

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS  
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT Auditor - Controller - Treasurer - Tax Collector	(2) MEETING DATE 8/23/2016	(3) CONTACT/PHONE Kerry Bailey 788-2979 Mark Maier 781-4267	
(4) SUBJECT Submittal of a cash procedures and internal control review of the Health Agency conducted February and March 2016. All Districts.			
(5) RECOMMENDED ACTION It is recommended that the Board receive, review, and file the attached Health Agency cash procedures and internal controls review report which contains one finding and five suggested improvements. Our report also includes the Health Agency's response to the finding.			
(6) FUNDING SOURCE(S) N/A	(7) CURRENT YEAR FINANCIAL IMPACT \$0.00	(8) ANNUAL FINANCIAL IMPACT \$0.00	(9) BUDGETED? Yes
(10) AGENDA PLACEMENT <input checked="" type="checkbox"/> Consent <input type="checkbox"/> Presentation <input type="checkbox"/> Hearing (Time Est. ___) <input type="checkbox"/> Board Business (Time Est. ___)			
(11) EXECUTED DOCUMENTS <input type="checkbox"/> Resolutions <input type="checkbox"/> Contracts <input type="checkbox"/> Ordinances <input checked="" type="checkbox"/> N/A			
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: <input type="checkbox"/> 4/5 Vote Required <input checked="" type="checkbox"/> N/A	
(14) LOCATION MAP N/A	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY <input type="checkbox"/> N/A    Date: <u>April 2, 2013</u>	
(17) ADMINISTRATIVE OFFICE REVIEW <i>Nikki J. Schmidt</i>			
(18) SUPERVISOR DISTRICT(S) All Districts			

# County of San Luis Obispo



TO: Board of Supervisors

FROM: James P. Erb, Auditor - Controller - Treasurer - Tax Collector

DATE: 8/23/2016

SUBJECT: Submittal of a cash procedures and internal control review of the Health Agency conducted February and March 2016. All Districts.

## **RECOMMENDATION**

It is recommended that the Board receive, review, and file the attached Health Agency cash procedures and internal controls review report which contains one finding and five suggested improvements. Our report also includes the Health Agency's response to the finding.

## **DISCUSSION**

Cash handling can be an area vulnerable to mistakes or misappropriation. The Auditor-Controller-Treasurer-Tax Collector (ACTTC) has developed policies to minimize the risk associated with use of change funds and petty cash as well as cash receipts.

Additionally, County computers are vulnerable to abuse. County Information Technology has developed policies to minimize the risk associated with misuse of County computing assets.

The objectives of our review were to determine compliance with the County Auditor-Controller's Cash Handling Policy, to establish accountability for cash and cash equivalents on hand at the time of the count, and to determine compliance with the County IT Acceptable Use Policy Acknowledgement signature requirements.

The Health Agency has twelve separate cash funds. We determined the cash funds, and cash receipts on hand, to be in balance at the time of our count. The Agency's internal controls over cash, MasterCard, Cal-Cards and other cash equivalents appear to be adequate with the exception of one petty cash fund. We also identified five areas of improvement which are detailed in the attached cash procedures and internal control review report along with our finding and the Health Agency's response.

## **OTHER AGENCY INVOLVEMENT/IMPACT**

Health Agency

## **FINANCIAL CONSIDERATIONS**

There is no additional cost to the County for conducting unannounced cash and internal control reviews. Periodic unannounced cash and internal control reviews are a part of the ACTTC's compliance with Government Code 26881 and 26883.

## **RESULTS**

The ACTTC's program of periodic unannounced reviews of cash procedures and other internal controls helps maintain and improve internal controls and procedures for cash handling by County staff and contributes to the County's vision of a well-governed community.

## **ATTACHMENTS**

1. Health Agency Cash and Internal Controls Review FY 15-16 Report



**COUNTY OF SAN LUIS OBISPO**  
AUDITOR • CONTROLLER • TREASURER • TAX COLLECTOR

**Health Agency  
Cash Procedures & Internal Control Review**

**August 2016**

**JAMES P. ERB, CPA  
Auditor-Controller  
Treasurer-Tax Collector-Public Administrator**



**COUNTY OF SAN LUIS OBISPO**  
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JAMES P. ERB, CPA  
Auditor-Controller  
Treasurer-Tax Collector  
James W. Hamilton, CPA  
Assistant

TO: JEFF HAMM, HEALTH AGENCY DIRECTOR  
FROM: JAMES P. ERB, CPA, AUDITOR-CONTROLLER-TREASURER-TAX COLLECTOR  
DATE: AUGUST 8, 2016  
SUBJECT: CASH PROCEDURES AND INTERNAL CONTROL REVIEW OF THE HEALTH AGENCY CONDUCTED FEBRUARY AND MARCH 2016

Our office recently completed a cash procedures and internal control review that took place on various dates in February and March 2016. Our review resulted in 1 finding and 5 suggested improvements. We have included the Health Agency's response to our finding in this report.

#### Purpose

The purpose of our review was to determine compliance with the County Auditor-Controller's Cash Handling Policy, to establish accountability for the cash on hand at the time of the review, to assess the controls over purchasing and gift cards and to determine compliance with the County Information Technology (IT) Acceptable Use Policy Acknowledgement signature requirements.

