

County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Bob Roper, Fire Chief

Date: September 28, 2007

From: Christine L. Cohen

Subject: **AUDIT OF THE VENTURA COUNTY FIRE PROTECTION DISTRICT'S CASH COLLECTION PROCESS**

EXECUTIVE SUMMARY

We have completed our audit of the Ventura County Fire Protection District's (VCFPD) cash collection process. Specifically, we reviewed cash intake and deposit procedures and evaluated physical controls for the safeguarding of cash. We also evaluated VCFPD's processes for reconciling revenues earned to collections and evaluated the sufficiency of fiscal oversight of cash controls. The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by the Institute of Internal Auditors. Our findings are summarized below with details provided in the attached.

We noted that VCFPD implemented certain control activities to account for cash collections, such as an electronic cash ledger, and performed analytical procedures to gain reasonable assurance over aggregate collection amounts. Also, our audit did not disclose any instances of fraud.

However, overall, fiscal oversight needed to be strengthened to effectively manage the cash collection process and to mitigate the risk of fraud. Specifically, during our audit, we noted that fiscal management could be improved by:

- Participating in the County's Control Self-Assessment Program.
- Formalizing written policies and procedures within the full range of cash collection activities.
- Pursuing the use of Tidemark as an integral component of the collections management process.
- Reconciling client account records to actual receipts collected.
- Validating fees charged to customers on a periodic basis.
- Strengthening collection and deposit procedures to properly account for funds.
- Implementing proper physical safeguards to secure collections.
- Enhancing controls to account for and restrict access to manual cash receipt documents.

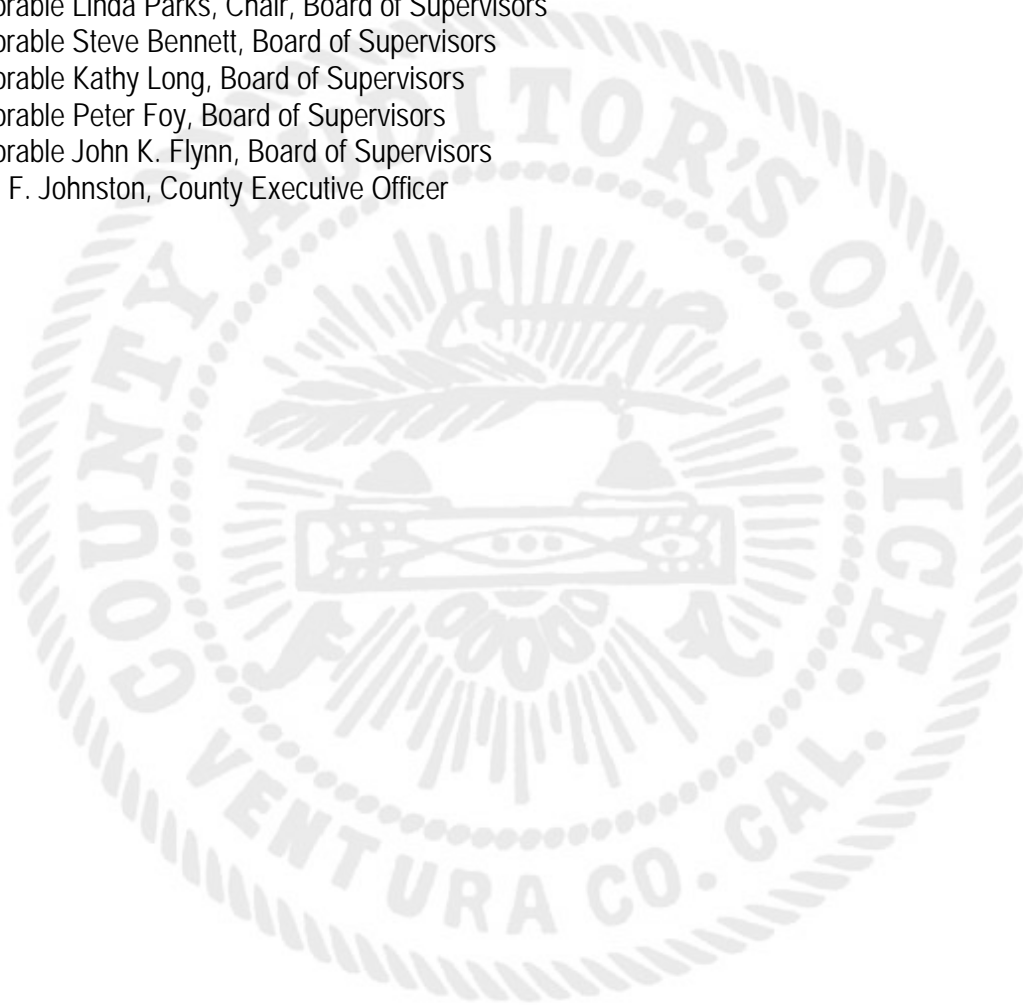
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VCFPD management initiated corrective action to address our audit findings. Corrective action is planned to be completed by June 30, 2008.

