

**SAN BERNARDINO COUNTY
AUDITOR-CONTROLLER/TREASURER/TAX COLLECTOR
INTERNAL AUDITS DIVISION**



**ARROWHEAD REGIONAL MEDICAL CENTER:
CASH FUNDS AND CASH RECEIPTING AUDIT**

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Arrowhead Regional Medical Center: Cash Funds and Cash Receipting Audit

Audit Report Letter	1
Executive Summary	3
Audit Background	6
Scope, Objectives, and Methodology	8
Audit Findings and Recommendations	9



San Bernardino County



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June 20, 2024

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Colton, CA 92324

RE: Arrowhead Regional Medical Center - Cash Funds and Cash Receipting Audit

We have completed an audit of the Arrowhead Regional Medical Center's (Department) cash funds and cash receipting for the period of January 1, 2023 – November 15, 2023. The primary objectives of the audit were to determine if the Department is in compliance with the Internal Controls and Cash Manual (ICCM) in regard to the controls over their cash funds and cash receipting process. 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 June 10, 2024, and discussed our observations with management on June 11, 2024, and June 14, 2024. The Department's responses to our recommendations are included in this report.

We would like to express our appreciation to the personnel at the Department who assisted and cooperated with us during this engagement.

Respectfully submitted,

Ensen Mason CPA, CFA
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By: 
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Chief Deputy Auditor

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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 Department's cash funds and cash receipting process.

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	Management of the petty cash funds could be improved.	9
	We recommend that the Department designate employees who are able to account for the cash fund on a daily basis and have access to the fund, as the fund custodian(s). We also recommend that cash funds reconciliations are completed on a monthly basis by an employee other than the fund custodian and of a higher-ranking job classification. If monthly reconciliations are completed by the fund custodian, reconciliations should be reviewed by an employee of a higher-ranking job classification. In addition, we recommend that the Department use petty cash vouchers that contain the required information before disbursing their petty cash. We also recommend that cash funds are replenished when 75% of the authorized amount has been used and that replenishments are processed through ATC, in accordance with the ICCM. Safe combinations or locks should be re-keyed at least annually, or when an employee has been terminated, transferred or reassigned. Lastly, we recommend the department review the ICCM chapters related to cash and train all staff on the requirements of the ICCM.	
2	Management of the petty cash bank account could be improved.	11
	We recommend the Department replenish their account prior to the end of each fiscal year. Monthly cash funds reconciliations should be completed by an employee other than the fund custodian. If monthly reconciliations are completed by the fund custodian, reconciliations should be reviewed by an employee of a higher-ranking job classification. We recommend that the Department	

Finding No.	Findings and Recommendations	Page No.
	contact their bank for monthly statements or request online access in order to view their bank account balance regularly. The statements and/or bank balance should be reviewed on a monthly basis to ensure there are no discrepancies in their bank account. We also recommend that checks outstanding after 6 months should be voided. We recommend that the Department designate employees who are able to account for the cash fund on a daily basis and have access to the fund, as the fund custodian(s). If the Department has determined that it no longer has a need for the bank account due to inactivity, we recommend that the bank account be closed in accordance with the ICCM "Request to Decrease or Close a Cash Fund" guidelines.	
3	<p>Management of the change funds could be improved.</p> <p>We recommend that the Department designate employees who are able to account for the cash fund on a daily basis and have access to the fund, as the fund custodian(s). We also recommend that safe combinations or locks should be re-keyed at least annually, or when an employee has been terminated, transferred or are reassigned to other duties.</p>	13
4	<p>Management of the cash difference fund could be improved.</p> <p>We recommend that the cash difference log contain the necessary information required by the ICCM, including cashier names who incurred the shortages. The cash difference fund should be replenished when accumulated shortages reach 75% of the authorized amount or \$100, whichever is lower. We also recommend that cash difference fund replenishment checks are deposited and then funds withdrawn to replenish the cash fund, instead of shorting the daily sales deposits. We further recommend that the Department designate the fund custodian to be the employee who is able to account for the cash fund on a daily basis and who has access to the fund. Lastly, we recommend that the department review the ICCM chapters related to cash and train all staff on the requirements of the ICCM.</p>	15
5	<p>Depositing procedures could be improved.</p> <p>We recommend that deposit amounts equal the total amount of receipts issued during the period covered by the deposit. Any discrepancies should be researched and</p>	17

Executive Summary



Finding No.	Findings and Recommendations	Page No.
	resolved by the Department, and any transaction changes are reviewed and documented.	

