



County of Riverside

**Fiscal Year 2005/06
Internal Audit Activity Report**

and

Fiscal Year 2006/07 Audit Plan

August 18, 2006

Office of
Robert E. Byrd, CGFM
County Auditor-Controller

4080 Lemon Street
P.O. Box 1326
Riverside, CA 92502-1326

Table of Contents

| | Page |
|---------------------------------------------------|-------------|
| EXECUTIVE SUMMARY | |
| GOALS | 1 |
| STRATEGIC PLAN | 1 |
| | |
| FISCAL YEAR 2005/06 ACTIVITY REPORT | |
| INITIATIVES | 2 |
| FISCAL YEAR 2005/06 AUDIT PROJECTS | 3 |
| ORGANIZATIONAL STRUCTURE AND STAFFING | 6 |
| | |
| FISCAL YEAR 2006/07 AUDIT PLAN | |
| THE AUDIT PLAN | 7 |
| AUDIT SCHEDULE | 8 |
| FISCAL YEAR 2006/07 INITIATIVES | 9 |
| DEDICATION OF RESOURCES TO AUDIT RELATED SERVICES | 10 |

EXECUTIVE SUMMARY

GOALS

The primary goal of Internal Audits is to provide the Board of Supervisors and county management with highly reliable, independent, objective evaluations and business and financial advisory services to assist them with their business decisions, and to safeguard the county's assets and resources.

We support and assist the Board of Supervisors and county management in meeting their specific business goals and objectives. Our contribution to this effort is evaluating and reporting on the effectiveness of the system of internal controls to safeguard county's resources, ensure reliable financial records, compliance with applicable laws and regulations, and efficiency and effectiveness of operations.

Internal Audits provides a variety of audit services to its primary client, the Board of Supervisors. Another recipient of our audit services is county management who has the responsibility for day-to-day operations of the county departments and agencies. In addition, various federal and state regulatory agencies, the grand jury, the investment community, and the public at large can use our published reports.

To meet our clients' expectations and for us to function effectively with reliability and credibility, we must ensure our audits and reviews of county operations are independent, accurate, and unbiased. Therefore, we follow, when appropriate and necessary and depending on the type of audit being conducted, the exacting ethical and professional standards promulgated by the Institute of Internal Auditors (IIA), the American Institute of Certified Public Accountants (AICPA), and by the Government Accountability Office (GAO).

STRATEGIC PLAN

The continuous improvement of Internal Audits demands that we devote a portion of our effort to developing a strategic plan as well as an annual audit-operating plan. Our long-term goal is to develop a cadre of highly proficient audit professionals to meet the increasing demands of a growing Riverside County. We will meet the audit requirements established by the Government Code and Board of Supervisor's Resolutions, and will continue to identify and address areas of risk within the county operations.

The strategic plan for 2006/07 is driven by several factors, including:

1. Recommendations from external peer reviews, internal quality assurance reviews and customer surveys;
2. Changes within our profession; and,
3. The changing role of internal auditors within the county.

The recognition that internal auditors provide both assurance and consulting services while retaining their independence and objectivity is a cornerstone of the new professional definition. Its reality is demonstrated by our changing role in the county. Increasingly, customers seek our assistance and counsel as they address business issues rather than wait for a "post audit" process to validate or critique their efforts.

FISCAL YEAR 2005/06 INITIATIVES

- **FOCUS INTERNAL CONTROL AUDITS ON RISK AREAS**

Capitalized and Non-Capitalized Assets. Many of the audits we performed during FY2005/06 included an evaluation of internal controls over capitalized and non-capitalized assets. These evaluations were prompted by us realizing that throughout the county, departments did not consistently have a good method of ensuring the accuracy of financial records related to capital assets, and did not have an adequate system of internal controls in place to ensure accountability for capital and non-capital assets. The prevalence of asset related audit findings in our Internal Auditor Reports makes evident the extent of the county's exposure. As we go forward with this initiative, our focus is on training departments on methods of having better control and accountability over assets.