We appreciate the cooperation and assistance extended by you and your staff during this audit.

Attachment

cc: Honorable Linda Parks, Chair, Board of Supervisors
Honorable Steve Bennett, Board of Supervisors
Honorable Kathy Long, Board of Supervisors
Honorable Peter Foy, Board of Supervisors
Honorable John K. Flynn, Board of Supervisors
John F. Johnston, County Executive Officer



AUDIT OF THE VENTURA COUNTY FIRE PROTECTION DISTRICT'S CASH COLLECTION PROCESS

BACKGROUND:

The Ventura County Fire Protection District (VCFPD) provides fire protection, emergency medical, education, suppression, hazardous material monitoring, rescue, and related emergency services to the communities within the District. VCFPD maintained 31 stations and responded to nearly 30,000 fires, rescues, and public service calls in fiscal year (FY) 2005-06. For FY 2007-08, VCFPD has budgeted approximately \$125 million in total revenues and has been authorized 578 positions.

VCFPD records cash collections manually on pre-numbered receipt forms before posting collections to the electronic Cash Receipts Ledger. Fees for services such as plan checks and inspections are collected by VCFPD's Bureau of Fire Prevention (Prevention) at three satellite customer service counters in Simi Valley, Thousand Oaks, and the Ventura County Government Center. Fees are also collected at the Camarillo Headquarters (HQ). Such charges are governed by the Fee Schedule approved annually by the Board of Supervisors and account for approximately \$1 million of VCFPD revenues.

SCOPE:

Our overall audit objective was to evaluate the VCFPD cash collection process and the fiscal oversight of cash controls. Specifically, we evaluated VCFPD's processes for: reconciling revenues earned to collections; issuing manual customer receipts; and receiving, depositing, and safeguarding cash.

We performed audit tests and evaluations using documents provided by VCFPD, including records posted to Prevention's project database system, Tidemark. Our tests and evaluations focused on fee-for-service charges and over-the-counter collections at the Ventura satellite counter and at HQ. However, several areas tested also included grant and other monies that were not collected "over-the-counter" per se, but which followed the same general processes for the recognition and deposit of funds. The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by the Institute of Internal Auditors using documents processed from July 1, 2005, through March 31, 2006.

FINDINGS:

We noted that VCFPD implemented certain control activities to account for cash collections, such as an electronic cash ledger, and performed analytical procedures to gain reasonable assurance over aggregate collection amounts. We also noted that VCFPD management took appropriate corrective measures in reaction to internal control issues brought to management's attention.

However, overall, we found that fiscal oversight needed to be strengthened to effectively manage the cash collection process and to mitigate the risk of fraud. Oversight activities could be planned around the County's Control Self-Assessment Program and need to ensure that written policies and procedures are available for significant steps in the cash collection process. We believe that taking a proactive approach to fiscal oversight may have helped to disclose the internal control risks and weaknesses that we identified during our audit.

