

County of San Bernardino

Auditor-Controller/Treasurer/Tax Collector
Internal Audits Section

Department of Airports: Follow-Up Audit of Accounts Receivable/ Cash Controls



Larry Walker

Auditor-Controller/Treasurer/Tax Collector

222 West Hospitality Lane
San Bernardino, CA 92415-0018
(909) 386-8821

Website: www.sbcounty.gov/atc

Fraud, Waste & Abuse Hotline: (800) 547-9540

Auditor-Controller/Treasurer/Tax Collector

Mission Statement

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.

Audit Team

Denise Mejico

Chief Deputy Auditor

Mary Barber, CPA, CGMA

Internal Audits Manager

Menaka Burkitt

Internal Auditor IV

Carmel Manela

Internal Auditor III

AUDITOR-CONTROLLER/ TREASURER/TAX COLLECTOR



COUNTY OF SAN BERNARDINO

- 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830
- 172 West Third Street, First Floor
San Bernardino, CA 92415-0360 • (909) 387-8308 • Fax (909) 387-6716

LARRY WALKER
Auditor-Controller/
Treasurer/Tax Collector

June 25, 2014

James Jenkins, Director
Department of Airports
777 E. Rialto Avenue
San Bernardino, CA 92415-0831

SUBJECT: FOLLOW-UP AUDIT OF ACCOUNTS RECEIVABLE/CASH CONTROLS

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) accounts receivable and cash controls 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, *Accounts Receivable / Cash Controls Audit*, issued on August 12, 2008. Of the six recommendations from the original audit report, four have been partially implemented and two have not been implemented.

We sent a draft report to the Department on March 19, 2014. The Department's responses to the current status of our recommendations are included in this report.

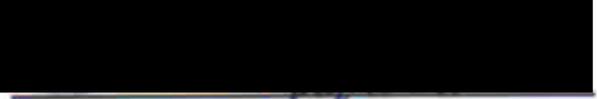
We would like to express our appreciation to the personnel at the Department of Airports who assisted and cooperated with us during this engagement.

Respectfully submitted,

Larry Walker

Auditor-Controller/Treasurer/Tax Collector
San Bernardino County

By:


Denise Mejico

Chief Deputy Auditor

Enclosure

Distribution of Audit Report:

Robert Lovingwood, 1st District Supervisor
Janice Rutherford, Chair, 2nd District Supervisor
James Ramos, 3rd District Supervisor
Gary Ovitt, Vice Chair, 4th District Supervisor
Josie Gonzales, 5th District Supervisor
Gregory C. Devereaux, County Executive Officer
Grand Jury, Foreperson (2)
Auditor-Controller Audit Committee

Date Report Distributed: 6/26/14

LDW:DLM:MFB:CMM:oac



Department of Airports:

Follow-Up Audit of Accounts Receivable/Cash Controls

Scope, Objective, and Methodology	1
Prior Audit Findings, Recommendations, and Current Status	2 - 13



Scope and Objectives

Our audit examined the accounting records relating to the Department's accounts receivable and cash controls for the period for 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, *Accounts Receivable / Cash Controls Audit* issued on August 12, 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: Procedures over the reporting of the delinquent account balances need to be improved.

It is a common business practice that management review receivable reports for accuracy and that the ending period be documented on delinquency or revenue reports to accurately portray information to report users.

The following conditions were identified during our review:

- Management does not review delinquency report for accuracy or document evidence of review on the report prior to it being submitted to the Airports Commission.
- Delinquencies were understated one month by \$42,699 on active leases.
- The Department does not document the date the reports are run or the ending period of the delinquencies which can be misleading to report users.
- The Department is not determining delinquencies or applying late fees in accordance to the fee ordinance adopted by the County Board of Supervisors.

If management does not review delinquency reports for accuracy, delinquencies can be over or understated, provide wrong data to report users and allow accounting irregularities to go undetected.

Recommendation:

We recommend management review delinquency reports for completeness and accuracy on a monthly basis. We further recommend that the ending period and/or date the reports are run be documented on the reports for users.

Current Status: Partially Implemented

We acknowledge the Department has made improvements on procedures over the reporting of delinquent account balances. Monthly reports are being run each week and the report run date is documented. However, we recommend that the Department's management review delinquency reports for completeness and accuracy on a monthly basis and clearly document evidence of its review. In addition, we recommend that the Department determine delinquencies and apply



late fees in accordance to the fee ordinance adopted by the County Board of Supervisors.