Arrowhead Regional Medical Center Cash Funds and Cash Receipting Audit

The Department

Arrowhead Regional Medical Center (ARMC) delivers a large spectrum of essential services including emergency medicine, family medicine, internal medicine, neurology, obstetrics and gynecology, psychiatry, and ophthalmology. ARMC is composed of the main hospital, a behavioral health center, five primary care centers, and 40 subspecialty clinics.

ARMC is focusing on patient access and better health outcomes with their newly established division of Integrated Community Health within their ambulatory services. ARMC will have a strategic focus on modernizing healthcare services, focusing on community engagement, clinic access, and developing more robust telehealth services. ARMC continues to grow key service lines including but not limited to primary and specialty care, robotic surgery, cancer care, neurosciences, cardiology, and women's health.

Cash Funds

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 types of cash funds are used throughout the County, including petty cash funds, change funds, and cash difference funds. An authorized petty cash fund is used for payment of miscellaneous expenses or charges incurred while performing official County business. An authorized change fund is used exclusively by a cashier or clerk for making changes while performing official County business.

Audit Background



Below are the cash funds that were counted during our fieldwork:

Description of Fund/Location	Petty Cash Fund	Change Fund	Cash Difference Fund
Arrowhead Café		\$8,800	
Patient Accounts - Vault		\$700	\$400
Patient Accounts - Reception		\$500	
Central Materiels	\$1,360		
Behavioral Health - Indigent Travel	\$100		
Social Services	\$75		
Accounts Payable (bank account)	\$10,000*		

*Auditors were not able to confirm the bank account balance as during the initial fieldwork visit and through the end of fieldwork, staff did not have access to the bank account balance. Instead, staff relied on bank account statements periodically received through the mail.

Scope and Objectives

Our audit examined the internal controls over the Department's cash funds and cash receipting process for the period of January 1, 2023, through November 15, 2023.

The objectives of our audit were to determine if the Department is in compliance with the Internal Controls and Cash Manual in regard to the controls over their cash funds and cash receipting process.

Methodology

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

- Review of policies and procedures
- Performance of surprise cash counts of authorized cash funds
- Interviews of Department staff regarding cash fund management
- Observation of cash operations
- Review of cash deposits for the audit period
- Examination of original source documents and system-generated reports

Finding 1: Management of the petty cash funds could be improved.

The 2018 Internal Controls and Cash Manual Chapter 4-4 "Fund Custodian" states that 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, and any bank accounts in which the fund is held. Chapter 4-7 "Reconcile Cash Funds" states that 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. In addition, Chapter 4-10 "Petty Cash – Disbursements" states that the department must maintain a chain of custody with adequate security and documentation for petty cash disbursements. A department employee completes a petty cash voucher and an authorized department employee approves the voucher. The Reimbursement section states that an authorized department employee approves the voucher. The authorizing employee must be of a higher-ranking job classification than the requestor. The employee purchases the item and returns with a receipt and presents the receipt and approved petty cash voucher to the fund custodian for reimbursement. The ICCM also states in Chapter 4-6 "Replenish Cash Funds" that departments must replenish their funds by forwarding the request for payment form, e-Pro release, and receipts to the Auditor-Controller/ Treasurer/Tax Collector (ATC) Accounts Payable Division. ATC Accounts Payable Division will process the claim for replenishment and issue a warrant payable to the fund custodian. Lastly, Chapter 3-3 "Safeguarding Cash" states that safe combinations should be changed when an employee who has knowledge of the combination terminates County employment, transferred to another County department, or are reassigned to other duties. Even if there are no staffing changes, combinations must be changed annually.

