

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



269

FROM: County Auditor-Controller

SUBMITTAL DATE:
August 31, 2007

SUBJECT: Internal Auditor's Report #2007-009 – Agricultural Commissioner's Office

RECOMMENDED MOTION: Receive and file Internal Auditor's Report #2007-009 – Agricultural Commissioner's Office

BACKGROUND: The Auditor-Controller completed an audit of the Riverside County Agricultural Commissioner's Office. Our purpose was to provide management and the Board of Supervisors with an independent assessment about the adequacy of internal controls over the department's processes and fiscal procedures.

Based upon the results of our audit, we determined the Agricultural Commissioner's Office had an adequate system of internal controls over the acquisition, monitoring, and disposition of capitalized and non-capitalized assets. Additionally, internal controls in place were adequate over the billing and collection of the Phytosanitary Program revenue. However, weaknesses were identified over the cash handling process to conclude that internal controls in place are not adequate.

Management concurred with the finding identified. We will follow-up within one year to verify that management took corrective action.

Robert E. Byrd

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

Requires 4/5 Vote

C.E.O. RECOMMENDATION:

RECEIVE AND FILE

BY: *Rob Rockwell*
Rob Rockwell

County Executive Office Signature

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

COUNTY OF RIVERSIDE
OFFICE EXECUTIVE

RECEIVED RIVERSIDE COUNTY
AUG 31 2007

Prev. Agn. Ref.:

District:

Agenda Number:

2.14



County of Riverside

INTERNAL AUDITOR'S REPORT

Agricultural Commissioner's Office

August 31, 2007

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

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



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**COUNTY OF RIVERSIDE
AUDITOR-CONTROLLER**
Robert E. Byrd, CGFM
AUDITOR-CONTROLLER

Bruce Kincaid, CPA
ASSISTANT
AUDITOR-CONTROLLER

August 31, 2007

Mr. John Snyder, Agricultural Commissioner
Riverside County Agricultural Commissioner's Office
4080 Lemon Street
Riverside, CA 92501

Subject: Internal Auditor's Report #2007-009 – Agricultural Commissioner's Office

Dear Mr. Snyder:

We have completed an audit of Riverside County Agricultural Commissioner's Office. We conducted the audit during the period January 16, 2007 through June 29, 2007 for operations of July 1, 2003 thru June 29, 2007.

Our purpose was to provide management and the Board of Supervisors with an independent assessment about the adequacy of internal controls over the department's processes and fiscal 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 reasonable assurance that the department's risks have been managed effectively and the department's goals and objectives will be achieved efficiently and economically. We believe the audit provides a reasonable basis for our conclusions.

Based upon the results of our audit, we determined the department had an adequate system of internal controls over the acquisition, monitoring, and disposition of capitalized and non-capitalized assets. Additionally, internal controls in place were adequate over the billing and collection of the Phytosanitary Program revenue. However, weaknesses were identified over the cash handling process to conclude that internal controls in place are not adequate.

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 Agricultural Commissioner's Office 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 '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 stated mission of the Riverside County Agricultural Commissioner's Office is to promote and protect the agricultural industry of the county and its environment, ensuring the health and safety of the county's citizens, and fostering confidence and equity in the marketplace through education and the fair and uniform enforcement of laws, regulations, and ordinances enacted by the people of the State of California and the County of Riverside.

Each Agricultural Commissioner is charged with the protection of California agriculture, protection of the environment, as well as protection of the public's health and safety. These goals are accomplished through the management of programs designed to achieve the Agricultural Commissioner's mission through a combination of public outreach, industry education and various regulatory actions when appropriate. Examples of these programs are Pest Exclusion, Detection, Eradication and Management, Pesticide Use Enforcement, Seed Certification and Nursery Inspection.

Each year County Weights and Measures officials inspect and test packaged commodities and commercially used devices. Transactions derived from the use of such devices are also inspected for accuracy. In addition to inspection activities, Weights and Measures officials provide education and training to the public as well as the regulated industries.

Overall Objective

Our primary audit objective was to determine the existence and adequacy of internal controls over the department's operational processes and fiscal procedures in the following areas:

- Acquisition, monitoring and disposal processes of capitalized and non-capitalized assets; and,
- Revenue.

Overall Conclusion

Based upon the results of our audit, we determined the department had an adequate system of internal controls over the acquisition, monitoring, and disposition of capitalized and non-capitalized assets. Additionally, internal controls in place were adequate over the billing and collection of the Phytosanitary Program revenue. However, weaknesses were identified over the cash handling process to conclude that internal controls in place are not adequate.

