

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

808



FROM: County Auditor-Controller

SUBMITTAL DATE:
February 14, 2006

SUBJECT: Internal Auditor's Report #2006-005 – Office of County Counsel

RECOMMENDED MOTION: Receive and file the Internal Auditor's Report.

BACKGROUND: The Auditor-Controller completed an audit of the office of County Counsel. 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.

Based upon the results of our audit, we determined the department's capital assets and revolving funds were transferred in their entirety to the new County Counsel upon appointment by the Board of Supervisors. However, we identified several opportunities for improving the capital assets and revolving fund processes.

Management concurred with our findings and indicated corrective action will be taken. We will follow-up within one year to verify that management took corrective action.

Departmental Concurrence

Robert E. Byrd
for Robert E. Byrd
County Auditor-Controller

FINANCIAL DATA	Current F.Y. Total Cost:	\$ 0	In Current Year Budget:	N/A
	Current F.Y. Net County Cost:	\$ 0	Budget Adjustment:	N/A
	Annual Net County Cost:	\$ 0	For Fiscal Year:	N/A

SOURCE OF FUNDS: N/A	Positions To Be Deleted Per A-30	<input type="checkbox"/>
	Requires 4/5 Vote	<input type="checkbox"/>

C.E.O. RECOMMENDATION: *RECEIVE & FILE*

County Executive Office Signature *Dennis C. Haude*

- Dep't Recomm.: Policy
- Per Exec. Ofc.: Policy
- Consent
- Consent

Prev. Agn. Ref.: | **District:** | **Agenda Number:**

2.4



County of Riverside

INTERNAL AUDITOR'S REPORT

Office of County Counsel

February 14, 2006

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

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



**OFFICE OF THE
COUNTY AUDITOR-CONTROLLER**

County Administrative Center
4080 Lemon Street, 11th Floor
P.O. Box 1326
Riverside, CA 92502-1326
(951) 955-3800
Fax (951) 955-3802



**COUNTY OF RIVERSIDE
AUDITOR-CONTROLLER**

Robert E. Byrd, CGFM
AUDITOR-CONTROLLER

Ivan Chand, CGFM
ASSISTANT AUDITOR-
CONTROLLER

February 14, 2006

Mr. Joe Rank, County Counsel
Office of County Counsel
3535 10th Street, Suite 300
Riverside, CA 92501-3674

Subject: Internal Auditor's Report # 2006-005 – Office of County Counsel

Dear Mr. Rank:

We have completed an audit of the Office of County Counsel. We conducted the audit during the period November through December 2005, for operations of July 1, 2003 through December 13, 2005.

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 department's capital assets and revolving funds were transferred in their entirety to the new County Counsel upon appointment by the Board of Supervisors. However, we identified several opportunities for improving the capital assets and revolving fund processes.

We thank the Office of County Counsel management and staff 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 'M. G. Alexander', with a long horizontal stroke extending to the right.

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

cc: Board of Supervisors
Executive Office
Grand Jury

Table of Contents

	Page
Executive Summary	1
Objectives and Methodology	2
Results	3
Transfer of Accountability	3
Capital Assets	4
Revolving Funds	7
Management's Response	Appendix

Executive Summary

Overview

The Office of County Counsel is the legal representation of the County of Riverside. As such, the County Counsel represents and advises the officers and employees of the county in matters of civil concern. The Office of County Counsel does not provide legal advice to private citizens of the county; however, they may represent other public agencies when not in conflict with its primary duty to represent the county and its Board of Supervisors. Other public agencies include, but are not limited to, the courts, judges, certain special districts and school districts located within the County of Riverside. The County Counsel's operating budget for fiscal year 2005 exceeded \$4 million; the department's funded positions totaled 53.

This audit is in compliance with Board of Supervisors Resolution 83-338, paragraph III.A.4. The resolution requires an audit of revolving funds and capital assets whenever there is a new director. William Katzenstein retired and Joe Rank was appointed as County Counsel by the Board of Supervisors effective July 21, 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 processes and accounting procedures and to verify that the revolving funds and capital assets had been transferred in their entirety from the former County Counsel to the new County Counsel.

