

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



107

**FROM:** County Auditor-Controller

**SUBMITTAL DATE:**  
July 23, 2007

**SUBJECT:** Internal Auditor's Report #2007-303 – Clerk of the Board Follow-up Audit

**RECOMMENDED MOTION:** Receive and file Internal Auditor's Report #2007-303 – Clerk of the Board Follow-up Audit.

**BACKGROUND:** The Auditor-Controller completed an audit of the Clerk of the Board. Our primary objective was to determine if management took corrective action and implemented the five recommendations to correct the findings noted in Internal Auditor's Report #2005-016, dated December 14, 2005. We performed tests and evaluated management's corrective actions to determine if the findings identified in Internal Auditor's Report #2005-016 were mitigated through the implementation of our five recommendations.

Based upon the results of our audit, we determined Clerk of the Board fully implemented two recommendations and the three remaining recommendations were Dropped from the Internal Auditor's Report #2005-016.

Departmental Concurrence

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

<b>FINANCIAL DATA</b>	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

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

**C.E.O. RECOMMENDATION:**

**RECEIVE AND FILE**

BY: *Rob Rockwell*  
Rob Rockwell

**County Executive Office Signature**

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

50013002 53 0411: 14  
CLERK BOARD OF SUPERVISORS  
RECEIVED RIVERSIDE COUNTY


**Prev. Aqn. Ref.:** \_\_\_\_\_ **District:** \_\_\_\_\_ **Agenda Number:** \_\_\_\_\_

2.5



OFFICE OF THE  
COUNTY AUDITOR-CONTROLLER

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COUNTY OF RIVERSIDE  
AUDITOR-CONTROLLER  
**Robert E. Byrd, CGFM**  
AUDITOR-CONTROLLER  
**Bruce Kincaid, CPA**  
ASSISTANT  
AUDITOR-CONTROLLER

July 23, 2007

Nancy Romero, Clerk of the Board  
Clerk of the Board  
4080 Lemon Street, 1<sup>st</sup> Floor  
Riverside, CA 92501

Subject: Internal Auditor's Report #2007-303 - Clerk of the Board Follow-up Audit

Dear Ms. Romero:

We have completed the Follow-up Audit of Clerk of the Board. Our audit was limited to reviewing actions taken, as of April 2, 2007, to implement the recommendations made in our original audit report dated December 14, 2005.

We conducted our audit in accordance with 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 review provides a reasonable basis for our conclusions.

The original audit report contained five recommendations, all of which required implementation and; therefore, were reviewed as part of this audit. For an in-depth understanding of the original audit, please refer to Internal Auditor's Report #2005-016.

This follow-up audit found that of the five recommendations:

- Two recommendations were Fully Implemented, and
- Three recommendations were Dropped.

The following is a summary of the current status of the findings and recommendations identified in the original audit.

**Revenue**

**Finding 1:** Verified statements of revenues were not consistently obtained from franchisees and licensees operating in the County of Riverside, as stipulated in Board Ordinances 553, 684, 816, and 503.10. Specifically, we noted all eleven franchisees and licensees did not submit

verified statement of revenues for one or more fiscal years within the audit period of July 1, 2002 to June 30, 2005.

Recommendation 1.1: Ensure a verified statement substantiating total gross receipts is received from each franchisee and licensee within three months after the expiration of each calendar year.

Recommendation 1.2: Ensure all future contracts require franchisees and licensees to submit a verified statement by an external auditor attesting to the total gross receipts derived during the calendar year.

Recommendation 1.3: Once the verified statements are received, the department staff should reconcile the fees received for the period to the verified statements of receipts, ensuring that revenue derived from stated receipts is consistent with the contract.

Current Status: **Dropped.**

The Clerk of the Board receives nearly 90% of its revenue from franchise and license fees. Franchisees and licensees are charged a fee, based upon a specified percentage of their annual gross receipts or an agreed-upon rate per linear foot of pipeline, in order to conduct business in the County of Riverside.

Board Ordinances 553, 684 and 816 requires franchisees to file with the Clerk of the Board of Supervisors, a verified statement, indicating total amount of annual revenues for each year of the franchise. In addition, Board Ordinance 503.10, which establishes the procedures for the issuance of licenses to construct, operate and maintain cable television systems, states "...Licensee shall file with the Clerk of the Board of Supervisors within three months after the expiration of each calendar year, following the issuance of this license, a verified statement showing its total annual revenue during the preceding year. The statement shall be verified by an outside Auditor and the County shall have the right upon reasonable written notice to the cable operator to inspect the financial records of the company..."

The County of Riverside Board of Supervisors established Ordinance No. 503.11, Regulating Cable, Video, and Telecommunications Service Providers effective December 1, 2006, which is subject to repeal Ordinance No. 503.10. The purpose and intent of this ordinance is to provide for the attainment of seven objectives; including, "to promote competition in cable, video, and telecommunications services, minimize unnecessary local regulation of cable, video, and telecommunications service providers, and encourage the delivery of advanced and competitive cable, video, and telecommunications services on the broadest possible basis to local government and to the businesses, institutions, and residents of the County."

Franchisees and licensees will continue to comply with Ordinance 503.10 until their contract expires, at which time, they will have the option of renewing under the same Ordinance 503.10, using the new Ordinance 503.11, or joining a state franchise. Ordinance No. 503.11 indicates that the above stated requirements are at the discretion of each individual franchisees' or licensees' agreement; and therefore, are no longer a requirement. In addition, the new state franchise agreement states that it is the local entity's responsibility to cover the costs of an audit unless it is discovered that the franchisee or licensee's statement of revenues is significantly inaccurate.

Because of the recent changes in the county ordinance, there is no longer a requirement for franchisees and licensees falling under these ordinances to provide audited financial

statements. As such, we believe the three related recommendations published in Internal Auditor's Report #2005-016 no longer apply. However, we continue to believe that without obtaining reliable statements of revenues the County will not have assurance that it receives all revenue it is entitled to from franchisees and licensees.

**Asset Management**

**Finding 2:** Effective internal controls were not in place to properly monitor assets. We noted:

- 7 of 22 capitalized assets verified were not affixed with a County of Riverside asset tag;
- 2 of 22 capitalized assets could not be located; and,
- Annual physical inventory records and disposal records were not maintained.

**Recommendation 2.1:** Affix all assets and equipment with a County of Riverside asset tag.

**Current Status 2.1: Fully Implemented.**

As of April 2, 2007, no additional capital assets have been acquired and all assets identified during the prior audit were affixed with the appropriate County of Riverside asset tag.

**Recommendation 2.2:** Update inventory records upon any changes. In addition, maintain physical inventory records in accordance with SPM policy III-O-1-1.1.

**Current Status 2.2: Fully Implemented.**

The department has appropriately updated the Asset Management Module in PeopleSoft to record changes, including when assets are disposed. In addition, we verified that the department maintains physical inventory records.

We appreciate the cooperation and assistance extended to us by Clerk of the Board staff during this follow-up audit. Their assistance contributed significantly to the successful completion of the audit.

ROBERT E. BYRD, CGFM  
Auditor-Controller



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

cc: Board of Supervisors  
County Counsel  
Executive Office