



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

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|---|--|--|----------------------|
| (1) DEPARTMENT Auditor-Controller-Treasurer- Tax Collector | (2) MEETING DATE 4/23/2019 | (3) CONTACT/PHONE Mark Maier (805) 781-4267 | |
| (4) SUBJECT Submittal of a cash procedures and internal controls audit of the San Luis Obispo County Library conducted in November and December 2018. All Districts. | | | |
| (5) RECOMMENDED ACTION It is recommended that the Board receive, review, and file the attached 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: N/A <input type="checkbox"/> 4/5th's 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>July 22, 2014</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 W. Hamilton, CPA, Auditor – Controller – Treasurer – Tax Collector

DATE: 4/23/2019

SUBJECT: Submittal of a cash procedures and internal controls audit of the San Luis Obispo County Library conducted in November and December 2018. All Districts.

RECOMMENDATION

It is recommended that the Board receive, review, and file the attached 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, in all material respects, to be in balance at the time of our cash counts. The Library is in general conformance with the Cash Handling Policy except as outlined in the attached cash procedures and internal controls audit report. Detailed in the attached report, we identified eight findings; five of which the department corrected prior to the issuance of the final report. The three remaining findings related to change fund security, daily cash register reconciliations, and receipt issuance for donations received. The Library agrees with our report and has included responses to the three remaining findings and recommendations.

OTHER AGENCY INVOLVEMENT/IMPACT

San Luis Obispo County 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 Library FY 18-19 Cash Procedures and Internal Control Audit



COUNTY OF SAN LUIS OBISPO

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

Lydia J. Corr, CPA Assistant Auditor-Controller • Treasurer-Tax Collector

Attachment 1

Library

Cash Procedures & Internal Controls Audit

March 2019

JAMES W. HAMILTON, CPA
Auditor-Controller • Treasurer-Tax Collector



COUNTY OF SAN LUIS OBISPO
AUDITOR - CONTROLLER • TREASURER - TAX COLLECTOR
James W. Hamilton, CPA Auditor-Controller • Treasurer-Tax Collector
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TO: CHRIS BARNICKEL, LIBRARY DIRECTOR

FROM: JAMES W. HAMILTON, CPA, AUDITOR-CONTROLLER-TREASURER-TAX COLLECTOR 

DATE: MARCH 18, 2019

SUBJECT: CASH PROCEDURES AND INTERNAL CONTROLS AUDIT OF THE LIBRARY
CONDUCTED NOVEMBER AND DECEMBER 2018

Our office has completed a cash procedures and internal controls audit of the Library that took place in November and December 2018. Our audit resulted in eight findings, five of which have been corrected. Departmental responses to the three remaining finds are included in this report.

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 1) to determine compliance with the County Auditor-Controller-Treasurer-Tax Collector's (ACTTC) Cash Handling Policy, 2) to establish accountability for cash on hand at the time of the audit, 3) to assess the controls over purchasing cards and 4) to determine compliance with the County Information Technology (IT) Acceptable Use Policy Acknowledgement signature requirements.

Scope

The scope of our audit included cash and receipts on hand on the dates of our audit, as well as deposits for the prior three months. Additionally, we audited the department's Cal-Card activity and controls over purchasing cards. County IT Acceptable Use Policy Acknowledgements were sampled and examined for staff acknowledgement in the past calendar year.

Methodology

We conducted our audit in conformance with the International *Standards for the Professional Practice of Internal Auditing (Standards)*. The *Standards* require that the internal audit activity be



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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 audit procedures included physically counting all cash on hand as of the dates of our audits and reconciling the amounts to the department's accountability figures. We examined cash receipts and compared the amounts to the corresponding receipts daily or monthly totals and to the subsequent deposits. Our audit also included an evaluation of internal controls over cash receipts and purchasing cards. 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 adequately safeguarded and in balance at the time of our count, and employees signed the IT Acceptable Use Policy Acknowledgement form in a timely manner. Additionally, we noted the Library had implemented several processes that improved their internal controls over the receipt and recording of cash equivalents and credit cards since their last cash and internal control audit in FY 2013-14.

The department is in general compliance with the ACTTC's Cash Handling Policy (Policy) with the exceptions 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.



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Findings & Recommendations

1. **Change Funds Lacked Security**

Two locations did not secure their change funds after business hours. The ACTTC's Cash Handling Policy requires departments maintain an adequate safeguard of all cash and cash equivalents in their possession. Staff believed because there are a limited number of authorized personnel who have access to the building outside of business hours, the overnight storage location of the change funds was adequate. Failure to physically safeguard cash increases the County's risk of financial loss.

