

County of San Bernardino

Auditor-Controller/Treasurer/Tax Collector
Internal Audits Section

Information Services Department: Review of Fiscal Year 2015 Accruals and Billing Audit



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SUBJECT: REVIEW OF FISCAL YEAR 2015 ACCRUALS AND BILLING AUDIT

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 an audit of the accruals and billing processes for the period of July 1, 2014 through June 30, 2015. The primary objectives of the audit were to determine if appropriate supporting documentation was maintained to support the fiscal year 2015 year-end accruals and to determine whether the billing methodology was appropriate. 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 identified several procedures and practices that could be improved. We have listed these areas for improvement in the Audit Findings and Recommendations section of this report.

We sent a draft report to the Department on May 26, 2016 and discussed our observations with management on July 11, 2016. The Department's responses to our recommendations are included in this report.

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

Respectfully submitted,

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Information Services Department: Accruals and Billing Audit

Executive Summary	1
Audit Background	2
Scope, Objective, and Methodology	3
Audit Findings and Recommendations	4 - 11



Summary of Audit Results

The table below summarizes the audit findings and recommendations for this audit engagement. For further discussion, refer to our *Audit Findings and Recommendations* section of this report.

Finding No.	Findings and Recommendations	Page No.
1	<p>The supplemental accrual was understated.</p> <p>We recommend that accruals for future fiscal years be analyzed thoroughly by the Department before they are submitted for processing.</p>	4-5
2	<p>All transactions should be properly reviewed and authorized.</p> <p>We recommend that the Department develop and implement authorization controls in the Billing System. These controls should require supervisory review and sign-offs of direct billing data that is inputted, before the monthly billing process can be finalized and for any updates on rates. We also recommend that all rates be board approved.</p>	5-7
3	<p>All transactions should have backup documentation.</p> <p>We recommend that all charges are supported by an easily accessible audit trail. If backup data for charges are too large to keep for an extended period of time, raw data should be compressed and/or be exported to an Excel spreadsheet so it can be referenced when needed. This data should be maintained for a period which agrees with the County retention policy. Lastly, the Department should maintain backup documentation on all charges manually entered into the Billing System.</p>	7-9
4	<p>All sensitive information should be secured.</p> <p>We recommend that any computer systems giving permissions, such as VPN access, for individuals to access sensitive data have increased controls and are interfaced with EMACS so access of employee's account is terminated immediately upon departure.</p>	9-10
5	<p>A periodic reconciliation of assets should be performed.</p> <p>We recommend that an effort be made to obtain an accurate count of units that should be billed to departments. Once an accurate count of units is obtained, we recommend a periodic reconciliation be made at least once per fiscal year.</p>	10-11



ACCRUALS AND BILLING AUDIT

The Department

The San Bernardino County Information Services Department (Department) provides computer, media and communication services to County departments. The Department is divided into the following divisions: Application Development, Core Solutions and Security, Multimedia Services, Technology Operations, Telecommunications Services, and Administrative and Fiscal Services.

The Department operates as an internal service fund. Internal service funds account for activities that provide goods and services to other departments on a cost reimbursement basis. The Department is responsible for establishing billing rates for labor, services and products that recover their actual costs. Every fiscal year, their updated rates are approved by the Board of Supervisors.

Our audit reviewed the Department's fiscal year 2015 accruals and their billing methodologies.

Basis of Accounting

As an internal service fund, the Department uses the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred, regardless of the timing of related cash flows.

Billing

The Department utilizes a computer system named the Billing System to bill other County departments. The monthly charges are inputted into the Billing System manually by Department personnel or automatically through computer systems which are interfaced with the Billing System. Currently, the Department has approximately 450 active computer systems with a large amount of sub-systems and associated applications.



Scope and Objectives

Our audit examined the supporting documentation for the fiscal year 2015 year-end revenue accruals and the billing methodologies utilized by the Information Services Department. The objectives of our audit were to determine if appropriate supporting documentation was maintained to support the accruals and to determine whether the billing methodology was appropriate.

