

# County of San Bernardino

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

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## **Real Estate Services Department Billing Process Audit**



**Larry Walker**  
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# Auditor-Controller/Treasurer/Tax Collector

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**May 18, 2015**

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## **SUBJECT: Real Estate Services Billing Process 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 Real Estate Services Department for the period of July 1, 2012 through June 30, 2013. The primary objective of the audit was to determine if the internal controls over the Department's billing and accounts receivable processes were effective. 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 March 12, 2015 and discussed our observations with management on March 23, 2015. The Department's responses to 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,

**Larry Walker**

Auditor-Controller/Treasurer/Tax Collector  
San Bernardino County

By:



**Denise Mejico**  
Chief Deputy Auditor

Enclosure

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# Real Estate Services Department: Billing Process Audit

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## Summary of Audit Results

Our findings and recommendations are provided to assist management in improving internal controls and procedures relating to the Department's billing and accounts receivable processes.

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	<b>Finding:</b> The mail receipting process needs to be improved.	5
	<b>Recommendation:</b> Both management and staff should familiarize themselves with the County's Internal Controls and Cash Manual. The Department should have more than one employee present while opening the mail. The person who opens the incoming mail should complete a list of the mail receipts.	
2	<b>Finding:</b> Controls over safeguarding of cash and cash equivalents need to be improved.	6
	<b>Recommendation:</b> The file cabinet the lease payments are stored in should be re-keyed 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.	
3	<b>Finding:</b> Controls over accounts receivable need to be improved.	7
	<b>Recommendation:</b> 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.	



## **Billing and Accounts Receivable**

The Real Estate Services (Department) Leasing and Acquisition Division negotiates and administers leases on behalf of County departments. Leased facilities throughout the County provide space for departments and their employees to support the delivery of services in locations convenient to the residents served. The lease of County-owned facilities, such as County parks and airports, generates revenue to offset expenses incurred to provide such facilities to residents. In addition, the division is responsible for the property management of court facilities within the County and the County-owned land and dairy facilities in the Chino Agricultural Preserve.

The Leasing and Acquisition Division also provides appraisal, acquisition, and relocation assistance for County departments. Staff establishes values and acquires the necessary rights-of-way needed to complete public safety projects, including the construction and maintenance of transportation corridors and floodways. This Division also acquires land and facilities for various functions and disposes of property determined to be surplus to the County's needs.

Our audit focused on the billing and accounts receivable process for rents, courts and dairies.

### ***Rents:***

The Department pays property owners for space occupied by County departments and then collects reimbursement and a processing fee from the County departments. Typically, leases over \$36,000 annually are charged a flat 3% processing fee. Leases under \$36,000 are charged the Board approved hourly service rate for labor hours spent by Departmental property agents.

### ***Courts:***

The Trial Court Facilities Act of 2002, SB 1732, required the transfer of responsibility for funding and operation of trial court facilities from all counties to the State of California on behalf of the Judicial Council of California, Administrative Office of the Courts (AOC). In addition, as each transfer occurred, the County and AOC entered into an agreement that defined whether the County or the AOC manages the operations and maintenance of the building. The Department manages and accounts for reimbursements from the AOC for maintenance, utilities, insurance, overhead expenditures and work orders for space occupied by the local court in County-managed facilities. The annual costs of using the facility are estimated annually and distributed between the State and the County based on a pre-determined percentage. The total estimated cost allocated to the State is paid to the County quarterly. At the end of the year, actual costs are calculated and there is a true-up process to ensure the amount paid matches the actual cost.



### ***Dairies***

County-owned dairy property is leased to non-county tenants who submit monthly lease payments to the Department. The amount paid by each tenant is stated in the lease contract.



## Scope and Objectives

Our audit examined the billing and accounts receivable records of the Real Estate Services Department (Department) for the period of July 1, 2012 through June 30, 2013.

Our overall objective was to determine whether the internal controls over the Department's billing and accounts receivable processes were effective.

## Methodology

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

- Review of policies and procedures.
- Interview of Department staff that was directly involved in the billing and accounts receivable processes.
- Examination of original source documents and system generated reports.



## **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.

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

Management concurs and has implemented the process of having two staff members present when the mail is opened and a log has been created for all Real Estate negotiables received.

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

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



**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.

**Management's Response:**

Management concurs and has purchased a safe and has implemented a log to document either annual changes to the combination or changes when key staff leave the department.

**Auditor's Response:**

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



### **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.

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

Management concurs and has already created a new receivables log and has updated the process to ensure late penalty fees are collected appropriately.

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

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