



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

(1) DEPARTMENT Auditor - Controller - Treasurer - Tax Collector		(2) MEETING DATE 11/6/2018		(3) CONTACT/PHONE Kerry Bailey 805-788-2979 Mark Maier 805-781-4267	
(4) SUBJECT Submittal of a cash procedures and internal controls audit of the Law Library conducted on August 1, 2018. All Districts.					
(5) RECOMMENDED ACTION It is recommended that the Board receive, review, and file the attached Law Library Cash Procedures and Internal Controls Audit report.					
(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>2/3/2015</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, CPA, Auditor-Controller-Treasurer-Tax Collector

DATE: 11/6/2018

SUBJECT: Submittal of a cash procedures and internal controls audit of the Law Library conducted on August 1, 2018. All Districts.

### **RECOMMENDATION**

It is recommended that the Board receive, review, and file the attached Law Library Cash Procedures and Internal Controls Audit report.

### **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 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 audit were to determine compliance with the County Auditor-Controller-Treasurer-Tax Collector's Cash Handling Policy, to establish accountability for cash on hand, to determine the adequacy of internal controls surrounding department assets, and to determine compliance with the County IT Acceptable Use Policy Acknowledgement signature requirements.

We determined the cash funds, and cash receipts on hand to be in balance at the time of our count. Deposits were made timely, and the distribution of media materials has proper internal controls.

Detailed in the in attached report, we identified nine areas with findings; six of which the department has corrected prior to the issuance of the final report. The three remaining recommendations to be implemented are:

1. Obtain a secondary approval signature on all Authorization to Draw Warrants and retain complete support documentation for all payments for seven years.

2. Record all change fund balancing overages to the overage account in the financial system.
3. Submit the Law Library annual report to the County Board of Supervisors and the Auditor-Controller-Treasurer-Tax Collector by October 15<sup>th</sup> of the subsequent year.

#### **OTHER AGENCY INVOLVEMENT/IMPACT**

Law Library

#### **FINANCIAL CONSIDERATIONS**

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

#### **RESULTS**

The ACTTC's program of periodic 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. Law Library Cash Procedures and Internal Controls Audit Report FY 18-19



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

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**Law Library**  
**Cash Procedures & Internal Control Audit**

**October 2018**

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



**COUNTY OF SAN LUIS OBISPO**

**AUDITOR - CONTROLLER • TREASURER - TAX COLLECTOR**

**James P. Erb, CPA** Auditor-Controller • Treasurer-Tax Collector

**James W. Hamilton, CPA** Assistant Auditor-Controller • Treasurer-Tax Collector

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TO: RITA NEAL, COUNTY COUNSEL

CC: JOSEPH KALET, LAW LIBRARIAN

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

DATE: OCTOBER 11, 2018

SUBJECT: CASH PROCEDURES AND INTERNAL CONTROL AUDIT OF THE LAW LIBRARY  
CONDUCTED ON AUGUST 1, 2018

Our office recently completed a cash procedures and internal control audit that took place on August 1, 2018. Our audit resulted in nine findings; six of which have already had corrective action taken. Please respond to the remaining three Findings and Recommendations within 10 business days of receiving this report. The response should include the corrective action the department will be making to correct the findings.

The Internal Audit Division will be performing follow-up procedures within six to twelve months to verify appropriate actions have been taken to address the findings in this report.

Purpose

The purpose of our audit was to determine if the Law Library has accountability for cash and adequate internal controls over cash and departmental assets.

Scope

The scope of our audit encompassed cash and assets on hand on August 1, 2018, as well as revenues received, and expenditures made from July 1, 2017 through June 30, 2018.

Methodology

We conducted our review in conformance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*. The *Standards* 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 procedures included physically counting all cash on hand as of the date of our audit 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 departmental assets. Our evaluation of internal controls was limited to inquiries of departmental staff and direct observations. We examined a sample of expenditures made to ensure each had received proper approval and complete support documentation for payment was maintained.

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 to be in balance at the time of our count, in all material respects. Deposits were made timely, and the distribution of media materials has proper internal controls.

However, we identified several areas with internal control weaknesses. Our findings are detailed below in the Findings and Recommendations section of this report. Findings are issues which present a serious enough risk to require consideration by management and a written department response. Six of the findings have been corrected prior to the issuance of this report and do not require a departmental response. Details of those findings can be found in the Findings with Recommendations Implemented section of this report.

### Findings & Recommendations

#### **1. Insufficient Expenditure Documentation**

Of the 22 total expenditures tested, two payments (9%) totaling \$562, only had one approving official signature and three payments (14%), totaling \$1,617, did not maintain complete documentation to support the payment amounts. The COSO Internal Control Framework maintains that control activities must be adequately designed and conducted to mitigate risk including appropriate authorization and documentation of payments; however, oversights by the department led to a secondary approving signature not being obtained and support documentation not being kept. When payments are made without obtaining a secondary approving official's signature the risk of an inappropriate or fraudulent payment being made increases. Inadequate maintenance of support documentation prohibits transparency and does not allow assurance that payments were accurate or appropriate.

