

# County of San Bernardino

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

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## **Department of Airports: Airports Lease Revenue and Security Deposit Follow-Up Audit**



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# Auditor-Controller/Treasurer/Tax Collector

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## *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.*

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## Department of Airports

### Lease Revenue and Security Deposit Follow-Up Audit

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**December 10, 2018**

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## **SUBJECT: Airports Lease Revenue and Security Deposit 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 Department of Airports' (Department) lease revenue and security deposits for the period of October 2017 through the date of fieldwork. The objective of the audit was to determine whether the Department implemented the recommendations contained in the prior audit report, Airport Lease Revenue and Security Deposit Audit issued September 1, 2017. 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 September 1, 2017. Of the four recommendations from the original audit report, two have been implemented, one has been partially implemented and one has not been implemented.

We sent a draft report to the Department on October 10, 2018 and discussed our observations with management on October 22, 2018. 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,

**Oscar Valdez**

Auditor-Controller/Treasurer/Tax Collector  
San Bernardino County

By:



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## Scope and Objective

The objective of this follow-up audit was to determine whether the Department of Airports (Department) implemented the recommendations contained in the prior audit report, Airports Lease Revenue and Security Deposit Audit, issued on September 1, 2017.

## Methodology

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

- Reviewing Department's policies and procedures
- Interviews of Department staff
- Walk-through of activity
- Testing a sample of deposits and lease payments



### **Prior Finding 1: Written departmental policies and procedures regarding lease revenue and security deposits could be improved.**

The Internal Controls and Cash Manual (ICCM) Chapter 2 - Internal Controls states that the premise of an effective internal control structure is the Department's control environment, which includes elements such as 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.

The following conditions were identified:

- There were no written policies and/or procedures for critical processes in the collection of lease revenue such as procedures for delinquent accounts and credit card processing and acceptance.
- Policies and procedures were outdated and not kept in a centralized location.

When there are no written procedures, processes may be inconsistent and impact the Department's ability to operate efficiently and effectively.

### **Recommendation:**

We recommend management develop, implement and communicate official policies and procedures over delinquent accounts and credit card processing and acceptance. Also, management should ensure policies and procedures are updated and kept in a centralized location.

### **Current Status: Implemented**

The Department has developed, implemented and communicated official policies and procedures for delinquent accounts, desktop deposits and credit card processing and acceptance. The procedures are kept in a centralized location that can be accessed by all staff.



### **Prior Finding 2: Segregation of duties could be improved.**

According to the Internal Controls and Cash Manual (ICCM) Chapter 6 - Receipts states that two or more employees should be present when mail is opened. The department may choose to use video surveillance. In addition, Chapter 2-3 states that no one person should be assigned concurrent duties that would allow him/her complete control over a transaction or an asset.

The following conditions were identified:

- The handling of mail containing payments are being collected and opened by only one employee.
- Any available staff at the admin office were permitted to take credit card payments and issue county receipts. The Fiscal Specialist created receipts for credit card payments and also posted payments.
- Reconciliations for lease revenues are being performed by the same employee who prepared bank deposits and the CR-D forms.

Staff was not aware of the ICCM guidelines for opening mail and reviewing reconciliations. If two or more employees are not present when opening the mail, the risk of theft or loss of cash is greatly increased. The risk of undetected errors and potential theft also increases when duties are not properly segregated.

### **Recommendation:**

We recommend management become familiar with the County's ICCM. Management should also reorganize assignments with existing staff to have effective segregation of duties and reduce the risk that any one person could conceal errors and irregularities.

### **Current Status: Partially Implemented**

The Department has familiarized themselves with the County's ICCM and have developed procedures which include segregation of duties matrix. They have two employees opening mail that contain payments. The Fiscal Specialist posts payments on SAP and no longer issues County receipts. As of February 2018, the Department only uses a desktop scanner for deposits. The Staff Analyst approves desktop deposits and prepares the monthly reconciliations.



### **Management's Response:**

The Staff Analyst prepares the monthly reconciliations by retrieving reports from Wells Fargo and SAP. The Assistant Director then reviews and approves the reconciliation ensuring there is oversight as the Staff Analyst is approving the deposits.

### **Auditor's Response:**

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

### **Prior Finding 3: Deposit procedures could be improved.**

According to the Internal Controls and Cash Manual (ICCM) Chapter 9 – Bank Accounts states that supervisors must verify that deposits are intact.

During our review of 13 randomly selected deposits, nine did not have evidence of supervisory review on the deposit slip.

Staff was unfamiliar with the ICCM's guidelines on deposits. Inaccurate or untimely deposits may occur if there is no supervisory review of the Department's deposits.

### **Recommendation:**

We recommend documented reviews over the deposits be conducted to ensure accuracy. We also recommend the review should be performed by someone of a supervisory level.

### **Current Status: Implemented**

The Department has implemented supervisory level review of the deposits and is electronically initialing on the deposit slip indicating that the deposit is accurate.

### **Prior Finding 4: Controls over lease payments could be improved.**

According to the ICCM Chapter 2 - Internal Controls states that all transactions and pertinent events should be accurately and properly recorded on documents and records. Sufficient and relevant data should be recorded to provide an audit trail and to document evidence that a



transaction took place. If a payment is not made by the due date, contract terms for lease agreements indicate that a late penalty fee must be paid.

The following conditions were noted when 24 lease payment transactions were tested:

- Four payments where the tenant paid less than the lease agreement.
- Four transactions where payment was late and late fees were not collected.

The Department does not have a process in place to monitor or review contracts or lease agreements for any changes or modifications to lease terms on a regular basis. The risk of undetected errors and loss of lease and fee revenue may increase if records are not regularly updated to reflect contracts or lease agreement terms.

### **Recommendation:**

We recommend management ensure lease files are up to date and late fees are properly applied to tenant accounts.

### **Current Status: Not Implemented**

Of the fifteen transactions tested, two of the payments did not agree with the lease files. Additionally, two of the fifteen transactions tested did not properly apply a late fee.

### **Management's Response:**

The Department of Airports continues to perform lease audits to ensure increases are being applied while a new leasing software program is procured. The new leasing software program will allow for automated lease increases and penalty charges that conform to each individual lease, a capability the current leasing software program does not offer.

### **Auditor's Response:**

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