Overall Conclusion

Based upon the results of our audit, we determined the department's capital assets and revolving funds were transferred in their entirety to the new County Counsel upon appointment by the Board of Supervisors. However, we have identified several opportunities for improving the capital assets 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 capital assets and revolving funds were transferred in their entirety from the former County Counsel to the new County Counsel on July 21, 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 funds and capital assets processes;
- performed a risk assessment of the capital assets and revolving funds functions and procedures;
- conducted operational reviews and observations;
- reviewed the department's capital assets and revolving funds processes; and,
- performed detailed testing of the capital assets and revolving funds accounting processes and transactions.

Results

Transfer of Accountability

On July 21, 2005, a new County Counsel was appointed by the Board of Supervisors. Upon the change in department heads, accountability for capital assets and revolving funds must be transferred to the incoming director. 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 director 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 County Counsel upon his appointment by the Board of Supervisors.

Results

Capital Assets

As of June 30, 2005, the Department reported eight assets on the annual asset inventory certification submitted to the Auditor-Controller's Office. These assets had a recorded cost exceeding \$220,000 and included items such as computers and copiers.

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

The Office of County Counsel acquired three copy machines during fiscal year 2004/05, with a combined value exceeding \$18,000, that were not recorded in the PeopleSoft Asset Management Module. Standard Practice Manual III-E-21.1 requires the Auditor-Controller's Office be "notified within 30 days of each acquisition, betterment, modification, disposal, transfer or change to fixed assets." If records are not properly updated to reflect the acquisition of new equipment, a loss or misrepresentation of assets may occur.

Recommendation 1.1 Establish a method for monitoring and recording the acquisition of all capitalized assets.

Management's Reply Concur. A procedure has been established and implemented for recording the acquisition of all capitalized assets. Such recordation will occur immediately upon acquisition.

Recommendation 1.2 Notify the Auditor-Controller's Office within 30 days of acquiring capitalized assets.

Management's Reply Concur. Such notification will be given as recommended.

Recommendation 1.3 Update the PeopleSoft Asset Management Module to include the three assets noted above. Ensure the Auditor-Controller's Office is notified of the additions.

Management's Reply Concur. Notification was completed on February 8, 2006.

Finding 2

The Department failed to submit the required documentation necessary to retire or dispose of capitalized fixed assets. As a result, the Department's records were not appropriately updated upon the disposal of such assets. Specifically:

- One copy machine appearing on the fixed asset list could not be removed by the Auditor-Controller's Office upon disposal because

the department failed to submit a properly completed Surplus Property Transfer Form.

- Two servers and 46 computers and monitors were appropriately transferred to County Purchasing using a Surplus Property Transfer Form; however, the Department has not properly notified the Auditor-Controller's Office with the submission of a Capital Asset Disposition Form.

The Auditor-Controller's Office Standard Practice Manual (SPM) No. III-E-2-1.1 defines the disposal process for capital assets. It is mandatory of all county departments to immediately notify the Auditor-Controller's Office of disposed capital assets utilizing Form SPM AM-7 or 940-111 within 30 days of any change. Without proper controls over the disposal process of capital assets, the risk of misappropriation increases.

Recommendation 2 Submit the required documentation to the Auditor-Controller's Office within 30 days of disposition of capital assets.

Management's Reply Concur. Auditor-Controller will be notified within 30 days.

Finding 3

The Department did not perform an annual physical inventory of capitalized assets as required by the County Internal Control Handbook (ICH) and generally accepted accounting principles (GAAP). In addition, the fixed asset report as of June 30, 2005, was certified under oath despite the absence of a physical inventory to verify the list.