Central Materiels

The following conditions were identified:

- The individuals who access and handle the petty cash fund were not listed as the Fund Custodian on the "Signature/Fund Custodian Authorization" form.
- Reconciliations were not completed by someone higher ranking than the fund custodian.
- Petty cash was not disbursed in accordance with the ICCM.
 - One out of six tested disbursements was not properly approved. The employee who received the petty cash disbursement was the same employee who approved the petty cash request.

- Two out of six tested disbursements were incorrectly used to replenish the department's other two petty cash funds.

Social Services

The following conditions were identified:

- The individuals who access and handle the petty cash fund were not listed as the Fund Custodian on the "Signature/Fund Custodian Authorization" form.
- Reconciliations were not completed by someone higher ranking than the fund custodian.
- Replenishments for the petty cash fund are being drawn from the Central Materials fund.
- Petty cash was not disbursed in accordance with the ICCM.
 - One tested disbursement's petty cash voucher did not have approval from an authorized department employee prior to funds being disbursed. Instead, the voucher only had the name and signature of the employee distributing funds and the signature of the employee receiving the funds.
- Staff was not aware of when the petty cash lockbox has been re-keyed.

Behavioral Health

The following conditions were identified:

- The individuals who access and handle the petty cash fund are not listed as the Fund Custodian on the "Signature/Fund Custodian Authorization" form.
- Monthly reconciliations were not performed.
- Replenishments for the petty cash fund are being drawn from the Central Materials fund.
- Petty cash was not disbursed in accordance with the ICCM.
 - All three tested disbursements did not have a petty cash voucher form, therefore there were no documented approvals.
 - A \$5 petty cash disbursement labeled as patient missing funds did not have any receipts to support the amount of petty cash disbursed.
- Staff was not aware of when the drawer containing the petty cash was last re-keyed.

Staff was not familiar with the ICCM procedures regarding management of their petty cash funds. The misappropriation of cash assets is more likely to occur when the Department does not properly manage its cash funds.

Recommendation:

We recommend that the Department designate employees who are able to account for the cash fund on a daily basis and have access to the fund, as the fund custodian(s). We also recommend that cash funds reconciliations are completed

on a monthly basis by an employee other than the fund custodian and of a higher-ranking job classification. If monthly reconciliations are completed by the fund custodian, reconciliations should be reviewed by an employee of a higher-ranking job classification. In addition, we recommend that the Department uses petty cash vouchers that contain the required information before disbursing their petty cash. We also recommend that cash funds are replenished when 75% of the authorized amount has been used and that replenishments are processed through ATC, in accordance with the ICCM. Safe combinations or locks should be re-keyed at least annually, or when an employee has been terminated, transferred or reassigned. Lastly, we recommend the department review the ICCM chapters related to cash and train all staff on the requirements of the ICCM.

Management's Response:

Petty cash has been deemed no longer necessary and therefore was closed.

Auditor's Response:

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

Finding 2: Management of the petty cash bank account could be improved.

The ICCM Chapter 4-7 "Replenish Cash Funds" states that departments must replenish their cash funds prior to the end of each fiscal year, as long as the replenishment amount is greater than or equal to \$25, to ensure expenditures are recorded in the year in which they were incurred. Chapter 4-7 "Reconcile Cash Funds" states that 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. It also indicates that for departments with checking accounts, the last bank statement's ending balance should be used as the starting figure for the reconciliation and to review the bank statement to identify any outstanding checks. Furthermore, Chapter 4-11 "Petty Cash Checking - Replenishment" states that departments with petty cash checking accounts must track outstanding checks written against the account. If the bank has not cleared the check through the department's checking account and it is six months past the date of issuance, void the entry from the check register. Lastly, Chapter 4-4 "Fund Custodian" states that 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, and any bank accounts in which the fund is held.

The following conditions were identified:

- The fund has not been replenished since May 30, 2018.
- Monthly reconciliations were not performed in accordance with the ICCM guidelines.
 - Reconciliation reviews were not performed by someone of a higher-ranking job classification than the preparer.
 - Bank statements were not used when performing monthly reconciliations. The most recent bank statement used was from February 2023.
- Outstanding checks were not voided 6 months after they were issued. These checks were issued from 2014 through 2019.
- The individual responsible for the petty cash bank account was not listed as the Fund Custodian on the "Signature/Fund Custodian Authorization" form. The actual named fund custodian was not aware he was listed on the form as the fund custodian.