Methodology

In achieving the audit objectives, the following evidence gathering and analysis techniques were used, including but not limited to:

- Reviewing the Department's policies and procedures, the San Bernardino County Internal Controls and Cash Manual, and the County Policy Manual.
- Interviewing Department management and personnel that were directly involved in the accrual and billing process.
- Recalculating the accrual recorded in June using Board approved rates and testing the quantity of units billed by examining supporting documentation.
- Analyzing the internal controls over the Billing System and computer systems utilized by the Department.



Finding 1: The supplemental accrual was understated.

Governmental Accounting Standards Board (GASB) Codification Section 1300, "Fund Accounting" paragraph .102, mandates that financial statements for internal service funds should be presented using the accrual basis of accounting. The accrual basis of accounting requires the recognition of revenue when it is measurable and earned. The Information Services Department (Department) operates as an internal service fund and should record revenue on the accrual basis.

The Auditor-Controller/Treasurer/Tax Collector (ATC) prepares the San Bernardino County Year-End Closing Manual. On an annual basis, ATC distributes the updated manual to all departments and trains them on the year-end closing process. The Year-End Closing Manual for June 30, 2015 clearly indicates that internal service funds are required to report year-end closing transactions using the accrual method.

The fiscal year 2015 year-end revenue accruals consisted of an early accrual recorded in June and a subsequent supplemental accrual. The June accrual was an early estimate of the June charges and actual charges prior to June that were rejected due to insufficient appropriation. A subsequent supplemental accrual was intended to adjust the June estimate to actual amounts owed to the Department as of June 30, 2015. The Department calculated the supplemental accrual by determining the difference between the actual June charges and the early estimates recorded for June. However, in processing the supplemental accrual, the actual charges prior to June were mistakenly not included in the calculation. This process effectively reversed out the rejected charges prior to June 2015 that were recorded in the early accrual.

During our audit, we tested the supplemental accrual of six County departments, which was a 56% sample of the total supplemental accrual. We recalculated the June charges using board approved rates and tested the quantity of units billed by requesting backup documentation. Although the June charges recorded for the departments sampled were accurate on a material basis, the supplemental accrual journal entry is incorrect due to the exclusion of rejected charges prior to June.

In an analysis of rejected charges prior to June 2015, four of the departments sampled were under billed. The approximate amount of rejected charges not included in the supplemental accrual out of these departments is as follows:

- Assessor - \$349,798
- Auditor-Controller/Treasurer/Tax Collector - \$32,185
- Land Use - \$17,017
- Sheriff - \$888,264



In a discussion with management, they stated that the reversal of these charges was not intentional and monies will not be collected. When fiscal personnel prepared the supplemental accrual, they did not identify the need to adjust their calculations for the rejected charges prior to June 2015.

Recommendation:

We recommend that accruals for future fiscal years be analyzed thoroughly by the Department before they are submitted for processing.

Management's Response:

Management agrees that accruals for future years will be analyzed by the Department before they are submitted for processing. The inclusion of rejected charges in the June 2015 estimate and the processing of a supplemental accrual were not normal procedures with existing functionality in the ISD billing system. As a result, adding the rejected charges to the June actual billing was missed. For the 2016 Accrual process, ISD reviewed the accrual and reversal documents prior to submission to ensure that all charges, including rejected charges, were included.

Auditor's Response:

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

Finding 2: All transactions should be properly reviewed and authorized.

The Internal Controls and Cash Manual (ICCM) Chapter 2 states that all transactions should be properly authorized and that authorization can take many forms, including Board resolutions, written policies, and manager's signature. Obtaining authorization increases assurance that transactions are executed in accordance with laws, regulations and management policies.

During our audit, the following conditions were identified:

- The employee responsible for monthly billing does not obtain, nor is required to obtain, supervisory review or sign-off before the bills to the department are issued.
- At least one of the divisions of ISD allows staff to directly input billing data into the Billing System without supervisory approval.



- The June 2015 rates for dial tone and voicemail were the incorrect rates for all departments sampled. The rates billed were the board approved rates for fiscal year 2015-2016, rather than fiscal year 2014-2015.
- The rates for IDM index processing, IDM index scanning, helpdesk charges, CD Rom and Blu-ray services were not board approved.

Currently, the Billing System does not have controls adequate to prevent an employee from inputting billing data or updating financial information, such as rates, into the Billing System or computer systems which interface with the Billing System. The Billing System does not require a documented sign-off by a supervisor before the monthly bills are finalized.