Information Security. It was reported in newspapers and periodicals that the Inland Empire ranks in the top three nationwide for incidence of identity theft. This statistic prompted us to be proactive in helping to protect the county and its customers by evaluating and recommending improvement when necessary, to the county's system of internal controls over the handling and protection of sensitive information and documents. We continue to work very closely with the county's Information Security Office in this effort.

Purchasing Process. As part of our departmental mandated audits, we evaluate each department's purchasing practices for compliance with the county's policies and procedures. We intended on conducting an audit of the Purchasing Department during FY2005/06; however, it has been postponed to early FY2006/07. Our emphasis will be placed on the purchasing process for compliance with county laws and regulations.

During departmental audits conducted during FY2005/06, we identified significant deficiencies in the system of internal controls over the use of credit cards, including store issued credit cards. We have scheduled county-wide audits during FY2006/07 to evaluate the problem with credit cards across the county.

- **PROFESSIONAL DEVELOPMENT**

In recent years, the audit profession encountered challenges which resulted in many new auditing standards. Internal Audits strives to maintain professional staff educated on the changing developments in the audit profession. We are committed to a process of continuous learning to keep updated on developing industry practices. Such constant renewal keeps our staff professionally current, refreshed, invigorated, and responsive to the county's needs. Accordingly, we actively conduct in-house training and participate in external training on issues which are pertinent to our field. Our internal audit employees are also very active in the Institute of Internal Auditors which is the international standard-setting and governing organization for internal auditors.

- **INTERNAL CONTROL HANDBOOK.** Current federal and state laws and accounting standards dictate that management is responsible for establishing and

maintaining effective internal controls. Without a good system of internal controls, accountability over resources may not be achieved. Internal controls help management to safeguard resources, comply with laws and regulations, ensure reliability of financial reports and operate economically and efficiently. The controls serve as checks and balances against undesired outcomes. The county did not have a comprehensive Internal Control Handbook to be used as a reference for department management. More than a decade ago, the Auditor-Controller issued an Internal Control Handbook. This handbook has been in need of a revision.

During fiscal year 2005/06, we devoted the necessary time to write a completely new Internal Control Handbook. It is in a draft form and will be released during September and October 2006. This handbook will be a valuable tool for everyday use by all county departments, agencies and special districts. To assist department management in conducting self assessments of their internal controls, we have developed and included self-assessment tools as part of each chapter of the handbook.

FISCAL YEAR 2005/06 AUDIT PROJECTS

We scheduled forty-nine audits for fiscal year 2005/06. We have completed audit work for thirty-five of the scheduled audits. Two of the audits are still in progress and one was canceled due to changes in county policies which rendered the audit un-necessary. The remaining audits will be rolled in to the fiscal year 2006/07 audit plan.