We also noted that Prevention's project database system, Tidemark, did not contribute to the collections management process and could not be used to ensure the integrity of client accounts or reconcile collections. As a result, the cash collection process has remained a largely manual one, which exposes VCFPD to certain inherent risks. The volume of manual cash receipts for inspection services alone (approximately 1,900 during the 7-month period of July 2005 through January 2006) creates opportunities for human error and fraud.

Although our audit did not disclose specific instances of fraud, VCFPD's manual cash collection process was susceptible to theft, loss, or misappropriation of funds because of several significant internal control weaknesses. Notably, our audit disclosed that VCFPD did not reconcile client records to collections for inspection services or periodically verify that fees were charged according to the appropriate Fee Schedule. As a result, assurance could not be provided that all client fees were properly charged, collected, and submitted for deposit.

Our audit also disclosed that the management of collections and deposits was in need of improvement to ensure that: checks were restrictively endorsed upon receipt; individual accountability was established over funds collected; collections were transferred for deposit on a daily basis; duties were properly segregated; and deposits were transported by a secured method. In addition, we observed that devices for storing cash were in need of improvement in each of the VCFPD locations we visited. We also noted that controls over manual cash receipts were in need of improvement, such as controls to: track the disposition of manual cash receipts; account for unprocessed receipt numbers; and safeguard cash receipt documents.

Summarized below are the details of the areas where improvements were needed. VCFPD management took or initiated corrective action during the audit as noted.

1. **Fiscal Oversight.** VCFPD's oversight of fiscal activities was in need of improvement to ensure the sufficiency of internal controls over cash collections and to mitigate the risk of fraud. Such oversight was the responsibility of the VCFPD Bureau of Fiscal Services (Fiscal) to provide support in accomplishing the mission of the organization as a whole. Although Fiscal recently implemented several controls, such as logging transfers of accountability for collections, periodic evaluation was necessary to determine whether the controls continued to be relevant and operating effectively. In addition, a renewed emphasis on formalizing critical policies and procedures was needed to facilitate an understanding of strong internal controls throughout the organization.
 - A. **Internal Control Reviews.** A more proactive approach to fiscal oversight was needed to contribute to better internal control discipline, and earlier identification and subsequent correction of internal control weaknesses. Generally, our discussions with management disclosed a reactionary approach to internal control management, whereby active engagement in fiscal oversight activities is pursued as issues arise and as resources permit. We understand that the speed, breadth, and depth of the current fiscal oversight process may be hampered by workload considerations, which created the potential for risks to materialize without detection. However, periodic evaluation of significant control processes, such as through participation in the County's Control Self-Assessment Program, may have helped to identify the internal control weaknesses noted in the findings below.

Management Action. VCFPD management stated: "VCFPD strives to continually improve and streamline fiscal processes. Part of that process is review of internal controls. Although VCFPD

did not participate in the County's Control Self-Assessment Program, VCFPD was aware of cash control issues. Due to limited staffing, VCFPD must prioritize its efforts when making process changes. In order to formalize and document the review of internal controls, VCFPD will participate in the next County Control Self-Assessment Program."

- B. **Policies and Procedures.** Written policies and procedures were not always adequate to guide employees within the full range of necessary control activities. Although constrained by workload demands, formalized policies and procedures had not been developed to address some essential functions, such as the receipting of cash from customers. As a result, staff involved in sensitive fiscal processes, such as cash handling operations, may not have had adequate guidance on critical aspects of certain fiscal activities.

Management Action. VCFPD management stated: "VCFPD does have written cash collection procedures for the activities performed by the Fire Fiscal Bureau. VCFPD will expand these written procedures to include cash collection activities performed by the Fire Prevention Bureau."

- 2. **Tidemark.** Opportunities were available to better manage collections overall by using the existing Tidemark project database system.

