

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

813



SUBMITTAL DATE:
October 29, 2007

FROM: Auditor-Controller

SUBJECT: Management Letter for Fiscal Year 2005-06

RECOMMENDED MOTION:

That the Board of Supervisors receive and file the attached Management Letter for the year ended June 30, 2006, rendered by Varinek, Trine, Day & Co., LLP.

BACKGROUND:

The Management Letter is submitted in accordance with Section 25253 of the Government Code of the State of California and follows four-to-eight months after the filing of the Comprehensive Annual Financial Report (CAFR). The Management Letter provides recommendations with the intent to improve internal controls and operational efficiencies. These recommendations are summarized in the comments section of the Management Letter. The County has implemented or is in the process implementing those recommendations.

(Continued).

Robert E. Byrd

ROBERT E. BYRD
County Auditor-Controller

FINANCIAL DATA	Current F.Y. Total Cost:	-0-	In Current Year Budget:	No
	Current F.Y. Net County Cost:	-0-	Budget Adjustment:	No
	Annual Net County Cost:	-0-	For Fiscal Year:	

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

C.E.O. RECOMMENDATION:

RECEIVE AND FILE

BY: *Rob Rockwell*
Rob Rockwell

County Executive Office Signature

- Policy
- Policy
- Consent
- Consent

Dep't Recomm.:
Per Exec. Ofc.:

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

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Board of Supervisors

RE: Management Letter for Fiscal Year 2005-06

October 29, 2007

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The County recently performed a PeopleSoft upgrade from version 7.5 to 8.8 which may assist the County with the implementation of certain audit recommendations.

The Management Letter was delayed due to the need to compile pertinent information and direction from a number of departments. The Management Letter for the fiscal year 2007 will be submitted within the 60 to 90 days following the CAFR release date, no later than March 31, 2008, in accordance with a new requirement under the Statement on Auditing Standards (SAS) 112, Communicating Internal Control Related Matters Identified in An Audit (effective fiscal year 2007). We are working with VTD auditors to provide findings as they arise, and with departments thereafter to ensure compliance with the new requirement.

COUNTY OF RIVERSIDE,

CALIFORNIA

MANAGEMENT LETTER

JUNE 30, 2006



Vavrinek, Trine, Day & Co., LLP

Certified Public Accountants

VALUE THE DIFFERENCE

December 15, 2006

Board of Supervisors
4080 Lemon Street
Riverside, CA 92502

Gentlemen:

We have audited the basic financial statements of the County of Riverside (the County) for the year ended June 30, 2006 and have issued our report thereon dated December 15, 2006. In planning and performing our audit of the financial statements of the County, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized on the accompanying pages.

A separate management letter was issued for the Riverside County Regional Medical Center.

CAPITAL ASSETS

OBSERVATION

While the County maintains formalized year-end procedures to ensure that County departments submit information for financial reporting purposes the following were noted:

- Queries from the "AM" module of PeopleSoft are exported and compiled on numerous nVision spreadsheets in order to summarize information for financial reporting purposes;
- The "AM" module contains errors in the computations of depreciation expense, accumulated depreciation and ending net book value requiring that the complete population of individual assets be calculated for accuracy; and
- Certain expenditures were miscoded to capital outlay expense accounts throughout the year by various departments. During the year-end reconciliation process, those expenditures were reclassified to repairs and maintenance accounts in order to reconcile the capital assets activity for the year.

RECOMMENDATION

We recommend that the County strengthen its year-end procedures for capital assets reporting. Such procedures may include the following:

- Formalizing the procedures and review evidence to ensure that the numerous nVision spreadsheets are accurate.
- Examine the cost/benefit of establishing standardized capital assets reports that summarize data for the financial statements. Such reports would include the roll-forward of capital assets activity by department and or fund thereby eliminating the need to compile this information in offline spreadsheets.
- Consider the cost/benefit of modifying programming for the "AM" module to ensure the consistent and accurate computation of current year depreciation expense, accumulated depreciation and ending net book value.