Management's Response:

The department submits delinquency reports electronically to the Assistant Director on a biweekly basis for recommendations and follow-up instruction for recovering delinquent account balances. The Assistant Director shares their recommendation with the Director of Airports, Real Estate Services, and County Counsel if applicable. The Assistant Director then responds via email with instruction as to collection procedures. The Fiscal Assistant prints this correspondence and keeps a copy in the "Chron" file for recording purposes.

The department processes invoices on a monthly basis. If an account is delinquent after the fifth of the month a \$30 fee is automatically assessed through the accounts receivable system according to the current fee ordinance.

Auditor's Response:

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

Finding 2: The department is not reporting receivables at fiscal year end.

The Year-End Closing Manual, states all departments must abide by the procedures set forth in the manual in regards to preparing and submitting the closing documents for fiscal year-end. In regards to receivables, if recognition criteria is met at 6/30/07, and the amounts are expected to be collected sometime within 60 days, then those amounts should be accrued.

The following conditions were identified during our review:

- The Department only submitted fiscal year-end documents to report deferred revenue and did not submit documents to record receivables in the amount of \$29,715 at fiscal year-end.
- The department did not follow fiscal year-end procedures relating to receivables as instructed in the Year-End Closing Manual.



If the department does not follow the fiscal year-end procedures and submit the appropriate closing documents pertaining to receivables, receivables will be understated for the fiscal year.

Recommendation:

We recommend the Department comply with the Year-End Closing Manual that is distributed to all county departments and submit the necessary closing documents as instructed.

Current Status: Not Implemented

As of July 2013, the fiscal year-end documents to report accounts receivable was submitted in fiscal year 2011.

Management's Response:

For fiscal year 2012-13 the department has reported all applicable receivables according to the fiscal year-end accrual processes.

Auditor's Response:

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

Finding 3: The department is not properly writing off delinquent accounts.

The County's Internal Control and Cash Manual Chapter 14 – Accounts Receivable, states County departments must maintain an Accounts Receivable control ledger when fees, fines or other payments due are not collected at the time the service or product is provided to a customer. In addition when departments determine it is uneconomical to pursue collection or if all collection efforts have been exhausted the department should submit a request for discharge from accountability to ACR-Internal Audits Section so the charge against the department head is removed.

The following conditions were identified during our review:

- The staff analyst has authority to issue credit adjustments to a zero balance and close accounts without management's documented approval.



- Payments received after the closure of an account could not easily be identified on the system.
- The department does not maintain a report that identifies all delinquent balances, including the \$538,163.38 currently with Central Collections, or submits requests for discharge from accountability to the Internal Audits Section. This results in the outstanding balances not being monitored internally by the department's management because they do not appear on delinquency reports or externally by ACR because discharge requests are not submitted prior to writing off delinquent accounts.
- The staff analyst writing off accounts has authority to post payments, issue credit adjustments and close accounts in the system; has complete access to the check log where receipts are recorded; has possession of the cash and checks received and prepares the delinquency reports for the commission.
- Management is not approving or monitoring write-offs nor does the Department have policies and procedures that communicate the whole process on how to handle delinquent accounts and write-offs to staff.

If the Department does not properly report all account balances, write-off accounts and management does not monitor and approve write-offs, the risk of cash being misappropriated is higher.

Recommendation:

We recommend the department develop and implement internal policies and procedures that at a minimum comply with the County's Internal Controls and Cash Manual's required guidelines on how to handle receivable and write-offs. The staff analyst should report all delinquencies, including the accounts assigned to Central Collections, for management to monitor and should not be writing off accounts until documented approval is received from management and request for discharge from accountability is approved by the Internal Audits Section. We further recommend that the staff analyst not have total control over the Aeroware system and access to all fiscal records.

Current Status: Not Implemented

The Department does not maintain internal policies and procedures that at a minimum comply with the County's Internal Controls and Cash Manual's required guidelines on how to handle receivables and write-offs.



The last discharge of accountability request was submitted on 7/28/10 to ATC to obtain approval prior to writing off accounts. There is no internal procedure in place to track and audit delinquent accounts that are sent to Central Collections.

The staff analyst still has access to the system with full rights, the check log and the cash. Due to the size of the department, the staff analyst acts as a backup to functions performed by the fiscal assistant.