- A. **Using Tidemark for Collections Management.** Although Tidemark was implemented in 2001 to track and manage Prevention's plan check and inspection projects, the system has not been used to contribute to the collections management process. For example, although capable, Tidemark has not been programmed to: populate the fee schedule associated with a particular project; generate electronic receipts; or provide client project summary reports. We recognize that VCFPD management expressed the intention of resolving Tidemark's capability issues, and we encourage the pursuit of such action to reduce reliance on manual processes and strengthen the cash collection process.

Management Action. VCFPD management stated: "It is VCFPD's intention to either upgrade to the latest version of Tidemark or purchase a different program in order to meet Prevention's data needs. If possible Fire Fiscal will include its needs in the new program in order to reduce reliance on manual processes and strengthen the cash collection process. Without significant program changes to the current version of Tidemark, it is limited in how it can contribute to the cash collections management process. It may be more cost effective to upgrade or purchase a new program rather than invest programmer time into the current program."

- B. **Disabling Key Security Features.** During our audit, VCFPD disclosed that several of Tidemark's key security features had been disabled, a control weakness that has hampered Tidemark's role in the current collections management process. Specifically, the automated fee schedule feature had been disabled, thereby allowing employees collecting fees to enter any amount into the system without documenting a change in the expected fee level. The compromised system also allowed these same employees to make changes to the system at any time after the collection and recording has occurred. Therefore, the fee entered manually may not be the same as the fee actually collected from a client, nor would the amount necessarily correlate with an accurate fee assessment. In addition, the overall accuracy of individual client project files could be further compromised by employees with knowledge that changes could not be traced by management.

Management Action. VCFPD management stated: "The automated fee schedule feature in Tidemark will be implemented within the next twelve months. Fees collected, based on the type of project submitted, will be verified at plan review. The security level of all employees, with the exception of supervisors, has been changed in Tidemark to prevent any editing or deleting of fees that have been collected and recorded."

3. **Reconciling Client Accounts to Receipts.** VCFPD did not reconcile client account records to actual receipts collected for inspection services. As a result, VCFPD did not have assurance that all inspection fees charged to clients were actually collected and submitted for deposit. Because the accuracy and completeness of Tidemark data have been compromised as discussed above at Finding 2B, use of Tidemark for such reconciliation purposes is not currently practical or advisable. Therefore, alternate reconciliation procedures would need to be implemented to ensure that the nearly \$1 million collected for inspection services was accurate and to ensure the integrity of client accounts.

Management Action. VCFPD management stated: "VCFPD Fiscal staff and Prevention staff will work closely together to determine how the current Tidemark system can assist with the reconciliation process. Over the next twelve months, program changes will be completed in Tidemark, such as system generated receipt numbers, to accomplish this task. Once these program changes have been completed, Fiscal will reconcile to Tidemark receipts on a monthly basis."

4. **Validating Fees Charged.** VCFPD management did not periodically verify that fees were charged properly to clients. As a result, we found that fees were not always charged according to the appropriate Fee Schedule. Specifically, our tests disclosed that 2 (10%) out of 20 payments were based on the prior year's Fee Schedule, rather than the Fee Schedule in effect at the time the payments were received. Although the amounts over and under charged were not significant, periodic validation of fees charged was necessary in the absence of electronic controls that Tidemark could provide in the future.

Management Action. VCFPD management stated: "As stated in finding 2B, the automated fee schedule feature in Tidemark will be implemented within the next twelve months. Fees collected, based on the type of project submitted, will be verified at plan review. The plan checker will verify that the appropriate fee was charged on the transmittal. Prevention supervisors will review 100% of all permits greater than or equal to \$1,000 and 25% of all permits less than \$1,000. Prevention supervisors will document review by initialing transmittal form."

5. **Managing Collections and Deposits.** Procedures were in need of improvement to assure that collections and deposits were complete and accounted for properly. Because collection activities relied heavily on manual processes, internal controls were more susceptible to circumvention and, therefore, collections were more susceptible to fraud.

