

COUNTY OF SACRAMENTO

DEPARTMENT OF FINANCE - AUDITOR-CONTROLLER DIVISION - INTERNAL AUDITS UNIT

INTERNAL AUDIT REPORT

CASH HANDLING REPORT

DEPARTMENT OF CHILD SUPPORT SERVICES



Audit Committee Submittal Date: 01/18/2019

SUMMARY

Background

The County of Sacramento Department of Finance (DOF) Treasury Division requested the Audits Unit to perform agreed-upon procedures regarding the Department of Child Support Services' (DCSS) cash handling internal controls.

Audit Objective

Inspect DCSS' cash handling controls to identify any internal control weaknesses, reconcile daily deposits and cash on hand to Sacramento County Financial System (a.k.a. COMPASS), and count imprest cash and compare it to the amount authorized in COMPASS.

Summary

We noted issues related to imprest cash, imprest checking account, external bank account reconciliation differences and fees, manual receipts review, internal controls over mail and lock box receipts, and check security.

Department of Finance

Ben Lamera,
Director



Auditor-Controller Division


Joyce Renison,
Assistant Auditor-Controller

County of Sacramento

Intra-Office Memorandum

November 28, 2018

To: Ben Lamera
Director of Finance

From: Hong Lun (Andy) Yu, C.P.A. 
Audit Manager

Subject: **INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES (AUP) - DEPARTMENT OF CHILD SUPPORT SERVICES' CASH HANDLING INTERNAL CONTROL FOR THE MONTH OF AUGUST 2018**

We have performed the procedures enumerated below and on the next page, which were agreed to by you, for the County of Sacramento Department of Child Support Services' (DCSS) cash handling internal control, for the month of August 2018.

DCSS' management is responsible for DCSS' cash handling internal control. The sufficiency of the procedures is solely the responsibility of DCSS. Consequently, we make no representation regarding the sufficiency of the procedures described below and on the next page either for the purpose for which this report has been requested or for any other purpose. This report is applicable solely to the procedures referred to below and on the next page and is not intended to pertain to any of DCSS' other operations, procedures, or compliance with laws and regulations.

The procedures we performed are summarized as follows below and on the next page:

1. We inspected DCSS' cash handling procedures to identify any internal control weaknesses.

Finding: We noted several concerns related to DCSS' imprest cash, external bank accounts, field, mail, and lock box receipts. See Attachment II, *Current Findings and Recommendations*.

2. We reconciled daily deposits and cash on hand to the amounts reported in the Sacramento County Financial System (a.k.a. COMPASS) and DCSS' bank account and accountability sheets.

Finding: We did not reconcile daily deposits and cash on hand to the amounts reported in COMPASS due to the daily deposits were directly transported to the State Disbursement Unit (SDU) for deposit to the State of California's bank account, and no cash on hand was received during our visit on August 30, 2018. We confirmed checks received were noted on their payment receipt log and no exceptions were noted. See Attachment I, *Summary of Receipts and Imprest Cash Counted*.

3. We counted DCSS' imprest cash and compared it to the amount authorized in COMPASS.

Finding: DCSS imprest cash counted did not agree to the amount authorized in COMPASS. See Attachment I, *Summary of Receipts and Imprest Cash Counted* and Attachment II, *Current Findings and Recommendations*.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not perform an audit or examination, or review, the objective of which would be the expression of an opinion or conclusion, respectively, on DCSS' financial statements or schedules, internal control, compliance, or results of our agreed-upon procedures. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report relates only to DCSS' cash handling internal controls and does not extend to any operation and program of DCSS as a whole.

DCSS' responses to the findings identified during our engagement are described in Attachment II, *Current Findings and Recommendations*. We did not perform procedures to validate DCSS' responses to the findings and, accordingly, we do not express an opinion on the responses to the findings.

This report is intended solely for the use by Sacramento County Board of Supervisors, Sacramento County Audit Committee, Sacramento County Executive, and DCSS' management, and should not be used by anyone other than these specified parties. However, this restriction is not intended to limit distribution of this report, which is a matter of public record.

Attachments

Attachment I: *Summary of Receipts and Imprest Cash Counted*

Attachment II: *Current Findings and Recommendations*

COUNTY OF SACRAMENTO
DEPARTMENT OF CHILD SUPPORT SERVICES
CASH HANDLING REVIEW
SUMMARY OF RECEIPTS AND IMPREST CASH COUNTED
FOR THE MONTH OF AUGUST 2018

RECEIPTS

Receipts Date	Sample Amount Counted	DCSS's Receipts Record	Difference
08/30/18	\$ 722.80	722.80	0.00

IMPREST CASH COUNTED

Imprest Cash Type	Imprest Cash Counted	Authorized Amount	Variance
Imprest Checking Account	\$ 1,798.04		N/A
Petty Cash	202.06		N/A
Total	<u>\$ 2,000.10</u>	<u>2,000.00</u>	<u>0.10</u>

- (1) Amounts represent the Department of Child Support Services' (DCSS) daily receipts recounted from inspection of checks during our visit on August 30, 2018.
- (2) Daily receipts were agreed to amounts reported on DCSS' payment receipt log. These daily receipts are transported directly to the California Department of Child Support Services for deposit into their bank account.