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

Objectives

To determine the existence and adequacy of internal controls over the following processes:

- capitalized assets;
- non-capitalized assets; and,
- revenue

Methodology

To accomplish our objectives, we:

- performed a financial analysis for the period July 1, 2003 through December 31, 2006;
- identified and reviewed applicable policies and procedures, Board ordinances, laws, codes and regulations;
- conducted interviews and performed walk-throughs with department personnel;
- completed narratives of various processes;
- performed a risk assessment of the Agricultural Commissioner's Office;
- conducted operational reviews and observations;
- performed research on Weight and Measures Division's laws and regulations;
- performed detailed testing of the department's acquisition, monitoring and disposal processes of capitalized and non-capitalized assets; and,
- performed detailed testing of the department's revenue, including billing, collection, and cash handling processes.

Results

Capitalized Assets

Capitalized assets are tangible or intangible assets with significant value and a utility beyond one fiscal year. Capital assets include land, land improvements, easements, buildings, building improvements, vehicles, machinery, equipment and infrastructure. Vehicles, machinery and equipment with a cost over \$5,000 qualify as a capital asset, as described in the Auditor-Controller's Office Standard Practice Manual Section 913 issued on December 12, 2005.

Capitalized costs include the value paid for the asset, sales tax, interest, transportation charges, insurance while in transit, and costs associated with preparing the asset for its intended use, such as, special foundations and installation costs. The cost of capital assets should be systematically expensed (depreciated) over its useful life. However, some assets are inexhaustible, such as land and land improvements, and are not depreciated since they retain their value.

As of May 31, 2007, the Agricultural Commissioner's Office had six capitalized assets, with a cost of \$147,240 and categorized as follow:

Asset Category	Cost	Percentage of Total Assets
Field Equipment	15,100	10%
Shop/Yard Equipment	8,111	6%
Vehicles	124,029	84%
Total Agricultural Commissioner's Assets	\$147,240	100%

Due to the small number of capitalized assets owned by the department, we verified and performed detail testing on the acquisition, monitoring and disposal processes for all capitalized assets acquired by the department as of May 31, 2007.

Based upon the results of our testing, we determined no significant issues existed over the acquisition, monitoring and disposal processes over the department's capitalized assets.

Results

Non-Capitalized Assets

Non-capitalized assets are valuable and highly desirable equipment items, such as personal computers, printers, and FAX machines with a cost less than \$5,000. Non-capitalized assets that are small, mobile or easy to convert to personal use, and have a fair market value of at least \$200, are classified as "walk-away assets." Examples may include, but not limited to, laptop computers, personal digital assistants (PDA's), global positioning system (GPS) receivers and cellular phones. During the period July 1, 2003 through December 31, 2006, the Agricultural Commissioner's Office purchased non-capitalized computer equipment and office supplies totaling \$178,000.

Management of each department in the County of Riverside is responsible to account for county property in his/her possession or charge, as required by the Auditor-Controller Internal Control Handbook (ICH) Chapter 7. This responsibility should include the establishment of controls over the acquiring, monitoring and disposal of capitalized and non-capitalized assets. On September 12, 2006, a new policy, Board Policy H-26, was approved which provides guidance over the accountability of non-capitalized assets to include recording all walk-away items in the Asset Management Module. The absence of internal controls over the safeguarding of non-capitalized assets could result in theft, loss or misappropriation.

Based upon the results of our testing, we determined no significant issues existed over the non-capitalized asset process. The Department is currently in the process of administering the recording of their non-capitalized assets in the Asset Management Module as required by Board Policy H-26. Overall, the Department had an adequate system of internal controls in place to monitor and safeguard non-capitalized assets.

Results

Cash Handling

The Agricultural Commissioner's Office receives cash receipts for various services, such as the registration and licensing of devices, scanners and packing machines used by businesses located in the County of Riverside. The department also receives cash receipts for certifying agricultural products exported outside of California and for various state and federal programs. During the period July 1, 2005 through May 31, 2007 the department received cash receipts totaling \$7,376,152 from Weights and Measures, the Phytosanitary Program and various state and federal programs. We selected a random sample of 60 deposits totaling \$1,799,838.49, representing 24% of the total population.

To facilitate the shipment of the wide variety of locally produced agricultural products out of Riverside County, "Phytosanitary Certificates" are issued for agricultural commodities which have been inspected by Agricultural Commissioner's Inspectors, and found free from pests and diseases, in order to meet the specific plant quarantine requirements of the receiving county, state or country. After the inspection process, the department issues the appropriate Phytosanitary Certificate along with an invoice for the services provided. During the audit period, the department issued 759 Phytosanitary invoices totaling \$1,135,261.43. We selected a sample of 67 invoices totaling \$90,564.71, representing 8% of the total population for detailed testing of the billing and collection processes. Based upon the results of our testing, we determined controls in place were adequate over the Phytosanitary Program billing and collection processes.