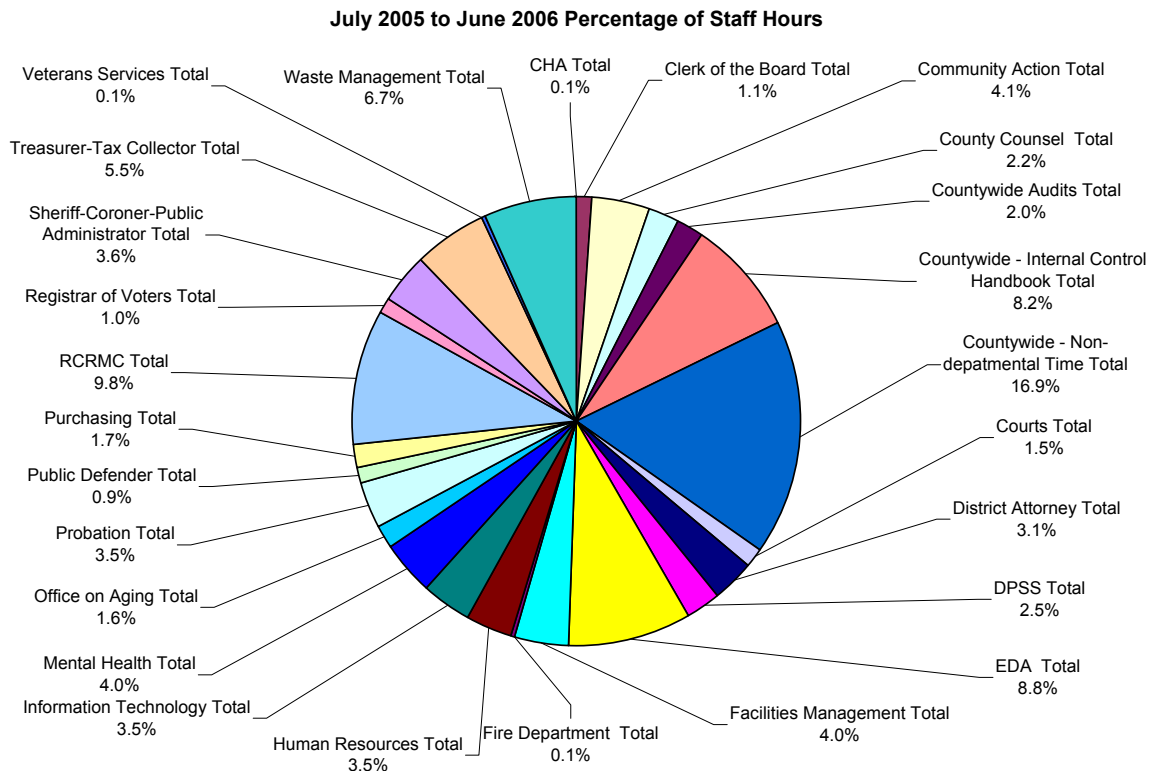
Summary of fiscal year 2005/06 audit plan:

| <i>Department</i> | <i>Reason for Audit</i> | <i>Status</i> |
|------------------------------------------------------------------|-------------------------|-----------------------------|
| Assessor – Revenue and Tax Code §95-35 Verification | Mandated | Completed and Report Issued |
| Clerk of the Board | Mandated | Completed and Report Issued |
| County Counsel – Change in Department Head | Board Resolution | Completed and Report Issued |
| Department of Community Action | Mandated | Completed and Report Issued |
| Department of Public Social Services – Change in Department Head | Board Resolution | Completed and Report Issued |
| District Attorney | Mandated | Completed and Report Issued |
| Economic Development Agency – Change in Department Head | Board Resolution | Completed and Report Issued |
| Economic Development Agency – Fair and National Date Festival | Mandated | Completed and Report Issued |
| Human Resources – Temporary Assistance Pool | Follow-up | Completed and Report Issued |
| Human Resources – Post Employment Plan | Follow-up | Completed and Report Issued |
| Information Technology | Mandated | Completed and Report Issued |
| Mental Health | Follow-up | Completed and Report Issued |
| Mental Health – Change in Department Head | Board Resolution | Completed and Report Issued |