Required supervisory sign-offs promote thorough reviews and indicate the transaction was completed with proper authorization. This process also helps reduce the risk of human error. In addition, proper authorization includes obtaining board approval for all rates used by the Information Services Department. The departments being billed for services should be assured they are being billed in accordance with authorized rates.

Recommendation:

We recommend that the Department develop and implement authorization controls in the Billing System. These controls should require supervisory review and sign-offs of direct billing data that is inputted, before the monthly billing process can be finalized and for any updates on rates. We also recommend that all rates be board approved.

Management's Response:

Management agrees that controls should require supervisory review and sign-offs of direct billing data. ISD currently has multiple systems that feed into the billing system. The department plans to transmit and store data from these individual systems to the Journal System.

The following are procedures to be utilized by supervisors and managers to review and approve charges in the Journal system.

1. Charges will be entered directly into the Journal or other operational support systems.
2. Charges will be transmitted daily from operational support systems to the Journal system.
3. At the end of each month, each division will review and approve their billing amounts.



4. Approved charges will be transferred from the Journal to the billing system.
5. The Fiscal unit will review the charges in the billing system and post them to FAS.

At this time, 24% of all billable services are processed through the Journal system. ISD estimates that 100% of billable services will transmit their data to the Journal system by June 30, 2017.

In addition, the inputting of approved rates into applicable systems will be coordinated and completed under the direction and supervision of the ISD Finance Officer to ensure accuracy and timeliness.

ISD will develop rates for Integrated Document Management (IDM) index processing and scanning and submit to the BOS for approval for 2017-18. Effective 2016-17, ISD will no longer charge for additional help desk services. All costs associated with the provision of help desk related services will be recovered in the 2410 infrastructure rate.

ISD uses rates approved annually by the Board of Supervisors. However, ISD does not currently provide CD ROM and Blu-ray services as regular services. There are times when customers need data that is maintained on CDs or Blu-ray discs. In these instances, ISD has charged the customers for the cost of the materials (disks and cases) only. This is not a common occurrence. ISD will add rates in the 2017-18 rate process for CD ROM and Blu-ray services.

Auditor's Response:

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

Finding 3: All transactions should have backup documentation.

The Internal Controls and Cash Manual (ICCM) Chapter 2 states that sufficient and relevant data should be recorded to provide an audit trail and to document evidence that a transaction took place. An audit trail allows an independent person to validate a specific transaction by tracing it from summary report to original documentation.

During our audit, the following conditions were identified:



- One division of the Department discards backup documentation for some of their larger charges within a limited time frame of sixty days. Although the raw data was still in the mainframe, the Information Services Department had to convert the data from machine code in a test environment. Once the raw data was converted, some of the data did not verify to the quantity billed.
- At least one division uses a computer system that only pulls a live feed and has no ability to retrieve historical data to support the billing charges. Also, the billing reports for a previous time frame could not be easily obtained. Once the Department completed the extensive process to convert the billing data into Excel format, some of the data sampled could not be verified.
- The enterprise printing charge had no backup documentation to verify the quantity billed. After the charge is initially entered manually into the Billing System, it becomes a reoccurring charge and backup documentation is not maintained.

Financial transactions that do not have accurate and easily accessible backup documentation do not have a sufficient audit trail. When the Department has numerous financial transactions with insufficient support, there is a danger of unauthorized, erroneous or fraudulent transactions not being recognized on a timely basis.

Recommendation:

We recommend that all charges are supported by an easily accessible audit trail. If backup data for charges are too large to keep for an extended period of time, raw data should be compressed and/or be exported to an Excel spreadsheet so it can be referenced when needed. This data should be maintained for a period which agrees with the County retention policy. Lastly, the Department should maintain backup documentation on all charges manually entered into the Billing System.

Management's Response:

Management agrees that all charges, including CPU, should have an easily accessible audit trail that meets the County's retention policy. To meet this requirement, ISD plans to compress daily data feeds from all operational support systems, including CPU data, and retain it in the Journal system which, when combined with the approvals identified in the response to Finding #2, will result in the Journal system becoming the system of record. In addition, the compressed



data will be searchable and have ad-hoc reporting capabilities to facilitate research.

