



County of Riverside

INTERNAL AUDITOR'S REPORT

Economic Development Agency

May 24, 2006

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

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P.O. Box 1326
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May 24, 2006

Ms. Robin Zimpfer
Assistant County Executive Officer/EDA
Economic Development Agency
PO Box 1180
Riverside, CA 92502

Subject: Internal Auditor's Report #2006-006 – Economic Development Agency

Dear Ms. Zimpfer:

We have completed an audit of the Economic Development Agency. We conducted the audit during the period November 2005 through February 2006 for operations of July 1, 2003 through February 1, 2006.

Our purpose was twofold: to meet the requirements of Board of Supervisors Resolution 83-338, paragraph III.A.4, which requires an audit of revolving funds and capital assets whenever a new director is appointed; and, to provide management and the Board of Supervisors with an independent assessment about the adequacy of internal controls over the department's revolving fund and capital assets processes and accounting procedures.

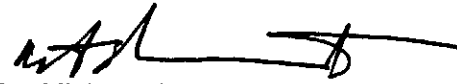
We conducted our audit in accordance with the auditing standards established by the Institute of Internal Auditors. These standards require that we plan and perform the audit to provide sufficient, competent, and relevant evidence to achieve the audit objectives. We believe the audit provides a reasonable basis for our conclusions.

Based upon the results of our audit, we determined the Economic Development Agency's capital assets were transferred in their entirety to the new director upon appointment by the Board of Supervisors. Although we identified immaterial discrepancies between the recorded amounts of the Economic Development Agency's revolving fund and that of the County Treasurer's Office, we determined the recorded amount of the revolving funds in the department's records were transferred in their entirety. We also identified opportunities for improving both the capital asset and revolving fund accounting processes.

Throughout the audit, we discussed the results contained in this report, as well as comments and suggestions of lesser significance, with the appropriate level of management.

We thank the management and staff of the Economic Development Agency for their cooperation during the audit. Their assistance contributed significantly to the successful completion of the audit.

Robert E. Byrd, CGFM
County Auditor-Controller

A handwritten signature in black ink, appearing to read 'MGA', with a long horizontal stroke extending to the right.

By: Michael G. Alexander, MBA, CIA
Chief Internal Auditor

cc: Board of Supervisors
County Counsel
Executive Office
Grand Jury

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Executive Summary

Overview

The Riverside County Economic Development Agency (EDA) is committed to enhancing the economic position of the county and its residents. Through the various departments of the Economic Development Agency, they are able to provide essential services to maintain the environment, encourage business growth, build a positive business climate, improve existing communities, offer a variety of housing opportunities and provide cultural and entertainment activities. These departments include Aviation, Community Services Division, Economic Development, Edward-Dean Museum, Fair & National Date Festival, Housing, Redevelopment, and Workforce Development. EDA employs approximately 476 employees; provides services throughout the County, from Blythe to Corona; and operates with an annual budget exceeding \$26 million.

We conducted the audit per Board of Supervisors Resolution 83-338, paragraph III.A.4. The resolution requires an audit of revolving funds and capital assets upon the appointment of a new officer. Robin Zimpfer replaced Bradley J. Hudson as the Assistant County Executive Officer for EDA, effective August 4, 2005.

Overall Objective

Our primary audit objective was to determine the existence and adequacy of internal controls over the department's revolving funds and capital assets; and to verify the department's revolving funds and capital assets were transferred in their entirety to the new officer upon her appointment by the Board of Supervisors.

Overall Conclusion

The Economic Development Agency's capital assets were transferred in their entirety to the new director upon appointment by the Board of Supervisors. Although we identified immaterial discrepancies between the recorded amounts of the Economic Development Agency's revolving fund and that of the County Treasurer's Office, we determined the recorded amount of the revolving funds in the department's records were transferred in their entirety. We also identified opportunities for improving both the capital asset and revolving fund accounting processes.

Details about our audit methodology, results, findings and recommendations are provided in the body of our report.

Objectives

To determine:

- whether internal controls were in place to ensure the department's capital assets and revolving funds were appropriately recorded and safeguarded from loss; and,
- whether the department's capital assets and revolving funds were transferred in their entirety from the former officer to the new officer on August 4, 2005.

Methodology

To accomplish our objectives, we:

- conducted interviews and performed walk-throughs with department personnel;
- identified and reviewed applicable policies and procedures, Board ordinances, laws, codes, and regulations;
- completed narratives of the revolving fund and capital asset processes;
- performed a risk assessment of the capital asset and revolving fund functions and procedures;
- conducted operational reviews and observations; and,
- performed detail testing of the capital asset and revolving fund accounting processes and transactions.