| Department | Reason for Audit | Status |
|------------------------------------------------------------|-------------------------|-------------------------------------------------------------------------------------------------------|
| Office on Aging | Mandated | Completed and Report Issued |
| Probation | Mandated | Completed and Report Issued |
| RCRMC – Nursing Fees | Follow-up | Completed and Report Issued |
| RCRMC – Patient Charges | Follow-up | Completed and Report Issued |
| Sheriff – Public Administrator | Mandated | Completed and Report Issued |
| Treasurer-Tax Collector – 4 th Qtr FY2004/05 | Mandated | Completed and Report Issued |
| Treasurer-Tax Collector – 1 st Qtr FY2005/06 | Mandated | Completed and Report Issued |
| Treasurer-Tax Collector – 2 nd Qtr FY2005/06 | Mandated | Completed and Report Issued |
| Treasurer-Tax Collector – 3 rd Qtr FY2005/06 | Mandated | Completed and Report Issued |
| Treasurer-Tax Collector – 4 th Qtr FY2005/06 | Mandated | Completed and Report Issued |
| Veterans' Services | Follow-up | Completed and Report Issued |
| Courts | Follow-up | Completed and Report Issued |
| Information Technology | Follow-up | Completed and Report Issued |
| Office on Aging | Follow-up | Completed and Report Issued |
| Sheriff - Public Administrator | Follow-up | Completed and Report Issued |
| Registrar of Voters | Mandated | Completed and Report Issued |
| RCRMC – Discharge of Accountability | Mandated | Completed Audit and Waiting on Department to Process Request for Discharge of Accountability |
| Countywide – Mileage Reimbursement | Internal Controls | Completed Audit and Waiting on Management's Response |
| Facilities Management | Mandated | Completed Audit and Waiting on Management's Response |
| Public Defender | Mandated | Completed Audit and Waiting on Management's Response |
| Sheriff – Correction's Inmate Trust Fund | Management Requested | Completed Audit and Waiting on Management's Response |
| Waste Management | Mandated | Completed Audit and Waiting on Management's Response |
| Fire | Follow-up | In Progress |
| RCRMC – Purchasing | Internal Control | In Progress |
| Agricultural Commissioner | Mandated | Moved to the FY2006/07 Plan |
| Assessor-Clerk Recorder | Mandated | Moved to the FY2006/07 Plan |

| Department | Reason for Audit | Status |
|--------------------------------------|-------------------------|-----------------------------|
| Clerk of the Board | Follow-up | Moved to the FY2006/07 Plan |
| Countywide – Interface Transactions | Follow-up | Moved to the FY2006/07 Plan |
| Department of Child Support Services | Mandated | Moved to the FY2006/07 Plan |
| CHA – Claims and Assistance Payments | Management Requested | Moved to the FY2006/07 Plan |
| Human Resources – Asset Management | Internal Control | Moved to the FY2006/07 Plan |
| Purchasing Department | Mandated | Moved to the FY2006/07 Plan |
| RCRMC – Patient Charges | Follow-up | Moved to the FY2006/07 Plan |
| RCRMC – Asset Management | Internal Control | Moved to the FY2006/07 Plan |
| TLMA – Accounts Receivable | Internal Control | Moved to the FY2006/07 Plan |
| Countywide – Management Leave | Internal Control | Canceled |

The graph below depicts the allocation of direct audit hours by department for the year. Non-departmental direct time consists of the following: time spent administering the TeamMate Audit Management system; audit research that is not specific to an assigned project; annual audit planning; and, other direct audit work not chargeable to a specific project.



ORGANIZATIONAL STRUCTURE AND STAFFING

Recruiting qualified internal auditors continues to be a challenge not only for Riverside County, but for all employers throughout California and beyond. We have two vacancies resulting from promoting one of our Senior Internal Auditor's to Principal Accountant and the recent departure of a talented auditor to a competing private sector employer. We expect to have these positions filled within the next two weeks. A list of the professionals comprising the internal audits unit is presented below.

Internal Audit Management and Professional Staff

| | |
|--------------------------|-------------------|
| Chief of Internal Audits | Michael Alexander |
| Principal Accountant | Rachelle Roman |
| Principal Accountant | Russell Dominski |
| Senior Internal Auditor | Melissa Bender |
| Senior Internal Auditor | Claudia Hernandez |
| Senior Internal Auditor | Karen Johnson |
| Senior Internal Auditor | Kimberly Kelly |
| Senior Internal Auditor | Under Recruitment |
| Senior Internal Auditor | Under Recruitment |
| Accountant II | Rudolfo Bati |
| Accountant II | Lawrence Ellision |
| Accountant II | Emad Gewaily |
| Accountant II | Anthony Parada |
| Accountant I | Michael Mena |

FISCAL YEAR 2006/07 AUDIT PLAN

THE AUDIT PLAN

The Internal Audit Plan for the fiscal year 2006/07 is designed to meet the objective of providing a timely and comprehensive scope of audit coverage. The Audit Plan constitutes the schedule of audits comprised of planned audits, other direct audit activities, and an allocation of time for requested audits which may arise during the course of the year. The latter recognizes that we exist in a dynamic environment and the Audit Plan requires some margin of flexibility.

