that only authorized staff know the location of cash funds. In addition, cash funds should be locked in the safe overnight. Management should periodically document that the procedures are in place and working.

Management's Response:

We agree with the Finding and Recommendation and have revised our procedures to correct the deficiency. Fleet Management has purchased and installed a new safe in the Business Office. The new safe is located in the supervisor's office. All cash/check funds are secured in the safe during working hours and overnight. Fleet Management personnel with access to petty cash will be instructed on petty cash procedures at a predetermined monthly safety meeting.

Auditor's Response:

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

Finding 2: Employees without documented authorization perform fund custodial functions

The County's Internal Control and Cash Manual (ICCM), Chapter 4, outlines the process for establishing a fund custodian for a department's authorized cash funds. Included in the process is the completion of the "Signature/Fund Custodian Authorization" form, which requires the approving official to clearly identify the individual being assigned as fund custodian. Department personnel performed transactions for the petty cash fund without the appropriate documented authorization being submitted to ATC's Accounts Payable Section.

Inadequate management oversight over the petty cash function allowed Department personnel to perform petty cash transactions without the required authorization. The failure to establish proper accountability for cash funds increases the risk that management will not detect or prevent errors or theft.

Recommendation:

We recommend that department management strengthen controls over cash handling procedures by completing and submitting the "Signature/Fund Custodian Authorization" form for employees serving as the Department's fund custodians. Additionally, management should periodically

observe the petty cash process to verify that the internal controls are operating effectively as required by the County's ICCM and document their review in writing.

Management's Response:

We agree with the Finding and Recommendation and have revised our procedures to correct the deficiency. All of Fleet Management's "Signature/Fund Custodian Authorization" forms for employees serving as the Department's fund custodians are current for FY 2012-13. Fleet Management will periodically observe the petty cash process to verify internal controls are operating effectively and will document their review in writing.


Auditor's Response:

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

We would like to express our appreciation for the cooperation and assistance provided to the auditor by the management and staff of the Fleet Management Department.

Respectfully submitted,

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