

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**

812



FROM: Riverside County Auditor-Controller

SUBMITTAL DATE:
February 11, 2016

SUBJECT: Internal Audit Report 2015-016: Riverside County Economic Development Agency, Administrative Services, [District: All]; [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

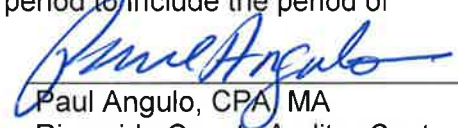
1. Receive and file Internal Audit Report 2015-016: Riverside County Economic Development Agency, Administrative Services

BACKGROUND:

Summary

We have completed an audit of the Riverside County Economic Development Agency, Administrative Services to provide management and the Board of Supervisors with an independent assessment of internal controls over capital assets, cash handling, expenditures, non-capital assets, records retention, revenues, and revolving fund. We conducted the audit during the period March 19, 2014 through August 17, 2015 for operations for the period of July 1, 2012 through June 30, 2014 and subsequently expanded the audit period to include the period of

(Continued on page 2)


Paul Angulo, CPA MA
Riverside County Auditor-Controller

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost:	POLICY/CONSENT (per Exec. Office)
COST	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	Consent <input checked="" type="checkbox"/> Policy <input type="checkbox"/>
NET COUNTY COST	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	

SOURCE OF FUNDS: N/A

Budget Adjustment: No

For Fiscal Year: n/a

C.E.O. RECOMMENDATION:

APPROVE

BY: 
Samuel Wong

County Executive Office Signature

MINUTES OF THE BOARD OF SUPERVISORS

- A-30
- 4/5 Vote
- Positions Added
- Change Order

Prev. Agn. Ref.:

District: ALL

Agenda Number:

SUBMITTAL TO THE BOARD OF SUPERVISORS, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA
FORM 11: Riverside County Auditor-Controller's Office - Internal Audit Report 2015-016: Riverside County Economic Development Agency, Administrative Services, [District: All]; [\$0]

DATE: February 11, 2016

PAGE: Page 2 of 2

BACKGROUND:

Summary (continued)

July 1, 2014 through June 30, 2015.

Based upon our audit, we determined the Riverside County Economic Development Agency, Administrative Services has adequate internal controls over capital assets, cash handling, expenditures, non-capital assets, records retention, revenues, and revolving fund. We identified opportunities for improvement relating to records retention, cash handling, and revolving fund in the former portion of the audit period. However, the department eliminated problem areas in the latter portion of the audit. Reasonable assurance recognizes internal controls have inherent limitations, including cost, mistakes, and intentional efforts to bypass internal controls.

We will follow-up to determine if actions were taken to correct the findings noted.

Impact on Citizens and Businesses

Provide an assessment of internal controls over the audited areas.

SUPPLEMENTAL:

Additional Fiscal Information

Not applicable

ATTACHMENTS:

A: Riverside County Auditor-Controller's Office - Internal Audit Report 2015-016: Riverside County Economic Development Agency, Administrative Services

Internal Audit Report 2015-016

**Riverside County Economic Development
Agency, Administrative Services**

Report Date: February 11, 2016



**Office of Paul Angulo, CPA, MA
County of Riverside Auditor-Controller
4080 Lemon Street, 11th Floor
Riverside, CA 92509
(951) 955-3800**

www.auditorcontroller.org



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ACC | **AUDITOR**
CONTROLLER
COUNTY OF RIVERSIDE

Paul Angulo, CPA, MA
Auditor-Controller

Frankie Ezzat, MPA
Assistant Auditor-Controller

February 11, 2016

Mr. Robert Field
Assistant CEO/EDA
Riverside County Economic Development Agency
3403 10th Street, Suite 400
Riverside, CA 92501

Subject: Internal Audit Report 2015-016: Riverside County Economic Development Agency, Administrative Services

Dear Mr. Field:

We have completed an audit of Riverside County Economic Development Agency, Administrative Services to provide management and the Board of Supervisors with an independent assessment of internal controls over capital assets, cash handling, expenditures, non-capital assets, records retention, revenues, and revolving fund. We conducted the audit from March 19, 2014 through August 17, 2015 for operations for the period July 1, 2012 through June 30, 2014 and subsequently expanded the audit period to include the period of July 1, 2014 through June 30, 2015.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain sufficient, reliable, relevant and useful information to provide reasonable assurance that our objective as described above is achieved. An internal audit includes the systematic analysis of information to evaluate and improve the effectiveness of internal controls. We believe this audit provides a reasonable basis for our conclusion.

Internal controls are processes designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial and non-financial information. Management is responsible for establishing and maintaining adequate internal controls; our responsibility is to evaluate the internal controls.