Risk assessment is a fundamental auditing concept premised on the need to concentrate our efforts in the areas of the greatest relative risk. This is a more efficient and focused approach to providing audit coverage on a cyclical basis. "Risk" for this purpose does not imply any unwarranted business strategy or lack of management oversight; however, most risk is inherent in the business activity. As such, while most of our audits are cyclically driven by the requirements of the Government Code, the scope of those audits will be dictated by an evaluation of risk within the operations under audit.

The Audit Plan is intended to represent our primary means of providing audit coverage to the areas identified as having the highest business risks while complying with the requirements of the Government Code. It also provides broad audit coverage to the various components of the county's business operations.

Our audits are largely focused on adding value and improving the departments' operations by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Our Audit Plan consists of the following audit activity:

- **MANDATED AUDITS.** California Government Code requires the Board of Supervisors to audit the financial accounts and records of all officers having responsibility for the care, management, collection or disbursement of county funds every two years and a quarterly count of assets held by the Treasurer. Government Code also requires the Auditor-Controller to ensure the scope of internal audits includes an examination of the organization's system of internal controls and follow-up on prior audit findings and recommendations. Our plan includes thirty-seven mandated audits, seventeen of which are follow-up audits on prior audit findings and recommendations. The plan also includes three internal control audits.
- **MANAGEMENT REQUESTED PROJECTS.** We included four management requested projects in our plan for fiscal year 2006/07. One of these projects is an audit that was requested because the results from a prior mandated audit caused the department management to require greater assurance about the level of internal controls over their processes.
- **SPECIAL CONCERNS AND OTHER ALLOCATION OF AUDIT TIME.** We reserved audit hours to address audits of concern from the Board of Supervisors and the Grand Jury.

Schedule of Audits for Fiscal Year 2006/07

| Audit Project | Reason for Audit |
|------------------------------------------------------------------|----------------------|
| Countywide - Credit Cards | Internal Controls |
| RCRMC - Purchasing and Contracting | Internal Controls |
| Countywide - Cellular Phones | Internal Controls |
| Community Health Agency - Public Health | Management Requested |
| County Libraries | Management Requested |
| Sheriff - Inmate Trust Fund | Management Requested |
| TLMA – Fee Study | Management Requested |
| 1st Quarter Treasury Verification | Mandated |
| 2nd Quarter Treasury Verification | Mandated |
| 3rd Quarter Treasury Verification | Mandated |
| 4th Quarter Treasury Verification | Mandated |
| County Fire Department | Mandated |
| Human Resources – Asset Management | Mandated |
| RCRMC - Asset Management | Mandated |
| Riverside County Habitat Conservation Agency | Mandated |
| Sheriff | Mandated |
| Agricultural Commissioner | Mandated |
| Department of Child Support Services | Mandated |
| Department of Public Social Service - Foster Care Program | Mandated |
| Department of Public Social Service - Group Homes | Mandated |
| Department of Public Social Service - Purchasing and Contracting | Mandated |
| Facilities Management | Mandated |
| Purchasing and Fleet Services | Mandated |
| TLMA Accounts Receivable | Mandated |
| Economic Development Agency -HUD-CDBG Home Grants | Mandated |
| Transportation - Garage | Mandated |
| Mental Health - Western Region | Mandated |
| Follow-up - Clerk of the Board | Mandated - Follow-up |
| RCRMC Nursing Fees | Mandated - Follow-up |
| Information Technology | Mandated - Follow-up |
| Countywide Follow-up - Accounts Payable Interface Transactions | Mandated - Follow-up |

