

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

(1) DEPARTMENT Auditor - Controller - Treasurer - Tax Collector	(2) MEETING DATE 10/27/2015	(3) CONTACT/PHONE Kerry Bailey 788-2979	
(4) SUBJECT Submittal of a cash procedures and internal control review of the Veterans Services Office conducted on April 15, 2015. All Districts.			
(5) RECOMMENDED ACTION It is recommended that the Board receive, review, and file the attached Veterans Services Office cash procedures and internal controls review report which contains four findings and four suggested improvements.			
(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?	(16) AGENDA ITEM HISTORY <input checked="" type="checkbox"/> N/A Date: _____	
(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, CPA, Auditor - Controller - Treasurer - Tax Collector

DATE: 10/27/2015

SUBJECT: Submittal of a cash procedures and internal control review of the Veterans Services Office conducted on April 15, 2015. All Districts.

RECOMMENDATION

It is recommended that the Board receive, review, and file the attached Veterans Services Office cash procedures and internal controls review report which contains four findings and four suggested improvements..

DISCUSSION

In June of 2014 Treasury staff alerted the internal audits section to issues with a Veterans Services deposit and checks. Thirty-four checks were brought into the Treasury for deposit totaling \$19,450. The checks were dated January, February, March, April, and May of 2014. The Auditor-Controller and internal audit staff met with the Veterans Services Officer to discuss the late deposit and offer recommendations on how internal controls could be strengthened within the Veterans Services Office.

We advised the Veterans Services Officer to read the Auditor-Controller's Cash Handling policy, and we reviewed the requirements around issuing receipts, and timeliness and completeness of deposits. Additionally we advised that instead of using the Veterans Services Officer's American Express Card or cash payments for minor purchases, petty cash or blanket purchase orders should be used to increase accountability and monitoring.

As part of the FY 2014-15 internal audit plan, an unannounced cash count and internal control review was conducted on April 15, 2015. The internal audit division routinely performs anywhere from five to ten unannounced cash counts at various departments per year. All departments are expected to follow the guidelines in the County's Cash Handling Policy because cash handling is a high risk area, vulnerable to mistakes or misappropriation. The Auditor-Controller-Treasurer-Tax Collector (ACTTC) has developed basic policies to minimize the risk associated with use of petty cash funds as well as cash receipts. In addition, we offer training on the policy on request.

At the request of County Information Technology we have included in our test work procedures to ensure County staff are aware of the IT policies in place 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 the cash on hand at the time of the count, and to determine compliance with the County IT Acceptable Use Policy Acknowledgement signature requirements.

While, we determined all cash funds to be in balance at the time of our count we found serious lapses in internal controls over cash and cash equivalents. Our findings include lack of separation of duties, untimely deposits, receipts not being issued for cash and checks, and no staff acknowledgement of the Information Technology Acceptable Use Policy.

We also identified four areas of improvement regarding gift card logs, storage of the county receipt books, certification of the Cash Handling Policy, and the purchase of small dollar items.

Details of the findings and suggested improvements are in the attached cash procedures and internal control review report.

OTHER AGENCY INVOLVEMENT/IMPACT

Veterans Services

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. Veterans Services Cash & Internal Controls Review Report



COUNTY OF SAN LUIS OBISPO

AUDITOR • CONTROLLER • TREASURER • TAX
COLLECTOR • PUBLIC ADMINISTRATOR

San Luis Obispo County Veterans Services Cash Procedures & Internal Control Review

August 2015

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



COUNTY OF SAN LUIS OBISPO

AUDITOR • CONTROLLER • TREASURER • TAX
COLLECTOR • PUBLIC ADMINISTRATOR

TO: DANA CUMMINGS, VETERANS SERVICES OFFICER

FROM: JAMES P. ERB, CPA, AUDITOR-CONTROLLER-TREASURER-TAX COLLECTOR 

DATE: AUGUST 5, 2015

SUBJECT: CASH PROCEDURES AND INTERNAL CONTROL REVIEW OF VETERANS SERVICES
CONDUCTED ON APRIL 15, 2015

Our office recently completed a cash procedures and internal control review of Veterans Services that took place on April 15, 2015. Our review resulted in four findings and four suggested improvements. Please respond to the Findings and Recommendations within 10 business days of receiving this report. The response should include the corrective action Veterans Services will be making to correct the Findings.

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 and cash equivalents on hand at the time of the review, 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 April 15, 2015 as well as other deposits for April and May 2015. 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 for April 15, 2015 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 and cash equivalents. 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

While we determined all cash funds to be in balance at the time of our count we found serious lapses in internal controls over cash and cash equivalents.

Our findings are 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 minor areas where improvements could be made, and we immediately provided the Department 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 department 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. Separation of Duties over Cash and Cash Equivalents

At times the Veterans Services Officer performed all the functions of collecting and depositing cash and reconciling the department's cash receipts and deposits. The department receives two to three cash or check payments a week. The County Auditor-Controller's Cash Handling Policy requires an adequate separation of cash handling and recording duties to exist in order to ensure that no single individual controls more than one key aspect of the cash transaction: "the cashier must have no accounting responsibility beyond that of summarizing cash receipts, and the person reconciling should not have access to receipt preparing methods." Whenever possible, the department head should not be involved in cash handling functions such as collections and deposits. The Veterans Services Officer stated the department had trained a dedicated cashier who subsequently separated employment with the County. He is in the process of training a new staff person to handle cash and cash equivalents. When one individual has control of more than one key aspect of a transaction, the risk of error and the opportunity for misappropriation significantly increases.

