

PUBLIC AND SUPPORT SERVICES COMMITTEE



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PUBLIC AND SUPPORT SERVICES COMMITTEE

The Public and Support Services Group (PSSG) was formed during a reorganization of the County approved by the Board of Supervisors in April 2005. The Public and Support Services Committee was assigned the responsibility of investigating the departments that provide services to the general public or internal support to other county departments.

Subcommittees were formed and the following departments/agencies were reviewed:

- Animal Control
- Charter Schools
- Chino School District
- County Fire Department
- County Garage-Motor Pool
- Land Use
- Library
- Museums
- Public Works, Flood Control
- Purchasing
- Real Estate Services
- Regional Parks
- Weights and Measures

Findings and recommendations follow.

COUNTY LIBRARY

CASH CONTROLS AUDIT REPORT

BACKGROUND

The Board of Supervisors, by resolution, establishes cash funds for county departments to facilitate their operations. The Board has delegated the County Auditor/Controller-Recorder (ACR) the authority to establish cash funds up to \$2,500. Several different types of cash funds are used throughout the county, including petty cash funds to buy small items, change funds to make customer change, and cash shortage funds to reimburse cash shortages that occur during daily operations. The ACR has documented some general cash controls in the Internal Controls and Cash Manual (ICCM) for departments with cash funds. Among these is for departments to designate a fund custodian to be in charge of the fund. The fund custodian must be able to account for the fund in the form of cash, vouchers and receipts. Each department head or authorized designee is responsible to develop and implement the necessary guidelines and procedures to control, safeguard and handle cash.

Periodically, ACR Internal Audits Section performs audits of departmental cash funds. Upon demand of the ACR or the Board of Supervisors, the fund custodian is to give an accounting of the fund. In compliance with Article V, Section 6, of the San Bernardino County Charter, the Board of Supervisor's Policy statement on Internal Operational Auditing, and the Internal Controls and Cash Manual (ICCM), the Auditor/Controller-Recorder (ACR) completed a cash control audit of the County Library on May 13, 2008. On November 16, 2009, a Library Cash Controls Follow-Up Audit report was completed.

The original Library Audit was conducted for the period July 1, 2006 through December 31, 2006 and included surprise cash counts, tests of deposit records, inquiries of staff, observation of library cash handling procedures and other audit procedures considered necessary. Five branches-Apple Valley, Big Bear, Chino Hills, Hesperia, and

Needles-were audited along with a petty cash audit of the Library Administration. That report was submitted to the County Librarian, the County Administrative Officer, the Board of Supervisors, and the Grand Jury.

During the ACR audit of the Library's cash control, it was found that the Library was netting its overages with its shortages, thereby understating both. This is contrary to the ICCM and also violates California Government Code (GC) 50050, which states:

Except as otherwise provided by law, money, excluding restitution to victims, that is not the property of a local agency that remains unclaimed in its treasury or in the official custody of its officers for three years is the property of the local agency (only) after notice if not claimed or if no verified complaint is filed and served.

Even small or non-differentiated items must be kept in a separate fund for a period of one year. As is stated in GC 50055:

Any other provision of this article notwithstanding, any individual items of less than fifteen (\$15), or any amount if the depositor's name is unknown, which remain unclaimed in the treasury or in the official custody of an officer of a local agency for the period of one year or upon an order of the court may be transferred to the general fund by the legislative body without the necessity of publication of a notice in a newspaper.

By reducing the Library's overages by its shortages, the overages cannot be claimed by the patrons that overpaid, which is required by GC 50050 and 50055.

The ACR recommended that the County Library department should immediately stop the practice of netting their shortages with their overages. The ACR pointed out that the correct method of accounting for overages is to deposit all overages in the countywide overage fund (Fund AOV-Dept OVR). The correct procedure for shortages is to report

them to the Internal Audits Section of the office of the ACR when the department's cash fund reaches the dollar amount described in the ICCM. The ACR summarized the shortages and overages for the month of April, 2009: total overages were \$1,633 and total shortages were \$1,284. If the trend were to continue through the year, the annual totals would be \$19,596 of overages and \$15,409 of shortages.

The practice of netting shortages against overages does not show the actual amount of cash losses which occur within the County Library Department. As required by government code 29390 and 29390.1 departments are required to report all shortages to the ACR and request relief of liability from the Board of Supervisors annually. The ACR researched back to 1990 and found that the County Library has not requested a relief of liability for cash losses other than thefts in the past 19 years. By continuing to refuse to follow the recommendations of the ACR audit report the cash losses could become a personal loss of the department head since the department has not been relieved of the liability. The ACR will decline the authority granted by the Board of Supervisors to relieve any of the County Library's cash losses.

The County Library did not concur with the ACR recommendations. Their response stated that the Library's automated circulation system is its only method of accounting for cash received, but it is not a cash register system. It is a library materials circulation system, with a basic capability of accounting for cash receipts. It does not allow for online correction of entry errors, which if detected during the transaction, are recorded manually for management review and reconciliation. The totals reported by the system cannot be altered, so there will inevitably be differences between that reported amount and actual deposits; however the differences in the amounts is not significant by any standards. The Library's management reviews focus on detecting potential theft, and not on ensuring exact matches of reported receipts and cash received. Entry errors that are not detected during the transaction remain recorded and reflect on the daily money reports as overages or shortages, even when the appropriate amounts of cash have been tendered and received. Because the functionality of the system is not specifically cash

handling, these differences are as likely to be keying errors as actual cash-handling errors.