COUNTY OF SACRAMENTO
DEPARTMENT OF CHILD SUPPORT SERVICES
CASH HANDLING REVIEW
CURRENT FINDINGS AND RECOMMENDATIONS
FOR THE MONTH OF AUGUST 2018

1. Imprest Cash

Comment

The County of Sacramento (County), Department of Child Support Services (DCSS) has an imprest checking account and petty cash totaling \$2,000.00. We noted the following issues related to its petty cash:

- I. Petty cash was replenished from the imprest checking account with a check made payable to CASH. By not making the check made payable to a designated individual, the check could be cashed by any individual in receipt of the check, and theft or misappropriation could occur without management's knowledge.
- II. DCSS' Petty Cash Replenishment Procedures states the petty cash should be \$150.00, but the amount on the petty cash log shows \$201.96. Therefore, DCSS was not in compliance with its Petty Cash Replenishment Procedures and potentially cause confusion with its staff when reconciling its petty cash.
- III. We counted the petty cash to be \$202.06 and the amount recorded on the petty cash log was \$201.96, with a \$0.10 overage.
- IV. Petty cash receipt was \$12.72; however, DCSS' Petty Cash Procedures states that "*If the request is for \$10.00 or less the reimbursement is made in cash. If the request is over \$10.00, the reimbursement is made via check*". Therefore, DCSS was not in compliance with its Petty Cash Procedures.
- V. Imprest checking account monthly reconciliations were reviewed by the same individual signing the checks. Proper internal controls indicate that proper separation of duties is present to mitigate potential risk of theft or misappropriation of funds. By having the same individual sign the petty cash checks and review petty cash checking account monthly reconciliations, theft or misappropriation could occur without management's knowledge.

Recommendation

We recommend DCSS ensure:

- I. The reimbursement check for the petty cash should be made payable to a designated individual that should receive cash, and replenish the petty cash. The Petty Cash Procedures and Petty Cash Replenishment Procedures should also be updated to reflect this requirement.

COUNTY OF SACRAMENTO
DEPARTMENT OF CHILD SUPPORT SERVICES
CASH HANDLING REVIEW
CURRENT FINDINGS AND RECOMMENDATIONS
FOR THE MONTH OF AUGUST 2018

- II. The petty cash amount is \$150.00. The difference of \$51.96 (\$201.96 - \$150.00) should be deposited back into the imprest checking account.
- III. The \$0.10 overage should be deposited in the 97971000 cashier over account in the Sacramento County Financial System (a.k.a. COMPASS) and logged on an over/short log.
- IV. DCSS should follow its Petty Cash Procedures when reimbursing receipts over or less than \$10.00 via the imprest checking account or petty cash, respectively.
- V. The imprest checking account monthly reconciliations should be performed by someone who is independent of the preparation and signing of the checks, and of similar job classification or higher from the individuals preparing and signing the checks.

DCSS Management's Response

- I. Petty cash replenishment checks will be written out to the employee that is going to Union Bank to cash the check. The Petty Cash Procedures and the Petty Cash Replenishment Procedures will be updated to reflect this change in procedure.
- II. DCSS deposited the \$51.96 from the cash can into the bank account on September 5, 2018.
- III. DCSS created and submitted a deposit permit to the Department of Finance to deposit the \$0.10 overage into account 97971000, cashier over account, on November 6, 2018.
- IV. Employees issuing petty cash reimbursements have reviewed and been instructed to follow the Petty Cash Procedure. They have also been reminded to refer to the procedure for guidance.
- V. An Administrative Services Officer II in the Administration Unit who is not a signatory on the account will perform the imprest bank account monthly bank reconciliations. The Petty Cash Replenishment Procedures will be updated to reflect this change in procedure.

COUNTY OF SACRAMENTO
DEPARTMENT OF CHILD SUPPORT SERVICES
CASH HANDLING REVIEW
CURRENT FINDINGS AND RECOMMENDATIONS
FOR THE MONTH OF AUGUST 2018

2. Imprest Checking Account

Comment

During our inspection, we noted that there was no documentation that the County Director of Finance (Director of Finance) approved the opening of its external imprest checking account. Per California Government Code, Title 3. Government of Counties, “27000. *The county treasurer shall receive and keep safely all money belonging to the county and all other money directed by law to be paid to him and apply and pay it out, rendering the account as required by law.*” The Director of Finance is also the County Treasurer. Therefore, the Director of Finance needs to approve the opening of the external bank account. Without proper approval from the Director of Finance for opening the external bank account, the external bank account was not rendered as required by law per California Government Code, section 27000.