Staff was not familiar with the ICCM procedures regarding management of their petty cash funds and checks from the account were not issued on a regular basis. The Department would not always receive bank statements regularly through the mail. The misappropriation of cash assets is more likely to occur when the Department does not properly manage its cash funds. When the Department does not contact the bank regularly and review their bank statements on a monthly basis, the Department will not know if there are any discrepancies occurring in their bank account.

Recommendation:

We recommend the Department replenish their account prior to the end of each fiscal year. Monthly cash funds reconciliations should be completed by an employee other than the fund custodian. If monthly reconciliations are completed by the fund custodian, reconciliations should be reviewed by an employee of a higher-ranking job classification. We recommend that the Department contact their bank for monthly statements or request online access in order to view their bank account balance regularly. The statements and/or bank balance should be reviewed on a monthly basis to ensure there are no discrepancies in their bank account. We also recommend that checks outstanding after 6 months should be voided. We recommend that the Department designate employees who are able to account for the cash fund on a daily basis and have access to the fund, as the

fund custodian(s). If the Department has determined that it no longer has a need for the bank account due to inactivity, we recommend that the bank account be closed in accordance with the ICCM "Request to Decrease or Close a Cash Fund" guidelines.

Management's Response:

The petty cash was deemed no longer needed and therefore is in the process of being closed. Pending the final closure of this account, the following steps have been taken.

1. Account has been reconciled and replenishment is being requested by the Accounting Technician and signed off by the Fund Custodian and Associate CFO.
2. The checkbook is secured by the Fund Custodian for purpose of segregation of duties.

It has been confirmed that there is a banking resolution on file for the Associate CFO for complete access to the account balance, statements, and transactions.

Auditor's Response:

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

Finding 3: Management of the change funds could be improved.

The ICCM Chapter 4-4 "Fund Custodian" states that 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. Chapter 3-4 "Safeguarding Cash" states that combinations to safes should be changed 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.

Arrowhead Café

The following conditions were identified:

- The individuals who access and handle the change funds are not listed as the Fund Custodian on the "Signature/Fund Custodian Authorization" form.
- Although a log was established on December 14, 2023, there was no previous documentation to show when prior safe combinations were changed.

Patient Accounts

The following conditions were identified:

- The individuals who access and handle the change funds are not listed as the Fund Custodian on the "Signature/Fund Custodian Authorization" form.
- There is no documentation of when the last safe combination was changed.

Staff believed that only one individual should be named Fund Custodian to oversee funds and was not aware that safe combinations should be changed at least annually. When the Department designates an individual who does not have physical and daily access to the fund, that individual may not be able to account for the fund in the form of cash, vouchers, and receipts at any given time. When safe combinations are not changed, cash may not be adequately safeguarded.

Recommendation:

We recommend that the Department designate employees who are able to account for the cash fund on a daily basis and have access to the fund, as the fund custodian(s). We also recommend that safe combinations or locks should be re-keyed at least annually, or when an employee has been terminated, transferred or are reassigned to other duties.

Management's Response:

1. The Fiscal Assistant will be assigned as the Fund Custodian for the Arrowhead Café and the Administrative Supervisor II will be assigned as the Fund Custodian for Patient Accounts.
2. Logs have been created and secured in each safe and locking cabinet with the date of combination change along with instructions reminding staff that the combination must be changed/rekeyed at least annually, or when an employee has been terminated, transferred or are reassigned to other duties. Quarterly audits by the Accounting Dept will verify that this procedure is being followed.

Auditor's Response:

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

Finding 4: Management of the cash difference fund could be improved.