Two Government Code sections, 50050 and 50055 are cited to support the mandated deposit of overages into a separate account. Government Code 50050 refers to "money. ..that is not the property of a local agency that remains unclaimed in its treasury or in the official custody of its officers for three years," is then to be advertised in local newspapers per Section 50051 with the total amount and notice that if unclaimed the property will become the property of the local agency. There are noticeable exceptions for individual items of less than \$15, but there is no way to discern whether any overage is the result of a single transaction over \$15. This code reference is clearly inappropriate to the amounts being considered "overages" by the Library. Patrons paying fees or paying for books at sales are given receipts for the amounts they've tendered, and no one has ever returned at a later date to claim they paid too much and requested a reimbursement. And as noted above, keying errors will not produce future claimants to this "unclaimed property." Section 50055 refers to the "depositor" clearly indicating the intent of this section is other than applicable to library fines and fees.

Similarly, the amounts labeled as "shortages," again are as likely to be attributed to keying errors as actual mishandling of money. Reporting these as "shortages" is not appropriate because there is no way to determine whether they are actual shortages or keying errors that cannot be adjusted in the circulation system. Reporting and recording these amounts for "reimbursement" from Library accounts at a later date creates extra staff time/costs and also a significant expense to the Library with no clear benefit.

The Government Code sections cited and the provisions in the Cash Manual would appear to apply to different situations than that of Library operations, and to be appropriately applied would require a type of library circulation system that doesn't exist, as the ACR office has previously determined. No other County library system, to the knowledge of the Chief Librarian, in the State is compelled to follow such recommended guidelines. Furthermore the amounts of money involved, as compared to the Library's

total operations revenue, are not significant. The Library cannot determine the amount of overage or shortage per transaction and the cumulative daily amount of a shortage or overage is often less than \$1.00 per day per branch location and the average shortage per pay station is \$.02 per day and the average overage is \$.03 per station per day. The amount of staff time involved in cumulating overages and shortages to specific thresholds and forwarding cumulated overages and requesting cumulative reimbursements would be significant and would serve no practical purpose. No staff member can recall any request from a customer for reimbursement of an overage (unclaimed property) in the several million transactions that have occurred during the past five years.

Recent budget reductions have left the library's staffing significantly diminished. However, the library would consider the auditor's recommendation, when staffing allows or when technology changes diminish staff involvement.

METHODOLOGY

The Grand Jury conducted an analysis of the original Audit of Library Cash Controls dated May 13, 2008 and the Library Cash Controls Follow-Up Audit dated November 16, 2009. Further, it reviewed and analyzed the Interoffice Memo from the Office of the Auditor/Controller-Recorder, to the County Librarian, dated February 25, 2008. The Grand Jury reviewed the audit for compliance with the County Charter, the Board of Supervisors' Policy Statement on Internal Operational Auditing and the Internal Controls and Cash Manual (ICCM). The Grand Jury review shows that the audit was accomplished according to professional standards. On Thursday April 8, 2010, an interview with the County Librarian was conducted by members of the Grand Jury. On May 4, 2010, a telephone conference call interview was conducted by Grand Jury members with the Auditor/Controller-Recorder.

FINDINGS

1. Language used throughout the ICCM is more “advisory” than “directory” with no presence of giving command resulting in varied response from management to the findings of the auditors. The 2008-2009 Grand Jury had recommended that the language in the ICCM Manual be revised. Ambiguous language results in differing interpretations and therefore differing responses. The ACR had agreed with the recommendation with the changes scheduled to be included in the next revision of the Manual in June 2010. An introductory paragraph would also be included stressing that the Manual is not a guide, but a requirement that must be followed.
2. The six month follow-up audit called for in the November 2009 audit may be extended for a few months to give the Library time to work on changes being implemented at the recommendation of the County Administrative Office (CAO).
3. Audit recommendations need to be responded to in the appropriate manner with suitable oversight. This corresponds to a 2008-2009 Grand Jury recommendation that the Board of Supervisors and CAO “establish oversight of internal operational audits along with the ACR to ensure enforcement and support department management in compliance with written procedures and policy.”
4. The Library anticipates a reduction in actual cash handling over the next several years thus reducing its risk due to the implementation of the PayPal system. This system allows for payment of library fines and fees from either one’s home PC or at a library computer.

RECOMMENDATIONS

- 10-29 The ACR comply with the response to the 2008-2009 Grand Jury recommendations and revise the language in the ICCM. Replacing the words **should** and **must** with the word **will** results in a document that is more commanding than instructional and provides clearer direction to management and staff. (Finding 1)

- 10-30 The ACR follow up with its commitment to an introductory paragraph explaining that the ICCM is **not a guide, but a requirement that must be followed** with non-compliance resulting in reports to the Board of Supervisors, County Administrative Office and the Grand Jury as is the current practice. (Finding 1)

- 10-31 The Board of Supervisors and the County Administrative Office enforce the implementation of ACR audit recommendations by overseeing and following-up on compliance. (Finding 3)

<u>RESPONDING AGENCY</u>	<u>RECOMMENDATIONS</u>	<u>DATE</u>
Auditor/Controller-Recorder	10-29 through 20-30	9-30-2010
Board of Supervisors	10-31	9-30-2010
County Administrative Office	10-31	9-30-2010