

County of San Bernardino

**Auditor-Controller/Treasurer/Tax Collector
Internal Audits Section**

Real Estate Services Department Billing Process Follow Up Audit



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July 18, 2017

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SUBJECT: Real Estate Services Billing Process Follow Up 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 a follow-up audit of the Real Estate Services Billing Process for the period of January 1, 2016, through January 18, 2017. The objective of the audit was to determine if the recommendations for the findings in the *Real Estate Services Billing Process Audit* dated May 18, 2015 have been implemented. 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 issued on May 18, 2015. Of the 3 recommendations from the original audit report, 2 have been implemented and 1 has not been implemented.

We sent a draft report to the Department on June 7, 2017. 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 Real Estate Services Department who assisted and cooperated with us during this engagement.

Respectfully submitted,

Oscar Valdez

Auditor-Controller/Treasurer/Tax Collector
San Bernardino County

By: _____

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**Real Estate Services Department:
Billing Process Follow Up Audit**

Scope, Objective, and Methodology

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**Prior Audit Findings, Recommendations, and
Current Status**

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Scope and Objective

Our audit examined the Department's Billing Process for the period of January 1, 2016 through January 18, 2017.

The objective of this follow-up audit was to determine whether the Department implemented the recommendations contained in the prior audit report, *Real Estate Services Department Billing Process*, issued on May 18, 2015.

Methodology

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

- Review of pertinent documents.
- Walk-through of mail receipting process.
- Interview of Department staff that was directly involved in the accounts receivable process.



Prior Finding 1: The mail receipting process needs to be improved.

According to the County's Internal Controls and Cash Manual (ICCM) Chapter 6, two or more employees should be present when mail is opened. The person who opens incoming mail must complete a list of the mail receipts received indicating the following items: name of the remitter, amount received, other pertinent data, signatures of the person opening the mail and the cashier to whom the mail receipts are turned over.

The following conditions were noted during our audit:

- Two or more employees were not present when the mail was opened.
- The Department did not maintain a list of mail receipts for lease payments received.

Management was not aware of the ICCM procedures for opening and logging mail receipts. The risk of undetected errors and potential theft increases when mail receipting procedures are not followed.

Recommendation:

We recommend that both management and staff familiarize themselves with the County's ICCM. The Department should have more than one employee present while opening the mail. We also recommend the person who opens the incoming mail maintain and complete a list of the mail receipts.

Current Status: Implemented

The Department has implemented a process of having more than one employee present when the mail is opened. In addition, the Department is maintaining a complete list of the mail receipts.

Prior Finding 2: Controls over safeguarding of cash and cash equivalents need to be improved.

According to the County's ICCM, Chapter 2, access to valuable assets should be controlled in order to safeguard them. Chapter 3 of the ICCM indicates that departments that receive or hold cash and cash equivalents must store the cash overnight in either a safe or a locked file cabinet. Chapter 3 of the ICCM also indicates safe combinations should be



changed when an employee who has knowledge of the combination is terminated, transferred to another department, or is assigned other duties. Even if there are no staffing changes, the combination must be changed annually. Since the ICCM allows cash to be stored in a safe or locked file cabinet, the cabinet lock should be changed in the same manner as a safe combination.

During our audit we noted that the Department file cabinet where the lease payments were stored has not been rekeyed annually.

The Department was unaware of the County's ICCM procedures for controlling and safeguarding cash and cash equivalents by rekeying the cabinet annually. Cash and cash equivalents are susceptible to unauthorized access and potential theft if controls are not in place to effectively safeguard them.

Recommendation:

We recommend that both management and staff familiarize themselves with the County's ICCM. The file cabinet the lease payments are stored in should be rekeyed when an employee terminates county employment, is transferred to another department, or is assigned other duties. If there are no staffing changes, keys should be changed at least annually.

Current Status: Implemented

The Department has since purchased a new safe for the storage of lease payments. The safe combination has been changed when an employee terminates County employment, transfers to another department, or annually.

Prior Finding 3: Controls over accounts receivable need to be improved.

According to the County's ICCM, Chapter 14, an accounts receivable control ledger must be maintained for all receivables. This ledger must contain the date of payment and each payment amount. If a customer does not pay the amount due, the department must take the appropriate action under the provision of the applicable law or judgment to obtain the payment. Chapter 2 indicates that sufficient and relevant data should be recorded to provide an audit trail and to document evidence that a transaction took place. Contract terms for some lease agreements indicate that either interest or a flat late penalty fee must be paid if the payment is not made by the due date.



During our review of 30 payment transactions for dairy properties, we noted the payment date was not recorded on the accounts receivable control ledger. Auditors were unable to determine whether late fees were due because the receipt date of the payments was not recorded. There was no evidence of late fees being collected.

The Department was unaware of the ICCM requirement to record the receipt date of the payments on the accounts receivable ledger. As a result of not recording the receipt date, we were unable to determine if all lease revenues were deposited. When lease payment dates are not tracked, the Department is unable to enforce late penalty terms of the lease contracts.

Recommendation:

We recommend that both management and staff familiarize themselves with the County's ICCM. The payment date should be recorded on the accounts receivable ledger. The Department should enforce contract terms by charging and collecting late penalty fees for contract payments if applicable.

Current Status: Not Implemented

During our testing of 30 transactions, 4 payments were not paid in a timely manner, and no late penalties or administration fees were collected.

The following conditions were additionally found during our review:

- 2 payments where the tenant paid less than the contracted amount without any justification.
- 1 payment could not be located by the Department, therefore it was unknown if the payment was made timely or if a late fee should have been assessed.

Further recommendation:

We recommend the Department ensure lease contracts are reinstated prior to the expiration of the contract terms by adding the contract expiration date to the accounts receivable ledger. We also recommend the Department maintain a complete accounts receivable ledger, which includes lease dates and lease payment terms. The Department should ensure that lease contract terms are enforced by collecting correct lease payments, and/or administration fees and late penalties when applicable.



Management's Response:

During the audit period, the Department transitioned to an electronic database, which has been modified to track Accounts Receivables. The system includes lease dates, lease payment terms along with applicable late fee amounts.

Discrepancies in payments of rent receivables were due to staffing transitions and the implementation of the new database. The Department has acquired additional fiscal staff to better maintain the Accounts Receivables. Staff has been trained on the importance of monitoring the timeliness and the amounts of the payments received, and to report any irregularities to the Real Property Agent. Regarding the one missing payment, we are currently working with the Real Property Agent to verify proof of payment.

Regarding the recommendation to ensure lease contracts are reinstated prior to the expiration, per California Civil Code Section 1945, there are situations when a month to month lease in holdover is suitable.

Auditor's Response:

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