Recommendation:

An employee separate from the cashier should reconcile the department's cash receipts and deposits. If the department is unable to adequately separate daily cash handling and reconciling duties mitigating controls must be put in place, such as a weekly reconciliation of deposits and receipts performed by one person and reviewed by another.

2. Untimely Deposits

During our review we noted one check for \$16,694 which, although held in a secure location, had not been deposited timely. We also sampled four additional deposits to determine whether

they had been made in a timely manner. We were able to determine that one of the four deposits had been made approximately four to five days beyond the required deposit time. The Auditor-Controller's Cash Handling Policy requires that all collections greater than \$500 be deposited the next business day. The Veterans Services Officer stated the department was short staffed and had not dedicated a staff member to regularly making deposits. According to staff, the \$16,694 check had been received two business days prior to our review. Cash receipts that have not been deposited increase the risk of loss or misappropriation.

Recommendation:

The department must deposit collections greater than \$500 by the next business day. Collections of less than \$500 may be deposited weekly. The department may request an exception to the Cash Handling Policy deposit frequency requirements from the Auditor-Controller; however, in no case will deposits be allowed to be made less than once per week. Additionally, the department should pursue direct deposit for agencies such as the State that may regular payments.

3. Receipts Not Issued for Cash/Checks

Collections were not being receipted at Veterans Services events or at the office. The Auditor-Controller's Cash Handling Policy states that receipts must be prepared immediately, in the presence of the payer, whenever monies are collected by employees in connection with their County duties. Payments at the Veterans Services counter and through the mail are infrequent and should be easy to receipt; however, receipting each payment may not be practical for certain high volume collection activities with specialized processing needs, such as fundraisers. Modifying receipt requirements can be approved by the Auditor-Controller prior to an event. The Veterans Services Officer stated he found it cumbersome to use the County's receipt books and had never requested a modified procedure. When cash and checks are not accounted for appropriately the risk of loss or opportunity for misappropriation significantly increases.

Recommendation:

A County receipt book should be used to issue receipts for all collections received at the Veterans Services locations in accordance with the guidelines set forth in the Cash Handling Policy. A mail receipts log may be used instead of individual receipts to document any checks that arrive via mail. If a different process is needed for specific events, such as fundraisers, the modified procedures should be discussed with the Auditor-Controller prior to the event. In the case of fundraisers where items are sold, the amount of money collected needs to be reconciled to the number of items sold.

4. Information Technology Acceptable Use Policy

We found 3 out of 3 employees sampled had not signed the Information Technology Acceptable Use Policy (ITAUP) within the year prior to our review. The ITAUP is required to be signed yearly by all County employees. Yearly written acknowledgement by employees stating they have read the Policy helps ensure consistent Countywide procedures for computer use.

Recommendation:

The Veterans Services Officer must ensure that employees' records are updated for current acknowledgement of the AUP.

Suggested Improvements**1. Establish Gift Incentive Log**

17 bus passes were found bound together in an envelope without a log to track their usage. The County Cash Handling Policy states that departments must maintain accountability for all items stored within their department that relate to County business. Bus passes and gift cards can be used by the bearer regardless of whether or not they were the intended party. We provided a log and guidelines, and subsequent to the end of fieldwork, we found that Veterans Services had started using the log to track bus passes.

2. County Receipt Book Storage

The County receipt book was kept in an unsecured area of the office. The County Auditor-Controller's Cash Handling Policy requires that the department provide a secure restricted access location for the storage of receipts when not in use. However, at the time of the review staff had misplaced the book. Unsecured storage of blank receipt books increases the possibility that the receipts could be stolen and used for fraudulent purposes. Subsequent to the conclusion of fieldwork we confirmed that the County receipt book had been found and moved to a secure location.

3. Certification of Cash Handling Policy

The Veterans Services Officer nor new cash handling staff had certified in writing they read the Auditor-Controller's Cash Handling Policy. The Policy is an excellent reference guide and a required reading for all staff and supervisors handling collections and deposits. Written acknowledgement by employees that they have read the policy ensures consistent Countywide procedures for cash handling. Subsequent to fieldwork, we received verification all employees with cash handling responsibilities had certified in writing they had read the Cash Handling Policy.

4. Small Purchases Process

The Veterans Services Officer was using his own credit card for purchases such as meat for a Veterans Services event and gift cards to be given as client incentives. The Auditor-Controller's Cash Handling Policy encourages the department to use petty cash or other allowable procurement methods, such as a Cal Card or blanket purchase orders, for business related expenses. We recommend using these alternative approved purchasing procedures to provide a clear segregation of duties between the Veterans Services Officer and to allow the department to accurately track purchases in the County's accounting system.