**Recommendation**

We recommend all Authorization to Draw Warrant documents requesting payment contain a secondary signature by an approving official and that complete payment support documentation be maintained for 7 years.

**Department Response**

All Authorization to Draw Warrant documents requesting payment will contain a secondary signature by an approving official and include complete payment support documentation. The support documentation will be retained for 7 years.

**2. Improper Coding of Change Fund Overages**

Although of minimal monetary value, cash overages have been recorded as donation revenue and not to the overage account. The Cash Handling Policy requires all cash overages, regardless of amount be recorded in the overage account. Changes in staffing resulted in staff being unaware the overage account existed. Misreporting of change fund overages obscures the nature of receipts, misrepresents account balances and weakens the ability of management to achieve accurate financial reporting.

**Recommendation**

We recommend all cash overages be recorded in the financial system to the overage account.

**Department Response**

All cash overages will be recorded in the financial system to the overage account.

**3. Annual Report Not Submitted to Oversight Agencies**

The Law Library's annual reports for the prior three fiscal years were not submitted to the County Board of Supervisors or the Auditor-Controller. Business and Professions Code 6349 requires the annual report be submitted to the County Board of Supervisors and the Auditor-Controller by October 15th of the subsequent fiscal year. Failure to submit the annual report to the Board of Supervisors and the Auditor-Controller does not provide an opportunity for independent review of the Law Library operations and financial conditions.

**Recommendation**

We recommend the annual report be submitted to the Board of Supervisors and Auditor-Controller by October 15th of the subsequent fiscal year.

### **Department Response**

We will strictly adhere to the recommendation that the annual report be submitted to the County Board of Supervisors and the Auditor-Controller by October 15<sup>th</sup> of the subsequent year, going forward.

### Findings with Recommendations Implemented

#### **1. Information Technology Acceptable Use Policy Not Acknowledged Timely by All Staff**

We found 3 out of 4 employees had not signed the County's Information Technology Information Security Program Acceptable Use Policy (IT AUP) within the year prior to our review. Staff were unaware the Policy needed to be signed annually. 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 IT AUP. Employee acknowledgment of the IT AUP reduces the risk of inappropriate use and exposure of County computing systems. We recommended the staff members read the policy and provide documentation acknowledging the policy had been read. The department agreed and provided the necessary acknowledgement documentation.

#### **2. Financial System Access Not Deactivated Timely**

Two former employees' access to the financial system was not deactivated immediately after ceasing employment with the County. The IT AUP requires access to computing assets be removed once an employee is no longer authorized to access those assets. The department did not prioritize deactivating users after they separated from the department. When terminated employee's IT access is not removed promptly the risk of misuse and/or compromise of County assets increases. At the time of the audit, the department had removed access for one former employee, however, we recommended access be removed for the other former employee. The department agreed and removed access.

#### **3. Shared Password for Software**

All staff shared the same user name and password to access the department's program that manages media inventory. The IT AUP states users are not authorized to share passwords. The department was unaware the passwords for non-financial programs should not be shared. Shared passwords increase the risk of misuse of electronic assets and hinder the ability to identify the user entering transactions. The department has created a unique login and password for each user of the program.

#### **4. Staff Certification of the Cash Handling Policy**

Evidence could not be provided that staff had certified in writing that they had read the Cash Handling Policy. The Policy is required reading for all cash handlers, custodians, and managers. Written acknowledgment by employees that they have read the Policy helps ensure consistent countywide procedures for cash handling and promotes a culture of accountability. We recommended staff

members read the Policy and provide documentation acknowledging the Policy had been read. The department agreed and provided the necessary documentation.

#### **5. Recording, Reconciliation, and Deposit Duties Not Separated in Cash Handling**

While there are four cash handlers, only one cashier is counting the change fund daily, reconciling to the accountability figure, and preparing the deposit. The Cash Handling Policy requires an adequate separation of cash handling and recording duties exist to ensure that no one individual controls more than one key aspect of a cash transaction. Staff underestimated the risk of not separating various tasks in the cash receiving and depositing processes. Lack of separation of duties in the cash handling and depositing process increases the risk for cash errors not being resolved timely, and possible misappropriation of funds. We recommended the department mitigate the lack of separation of duties by instituting procedures for separation of the duties. The department agreed and has implemented the recommendation.

#### **6. Unsecured After-hours Key Fobs**

The departmental supply of after-hour access key fobs were kept in an insecure location. In addition, an inventory of unused fobs was not maintained. The COSO Internal Control Framework states the organization should develop internal control to achieve its objectives, including the safeguarding of assets. Unsecured key fobs could result in unrealized theft, allowing unauthorized individuals access to the library without departmental oversight. We recommended the department secure the fobs, create an inventory listing of all unissued fobs, and perform an inventory periodically. The department agreed and has secured the fobs and created an inventory listing of unissued fobs.

We appreciate the courteous attitude of your staff and the cooperation we received throughout our audit.