Not properly updating the fixed asset listing to reflect all acquisitions and disposals during the fiscal year may result in either the overstatement of deleted assets, or the understatement of omitted additions. Conducting an annual inventory count would have identified the missing additions and deletions of assets previously discussed. SPM III-E-2-1.1, Section III, H, requires each department to update the fixed asset listing and have management certify the accuracy of the report. This SPM enforces California Government Code Section 24051 which specifically states that on or before July 10th in each year, each county officer or person in charge of any office, department, service, or institution of the county shall file with the County Clerk, or with the County Auditor, an inventory under oath, showing in detail all County property in his or her possession or in his or her charge at the close of business on the preceding June 30th.

Recommendation 3.1 Perform an annual physical inventory count of all capitalized assets in accordance with the County Internal Control Handbook (ICH) and generally accepted accounting principles (GAAP).

Management's Reply Concur. Physical inventory was completed on February 3, 2006 and will be performed annually thereafter.

Recommendation 3.2 Update the capital asset listing before certifying the report under oath.

Management's Reply Concur. The listing will be updated and certified annually.

Results

Revolving Funds

The Department has one revolving fund with an authorized balance of \$1,600. The revolving fund is maintained in a checking account and is primarily used to pay for general office expenses, such as postage. Reimbursements for the fund are requested every few months as necessary.

Finding 4

The Office of County Counsel's revolving fund is not reconciled on a monthly basis. Per Chapter 2, paragraph 3.a of the Internal Control Handbook, revolving funds "must be kept at the assigned amount comprised of cash on-hand (or in a bank checking account), receipts/invoices for which reimbursement has not yet been requested, and reimbursement requests in process but not received." Failure to properly reconcile the department's funds increases the likelihood of loss due to misappropriation. In addition, not reconciling the fund resulted in an unidentified fund shortage of \$9.86. Although immaterial, Standard Practice Manual III-E-1.1 requires cash shortages be reported to the Auditor-Controller's.

Recommendation 4.1 Properly reconcile the revolving fund in accordance with Chapter 2, paragraph 3.a of the Internal Control Handbook.

Management's Reply Concur. The revolving fund has been reconciled and will be performed in accordance with the Internal Control Handbook.

Recommendation 4.2 Report the shortage to the Auditor-Controller's Office in accordance with Standard Practice Manual III-E-1.1.

Management's Reply Concur. The shortage was reported February 10, 2006.

MEMORANDUM

RIVERSIDE COUNTY COUNSEL



February 10, 2006

TO: Auditor-Controller
Audits and Specialized Accounting Division

FROM: Joe S. Rank, County Counsel *JSR*

RE: Reply to Draft Audit Report

Recommendation Number 1.1:

Establish a method for monitoring and recording the acquisition of all capitalized assets.

Concur – A procedure has been established and implemented for recording the acquisition of all capitalized assets. Such recordation will occur immediately upon acquisition.

Recommendation Number 1.2:

Notify the Auditor-Controller's Office within 30 days of acquiring capitalized assets.

Concur – Such notification will be given as recommended.

Recommendation Number 1.3:

Update the PeopleSoft Asset Management Module to include the three assets noted above. Ensure the Auditor-Controller's Office is notified of additions.

Concur – Notification was completed on February 8, 2006.

Recommendation Number 2:

Submit the required documentation to the Auditor-Controller's Office within 30 days of disposition of capital assets.

Concur – Auditor-Controller will be notified within 30 days.

Recommendation Number 3.1:

Perform an annual physical inventory count of all capitalized assets in accordance with the County Internal Control Handbook (ICH) and general accepted accounting principles (GAAP).

Concur – Physical inventory was completed on February 3, 2006 and will be performed annually hereafter.

Recommendation Number 3.2:

Update the capital asset listing before certifying the report under oath.

Concur – The listing will be updated and certified annually.

Recommendation Number 4.1:

Properly reconcile the revolving fund in accordance with Chapter 2, paragraph 3.a of the Internal Control Handbook.

Concur – The revolving fund has been reconciled and will be performed in accordance with the Internal Control Handbook.

Recommendation Number 4.2:

Report the shortage to the Auditor-Controller's Office in accordance with Standard Practice Manual III-E-I-1.1.

Concur – The shortage was reported February 10, 2006.