- A. **Endorsing Checks.** Incoming checks were not restrictively endorsed upon receipt. As a result, all checks received in the field and at HQ, which amounted to approximately \$7.43 million during July 2005 through January 2006, were at risk until processed by Fiscal for deposit. In addition, the risk associated with unendorsed checks was further exacerbated by the condition that checks remained unsecured until transmitted to Fiscal for deposit as discussed at Finding 6 below.

Management Action. VCFPD management stated: "VCFPD now restrictively endorses all checks upon receipt at all locations. All cash receipts are now transported from satellite counters to HQ in locked bags."

- B. **Establishing Individual Accountability over Collections.** Accountability over collections was not limited to the employee accepting the funds. For example, during staff changeovers at customer service counters and HQ Reception, no verification of receipted revenue occurred nor did a formal transfer of cash accountability take place. Also, cash accepted by each respective employee was not segregated and secured. As a result, responsibility could not be pinpointed in the event of a discrepancy in the collection amount.

Management Action. VCFPD management stated: "VCFPD has installed locking drawers at the HQ receptionist counter, and has cut slots in drawers to allow replacement receptionist to secure cash receipts but not have access to cash in drawer. When a cash transfer does occur, the transfer is recorded on cash transfer log."

- C. **Transferring Collections to Fiscal.** Although procedures require that daily collections be transferred to Fiscal at the close of business, such daily transfers did not always occur. We observed, on one occasion, that Fiscal had failed to pick up over \$1,000 in cash and \$30,000 in unendorsed checks that had accumulated over several days. Also, the Daily Cash Log from December 22, 2005, through March 15, 2006, disclosed that accountability was not transferred from HQ Reception to Fiscal on 8 (15%) out of 55 days. Therefore, cash was left in the unsecured HQ Reception area sometimes overnight and sometimes over several consecutive days, including over the weekend. As a secondary result, deposits and cash receipt processing in the Ventura County Financial Management System were also delayed.

Management Action. VCFPD management stated: "Current procedure is Fiscal staff picks-up cash at the end of each day and secures it in the Fiscal area. In the event that Fiscal staff is unable to pick-up cash on a given day, HQ receptionist will secure cash in locking drawer and lock box. Note that HQ receptionist currently has and does lock up any cash receipts that are not picked up by Fiscal in a locking drawer and lock box. As mentioned above VCFPD now restrictively endorses all checks upon receipt."

- D. **Segregating Duties.** Duties were not always properly segregated to protect the integrity of cash collections. Specifically, we noted that, because of restrictive staffing levels, employees at customer service counters frequently performed fee assessment, plan inspection, fee collection, manual cash receipting, and revenue consolidation functions independently. As a result, these employees had the capability to materially alter multiple key aspects of the cash cycle without sufficient compensating controls to mitigate the risk of error or fraud.

Management Action. VCFPD management stated:

"Fees collected at the Headquarters' counter are determined by the counter tech. The assigned plan checker to the project will be responsible for verifying the fees collected for accuracy.

"Fees collected at the satellite counters will also be verified for accuracy at plan review. As mentioned above, Prevention supervisors will review 100% of all permits greater than or equal to

\$1,000 and 25% of all permits less than \$1,000. Prevention supervisors will document review by initialing transmittal form. As stated previously, once the Tidemark program changes have been completed, Fiscal will reconcile to Tidemark receipts on a monthly basis."

- E. **Transporting Deposits.** VCFPD was exposed to risk by the unsecured nature of transporting deposits to the bank. Specifically, a member of the Fiscal staff who prepared the deposit was responsible for transporting the funds to the bank. During the period July 2005 through January 2006, approximately 2,000 checks totaling \$7.43 million were transported along with over \$8,000 in cash. We recognize that all checks had been restrictively endorsed prior to transport. However, given the large amount transported and weak safeguard controls noted in Finding 6C, the current method represents a risk that could be mitigated by contracting with an armored transport company. In addition, staff time spent during transport could be better utilized given VCFPD's workload demands.

Management Action. VCFPD management stated: "Although County policy does not require the use of armored transport, VCFPD has budgeted for and will utilize an armored transport beginning FY 07-08."