We further noted that DCSS requires one signer for check issuances at the time of our visit on August 30, 2018. Proper internal controls indicate two signatures be required for the issuance of checks. Requiring two signatures for issuing checks will help DCSS to maintain proper checks and balances and mitigate theft or misappropriation of funds.

Recommendation

We recommend DCSS contact the Director of Finance and obtain approval for the external bank account or close the account and deposit the funds in the County Treasury. We also recommend DCSS require two signatures for issuing checks.

DCSS Management’s Response

DCSS added Director of Finance to the external bank account on September 27, 2018.

DCSS is investigating the feasibility and cost effectiveness of dual signatures for the checks issued from the imprest petty cash bank account.

3. External Bank Account – Reconciliation Differences and Fees

Comment

During our inspection, we noted several outstanding reconciling differences from December 2013 to April 2017, such as cashier overages and shortages that were not recorded in COMPASS. We further noted that several fees with a total of \$1,106.10 were assessed by the bank for processing DCSS’ cash deposits, for the period from April 2017 to April 2018, were not recorded in COMPASS. Proper internal controls indicate that monthly reconciling differences and bank fees need to be recorded in COMPASS to reflect DCSS’ operations. By

COUNTY OF SACRAMENTO
DEPARTMENT OF CHILD SUPPORT SERVICES
CASH HANDLING REVIEW
CURRENT FINDINGS AND RECOMMENDATIONS
FOR THE MONTH OF AUGUST 2018

not doing so, COMPASS is not accurately reflected and other COMPASS users cannot rely on the information obtained from COMPASS.

Recommendation

We recommend DCSS record reconciling differences and bank fees from its external bank account at least monthly in COMPASS.

DCSS Management's Response

Since deposits and withdrawals are sporadic, DCSS will reconcile the external bank account in COMPASS for months when there are reconciling differences or bank fees are charged.

4. Field Receipts – Manual Receipts Review

Comment

During our inspection, we noted while DCSS' Child Support Officers are at court, they are able to accept child support payments from the support parent. This is a convenience feature DCSS provides to the support parent so he/she does not have to go to another location to make a payment. Once payment is received by DCSS' Child Support Officers, they provide a manual receipt to the individual who provided child support payment at court. Per DCSS' Receipt Book Pick-Up and Drop-Off Log, we noted that there were no field receipts received during August 2018. We further noted that DCSS did not review the manual receipt books for any missing and voided receipts. Therefore, misappropriation of funds could occur without management's knowledge.

Recommendation

We recommend DCSS perform manual receipt book reviews and reconciliations to ensure all funds received, missing, and voided receipts are accounted for.

DCSS Management's Response

Management staff at DCSS are currently working on a solution to address this finding.

5. Internal Controls Over Mail and Lock Box Receipts

Comment

During our inspection, we noted that DCSS' mail receipts are picked up, delivered, sorted, opened, distributed, and logged by only one individual.

COUNTY OF SACRAMENTO
DEPARTMENT OF CHILD SUPPORT SERVICES
CASH HANDLING REVIEW
CURRENT FINDINGS AND RECOMMENDATIONS
FOR THE MONTH OF AUGUST 2018

We further noted that DCSS' lock box receipts are picked up and logged by only one individual.

Proper internal controls indicate mail and lock box receipt activities be performed under dual control. By allowing all aspects of mail and lock box receipt activities to be handled in single control, theft or misappropriation could occur.

Recommendation

We recommend DCSS require mail and lock box receipt activities to be completed in dual control or under security cameras.

DCSS Management's Response

Effective November 5, 2018, all mail and lock box receipt activities are completed by two persons; one primary and one witness. The Desk Aid – SDU Payment Process is being updated to incorporate this change in procedure.

6. Checks Not Secured

Comment

During our inspection, we noted that DCSS' checks were not locked up after they were logged on the payment receipt log. By not locking up checks, theft or misappropriation of funds could occur without management's knowledge.

Recommendation

We recommend DCSS store the checks in a locked location at all times.

DCSS Management's Response

Effective November 5, 2018, all checks and the payment receipt log are locked up at all times. When a payment is received, the payment receipt log is retrieved from the locked cabinet so the payment can be logged. They payment and receipt log are then returned to the locked cabinet. The Desk Aid – SDU Payment Process is being updated to incorporate this change in procedure.