For some recurring services, such as VPN and enterprise print jobs, customers request the service and once it is established, the services are rendered and billed monthly until the customer requests termination of the service. Other than maintaining a repository of the customers initial request (email or work order), ISD has no other mechanism to provide back-up documentation for these types of recurring charges. ISD is currently researching the capability to generate a report that lists recurring print jobs for customers to review and make decisions based on continued need for specific reports.

Auditor's Response:

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

Finding 4: All sensitive information should be secured.

County policy 09-06SP states that County assets in the form of computer data must be protected from unauthorized disclosure, modification, and destruction. The County Central Computer system must be secured from outside intruders. Care must be exercised to provide adequate protection for sensitive data. Compromised data could cause harm to the County or citizens of the County.

During our audit, we noted that departments were being billed for Virtual Private Network (VPN) services for terminated employees. This service allows County employees to access their computers, applications and authorized networks through remote access. When terminated employees have access, it is possible that they have the ability to access County networks, files and e-mail.

Management stated that it is the responsibility of each department to analyze their monthly bills and inform them of terminated employees for each service they had access to. Terminating an employee's e-mail access and telephone number does not automatically terminate services such as VPN because it is under a different division of the Department. Generally, different divisions do not communicate in regards to the addition and cancellation of accounts.

Recommendation:

We recommend that any computer systems giving permissions, such as VPN access, for individuals to access sensitive data have increased controls and are



interfaced with EMACS so access of employee's account is terminated immediately upon departure.

Management's Response:

Management agrees that sensitive data should be secure. However, management disagrees with the recommendation that each operational support system be interfaced with EMACS. This is not feasible due to the number of systems utilized by ISD that would require interfaces and the cost to maintain these interfaces. Management recommends the following: ISD will use a daily feed from EMACS to the Journal system to identify terminated employees and compare to services that can be tracked at an employee level. ISD will send a corresponding report to customer departments monthly for their authorization to terminate services. ISD strongly recommends that the decision to ultimately terminate services be at the request of the department. Management will explore with the Human Resources' EMACS group the possibility of including a checklist for ISD services with employee termination paperwork to identify Information Technology services associated with terminated employees to ensure timely disconnection of services and access to County systems and information.

Auditor's Response:

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

Finding 5: A periodic reconciliation of assets should be performed.

The Internal Controls and Cash Manual (ICCM) Chapter 2 states that the existence and value of assets should be periodically verified and reconciled with prior records. A complete physical inventory of assets should be taken periodically to insure that the assets exist and are completely accounted for.

During our audit, we noted several large discrepancies between the number of communication units rented to departments recorded in the computer systems and a manual count kept by fiscal employees. Prior to July 2015, the billing input of rented assets was manually entered by the Department's fiscal employees. After July 2015, the Billing System billed departments based on the rented assets in the computer system. This caused a large variance in the number of units billed from June to July 2015. In our audit sample, the largest variance noted in a single department was a 1,267 decrease in radios billed from June to July.



Management stated that an attempt was made to contact several departments to retrieve an accurate number of units, but was unsuccessful in obtaining timely responses. Until there is an accurate count of units, departments are not being charged for the correct amount of units.

Recommendation:

We recommend that an effort be made to obtain an accurate count of units that should be billed to departments. Once an accurate count of units is obtained, we recommend a periodic reconciliation be made at least once per fiscal year.

Management's Response:

ISD agrees that a periodic reconciliation of units for some services should occur every fiscal year. However, in the finding the Auditor describes inventories as rented communication units. It should be noted that ISD does not own the communication devices that customers utilize to access various ISD systems. Each customer/department purchases and replaces its own respective telephone, radio and pager devices. Customers bring their various devices to ISD to have access granted to the various systems. ISD enters their device into each system and will then bill for access.

Since ISD does not own and cannot track locations for radios and pagers, management recommends utilizing the Sensitive Equipment inventory process to facilitate this reconciliation since it is an annual requirement for all County departments to inventory their own devices and it will eliminate duplication of effort for departments. ISD will send out inventory counts of units to each department to coincide with ATC's Sensitive Equipment memo. ISD will also request annual inventory information from external customers.

Auditor's Response:

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