Results

Transfer of Accountability

On July 26, 2005, a new Assistant County Executive Officer was appointed to EDA by the Board of Supervisors. Upon the change in department heads, accountability for capital assets and revolving funds must be transferred to the incoming officer. In accordance with Standard Practice Manual (SPM) 912, transfer of accountability over capital assets is accomplished by submitting a Capital Asset Transfer Form (SPM AM-6) to the Auditor-Controller's Office. Likewise, accountability for revolving funds is transferred to the new officer utilizing a Revolving Fund Request Order and Change Form (SPM AR-1).

Based on the results of our testing, we determined capitalized assets and revolving funds were appropriately transferred to the new officer upon her appointment by the Board of Supervisors.

Results

Capital Assets

As of June 30, 2005, the Department reported 188 capitalized assets on the annual asset inventory certification submitted to the Auditor-Controller's Office. These assets had a recorded cost exceeding \$19,808,000, with a current book value of \$16,499,918 as of February 28, 2006, and include items such as facilities, land, video conference equipment, kiosk multimedia systems, computers, copiers and vehicles.

The management staff of each department or agency within the County of Riverside is required to account for County property in his/her possession or charge. This responsibility should include performance of the annual inventory and establishment of controls over the acquiring, monitoring, and disposal of capital assets.

Finding 1

Capital assets were disposed of without adequate documentation supporting the disposal. Specifically, 30 Kiosk Multimedia Systems, with a current book value of \$80,334.94 as of February 28, 2006, were disposed of on October 21, 2004. The department submitted SPM Form AM-7 Capital Asset Disposition to the Auditor-Controller's Office (ACO) on May 6, 2005, identifying the disposition. However, there was a discrepancy between the assets listed on the AM-7 Form and that of the supporting documentation. The AM-7 Form identified 14 Kiosk Multimedia Systems donated to either Riverside or San Bernardino Superior Court; 13 retired by sale; 2 scrapped; and 1 returned to inventory. An excel spreadsheet listing the Kiosk Multimedia Systems transferred to the Riverside Superior Courts and signed by a receiver was the only documentation provided to the ACO to substantiate the disposition of 15 Kiosk Multimedia Systems. The ACO did not accept this documentation as sufficient evidence; however, they did provide the department with specific directions on how to proceed in order for the ACO to process the AM-7 Form. No other documentation was provided to substantiate the disposition of the remaining 15 Kiosk Multimedia Systems. These 30 Kiosk Multimedia Systems remain on EDA's capital asset listing.

Standard Practice Manual III-E-2-1.1 requires departments to notify the ACO of each acquisition, betterment, modification, disposal, transfer or change to capitalized assets within 30 days. Absence of adhering to this policy conflicts with management's ability to mitigate the risks of loss or misuse of assets.

Recommendation 1

Request a discharge of accountability for missing assets, in accordance with SPM III-E-2-1.1.

Management's Reply

Management concurs with your position concerning the recommendation and acknowledges that additional documentation is

required in order to remove the assets in question from our fixed assets inventory listing.

The EDA has contacted the San Bernardino Courts to obtain an acknowledgement of receipt for the 14 Kiosks that were donated to their department. This documentation was received from the San Bernardino Courts on April 25, 2006. The EDA is in the process of forwarding all documentation to the Auditor Controller's Office for review.

In reference to the 13 Kiosks sold to Riverside County Courts, we have obtained another signed copy of the acknowledgement of receipt, which was prepared in accordance with the Auditor Controller's guidelines; and we have included proper documentation regarding receipt of payment.

We anticipate sending all documents in question to the Auditor Controller's Office by the end of April so that approval may be obtained to remove these assets from our fixed asset inventory listing.

Auditor's Comment Auditor verified the submittal and approval of the appropriate forms with the Auditor-Controller's Office for the 14 Kiosks donated to the San Bernardino Courts. However, the Auditor-Controller's Office has not approved the removal of the remaining 13 Kiosks sold to Riverside County Courts because a completed AM-7 Form and a copy of the Surplus Property Transfer Form have not been submitted by the department.

Results

Revolving Funds

The County Treasurer's Office revolving fund records identify the Economic Development Agency with 15 revolving funds with a combined authorized balance of \$59,200. However, the department only identifies the following 12 revolving funds in their custody with a combined balance of \$57,700, maintained in a checking account:

Fund	Division	Amount	Purpose of Revolving Fund
4	Administration	\$1,000	Miscellaneous emergencies on an as-needed basis
5	Aviation	\$1,500	EDA Housing Authority Office
13	CSA #51 – Desert Center/Steve Jones	\$500	Miscellaneous emergencies on an as-needed basis
15	Edward Dean Museum	\$500	Miscellaneous Museum-related expenses on an as-needed basis.
16	Fair	\$1,500	Petty cash needs at the EDA-Indio Office
48	CSA #145	\$1,000	Miscellaneous emergencies on an as-needed basis
61	Workforce Development	\$20,000	Support service payments to program participants
67	CSA #85 – Cabazon/Steve Thomas	\$200	Miscellaneous emergencies on an as-needed basis
76	CSA #60 – Idylwild/Captain Marshal	\$500	Miscellaneous emergencies on an as-needed basis
84	CSA #62 – Ripley in Blythe/Steve Jones	\$500	Miscellaneous emergencies on an as-needed basis
85	CSA #122 – Ripley in Blyth/Steve Jones	\$500	Miscellaneous emergencies on an as-needed basis
89	Fair	\$12,600	ATM transactions for Shalimar customers
89	Fair	\$17,400	Miscellaneous Fair-related expenses

