

County of San Bernardino

Auditor-Controller/Treasurer/Tax Collector
Internal Audits Section

Department of Airports: Follow-Up Audit of Security Deposits Review



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The San Bernardino County Auditor-Controller's Office is committed to serving our customers by processing, safeguarding, and providing information regarding the finances and public records of the County. We perform these functions with integrity, independent judgment, and outstanding service. We are accurate, timely, courteous, innovative, and efficient because of our well-trained and accountable staff.

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June 25, 2014

James Jenkins, Director
Department of Airports
777 E. Rialto Avenue
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SUBJECT: FOLLOW-UP OF SECURITY DEPOSITS REVIEW

In compliance with Article V, Section 6, of the San Bernardino County Charter and County Policy 05-20 entitled Internal Operational Auditing, we have completed a follow-up audit of the accounting records relating to the Department of Airports (Department) security deposits for the period of January 1, 2013 through June 30, 2013. The objective of the follow-up audit was to determine whether the Department implemented the recommendations contained in the prior audit report. We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

We have provided a status of the audit findings identified in the original audit report, *Department Requested Security Deposits Review*, issued on September 4, 2008. Of the four recommendations from the original audit report, one has been partially implemented and three have not been implemented.

We sent a draft report to the Department on February 5, 2014. The Department's responses to the current status of our recommendations are included in this report.

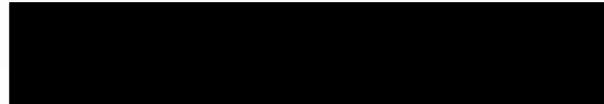
We would like to express our appreciation to the personnel at the Department of Airports who assisted and cooperated with us during this engagement.

Respectfully submitted,

Larry Walker

Auditor-Controller/Treasurer/Tax Collector
San Bernardino County

By:



Denise Mejico
Chief Deputy Auditor

Enclosure

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Department of Airports: Follow-Up of Security Deposits Review

Scope, Objective, and Methodology	1
Prior Audit Findings, Recommendations, and Current Status	2 - 8



Scope and Objectives

Our audit examined the accounting records of the Department's security deposits for the period of January 1, 2013 through June 30, 2013. The objective of this follow-up audit was to determine whether the Department implemented the recommendations contained in the prior audit report, *Department Requested Security Deposits Review* issued on September 4, 2008.

Methodology

In achieving the audit objectives, the following audit procedures were performed, including but not limited to:

- Interviewing Department staff.
- Reviewing Department policies and procedures.
- Examining original source documents.



Finding 1: Management has not established written policies and procedures for the operations of the department.

The premise of an effective internal control structure is the department's Control Environment, which includes such elements and management's philosophy and operating style and personnel policies and practices. It is imperative that management establishes internal controls, such as policies and procedures, and communicates them to the operating personnel. Implementing internal controls would increase the assurance that management's financial policies and objectives are both followed and achieved. In addition, management should monitor these controls to ensure they are working as intended and to help detect errors and irregularities.

During the course of our audit, we identified the following conditions:

- Procedure manuals currently in place are incomplete, outdated and in some cases obsolete.
- The department's practice is to communicate procedures verbally. Therefore, we could not verify if the fiscal practices conducted by the Staff Analyst II and the operating personnel she directs conflict with the direction of the director that recently resigned.
- The department does not have official policies and procedures related to the fiscal aspects of operations that would provide guidance to employees, establish authority, and define internal controls for the department.
- The work routinely performed by operating personnel (e.g., monthly reconciliations) is not being formally reviewed by management, as the staff has no written policies instructing them to submit their work for management review.

Without establishing and communicating fiscal policies and procedures that establish guidelines, authority and controls, the risk of the department not achieving its financial objectives and the risk of cash being misappropriated increases.



Recommendation:

Management should develop, implement and communicate official policies and procedures approved by the department head to provide guidelines, establish authority and implement controls for that department.

Current Status: Partially Implemented

We acknowledge the Department has made improvements on official policies and procedures related to fiscal aspects of the operations. The Department now has a hard copy of their procedure manual within their office. However, some of the procedures need to be updated.

We recommend the Department's management develop and implement official policies and procedures regarding writing off delinquent accounts, issuing credits and approving petty cash fund purchases. The policies and procedures will provide staff with guidelines, establish authority and minimize the risk of funds being misappropriated.

Management's Response:

- The department is reviewing the established policies and procedures and is in the process of updating items that are no longer relevant to the operations as well adding procedures where deficiencies are found. This will include write-offs, issuing credits, approving petty cash purchases, and all other necessary items.
- The department is currently developing written procedures for the lines of business activities for which it conducts and is responsible to complete. Administrative and fiscal authorities, duties and responsibilities will be clearly defined. Written procedures are anticipated to be complete prior to 1st fiscal quarter 14-15.

Auditor's Response:

The Department's actions and planned actions will correct the deficiencies noted in this finding.



Finding 2: Lack of proper segregation of duties amongst the operating personnel.

Segregation of duties are designed to reduce the opportunities for a person to be in position to perpetrate and conceal errors and frauds when performing normal duties. A strong internal control environment is demonstrated by the segregation of responsibilities for authorizing transactions, physical custody of assets and the related record keeping.

The responsibilities of the Staff Analyst II include authorizing transactions, maintaining custody of check receipts, and managing the billing system and security deposit log. These job functions conflicted and need to be performed separately by other staff members.