We noted the receipt process followed adequate internal control procedures where cash collections were restricted to specified locations for departmental receipting, receipts were stored in locked cabinets with access limited to only appropriate staff and checks were restrictively endorsed upon receipt. However, other weaknesses were identified over the cash handling process.

Finding 1

Internal controls in place are not adequate over the cash handling process, specifically:

- 20 of 60 deposits totaling \$1,024,739.22, were not recorded in a control document, such as the Daily Log Sheet. These receipts were from local, state and federal agencies. Unless a complete collection control record is established upon receipt, security and accountability for collections are weakened. In addition, without a complete control record, the department misses the opportunity to create an effective, efficient tool to verify that collections are deposited intact;

- Collections are not deposited to the County Treasury on a daily basis. The period between the receipt and deposited date averaged 17 days; and
- Two employees were assigned both accounting and cash handling duties. No person should be assigned as the only control element over his/her own cash handling function.

Auditor Controller's Standard Practice Manual Policy No. 705, Receiving Payments, Deposits of Monies, and Applying Payments, states that at the close of each business day, monies collected must be reconciled to the receipts issued and then deposited in the Treasury, or an authorized Zero Balance Account (ZBA), or secured per an authorized daily deposit exemption. In addition, Standard Practice Manual Policy No. 104, Internal Control states that duties should be divided or segregated so that no one person has complete control over a key function or activity. Failure to record and deposit collections received timely and appropriately segregating cash handling duties may result in loss or misuse of funds.

Recommendation 1.1 Checks received from local, state and federal agencies should be logged in a control document immediately upon receipt.

Management Reply Concur. Estimated date of corrective action is August 7, 2007.

Recommendation 1.2 At the close of each business day, monies collected must be deposited in the Treasury or authorized Zero Balance Account.

Management Reply Concur. Currently, the Agricultural Commissioner's Office has an approved "Daily Cash Deposits – Exemption Request" on file with the Auditor Controller's Office. Due to increased business activity since that approval, our department hereby requests assistance regarding updating that exemption. An alternative to an updated Exemption Request would be to identify a new funding source in order to hire an additional clerical support position (OA III) to comply with this recommendation. Estimated date of corrective action is November 30, 2007.

Recommendation 1.3 Segregate cash handling functions so that no one person has complete control over a key function or activity.

Management Reply Concur. Please see Management's Reply to Recommendation 1.2.

Results

Weights and Measures

Riverside County Weights and Measures Programs are regulated by California Business and Professions Code Division 5, for weighing and measuring devices. In addition County of Riverside ordinance numbers 599, 620 and 832 regulate the packing and scanning equipment used by businesses in the county.

Each year, Riverside County Weights and Measures officials inspect and test packaged commodities and commercially used devices. Transactions derived from the use of these devices are also inspected for accuracy. In addition to inspection activities, weights and measures officials provide education and training to the public as well as the regulated industries. The Weights and Measures Division distributes consumer information pamphlets to various organizations, such as senior centers, public schools, libraries and to other various chambers of commerce offices within Riverside County as a continued outreach and education program.

The California Business and Professions Code Division 5, Section 12500 and County of Riverside Ordinance No 832 identify and direct the regulations for weighing and measuring devices, scanners and packing machines. The regulations make it unlawful for county businesses to sell or use for commercial purposes any weight or measure, or any weighing, measuring, scanning, packing machine or counting instrument or devices which has not been approved by the Agricultural Commissioner's Office.

The Weights and Measures Division utilizes Fictitious Business Licenses data supplied by cities throughout the County of Riverside to identify new businesses that may have devices, packing, and/or scanner equipment. This listing provides the division with a means of monitoring the new businesses that need to be inspected. Once the service has been provided, the new business is kept in a database for tracking. Invoices are sent to businesses in the database to renew their permit. We have consulted with management to evaluate this process and have concluded that this process is an effective way to track and identify new businesses in the County of Riverside.

a. Management position concerning the recommendation:

Concur Disagree

b. Comments: Currently, the Agricultural Commissioner's Office has an approved "Daily Cash Deposits - Exemption Request" on file with the Auditor Controller's Office. Due to increased business activity since that approval, our department hereby requests assistance regarding updating that exemption. An alternative to an updated Exemption Request would be to identify a new funding source in order to hire an additional clerical support position (OA III) to comply with this recommendation.

c. Actual/estimated Date of Corrective Action: November 30, 2007

d. Estimated cost to implement recommendation (If material)

\$ 45,000 for OA III support option.

Recommendation Number 1.3

Segregate cash handling functions so that no one person has complete control over a key function or activity.

a. Management position concerning the recommendation:

Concur Disagree

b. Comments:

Please see 1.2 above

c. Actual/estimated Date of Corrective Action:

d. Estimated cost to implement recommendation (If material)

\$ 0.00