Finding 2

Three revolving fund accounts listed on the County Treasurer's Revolving Fund List do not exist per the records provided by the Economic Development Agency. Fund #38 – CSA #126, with an authorized balance of \$500; Fund #43 – CSA #105, with an authorized

balance of \$500; and Fund #86 – CSA #38, with an authorized balance of \$500 are inappropriately accounted for.

Per management, CSA #126 and CSA #38 have been inactive for more than four years and were placed and left dormant in a safe in the Administrative Office. Management also indicated CSA #105 has been inactive for a period of four years. The Regional Manager of CSA #105 indicates the petty cash fund was depleted years ago and the funds were spent on items such as light bulbs and expenses for patch work to be completed. This petty cash fund was not replenished and supporting documentation detailing the expenditures and receipts have been misplaced.

Standard Practice Manual (SPM) III-E-1-2.1 section VI.E requires the custodian to return revolving fund cash to the County Treasurer and deliver a copy of General Form 2 to the Auditor-Controller's Office in the event of a closure of a revolving fund. Without documentation to support the revolving funds closures, a shortage of \$1,500 exists.

Recommendation 2 Deposit any funds relating to the CSA's with the County Treasurer's Office and close EDA's revolving funds #38, #43 and #86 in accordance with SPM III-E-1-2.1.

Management's Reply Management concurs with your position regarding the recommendation to close inactive revolving fund accounts.

Standard Practice Manual-Form AR-1 was completed and submitted to the Auditor-Controller's Office requesting closure of three revolving fund accounts, Fund #38-CSA #126, Fund #86-CSA #38 and Fund #43-CSA #105.

Fund #38-CSA #126 and Fund #86-CSA #38 were reimbursed and closed on April 6, 2006.

Fund #43-CSA #105 was reimbursed and closed on April 19, 2006.

In summary, the EDA has implemented departmental procedures to ensure that all fixed assets and revolving fund accounts are handled in adherence to the guidelines set forth in SPM III-E-2-1.1 and SPM III-E-1-2.1 respectively.

Auditor's Comment Auditor verified the submittal and approval of the appropriate forms with the Auditor-Controller's Office effective May 18, 2006.



Economic Development, Redevelopment, Community Development, Housing, Job Training, County Fair & National Date Festival
1151 Spruce Street, P.O. Box 1180, Riverside, CA 92502, Phone (951) 955-8916, Facsimile (951) 955-6886

Date: April 21, 2006
To: Auditor-Controller
Audits and Specialized Accounting Division
From: Deanna Lorson, Assistant Director
Economic Development Agency *Deanna Lorson*
Subject: Reply to Draft Audit Report

Recommendation Number 1

Request a discharge of accountability for missing assets, in accordance with SPM III-E-2-1.1.

a) Management concurs with your position concerning the recommendation and acknowledges that additional documentation is required in order to remove the assets in question from our fixed assets inventory listing.

b) The following actions have been taken:

The EDA has contacted the San Bernardino Courts to obtain an acknowledgement of receipt for the 14 Kiosks that were donated to their department. This documentation was received from the San Bernardino Courts on April 25, 2006. The EDA is in the process of forwarding all documentation to the Auditor Controller's Office for review.

In reference to the 13 Kiosks sold to Riverside County Courts, we have obtained another signed copy of the acknowledgement of receipt, which was prepared in accordance with the Auditor Controller's guidelines; and we have included proper documentation regarding receipt of payment.

c) We anticipate sending all documents in question to the Auditor Controller's Office by the end of April so that approval may be obtained to remove these assets from our fixed asset inventory listing.

Recommendation Number 2

Deposit any funds relating to the CSA's with the County Treasurer's Office and close EDA's revolving funds #38, #43 and #86 in accordance with SPM III-E-1-2.1.

a) Management concurs with your position regarding the recommendation to close inactive revolving fund accounts.

b) The following actions have been taken:

Standard Practice Manual-Form AR-I was completed and submitted to the Auditor Controller's Office requesting closure of three revolving fund accounts, Fund #38-CSA #126, Fund #86-CSA #38 and Fund #43-CSA #105.

Fund #38-CSA #126 and Fund #86-CSA #38 were reimbursed and closed on April 6, 2006.

Fund #43-CSA #105 was reimbursed and closed on April 19, 2006.

In summary, the EDA has implemented departmental procedures to ensure that all fixed assets and revolving fund accounts are handled in adherence to the guidelines set forth in SPM III-E-2-1.1 and SPM III-E-1-2.1 respectively.

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