Based upon the results of our audit, we determined the Riverside County Economic Development Agency, Administrative Services has adequate internal controls over capital assets, cash handling, expenditures, non-capital assets, records retention, revenues, and revolving fund. We identified opportunities for improvement relating to records retention, cash handling, and revolving fund in the former portion of the audit period. However, the department eliminated problem areas in the latter portion of the audit. Reasonable assurance recognizes internal controls have inherent limitations, including cost, mistake, and intentional efforts to bypass internal controls.

Internal Audit Report 2015-016: Riverside County Economic Development Agency, Administrative Services

In accordance with paragraph III.C of the Board of Supervisors Resolution 83-338, management decided not to respond to the audit since no recommendations were provided.

We thank the Riverside County Economic Development Agency, Administrative Services' management and staff for their cooperation; their assistance contributed significantly to the successful completion of this audit.

Paul Angulo, CPA, MA
Riverside County Auditor-Controller



By: René Casillas, CPA, CRMA
Interim Chief Internal Auditor

cc: Board of Supervisors
Executive Office
Grand Jury

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Executive Summary

Overview

Riverside County Economic Development Agency, Administrative Services (Department) provides support to 15 offices within the Riverside County Economic Development Agency. These offices include Aviation, Community Services Division, Cultural Services, Economic Development, Edward-Dean Museum, Fair and National Date Festival, Housing, Office of Foreign Trade, Office of Military and Defense Services, Project Management Office, Real Estate Division, Riverside County Film and Television Office, Riverside County Library System, Successor Agency, and Workforce Development.

The department consists of three distinct service units: Accounting and Finance, Executive Management, and Human Resources. Some staff members within the department also provide direct support to Facilities Management. Facilities Management is a division of Riverside County Economic Development Agency; however, it has its own administrative staff. An allocation methodology has been developed and mutually agreed upon by the department and Facilities Management Administration for allocating cost. The director, managing director, and a deputy director have been identified as positions that allocate costs to the Facilities Management Administration.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of the department's internal controls over capital assets, cash handling, expenditures, non-capital assets, records retention, revenue, and revolving fund.

Audit Conclusion

Based upon the results of our audit, we determined the Riverside County Economic Development Agency, Administrative Services has adequate internal controls over capital assets, cash handling, expenditures, non-capital assets, records retention, revenues, and revolving fund. We identified opportunities for improvement relating to records retention, cash handling, and revolving fund in the former portion of the audit period. However, the department eliminated problem areas in the latter portion of the audit. Reasonable assurance recognizes internal controls have inherent limitations, including cost, mistake, and intentional efforts to bypass internal controls.

Records Retention

Background

Board of Supervisors policy A-43, *County Records Management and Archives Policy*, section D.5 *Records Retention Schedules – Standard – Retention Period*, states “retention periods on Board of Supervisors approved records retention schedules are mandatory, and records shall be disposed of in accordance with those approved retention periods.” All County of Riverside departments must adhere to the County of Riverside, California General Records Retention Schedule and/or a County of Riverside, California Departmental Records Retention Schedule approved by the Board of Supervisors.

Code of Federal Regulation, Title 5, Chapter I, Subchapter B, Part 293, Subpart A, Section 293.106 (5 CFR § 293.106) requires agencies to establish physical controls to protect information in personnel records from unauthorized access. It also requires agencies to store personnel records in a metal filing cabinet, which are locked when records are not in use, or stored in a secured room. The department’s sensitive information consists of personnel records containing personal information; therefore, the department must adhere to 5 CFR § 293.106 requirements.

The Department did not have a County of Riverside, California Departmental Records Retention Schedule approved by the Board of Supervisors during the audit period of July 1, 2012 through September 8, 2014. However, a County of Riverside, California Departmental Records Retention Schedule was approved on September 9, 2014 for disposition of programmatic records. General Records Retention Schedule revisions 6 through 8 were effective during the audit period of July 1, 2012 to June 30, 2015.

Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over records retention management.

Audit Methodology

To accomplish our objectives, we:

- Conducted interviews and observed operating procedures of office personnel.
- Identified and reviewed laws, codes, and regulations, ordinances, applicable policies, and procedures.
- Obtained and understood policy and procedures regarding records retention management.
- Performed testing to ensure internal controls were adequate over records retention.

- Determined if sensitive information is secured with limited access.

Finding 1: Securing Sensitive Information

The department did not properly secure sensitive information. The department's sensitive information consists of personnel files containing personal information. Personnel files are maintained by Riverside County Economic Development Agency, Administrative Services' Human Resources (HR) personnel. HR personnel store personnel files in locked filing cabinets on the third floor of the Riverside Centre office. The personnel files are locked at night and opened in the morning. There are always HR personnel present when the filing cabinets are open. If all HR personnel leave the area, the filing cabinets are locked. We had HR personnel lock all filing cabinets containing personnel files and we attempted to open all drawers. We identified one drawer titled, "De – Fi", did not lock. According to 5 CFR§ 293.106(b), agencies are required to store personnel records in a metal filing cabinet, which are locked when records are not in use, or stored in a secured room. The drawer was repaired the next morning. We conducted a follow-up inspection on August 14, 2015 and all drawers storing sensitive information were secured. Since sensitive information is currently secured, no recommendation is necessary.