6. **Safeguarding Collections and Deposits.** Storage devices used throughout the cash collection and deposit process to safeguard funds were not adequate. We found significant deficiencies during our inspections of the Ventura satellite counter, the HQ Reception area, and HQ Fiscal. Deficiencies ranged from collections left unattended in a briefcase, to funds placed in unlocked drawers that were accessible by unauthorized individuals, to transfer of monies in unlocked bags. As a result, collections were highly susceptible to theft, loss, or misappropriation. Below are details of our observations noted at each location tested.

- A. **Satellite Counters.** Our inspection of the Ventura satellite counter disclosed that cash collections were loosely held in the VCFPD Prevention officer's briefcase. The briefcase acted as the primary storage device and had no locking capability. In addition, the briefcase was left open and unattended under the officer's desk when the officer was at the front counter with customers. Because the counter was staffed by one officer within another agency's confines and other work areas were adjacent to the VCFPD desk, unauthorized access to the briefcase was possible when left unattended. Further, the door adjacent to the VCFPD desk area, which leads to a public space, was not locked and could be accessed by any individual unless stopped by an employee.

Management Action. VCFPD management stated: "VCFPD has purchased and is utilizing locking bags at all satellite counters. VCFPD will keep them in locked drawers during the day to ensure they are inaccessible to the public at all satellite counters."

- B. **HQ Reception Area.** The desk drawers used by the HQ receptionist and the HQ Prevention counter to store cash, which could have been accessible to unauthorized employees, did not have a locking mechanism. Further, the cash box inside the receptionist's drawer was not capable of being locked since the key had been lost. On one occasion, we observed that over \$1,000 in cash and \$30,000 in unendorsed checks were not properly secured in the receptionist's drawer. We also noted that receipts arriving later in the day were not entered into the system and remained in the unsecured area until being transferred to Fiscal. Because the HQ Reception area was open to

all HQ employees without restriction, proper physical safeguards need to be implemented to mitigate the risk of unauthorized access to collections.

Management Action. VCFPD management stated: "As mentioned earlier, VCFPD has installed locking drawers at the HQ receptionist counter, and has cut slots in drawers to allow cash receipts to be secured but limit access to cash in drawer. In regards to the lost key, as soon as the lost key was brought to the attention of VCFPD management a new box was purchased. Also mentioned earlier, the current procedure is for Fiscal to pick-up cash at the end of each day and secure it in the Fiscal area. In the event that Fiscal is unable to pick-up cash on a given day, HQ receptionist will secure cash in locking drawer and lock box."

- C. **HQ Fiscal.** Although management believed that Fiscal placed collections in a lock-bag before storing the collections in a locked cabinet and office, the zippered bank deposit bag being used by Fiscal was not lockable. In addition, although management instructed staff to correct the condition immediately, our re-inspection nearly one month later disclosed that a lock-bag was still not being used. The use of a lock-bag assists in the general safekeeping of funds as the primary means to physically transport funds between divisions and to the bank for deposit.

Management Action. VCFPD management stated: "When fiscal staff stores cash over night it is secured in a locked bag, within a locked file cabinet, within a locked office within the locked Fiscal area. Fiscal staff currently use a locked bag for transport of funds. An armored truck will be used in FY 07-08. Note at all times, checks have been restrictively endorsed before transport."

7. **Controlling Manual Cash Receipts.** Control activities to account for and restrict access to cash receipt books and individual receipt documents were not sufficient. As a result of such weaknesses, VCFPD could not be assured that all receipts and associated cash were turned in for deposit. In addition, VCFPD was exposed to the risk that cash receipt documents could be used to facilitate fraudulent activities.

- A. **Recording Receipt Book Information.** Manual cash receipt books placed in circulation were not recorded in terms of: the number sequence issued; to whom the book was issued; the location at which the book will be used; or the date of issuance. Over 30 VCFPD employees had the ability to verbally request books for use in documenting revenues collected. Although the outside cover of each book noted the internal receipt number sequence, this did not allow VCFPD to pinpoint a specific book's location or establish responsibility for receipt sequences. Therefore, receipts could not be accounted for unless the books were returned fully intact and compared against ledger entries to confirm that the full sequence of receipts had been processed properly.

