

COUNTY OF SACRAMENTO

DEPARTMENT OF FINANCE - AUDITOR-CONTROLLER DIVISION – INTERNAL AUDIT UNIT

INTERNAL AUDIT UNIT REPORT

**CASH HANDLING REVIEW
AGREED UPON PROCEDURES
MARCH, APRIL, AND MAY 2024**

DEPARTMENT OF HUMAN ASSISTANCE



Audit Committee Submittal Date: 09/19/2024

SUMMARY

Background

The Department of Finance performed a cash handling review of the Sacramento County Department of Human Assistance (DHA).

Audit Objective

Agreed upon procedures were performed to evaluate DHA's cash handling control procedures for the months of March, April, and May 2024.

Summary

We noted several exceptions related to DHA's internal controls over the cash handling process.

Department of Finance

Chad Rinde
Director

**County of Sacramento****Divisions**

Auditor-Controller
Consolidated Utilities Billing &
Services
Investments
Revenue Recovery
Tax Collection & Licensing
Treasury

August 13, 2024

Peter Aw-Yang, Assistant Treasurer
Department of Finance
County of Sacramento
700 H Street, Room 1710
Sacramento, CA 95814

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

Dear Mr. Aw-Yang:

At your request, we have performed the procedures enumerated below, and on page 2, which were agreed upon by you and the Department of Human Assistance (DHA). These procedures were performed solely to evaluate DHA's cash handling control procedures for the period the months of March, April, and May 2024. For the purpose of this cash handling review, "cash" is defined as all forms of money, and includes, but is not limited to, currency, coin, checks, electronic checks, money orders, gift cards, bus passes, credit cards, and debit cards.

DHA's management is responsible for maintaining sufficient cash handling controls. The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below, and on page 2, either for the purpose for which this report has been requested or for any other purpose. This report is applicable solely to procedures referred to below, and on page 2, and is not intended to pertain to any of DHA's other operations, procedures or compliance with laws and regulations.

The procedures we performed are summarized as follows:

1. We obtained and inspected DHA's cash handling policies and procedures used for cash receipts and cash transaction reports to identify any concerns or internal control issues.

Result: We noted several exceptions as described in items # 2 through 4. See ATT 2 - *Current Findings and Recommendations*.

2. We visited DHA's cashiers on an unannounced basis from April 29 to May 1, 2024 and observed and documented how the cashiers handled cash received, and performed a walkthrough of the cash receipt process with cashiers to identify any internal control issues or non-compliances with the County's and DHA's cash receipt policies and procedures.

Result: We noted an exception related to segregation of duties. See ATT 2 - *Current Findings and Recommendations*.

3. We inspected cash receipts on hand on the date of performance of our cash counts and a sample of DHA's cash receipts selected from DHA Fiscal Receipt Books to verify transaction receipts were provided and correct amounts were charged to customers. We also traced the receipt amounts to the supporting documentation and confirmed deposits to County's financial system (COMPASS).

Result: The cash receipt amounts per the receipt books agreed to COMPASS; however, we noted exceptions related to timing of cash deposits and cash receipt supporting documentation. See ATT 2 - *Current Findings and Recommendations*.

4. We performed an unannounced cash count on DHA's imprest cash and traced the imprest cash on hand to the authorized amounts posted in COMPASS.

Result: We noted an exception related to reconciliation and replenishment. See ATT 2 - *Current Findings and Recommendations*.

5. We performed a count on DHA's gift cards and bus passes and traced the count on hand to the inventory/issuance log.

Result: We did not note any exceptions as a result of this procedure.

This agreed-upon engagement was conducted in accordance with the standards for attestation engagements contained in *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States of America. We were not engaged to, and did not perform an audit or examination, the objectives of which would be the expression of opinions on DHA's cash balances, financial schedules, compliance, or results of our procedures previously referred to. Accordingly, we do not express such opinions. 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 the results of our procedures referred to above, and does not extend to DHA's operations as a whole.

Peter Aw-Yang, Assistant Treasurer
August 13, 2024

DHA's response to the findings identified during our engagement are described in ATT 2 - *Current Findings and Recommendations*. We did not perform procedures to validate DHA's 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 information and use of the Sacramento County Board of Supervisors, Sacramento County Audit Committee, Sacramento County Executive, Sacramento County Treasurer and DHA's management. It is not intended to be, 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.