The staffing limitations that exist within the department are the primary cause of operating personnel performing conflicting duties. Improper segregation of duties may allow internal controls to be compromised to conceal unintentional errors or fraud.

Recommendation:

Management should segregate the functions of recording lease activity, authorizing transactions, and maintaining custody check receipts. The security deposit log should be password protected and made available as a read-only file for staff involved in the payment posting and deposit process. If staffing limitations hinder the segregation of these functions, then management should implement mitigating controls to reduce the risk of unintentional errors and fraudulent financial reporting, such as reviewing the work performed by the operating staff on monthly basis

Current Status: Not Implemented

The Fiscal Assistant is responsible for the receipting, depositing and payment transactions of the security deposit log, which is not password protected.

Management's Response:

The department has added checks and balances to ensure compliance with the Internal Cash and Controls Manual accordingly.



- An access password has been added to the security deposit log, reflecting read-only access for staff involved in payment posting and deposit processes.
- The Fiscal Assistant receipts the incoming payments and prepares the check log (Password secured Access database).
- The Staff Analyst then reviews and verifies the dollar amounts of the check log versus the deposit.
- Two Airports employees deliver the deposit to the bank.
- The second Fiscal Assistant applies the payments to Aeroware (The A/R software) and the Staff Analyst verifies the applied payment report against the check log.

Auditor's Response:

The Department's actions will correct the deficiencies noted in this finding.

Finding 3: The process of initiating, maintaining, and terminating customer leases needs to be improved.

The County's Internal Control and Cash Manual (ICCM), Chapter 13, states that records are to be maintained to account for all receipts and disbursements from the trust fund. Also, good business practices are demonstrated when the department accurately documents the lease information in the customer records.

Our review of customer leases disclosed the following discrepancies:

- The department neglected to collect a security deposit from the customer when the terms of the lease agreement required a deposit to be paid.
- Security deposits were neither being recorded on the Trust Log (security deposits listing) or on the check log to indicate that a security deposit was paid by the customer.
- The lease numbers assigned to the lease agreements were not correct, which made the audit trail of both the active and terminated lease agreements ineffective.
- A copy of the Trust Log was not maintained with the monthly FAS reconciliation.



Operating personnel was not consistently adhering to the stipulations of the customer lease agreements. The trust fund will be financially misrepresented and the audit trail of the lease agreements will continue to be ineffective if operating personnel continues to be inconsistent with adhering to the protocol of initiating, maintaining, and terminating lease agreements.

Recommendation:

Management should ensure that operating personnel is adhering to the requirements of the ICCM by routinely reviewing work that they perform. Management needs to document their review of the monthly reconciliation of the Trust Log and FAS report. Furthermore, a copy of the Trust Log that was used to perform the reconciliation needs to be maintained with the monthly FAS report.

Current Status: Not Implemented

As of July 2013, the last reconciliation of the Trust Log to the FAS report had been performed for the month of July 2012.

Management's Response:

- The Trust Log is reconciled to the FAS report and Aeroware by the Fiscal Assistant on a monthly basis, reviewed and signed by the Staff Analyst, and presented to the Director for final review and signature.
- The department is currently developing written procedures for the lines of business activities for which it conducts and is responsible to complete. Administrative and fiscal authorities, duties and responsibilities will be clearly defined. Written procedures are anticipated to be complete prior to 1st fiscal quarter 14-15.

Auditor's Response:

The Department's actions and planned actions will correct the deficiencies noted in this finding.



Finding 4: A reconciliation of the Trust Log and the Aeroware billing report is not being performed on a monthly basis.

A good internal control environment is evidenced by practicing controls that safeguard assets and prevent and detect errors and fraud.

The Trust Log and the Aeroware billing report indicated a difference in the total security deposit amounts. During the course of our audit, we noted the following:

- On June 3, 2008, the total security deposits listed on the Trust Log and Aeroware report was \$243, 424.37 and \$135,077.63, respectively, resulting in a variance of \$108,346.74.
- On July 10, 2008, the total security deposits listed on the Trust Log and Aeroware report was \$245,018.47 and \$210,165.90, respectively, resulting in a variance of \$34,852.57.

The department is not performing a monthly reconciliation of the Trust Log and the Aeroware billing report to ensure the month-end security deposit total recorded is accurate. The security deposit information may not be properly recorded on the Trust Log and in the Aeroware billing system. Consequently, any report produced at month-end will not accurately reflect the customer's security deposit information.

Recommendation:

The department needs to perform a reconciliation of the Trust Log and Aeroware billing report on a monthly basis. Management should take appropriate corrective action to resolve any identified variances between the reporting systems. In addition, management should document their review of the monthly reconciliation.

Current Status: Not Implemented

There has not been a reconciliation performed between the Trust Log and Aeroware since Aeroware's inception. Performing a monthly reconciliation will ensure the month-end security deposit total recorded is accurate and complete.



Management's Response:

- The Trust Log is reconciled to the FAS report and Aeroware by the Fiscal Assistant on a monthly basis, reviewed and signed by the Staff Analyst, and presented to the Director for final review and signature.
- The department is currently developing written procedures for the lines of business activities for which it conducts and is responsible to complete. Administrative and fiscal authorities, duties and responsibilities will be clearly defined. Written procedures are anticipated to be complete prior to 1st fiscal quarter 14-15.

Auditor's Response:

The Department's actions and planned actions will correct the deficiencies noted in this finding.