The ICCM Chapter 5-3 "Cash Handling Error Shortages" states each department must maintain a continuous record of each confirmed cash deficit indicating the date, amount, and name of the person who reported the deficit. The Department should enter the following items on a cash overage/shortage log as the variances occur or are discovered, which include the amount of the reimbursement to the cashier's change fund (shortage), the date of occurrence, and the name of the cashier who incurred the shortage. It further states that the department must replenish the cash difference fund when accumulated shortages reach 75% of the authorized amount or \$100, whichever is lower. In addition, Chapter 9-4 "Bank Deposit Guidelines" states that deposits must consist of the same currency, checks, and/or money orders that were originally collected. The amount of each deposit should equal the total amount of the receipts issued during the period covered by the deposit. Chapter 4-4 "Fund Custodian" states that 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, and any bank accounts in which the fund is held. Lastly, Chapter 6-8 "Remittance Overages" states that when remittances are received in excess of the amount due, departments should enter overages on an overage/shortage log. Overages should be deposited into the Cash Overage Fund and the Department must make an effort to identify and notify the payees of the overage when the overage exceeds \$10.

The following conditions were identified:

- The cash difference log was missing the names of the cashiers who incurred the shortages.
- A replenishment request for the fund was not made when accumulated shortages totaled \$100.
- A cash difference fund replenishment check was exchanged for cash by taking cash received from the Arrowhead Cafe sales. The replenishment check was deposited through armored car pickup as part of daily sales and the cash taken was used to replenish the cash difference fund.
- The individual responsible for the cash difference fund was not listed as the Fund Custodian on the "Signature/Fund Custodian Authorization" form.
- Staff was not aware of how payment overages should be processed if a situation were to occur.

Staff was not aware of the ICCM guidelines on the cash difference fund. If they were unsure of the process, staff would defer to the ARMC Accounting Technician for guidance. When staff does not receive clear guidance and written procedures

on cash handling processes, there is an increased risk of undetected errors and one person could inadvertently have complete control over a transaction or an asset.

Recommendation:

We recommend that the cash difference log contain the necessary information required by the ICCM, including cashier names who incurred the shortages. The cash difference fund should be replenished when accumulated shortages reach 75% of the authorized amount or \$100, whichever is lower. We also recommend that cash difference fund replenishment checks are deposited and then funds withdrawn to replenish the cash fund, instead of using cash collected from the daily sales deposits. We further recommend that the Department designate the fund custodian to be the employee who is able to account for the cash fund on a daily basis and who has access to the fund. Lastly, we recommend that the department review the ICCM chapters related to cash and train all staff handling cash on the requirements of the ICCM.

Management's Response:

1. Effective immediately, the names will be added to the log.
2. Additional procedures have been put into place to notify the Accounting Technician and the Supervisor in the Accounting Department when the cash difference fund reaches this amount and will follow up to ensure that replenishment has been requested timely. Procedures will be maintained in the Cash Difference Fund to ensure any change in staff are aware of this procedure. Additional Quarterly review by the Accounting Department will ensure that this procedure is being followed.
3. Effective immediately, the fund custodian will be responsible for cashing the replenishment check at the bank and delivering the cash back to the Hospital to replenish the fund.
4. The Fiscal Specialist will be assigned as the Fund Custodian.
5. Staff have been re-trained on the overage process.

Auditor's Response:

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

Finding 5: Depositing procedures could be improved.

The ICCM Chapter 9-4 "Bank Deposit Guidelines" states that deposits must consist of the same currency, checks, and/or money orders that were originally collected. The amount of each deposit should equal the total amount of the receipts issued during the period covered by the deposit. Departments must research and resolve any discrepancies.

When we tested 36 deposit transactions, two transactions (5%) did not match the cash amounts reported on the sales detail reports.

Staff stated that the Brinks deposit log was incorrect and the log was not updated after the deposit amounts were reconciled. However, the deposit log amounts and the SAP Composite Report amounts matched to each other, and not to the sales detail report amounts. When discrepancies are not researched and resolved for cash sales, transactions may not have been correctly recorded and accounted for.

Recommendation:

We recommend that deposit amounts equal the total amount of receipts issued during the period covered by the deposit. Any identified discrepancies should be researched and resolved by the Department, and any transaction changes are reviewed and documented.

Management's Response:

After researching a couple of discrepancies in the cafeteria, it was discovered that this was due to a register error regarding a register button. The discrepancies have been documented, the button has been removed, and the problem has been resolved. Supervisors have been reminded that they must verify the sales transaction details, as well as the cash and deposit ticket that is written and identify a discrepancy immediately.

Auditor's Response:

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