Sincerely,

CHAD RINDE
DIRECTOR OF FINANCE



By: Hong Lun (Andy) Yu, CPA
Chief of Audits

Attachments:

ATT 1 - *Summary of Imprest Cash and Cash Receipts*
ATT 2 - *Current Findings and Recommendations*

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SUMMARY OF IMPREST CASH AND CASH RECEIPTS
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Imprest Cash Counted on April 29, 2024 and April 30, 2024

	Amount Authorized	Amount Counted	Variance
Petty Cash			
Fiscal Division	\$ 300.00	214.78	85.22 ¹
Investigation Division	150.00	150.00	
PID Program	500.00	500.00	
Total	\$ 950.00	864.78	85.22

External Bank Reconciliation for March 31, 2024

	Amount Authorized	DHA Book Balance	Variance
Immediate Needs	\$ 400,000.00	298,401.98	101,598.02 ²
Total	\$ 400,000.00	298,401.98	101,598.02

Bus Passes

	Date Counted	Inventory/ Issuance Log	Number of Tickets Counted	Exception
Bus Ticket - Single Ride				
Fiscal	4/29/2024	1,012.00	1,012.00	
Fulton	4/29/2024	36.00	36.00	
Research	4/29/2024	20.00	20.00	
Florin	5/1/2024	100.00	100.00	
Bus Ticket - Daily Ride				
Fiscal	4/29/2024	10,513.00	10,513.00	
Fulton	4/29/2024	33.00	33.00	
Research	4/29/2024	27.00	27.00	
N. Highlands	4/30/2024	87.00	87.00	
Florin	5/1/2024	80.00	80.00	
Bus Stickers				
Fiscal - April 2024	5/1/2024	2,924.00	2,924.00	
Fiscal - May 2024	5/1/2024	3,292.00	3,292.00	

Gift Cards

	Date Counted	Inventory/ Issuance Log	Number of Gift Cards Counted	Exception
Fiscal	4/29/2024	77.00	77.00	
Galt	4/30/2024	23.00	23.00	
N. Highlands	4/30/2024	63.00	63.00	

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Cash Receipts

Receipt Number	Deposit Permit Number	Deposit Date	Amount Tested	Amount Posted in COMPASS	Exception
71279 ³	1300865196	4/30/2024	\$ 1,000.00	1,000.00	
71278 ³	1300865078	4/29/2024	4,494.36	4,494.36	
68560 ⁴	1300843111	8/4/2023	120.00	3,001.00	120.00 ⁵
71361 ⁴	1300848777	10/13/2023	100.00	4,060.20	100.00 ^{5,6}
68573 ⁴	1300848777	10/13/2023	48.00	4,060.20	48.00 ^{5,6}
71366 ⁴	1300849838	10/26/2023	291.00	16,445.64	291.00 ⁵
68584 ⁴	1300852109	11/21/2023	100.00	7,876.01	100.00 ^{5,6}
70756 ⁴	1300852109	11/21/2023	25.00	7,876.01	25.00 ⁵
70758 ⁴	1300852109	11/21/2023	160.00	7,876.01	14.00 ⁷
68585 ⁴	1300852109	11/21/2023	268.00	7,876.01	
70783 ⁴	1300856609	1/19/2024	10.00	13,514.53	10.00 ⁵
71416 ⁴	1300856609	1/19/2024	640.00	13,514.53	640.00 ⁵
70788 ⁴	1300856609	1/19/2024	100.00	13,514.53	100.00 ⁶
71422 ⁴	1300856609	1/19/2024	510.00	13,514.53	
71425 ⁴	1300857931	2/2/2024	1,000.00	7,553.17	1,000.00 ^{5,6}
68595 ⁴	1300857931	2/2/2024	100.00	7,553.17	100.00 ⁵
70797 ⁴	1300860227	3/1/2024	40.00	10,489.93	40.00 ⁵
71439 ⁴	1300860227	3/1/2024	152.00	10,489.93	152.00 ^{5,6}
71442 ⁴	1300860227	3/1/2024	738.91	10,489.93	738.91 ^{5,6}
71443 ⁴	1300861293	3/14/2024	6,802.38	16,869.73	6,802.38 ^{5,6}
71467 ⁴	1300863767	4/12/2024	453.00	18,157.62	453.00 ⁶
68606 ⁴	1300864812	4/25/2024	291.00	6,751.73	291.00 ⁶
71475 ^{4,8}	Not Available	Not available	316.67	Not available	316.67 ^{5,6}

¹ \$85.22 difference due to outstanding replenishment. See Finding # 5 at ATT 2 - *Current Findings and Recommendations*.