Cash Handling

Background

Cash and checks are received for water payments, leases, parking, utilities, custodial services, energy rebates, and security deposits. Checks come in through the mail or are hand-carried to the office.

All checks received should be restrictively endorsed when received and recorded on a check log with all negotiable instruments. The check log should be maintained and reconciled to the amount deposited and recorded in PeopleSoft database.

Cash deposits should be secured in an office safe or locked cabinet with limited access until delivered to the bank or Riverside County Treasurer-Tax Collector's office. In outlying areas, funds should be deposited directly into a consolidated zero balance account. If the business day ends after the deadline for making Treasurer-Tax Collector's deposits, the cash collected must be secured until deposit the next business day."

California State Controller's Office, *Internal Control Guidelines, California Local Agencies* provides examples of methods local government can use to address control activities. Paragraph 1.a. states, "bank reconciliations are effective tools to detect mistakes, errors, or embezzlements if they are prepared timely, reviewed in detail, and approved by a second person." Best business practices consider timely processing of bank reconciliations as being prepared on a monthly basis since bank statements are provided on a monthly basis.

Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over cash handling.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed policies, applicable laws, codes, regulations, and ordinances.
- Conducted interviews and performed walkthroughs with office personnel.
- Utilized PeopleSoft queries to identify the volume, location, and frequency of cash receipt.
- Verified appropriate levels of management review and approval.
- Selected samples of deposits to perform detailed testing.
- Verified cash is safely guarded.

Finding 2: Timely Processing Bank Reconciliations

The department did not process bank reconciliations in a timely manner. We selected eight monthly bank reconciliations between July 1, 2012 and June 30, 2014 and determined six (75%) of the eight monthly bank reconciliations were prepared an average of 163 days after the end of the reconciliation month. Best business practices consider timely processing of bank reconciliations as being prepared on a monthly basis since bank statements are provided on a monthly basis. Shortage of staff available to prepare the bank reconciliation was the reason why bank reconciliations were not performed in a timely manner. Performing bank reconciliations in an untimely manner may result in concealment of fraudulent activity such as stolen cash or checks and/or fraudulent reporting of County of Riverside assets. We expanded our review to include four bank reconciliations from March through June 2015 and we found the bank reconciliation to be prepared in a timely manner. Since the condition has been corrected, no recommendation is necessary.

Revolving Fund

Background

Revolving funds are established by County of Riverside departments under the custodianship of a County of Riverside officer for the use on official County of Riverside business. The department has one revolving fund, account number 4, in the amount of \$2,000. This fund is used to purchase small miscellaneous items or service that cannot be purchased through the existing authorized procedures due to extenuating circumstances. Petty cash reimbursement is generally limited to supplies, postage, and refreshments purchases. Receipts are required for all petty cash purchases.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over the revolving fund account.

Audit Methodology

To accomplish our objectives, we:

- Conducted interviews and observed operating procedures of office personnel.
- Identified and reviewed laws, codes, and regulations, ordinances, applicable policies and procedures.
- Obtained and understood policy and procedures regarding revolving fund management.
- Verified safeguarding of cash.
- Performed detailed testing to ensure internal controls were adequate.

Finding 3: Performance of Monthly Petty Cash Reconciliations

Management did not perform petty cash reconciliations on a monthly basis. We selected a sample of eight monthly petty cash reconciliations between July 1, 2012 and June 30, 2014 and determined two (25%) of the eight petty cash reconciliations had no evidence of completion. The department's, *Policies and Procedures Petty Cash*, require a monthly reconciliation of petty cash. Limited petty cash transactions for the month was why the two petty cash reconciliations were not accomplished. Monthly completion of petty cash reconciliation is a critical internal control procedure to ensure errors or fraudulent activities do not go undetected. We expanded our review to include four bank reconciliations from March through June 2015 and found the bank reconciliation to be prepared in a timely manner. Since the exception has been corrected, no recommendation is necessary.

Internal Audit Report 2015-016

**Riverside County Economic Development
Agency, Administrative Services**

Report Date: February 11, 2016



**Office of Paul Angulo, CPA, MA
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Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of the department's internal controls over capital assets, cash handling, expenditures, non-capital assets, records retention, revenue, and revolving fund.

Audit Conclusion

Based upon the results of our audit, we determined the Riverside County Economic Development Agency, Administrative Services has adequate internal controls over capital assets, cash handling, expenditures, non-capital assets, records retention, revenues, and revolving fund. We identified opportunities for improvement relating to records retention, cash handling, and revolving fund in the former portion of the audit period. However, the department eliminated problem areas in the latter portion of the audit. Reasonable assurance recognizes internal controls have inherent limitations, including cost, mistake, and intentional efforts to bypass internal controls.

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Audit Objective

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