Management's Response:

- The department has established that the Director or Assistant Director of Airports must approve all credit adjustments regarding waiving all invoiced fees. Authorization to adjust or remove accrued fees is accomplished by written notice. Notices are filed in individual lease or permit files as well as a newly established "Chron File" specifically utilized to document fiscal adjustments pursuant to this identified deficiency.
- Staff will prepare a report on a monthly basis of all credits issued or applied during the designated period for review by the Director of Airports or a designee.
- The department will submit a discharge of accountability request at least annually to the Auditor's office prior to writing off any accounts deemed uncollectible and "uneconomical to pursue collection or the likelihood of collection does not warrant the expense involved", per the ICCM, Chapter 14 – Accounts Receivable section.
- 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.
- This process is also identified as a lease policy and practice update which is expected to be further addressed in County Code Title 1, Division 8, Management of County Property, currently under review by the County Administrative Office under the direction of the County Chief Executive Officer.



Auditor's Response:

The Department's actions will correct the deficiencies noted in this finding. Also, we recommend the Department develop and implement an internal procedure to track delinquent accounts sent to Central Collections.

Finding 4: Cash handling controls need to be improved.

The County's Internal Control and Cash Manual Chapter 6 - Receipts, states if a department receives a large volume of remittances by mail, the person opening the mail must total the cash, checks, and money orders received in a spreadsheet along with identifying data that can be reconciled and turned over to the cashier. The cashier must issue an Official County Receipt for the total of the items and sign the calculator tape or spreadsheet acknowledging receipt of the total amount indicated. Chapter 3 - Cash Controls, states departments should use a restrictive endorsement stamp on all checks and money orders as soon as received and safe combinations should be changed annually.

The following conditions were identified during our review:

- One check was not endorsed as soon as received or listed on the check log to record the receipt of the payment. Per inquiry with staff this is a common practice on payments received on leases or contracts pending approval.
- The staff analyst, acting cashier for the department, does not verify or document their initials on the check log acknowledging the receipt of the total amount indicated on the log nor does the staff analyst issue an Official County Receipt to the office clerk II for the amount received.
- The staff analyst has authority to instruct staff as to what gets recorded into the check log which is the department's key control to record incoming receipts and is in custody of the receipts until the deposits are made. In addition the check log is not password protected and all employees have access to the log which leaves the opportunity to delete or change information recorded on the check log if desired.
- The safe combination is not changed when there is staffing changes or at least annually.
- The Department is not practicing, nor is management enforcing, the required guidelines as stated in the County's Internal Control and Cash Manual. In addition management has not developed internal



departmental policies and procedures to ensure adequate controls are in place to minimize the risk of cash misappropriation.

The current procedure practiced by the department allows payments to be unaccounted for by not having a policy that ensures all payments, regardless of nature, are initially recorded and endorsed. That practice, in addition with the staff analyst position having the authority to post or delete transactions in the billing system and check log and having custody of the funds, increases the department's risk of funds being misappropriated. The department has a higher risk of cash being misappropriated by not having policies and procedures in place that at a minimum comply with the guidelines stated in the County's Internal Control and Cash Manual.

Recommendation:

Management should develop and implement departmental policies and procedures that at a minimum comply with the County's Internal Controls and Cash Manual's required guidelines. All incoming payments should be recorded as received in the check log by the office clerk in order to function as a receipt and be reliable. In addition the log should be password protected and be made available as a read-only file for staff involved in the payment posting and deposit process.

Current Status: Partially Implemented

The Department is immediately endorsing checks upon receipt. Also, the check log is now password protected. However, we recommend that the Department should update departmental policies and procedures to ensure that they comply with the County's Internal Controls and Cash Manual's required guidelines including addressing the following issues found during the course of the audit:

- Initials were not always shown on the Check Log to acknowledge receipt.
- Deposits were not always made by the next business day when the amount of receipts reached \$1,000.
- Safe combinations have not been changed since 2010.
- A staff analyst has full rights to the Aeroware system, posts payments, issues credits, and has access to the check log. She also has access to cash receipts when the fiscal assistant is not available. The department needs to segregate her duties to minimize the risk of cash being misappropriated.