² \$101,598.02 difference due to unprocessed Relief of Accountability, unrecorded canceled checks, etc. See Finding # 4 at ATT 2 - *Current Findings and Recommendations*.

³ Cash receipts on hand on the date of our cash count of April 30, 2024.

⁴ These amounts were selected from DHA's Fiscal Receipt Books.

⁵ Deposit was not made to Sacramento County Treasury within seven (7) days of receipt. See Finding # 3 at ATT 2 - *Current Findings and Recommendations*.

⁶ A copy of check or money order was not maintained. See Finding # 3 at ATT 2 - *Current Findings and Recommendations*.

⁷ Cash receipt does not agree to DHA form SC 544 Bureau Transmittal Form. See Finding # 3 at ATT 2 - *Current Findings and Recommendations*.

⁸ Cash receipt was not traced to a deposit or COMPASS. See Finding #3 at ATT 2 - *Current Findings and Recommendations*.

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1. Cash Handling Policies and Procedures

Condition

The Department of Human Assistance (DHA) has several written policies and procedures to guide staff in the cash handling process. We noted the policies and procedures contained some outdated information and inconsistencies in roles and responsibilities between divisions and units. For example, we noted the following based on inspection of the policies and procedures and walkthrough with DHA staff:

- There are references in the Revolving Fund Reimbursement (Petty Cash Reimbursement), number 13-07, that needs update or no longer relevant, such as Financial Management, Investigation Unit, and BU8600 Community Service petty cash locations.
- The cashier operation procedure, number 13-08, outlines the responsibilities of bureau cashiers when receiving negotiable items and fiscal staff responsibilities when accepting negotiable items received from bureau cashiers. However, it does not provide procedures for fiscal staff receiving negotiable items directly from the public. Additionally, the Financial Management Division is excluded from the cashier operations procedures.

The policies and procedures provide information on roles and responsibilities. Opportunities exist to update the cash handling policies and procedures to reflect current processes in place.

Criteria

DHA should review its written policies and procedures over the cash handling process annually or when any changes are made to the cash handling process to ensure that the policies and procedures are relevant to current practices in order to maintain proper controls over the safeguarding and processing of cash items.

Effect

By not making it a practice to continuously review and update written policies and procedures, DHA is at risk of providing outdated information to its staff with cash handling roles, which may lead to misunderstanding and confusion resulting in misplaced cash and error.

Recommendation

We recommend DHA review its policies and procedures over the cash handling process annually or when any changes are made to the cash handling process and

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update as necessary to ensure that policies and procedures are consistent, up to date and relevant to current practices.

Management Response

DHA agrees that the policies and procedures over the cash handling process must be reviewed and updated. DHA is currently working to update two department procedures which guide Fiscal's cash handling activities. DP 13-07 and DP 13-08 are currently being revised and reviewed and will be finalized by November 8, 2024. These policies will be reviewed annually, updated as necessary, and the process will be reflected in the review date noted on the policy. DHA Fiscal supervisory staff will closely monitor all cash handling activities to ensure adherence to the procedures.

2. Segregation of Duties

Condition

During our walkthrough procedure of cash handling process of DHA Fiscal Division (Fiscal), we noted that DHA Fiscal did not have proper segregation of duties in mail-in cash handling process. Processing group Senior Account Clerk collects and distributes daily mail. The accounting group Senior Account Clerk receives mail-in payments, process the payments in California Statewide Automated Welfare System (CalSAWS), prepares the deposit to Sacramento County Treasury, and enters the deposit into Sacramento County's financial system (COMPASS). We noted mail or drop box receipt logs were not maintained nor a receipt from the Fiscal Receipt Book was issued for payments. Since the same staff opens and process payments, and no mail or drop box receipt log is maintained, funds could be misappropriated or lost without management's knowledge.

Criteria

Staff receiving cash receipts should be different from staff preparing deposits and reconciling the receipts. No one person should handle all aspects of a cash transaction from beginning to end.

Effect

Giving an employee both custodial and record-keeping responsibilities for the same asset creates a significant internal control weakness. Improper segregation of duties can lead to theft or misappropriation of funds without being detected in a timely manner.

Recommendation

We recommend DHA Fiscal update their policies and procedures related to segregation of duties in cash handling process and have the processing group log the

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mail-in payments immediately upon receipt, and sign and date the log. These logs should be reconciled to CalSAWS receipt records and COMPASS, and any discrepancies should be noted and investigated in a timely manner.