Recommendation

We recommend the Library find a means to secure the cash drawers after hours by either having desk drawers re-keyed so that there are keys available to the staff or finding an alternate locked location in the branch to store the box overnight.

Department Response

The two branches now have a secure location to lock the change fund boxes for after business hours storage.

2. **Incomplete Cash Reconciliations**

The Library maintains an operational relationship with the Friends of the Library (Friends), with the branches selling goods (books, headphones, etc.) on behalf of Friends. Friends related sales are processed through the Library's cash register, and at the end of the day the Friends' sales are separated out from the Library's sales. However, the Library excludes the Friends' sales from the daily cash register sales summary form, making it difficult to reconcile the daily sales summary to total sales receipts for the day. The ACTTC's Cash Handling Policy requires departments complete a daily reconciliation of receipts to their deposit permits. Due to the sales not being for Library services, the department excluded the Friends' receipts from the daily reconciliation form used to summarize the fees collected for the day. The lack of complete documentation to indicate which sales belong to the Library and which belong to the Friends increases the risk of an error in the Library's fees deposit and the remittance of the correct sales amount to the Friends.



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Recommendation

We recommend the Library update their cash register sales summary form to include a line for Friends of the Library's sales which will allow for the clear reconciliation of cash register receipts to the Library's funds deposited to the County Treasury.

Department Response

The Library has added a line in the daily reconciliation form to record the Friends of the Library sales.

3. Receipts Not Issued for Donations

Donations made to the Library were being accepted by department staff without the issuance of a receipt. To reduce the risk of error and theft the ACTTC's Cash Handling Policy requires cash taken by staff be issued a receipt immediately. Staff were not aware the donations should be handled with the same care and documentation as the department's cash fees collected. The lack of documentation for donations received increases the opportunity for misappropriation, loss or theft of funds.

Recommendation

We recommend that receipts be issued for all donations when they are received.

Department Response

The Library will now issue a receipt for all over-the-counter cash donations.

Findings with Recommendations Implemented

1. Lack of Staff Certification of the Cash Handling Policy

38 out of 75 Library employees had not certified in writing they had read the ACTTC's Cash Handling Policy. The Policy is required reading for all cash handlers, custodians and managers; however, management neglected to have all cash handlers sign the acknowledgement. Written acknowledgement by employees stating they have read the Policy helps ensure consistent countywide procedures for cash handling. The department agreed and provided the necessary acknowledgement documentation.



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2. Information Technology Acceptable Use Policy Not Acknowledged Timely by All Staff

8 out of 9 Library employees sampled had not signed the Information Technology Acceptable Use Policy (ITAUP) within the year prior to our review. By signing the ITAUP annually, as required by Section 4 of the Information Security Program Master Security Policy, employees acknowledge they will adhere to the ITAUP. The department indicated the employees had not signed the policy due to the form not being included in the department's employee annual review process. Employee acknowledgment of the ITAUP reduces the risk of inappropriate use and exposure of County computing systems. We recommended staff develop procedures to ensure all employees sign the ITAUP annually. The department agreed and additionally, prior to the end of fieldwork provided the necessary acknowledging documentation.

3. Change Fund Overages and Shortages Not Recorded

Although of minimal monetary value, cash shortages were being offset by cash overages. Additionally, cash overages were placed in the Friends of the Library donation boxes instead of being deposited and recorded to the overage account. The ACTTC's Cash Handling Policy requires all cash overages and shortages, regardless of amount be recorded in the respective overage and shortage accounts. Staff were unaware of the County's requirement to report all overages and shortages. Misreporting of change fund overages and shortages obscures the nature of receipts, misrepresents account balances and weakens management's the ability of to achieve accurate financial reporting. The department agreed and began reporting the cash overages and shortages. Auditors review of deposits completed after fieldwork verified the department's implementation of the recommendation.

4. Cash Donations Not Deposited to Treasury

Cash donations totaling \$146.54 were held in the department's safe and not deposited timely. The ACTTC's Cash Handling Policy requires all cash receipts be deposited timely and intact. Department staff were unaware this policy also applied to the receipt of donations. Failure to make complete and timely deposits can result in inaccurate financial records. Subsequent to fieldwork Library staff deposited the cash donations with the County Treasury.



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5. Insufficient Oversight of Petty Cash

A number of actions were recommended to strengthen the Library's internal controls over petty cash:

1. Create a petty cash log and perform reconciliations to the petty cash fund at least monthly.
2. Mark supporting receipts "paid" immediately upon disbursement of the cash.
3. Update the petty cash custodian listing maintained by the ACTTC.

The ACTTC's Cash Handling Policy requires departments maintain record-keeping for petty funds in addition to routine periodic reconciliations. The Library has implemented all the before mentioned recommendations.

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