



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

(1) DEPARTMENT Auditor - Controller - Treasurer - Tax Collector		(2) MEETING DATE 5/15/2018		(3) CONTACT/PHONE Kerry Bailey 788-2979 Suzanne De Witt 788-4846	
(4) SUBJECT Submittal of a cash procedures and internal control audit report of the Probation Department conducted on March 28, 2018. All Districts.					
(5) RECOMMENDED ACTION It is recommended that the Board receive, review, and file the attached Probation Department 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"/> 4/5 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>October 21, 2014</u>	
(17) ADMINISTRATIVE OFFICE REVIEW Nikki J. Schmidt					
(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: 5/15/2018

SUBJECT: Submittal of a cash procedures and internal control audit report of the Probation Department conducted on March 28, 2018. All Districts.

RECOMMENDATION

It is recommended that the Board receive, review, and file the attached Probation Department cash procedures and internal control 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 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-Treasurer-Tax Collector's Cash Handling Policy, to establish accountability for cash on hand, to assess the controls over purchasing cards, 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 and employees signed the IT Acceptable Use Policy Acknowledgment form in a timely manner.

Detailed in the in attached report, we identified two areas with findings; which the department has corrected prior to the issuance of the final report. The recommendations implemented are for findings due to:

1. Insufficient Separation of Duties over Cash
2. Insufficient Internal Controls over Petty Cash

OTHER AGENCY INVOLVEMENT/IMPACT

Probation Department

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 part of the ACTTC's compliance with Government Code 26881 and 26883.

RESULTS

The ACTTC's program of periodic unannounced audits 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. San Luis Obispo County Probation Department Cash Procedures and Internal Controls Audit FY 2017-18



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

**San Luis Obispo County Probation Department
Cash Procedures & Internal Controls Audit**

April 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

TO: JIM SALIO, CHIEF PROBATION OFFICER

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

A handwritten signature in black ink, appearing to be "J.P. Erb", written over the "FROM:" line.

DATE: APRIL 30, 2018

SUBJECT: CASH AND INTERNAL CONTROLS AUDIT CONDUCTED ON MARCH 28, 2018

Our office has completed a cash procedures and internal controls audit that took place on March 28, 2018. Our audit resulted in two findings, one of which was resolved during fieldwork. Your department has provided a response to the remaining recommendation, which addresses the issues and is incorporated into the report below.

Purpose

The purpose of our audit was to determine compliance with the County Auditor-Controller-Treasurer-Tax Collector's (ACTTC) Cash Handling Policy; to establish accountability and internal controls for cash on hand at the time of the audit; to assess the controls over purchasing cards; and 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 date of our audit, as well as deposits for the prior two months. Additionally, we audited the department's Cal-Card activity and controls over MasterCards. 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 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. Our audit 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.



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

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 through review of departmental records.

Results

We determined all cash funds on hand to be in balance at the time of our count. The department's internal controls over MasterCards and Cal-Cards appear to be adequate. Employees signed the IT Acceptable Use Policy Acknowledgement form in a timely manner. However, the department had not fully segregated duties over cash receipts and deposits. Additionally, petty cash disbursements were not properly authorized, documented, or replenished. Details of the findings follow:

Findings

1. Separation of Duties over Cash

The Probation Department has not segregated the duties of cash collection, recording, and oversight as one person performed all three functions. The County Auditor-Controller's Cash Handling Policy requires an adequate separation of cash handling and recording duties exist in order to ensure that no single individual controls more than one key aspect of the cash transaction. Staffing changes disrupted the department's usual segregation of duties over cash. When one individual has control of multiple key aspects of a transaction, the risk of error and the opportunity for misappropriation significantly increases.

Recommendation: We recommend the department train staff in and enforce segregation of duties for the cash collection and depositing process.

Department Response: We have instructed staff who handle money to park the deposit permit in the financial system, not save as complete. Once the deposit permit is parked, the supporting documentation, along with the deposit funds will be forwarded to another person with authorization to save deposits as complete. The authorizing individual will double check the deposit to ensure the funds match, the types of payments match, and totals reconcile prior to saving the deposit as complete in the financial system.

Findings with Recommendations Implemented During Fieldwork

1. Insufficient Internal Controls over Petty Cash

The petty cash custodian had not obtained authorized staff approval of 4 of 9 vouchers tested; 4 of 9 vouchers had not been marked as "paid", and replenishment of the fund wasn't made in accordance with the Cash Handling Policy. The Cash Handling Policy requires proper authorization, record-keeping



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

and replenishment of petty cash funds including oversight of expenses being reimbursed, marking petty cash receipts as "paid", and replenishing of the fund. The petty cash custodian had forgotten to have the voucher approved or to mark the receipt as paid. Not receiving proper authorization for expenditures, marking receipts "paid" or replenishing the funds in a timely manner increases the risk of loss due to misappropriation, misuse of funds and inappropriate purchases. We recommended, and the department has implemented, training for the new custodian of the fund.

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