Management Response

DHA agrees with the recommendation to update our policies and procedures related to the segregation of duties. DHA is in the process of including the receipt of mail-in and drop box payments into the DP 13-08. The updated procedure will include a new component for the DHA Processing Unit to account for and document the payment prior to transitioning the payment to the Accounting Unit. This update to DP 13-08 will align the mail-in and drop box procedure with the current process of Bureau cashiers receiving payments directly from the public.

DHA is committed to improving the process to document every deposit and disbursement and ensuring all transactions are well documented and available for review. The Processing Unit and the Accounting Unit will log all payments in CalSAWS and COMPASS. This process will be included in DP 13-08 update and staff will be trained on the process.

3. Cash Receipt Documentation and Compliance

Condition

We selected a sample of 40 receipts from DHA's Fiscal Receipt Books to test DHA's compliance with policies and procedures. Based on the review of supporting documentation, we noted the following:

- One (1) instance where a Fiscal Bureau's receipt copy does not agree with the reviewed and signed DHA form SC 544 (Bureau Transmittal Form).
- One (1) instance where a Bureau Transmittal Form was not returned to the Fiscal Bureau timely. This form serves as confirmation of DHA Fiscal's receipt of negotiable items and confirms items received are true and correct.
- One (1) instance where a receipt was not traced to a COMPASS deposit.
- Fifteen (15) instances where receipts were not deposited within 7 days.
- Three (3) instances where returned warrants were not canceled.
- Eleven (11) check and money order receipts where a copy of check or money order was not maintained.

Criteria

Per DHA form SC 544 Transmittal Instructions, Receiving Bureau, *"Verify that the items listed on the transmittal are received. Verify that all information about each item matches that which is listed on the receipt and transmittal...Sign and date the*

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transmittal, and send the yellow copy back to the sender in an interoffice envelope, via the same lock pouch in which it arrived."

According to Sacramento County Charter Article VIII, Section 39, "Every county or township officer, board or commission, authorized to collect fees or money must pay into the county treasury all such fees or moneys collected by him or them, as the case may be, not later than seven (7) days following receipt thereof."

Staff receiving returned warrants should document the reason and cancel/void the check timely to reduce security risk.

While all cash receipt files may not require the same level of documentation, it should include enough information to support accountability and transparency. As a rule, cash receipt files should hold all documentations required to reasonably reconstruct the history of cash handling procedures and demonstrate compliance with policies and procedures.

Effect

Not confirming that all information on the transmittal form is correct may lead to errors and discrepancies to not be detected timely.

Not confirming receipt of items may lead to errors and discrepancies, mishandling or loss of funds to go undetected.

Untimely deposits and not canceling voided checks create opportunities for mishandling or loss of funds.

Not maintaining a copy of check or money order and/or proper supporting documentation may result in difficulty resolving any issues occurring after deposit, such as payments of incorrect amount or fraudulent activities in intercepted checks.

Recommendation

We recommend DHA follow its policy and procedures when receiving items from Bureaus, ensuring that items listed on the transmittal are true and correct, document any inquiries with responsible parties when there are discrepancies, and confirm receipt of items.

We also recommend DHA deposit its cash receipts within 7 days following receipt.

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Additionally, we recommend DHA establish a policy and update current returned warrants procedures as necessary in order to provide fiscal staff with guidance on appropriate timely actions to take when a warrant is returned.

Furthermore, we recommend DHA establish and implement departmentwide standardized cash receipt file content controls to ensure completeness of information maintained for each fiscal receipt issued. For example, DHA could develop a documentation checklist that details pertinent forms, receipts, deposits, dates, and approvals that are required to be maintained with the supporting documentations. This would ensure consistency in the basic documentation and approvals required to be maintained to demonstrate compliance as well as reconstruct cash handling history for the related fiscal receipt.

Management Response

The DOF Review recommendation for Cash Receipt Documentation and Compliance contains four parts and each will be addressed in the order presented and will note them as Part 1, Part 2, Part 3, and Part 4, respectively.

Part 1: DHA agrees that staff must follow the policies and procedures when receiving items from Bureaus. This SC 544 transmittal form lists each step of this process and staff will be guided through and trained to follow this process. Following this process will ensure that items listed on the transmittal are correct and that the necessary follow-up occur should there be discrepancies.

Part 2: DHA agrees that staff must follow policy and deposit cash receipts within seven days. The DHA Fiscal team is small and vacancies, scheduled staff time off, and unscheduled absences can create a need to prioritize tasks. Due to these occurrences, deposits had been scheduled for every other week. DHA Fiscal supervisory staff have since remedied this practice and will continue to ensure that these deposits are handled in a timely manner.