- B. **Accounting for Missing Receipt Numbers.** VCFPD did not actively seek to account for unprocessed receipt numbers. For example, Fiscal staff did not periodically review the Cash Receipts Ledger for receipt numbers that were not processed. Out of nearly 4,600 potential sequential receipt numbers in circulation during the period July 2005 through January 2006, we identified 43 gaps in sequence, representing over 2,400 missing receipts. VCFPD was able to account for most of the missing receipts during the audit as processed in a prior or subsequent period, voided, or determined to be "in use." However, VCFPD could not determine the disposition of 25 remaining receipts.

- C. **Returning Unprocessed Receipts.** Procedures did not require that old, used, damaged or partial receipt books, or voided, misstated, damaged or otherwise incomplete individual receipt numbers be returned to HQ for accountability and review. As a result, Fiscal's ability to account for missing receipt books and numbers was diminished. For example, during our visit to the Ventura satellite counter, one entire book of 25 receipts that was deemed missing and unaccounted for by Fiscal was uncovered in an unlocked cabinet. Although the Prevention officer was aware of the book's presence, the book's disposition was not recorded. Further, the book was not identified as missing for a period of 8 months until our inquiries about the missing sequence and detection of the book at the satellite location.
- D. **Recording Voided Receipt Numbers.** Voided, blank, damaged or otherwise incomplete individual receipt numbers were not always marked "void" and recorded as such to establish accountability over unprocessed receipt numbers. For example, although our review of the Cash Receipts Ledger from July 2005 through January 2006 disclosed that 25 voids were recorded, our inquiries disclosed 21 more that were not recorded.
- E. **Issuing Receipt Books.** Procedures did not require that previous book sequences be verified before issuing a new receipt book to a particular individual or location. For example, our review of the Cash Receipts Ledger from July 2005 through January 2006 disclosed that up to nine books were used during any one day. Although this did not necessarily indicate that an excessive number of receipt books were issued, procedures needed to be implemented to question and justify the release of books for control purposes.
- F. **Limiting Use of Receipt Books.** Use of manual cash receipt books was not limited to one individual. Our review of the Cash Receipts Ledger from July 2005 through January 2006 disclosed that up to 13 individuals wrote receipts out of a book of 25 receipts. As a result, VCFPD's ability to pinpoint responsibility for particular receipt numbers was undermined. In addition, on the occasion that receipt books were taken for use in the field, accountability for the book and receipt sequences was not transferred to the responsible individual. Therefore, responsibility for the receipt documents could not be identified in the event of missing receipts.
- G. **Safeguarding Cash Receipt Books.** Physical safeguards were not sufficient to restrict access to cash receipt books. Specifically, we noted that the filing cabinet used at the Ventura satellite counter to store cash receipt books had no lock. We also noted that unissued receipt books containing approximately 2,000 blank manual cash receipts were stored in an unlocked storage compartment behind the HQ Reception counter. In addition, the door to the Reception area was not locked and was open to all HQ employees. Although unissued receipt books were generally stored in sequence, periodic counts did not take place nor was the inventory reviewed to confirm that all unissued sequences remained intact.

Management Action. VCFPD management stated: "VCFPD is currently working on re-programming Tidemark to produce a system generated customer receipt. Re-programming will be completed in approximately twelve months. In the mean time Fiscal will have custody of new unused receipt books as well as completed receipt books. Fiscal will record receipt book issuance to District employees. Fiscal will also routinely research any gaps in sequence. Procedures will be updated to require void to be written on voided receipts."

AUDITOR'S EVALUATION OF MANAGEMENT ACTION: We believe that management actions taken or planned were responsive to the audit findings. Management planned to complete corrective actions by June 30, 2008.

We appreciate the cooperation and assistance extended by you and your staff during this audit.