Management's Response:

- All checks received are immediately endorsed upon receipt.
- The Staff Analyst reviews, verifies and initials the check log and deposit for banking which is delivered to the bank on a daily basis.
- The check-log is password protected, with read only access to staff involved in payment posting and deposit processes.
- Safe combination is changed on a six-month schedule.
- 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 5: The petty cash fund is not properly maintained.

The County's Internal Control and Cash Manual Chapter 4 states cash funds should be reconciled at least once a month by someone other than the fund custodian and of a higher ranking job code. For petty cash disbursements a petty cash voucher should be completed in permanent ink and approved by an authorized employee of a higher-ranking job code than the requestor. Chapter 9, Bank Accounts, states all checks must display the words "Void six months from issue date".

The following conditions were identified during our review:

- Reconciliations of the cash held in the petty cash fund are not performed on a monthly basis.
- The petty cash fund checking account is not reconciled by someone in a higher ranking job code over the fund custodian; it is being reconciled by a fiscal assistant II who reports directly to the fund custodian.



- The department does not use petty cash vouchers on all purchases nor do they document supervisory approval prior to making purchases.
- There is a lack of segregation of duties since the fund custodian is the person in possession of the fund's cash and checks, approves expenses (verbally) and reconciles the cash fund prior to requesting for replenishment.
- The department does not consistently maintain the petty cash fund at the requested and approved of, \$800 to be maintained in a checking account and \$200 of cash on hand. When the auditor conducted the cash count the checking account was over by \$55.99 and the cash was short by \$54.65.
- The petty cash checking account checks do not display the words "Void six months from issue date".
- The department is not practicing, nor is management enforcing, the required guidelines as stated in the County's Internal Control and Cash Manual. In addition management has not developed internal departmental policies and procedures to ensure adequate segregation of duties are in place to minimize the risk of cash misappropriation.

The department has a high risk of cash being misappropriated by not having adequate segregation of duties in place and by not practicing the guidelines as stated in the County's Internal Controls and Cash Manual.

Recommendation:

Management at the department should develop internal policies and procedures that at a minimum comply with the County's Internal Control and Cash Manual's required guidelines. In addition we recommend the department restructure the duties and role of the fund custodian so the custodian does not have complete control of the cash to minimize the risk of misappropriation.

Current Status: Partially Implemented

Petty cash reconciliations are performed but there was no indication of when the reconciliations were performed or who completed the reconciliation. There was



also no indication of a higher level review. We recommend that both the preparation and review of the petty cash fund reconciliations be completed monthly. Vouchers should be utilized for petty cash purchases. In addition, we recommend that the Department obtain checks that include the required "Void after six months" statement. In order to minimize the risk of funds being misappropriated, the department should develop and implement procedures that are in compliance with the ICCM. We also recommend an employee other than the fund custodian and of a higher ranking job code review the reconciliations.

Management's Response:

The petty cash custodian will be changed from the Director of Airports to Fiscal Assistant A. The petty cash fund will be reconciled on a monthly basis by Fiscal Assistant B; then reviewed by the Staff Analyst against the monthly bank statement; and presented to the Director for final review and signature. The petty cash fund is replenished when it is approximately fifty percent expended. Petty cash vouchers will be purchased and utilized as per the ICCM page 4-23. The department will order checks with the words "Void six months from issue date".

Auditor's Response:

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

Finding 6: The department does not have official policies and procedures in place in regards to the fiscal aspects of operations.

It is key that management establish internal controls such as policies and procedures and communicate them to staff to increase assurance that managements financial policies are followed and financial objectives are achieved. In addition management should monitor these controls to ensure they are working as intended and to help detect errors and irregularities.

The following conditions were identified during auditors review:

- Procedure manuals currently in place are incomplete, outdated and in some cases obsolete.



- The department's practice is to communicate procedures verbally therefore auditor could not verify if the fiscal practices conducted by the staff analyst and staff conflict with the direction of the director.
- The department does not have official policies and procedures in regards to the fiscal aspects of operations approved by the director to provide guidance to employees, establish authority and internal controls for the department.

Without establishing and communicating fiscal policies and procedures to staff that establish guidelines, authority and controls, the risk of misappropriation of cash increases.

Recommendation:

We recommend Management develop, implement and communicate official policies and procedures approved by the department head to provide guidelines, establish authority and implement controls for the 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 manuals within their office. However, they should be kept up-to-date.

We recommend the Department's management also develop and implement official policies and procedures approved by the Department Head 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 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 planned actions will correct the deficiencies noted in this finding.