| Audit Project | Reason for Audit |
|-------------------------------------------------------------------------------------------------------|----------------------|
| Follow-up - Economic Development Agency - Fair and National Date Festival & Change in Department Head | Mandated - Follow-up |
| RCRMC - Patient Charges | Mandated - Follow-up |
| Probation Department | Mandated - Follow-up |
| Change in Department Head | Mandated - Follow-up |
| Public Defender | Mandated - Follow-up |
| Human Resources - Asset Management | Mandated - Follow-up |
| Community Health Agency - Animal Control | Mandated - Follow-up |
| Community Action | Mandated - Follow-up |
| County Counsel | Mandated - Follow-up |
| District Attorney | Mandated - Follow-up |
| Mental Health | Mandated - Follow-up |
| Veterans' Services | Mandated - Follow-up |
| Waste Management | Mandated - Follow-up |

FISCAL YEAR 2006/07 INITIATIVES

- Peer Review.** California Government Code requires that Internal Audit departments follow the standards established by the Institute of Internal Auditors. These standards require the performance of an independent peer review every five years. The Auditor-Controller's office participates in the State Association of County Auditor's peer review program. This program keeps the cost of peer reviews to a minimum by reciprocal peer review agreements. We performed a peer review of Ventura County's internal audit function two years ago, and San Diego County will be performing our peer review later this calendar year.
- Capitalized and Non-Capitalized Assets.** We will continue our efforts to help county department to better report and safeguard assets. The results of our audits in this area has prompted a great deal of discussion and action countywide; these discussions are the start to a process of improved financial reporting of capital assets and enhanced accountability over non-capitalized assets.
- Information Security.** With the support and assistance of the county's Chief Information Security Officer, we will continue to evaluate the general controls over the handling, use and disposal of sensitive information. We anticipate that these evaluations may continue to require some technical assistance from the Information Security Office to review related application controls.
- Grants.** As part of meeting the county's responsibility to monitor sub-recipients of Federal Awards, we will review the use of grant funds that are not otherwise

reviewed under the Office of Management and Budget Single Audit Act. We will also review the use these funds to ensure the appropriate use.

- **Credit Cards.** The Board of Supervisors has authorized the use of County Procurement Cards (P-cards), administered by the Purchasing Department. During our audits, we have identified that some county departments use stores credit cards instead of the approved P-cards. Because credit cards are a good medium for making improper or unauthorized purchases, we will make this area a topic of priority for fiscal year 2006/07 to help mitigate the county's exposure.

DEDICATION OF RESOURCES TO AUDIT RELATED SERVICES

Our Audit Plan is based on services to be provided by fourteen audit professionals. In addition to the above projects, audit staff will be involved throughout the year in various other audit tasks as follows:

- **Review of Special Districts' Financials.** The Auditor-Controller has the responsibility to ensure Special Districts receive an annual financial audit. These audits are usually performed by public accounting firms. Internal Audit staff monitors the submission of Special Districts' financial statement audits and reviews the reports in order to identify districts with potential financial troubles.
- **TeamMate Audit Management System.** With the implementation of electronic working papers in fiscal year 2004/05, we have achieved an increased level of efficiency in conducting audits. As with any other system, we have a need to devote some time to TeamMate administration so that we can harness the full potential of the application.
- **Internal Control Self Assessment Assistance.** With the publishing of the county's revised Internal Control Handbook with its self assessment tools, we anticipate that departments will seek assistance in the performance of their self assessments. We look forward to this effort as we believe it will be a significant contributing factor to improving the overall system of internal controls throughout the county.
- **Cash Shortages/Overages.** We will continue to devote time to the reviews of departmental cash shortages and overages throughout the year. Currently we allot less than five percent of our time towards this function.