Part 3: DHA agrees that a policy is needed to guide staff on the timely handling of returned warrants. No such process currently exists and DHA recognizes this as a gap in policy. DP 13-08 will be updated with these changes.

Part 4: DHA agrees with the need to establish and implement departmentwide a standardized cash receipt file content control to ensure consistency in approvals and documentation. DHA is updating DP 13-08 to ensure that each item listed on the SC544 has been included and copies of receipts will be maintained. A photocopy of each non-cash negotiable, signed deposit transmittal will be added to the packet.

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Each weekly packet will be scanned and saved as well as the hard copy per the DHA Document Retention Policy.

4. External Bank Reconciliation

Condition

DHA Fiscal has an external bank account other than the County Treasury. DHA Fiscal uses this bank account to issue checks to eligible clients for immediate needs. The total authorized amount posted in COMPASS was \$400,000.00.

During our inspection of the external bank reconciliation for March 2024, we noted the reconciled book balance as of March 31, 2024 was \$298,401.98. Additionally, we noted the bank balance was adjusted and increased by \$5,534.08 for several canceled checks and a stale dated check that were paid by the bank. These payments were not recorded to COMPASS and were not included in the reconciled book balance. As such, the total variance between the authorized amount and our adjusted book amount is \$107,132.10 (\$400,000.00 - 298,401.98 + 5,534.08) as of March 31, 2024.

Criteria

A reconciliation should be prepared to compare the balance in COMPASS with the external bank account balance. This reconciliation should provide reasons for any discrepancies in order to detect any errors, fraud, theft, and loss. Stale dated checks should be investigated and cancelled immediately if the payee cannot be contacted or located.

Effect

By not properly reconciling the external bank account balance and activities to its book balance, DHA Fiscal may not be able to detect or resolve all differences and the outstanding funds may be subject to fraud or misappropriation.

Recommendation

We recommend DHA Fiscal resolve all identified variances and reconcile to the balance in COMPASS within 90 days.

Additionally, we recommend DHA Fiscal review their bank reconciliation procedures to ensure that all documentation required to support reconciliation is properly maintained in a timely manner. The documentation should support the bank balance, book balance, and adjustments accurately allowing DHA Fiscal staff to detect and correct any errors in a timely manner.

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Management Response

DHA agrees to resolve the variances and reconcile to the balance in COMPASS. DHA had conducted research on items that comprised of the variance but was unable to locate historical documents. DHA will put forward a Release of Accountability for the variance due to historical documents not being available to be reviewed by the Board of Supervisors. Moving forward, DHA is committed to monthly reviews of bank reconciliation to ensure staff are maintaining all records and documentation to tie balances back to their sources.

5. Imprest (Petty) Cash Replenishment

Condition

DHA maintains three petty cash boxes for the department. One box is maintained by DHA Fiscal and the other boxes are maintained by Investigation Division and PID Program.

During our review of the DHA Fiscal's petty cash box, we noted that DHA Fiscal did not replenish the petty cash to the authorized \$300.00 balance monthly. We noted 11 outstanding receipts totaling \$85.22 dated as early as February 20, 2018.

Criteria

Department of Human Assistance, Department Procedure, Number 13-07 Revolving Fund Reimbursement (Petty Cash Reimbursement), Procedure IV. Procedure for Replenishment, states, *"A replenishment should be submitted at the end of each month, or earlier if the fund balance is less than half of the original balance prior to the end of the month."*

Government Code section 911.2 requires that "claims" (invoices) must be present "not later than one year after the accrual of the cause of action."

Department of Finance Memo to all Agency Administrators and Department Heads dated March 1, 2016, stated in pertinent part, "...invoices over one year could not be processed for payment, unless the department can attest to the fact that the invoices were presented timely and were not processed for payment due to an oversight."

Effect

Not replenishing petty cash timely may lead to accounting errors, theft or misuse of funds, or lack of monitoring and balancing of fund periodically.

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Recommendation

We recommend DHA to follow its policy and replenish petty cash monthly or earlier if the fund balance is less than half of the original balance prior to the end of the month. We also recommend DHA review its procedures and update as necessary.

Management Response

DHA agrees that staff must follow the policies related to the replenishment of petty cash. To remedy the current issue, DHA staff have since requested the replenishment of the petty cash and will continue to follow the policy. In addition, DHA has been conducting monthly reviews of Petty cash since June 2024 and will continue going forward.