#### Scope

The scope of our review included cash, cash equivalents and receipts on hand on the dates of our review as well as deposits for the prior three months. Additionally, we reviewed the agency's depository accounts, Cal-Card activity and controls over MasterCards. County IT Acceptable Use Policy Acknowledgements signed in the past calendar year were also sampled and examined.

#### Methodology

We conducted our review in conformance with the *International Standards for the Professional Practice of Internal Auditing*. The International Standards for the Professional Practice of Internal Auditing require that the internal audit activity be independent and internal auditors be objective in performing their work. The Standards also require that internal auditors perform their engagements with proficiency and due professional care; that the internal audit function be subject to a program of quality assurance; and that the results of engagements are communicated.

Our review included physically counting all cash on hand and reconciling the amount to the department's accountability figures. We examined cash receipts and compared the amounts to the corresponding receipts total and to the subsequent deposit. Our review also included an evaluation of internal controls over cash receipts, cash equivalents, MasterCards and Cal-Card

activity. Our evaluation of internal controls was limited to inquiries of departmental staff and direct observations.

Additionally we tested for compliance with the County of San Luis Obispo Information Security Program's requirement that employees annually sign the Acceptable Use Policy Acknowledgement form.

### Results

We determined all cash funds and cash receipts on hand, in all material respects, to be in balance at the time of our count. The Department's internal controls over cash equivalents, MasterCard and Cal-Cards appear to be adequate. Employees signed the IT Acceptable Use Policy Acknowledgement form in a timely manner with the exceptions noted below.

The department is in general compliance with the Cash Handling Policy with the exception noted in the Findings and Recommendations section of this report below. Findings are issues which present a serious enough risk to require consideration by management and a written department response.

Additionally, during fieldwork we identified some areas where improvements could be made, and we immediately provided the site with suggestions for making these improvements. Suggestions for improvement are made for issues that the auditor considers not to be of an immediate serious nature and/or for issues which the site is able to correct at the time of the audit. Unlike formal audit findings, written departmental responses are not required for these issues. Our suggestions are detailed in the Suggested Improvements section below.

### Findings & Recommendations

#### **1. Petty Cash Reimbursement Not Secured**

We observed a petty cash reimbursement of \$49.89 stored in an unsecured location. The County Auditor-Controller's Cash Handling Policy requires all cash to be properly secured in a locked location. The petty cash custodian stored the reimbursement in an unlocked drawer to facilitate reimbursement to an employee; however, when cash is secured, the risk for theft and misplacement significantly decreases.

#### **Recommendation**

We recommend all cash be stored in a secure location.

#### **Department's Response**

We understand that the Cash Handling Policy requires all cash to be properly secured in a locked location. We have counseled the specific petty cash custodian at this particular location as well as reminded all cash custodians of the importance of properly securing stored cash at all times in a locked location. In addition, we are following your verbal recommendation and removing the petty cash function from this particular site based on its infrequent use.

## Suggested Improvements

### 1. Bus Passes Not Tracked

At one location, we found four bus passes that were not being tracked because staff were unsure of the best way to account for the passes. The Cash Handling Policy requires departments to maintain controls for all cash equivalents. When cash equivalents are tracked, the risk for theft and misplacement significantly decreases. We recommended instituting a tracking log for the bus passes, and the site staff subsequently created a log.

### 2. Petty Cash Receipts Not Marked as Paid

At one location, we found two of three petty cash receipts tested were not marked paid as required by the Cash Handling Policy. The petty cash custodian had inadvertently not stamped the receipts with the paid stamp. Marking petty cash receipts as paid reduced the risk of receipts being resubmitted for additional reimbursement. We recommended additional attention be paid to marking all petty cash receipts as paid.

### 3. Certification of Cash Handling Policy

At one location, we found one manager had not certified in writing the reading of the Cash Handling Policy. Certification is required for all managers and custodians of cash functions; however, site staff were unaware of the requirement that managers must certify. Review of the Cash Handling Policy decreases the risk of fraud, waste, and abuse of County funds. Subsequent to fieldwork, we received verification the manager had read the Cash Handling Policy.

### 4. Information Technology Acceptable Use Policy

We found two of 58 employees sampled had not signed the Information Technology Acceptable Use Policy (ITAUP) within the year prior to our review, due to an oversight in monitoring. By signing the policy annually, as required by Section 4 of the Information Security Program Master Security Policy, employees acknowledge they are bound by the ITAUP. Employee acknowledgment of the ITAUP reduces the risk of inappropriate use and exposure of County computing systems. We recommend that supervisors immediately follow-up with employees who are delinquent in signing the ITAUP.

### 5. Insufficient Petty Cash Fund

At one location we noted the petty cash fund was being frequently replenished, and staff reported instances where employee reimbursements were delayed due to insufficient funds. Good business practices include maintaining sufficient petty cash funds to reimburse employees in a timely manner. The locations' petty cash needs have outgrown the base amount increasing the workload associated with replenishment and the capacity for errors. We recommend the Health Agency consider requesting an increase to the petty cash fund that will support approximately two months of activity.

We appreciate the courteous attitude of your staff and the cooperation we received during the course of our review.