MANAGEMENT'S RESPONSE

In order to validate the capital asset cost figures and depreciation calculation, nVision reports and PeopleSoft queries are run. There are system generated reports available, but they are summarized by business unit only and do not contain the same level of detail that we get when we run queries. With the implementation of our upgraded financial accounting system, we will explore the possibility with OASIS to provide system generated reports that mirror our queried reports.

We will continue to reconcile and monitor all activity going directly into the Asset Management (AM) module and through the Accounts Payable interface to ensure the accuracy of data in the system. This will substantially cut down on the errors in computing depreciation expense, accumulated depreciation and ending net book value.

The Auditor-Controller's Office (ACO) and the County departments will continue to cooperatively develop new procedures and implement process controls to assure accuracy in tracking and reporting capital asset activity. The ACO will also continue the "AM" module training efforts for new County employees as well as providing refresher sessions for those previously trained. Further, the ACO will initiate a series of department management discussions emphasizing the importance of accountability regarding the tracking and reporting of all County assets.

ACCOUNTS PAYABLE AND YEAR-END CUTOFF

OBSERVATION

It was noted that the County did not achieve proper expense cutoff as of June 30, 2006. Based on the items selected for testing, approximately 3% of the sample required accrual as of June 30, 2006. It was noted that the County prepares the year-end accrual based on a manual procedure which captures invoices with a service date prior to June 30. The deviations were attributed to the incorrect invoice date being entered by departments.

RECOMMENDATION

We recommend that the County implement additional procedures in order to ensure that accounts payable are fairly stated as of year-end. Such procedures should include the comparison of the service period on the voucher package to the service period entered in PeopleSoft (for a specific duration of time following year-end), during processing at the Auditor-Controller's Office.

MANAGEMENT'S RESPONSE

The Auditor Controller's Office has implemented additional procedures during the June 30, 2007 year-end process to ascertain the completeness of accounts payable at year end. The additional procedures include training of County personnel on proper year-end coding, which included providing newly designed flowcharts to serve as a job aid for accounts payable processing. The ACO has also implemented the testing of subsequent disbursements after year-end for proper fiscal year accounting dates.

TEETER FUND RECONCILIATION

OBSERVATION

It was noted that the County modified its policies and procedures related to the determination of Teeter related property taxes receivable as well as the reconciliation of activity and related accounting transactions in the Teeter Debt Service Fund for the year-ended June 30, 2005. The County documented these procedures in January 2006 and established data sources to estimate the year-end taxes receivable in the Teeter Debt Service Fund. As of June 30, 2006 the policies, reconciliations and procedures documentation had not been communicated to the departments involved in the administration or monitoring of the fund.

RECOMMENDATION

We recommend that the County distribute the accounting procedures, flow of transactions, source of supporting documentation and relevant financial indicators to those individuals/department involved with the Teeter Fund to ensure consistency in the accounting and administration.

MANAGEMENT'S RESPONSE

The County will continue to formalize the procedures related to the Teeter Alternative Property Tax Distribution program. Proper training will be coordinated among the ACO and the department responsible for Teeter administration to ensure accuracy and consistency in the accounting and reporting of the funds throughout the year.

GENERAL APPLICATION CONTROLS RE: PROPERTY TAX SYSTEM

OBSERVATION

The County should maintain appropriate and effective controls over the Property Tax System to satisfy the following internal control objectives:

- Physical and logical security
- Access control
- Change control
- Segregation of duties

It was noted that the County must strengthen its internal control over the Property Tax System due to the lack of consistent and common standards of the control environment, lack of documentation over the system and lack of segregation of duties. As a result of the above, the internal control environment over the Property Tax System is weakened.

RECOMMENDATION

We recommend that the County implement policies and procedures to strengthen the internal controls over the Property Tax System.

MANAGEMENT'S RESPONSE

The County has taken steps to implement policies and procedures to strengthen the internal controls over the Property Tax System. In the fall of 2006, an agreement was reached between the senior managers responsible for mainframe operations. The agreement was formalized into a document entitled "Property System Operation, Security and Access Policy." In accordance with this policy the Auditor-Controller's Office has complied with the implementation of a change management control process whereby each department will complete a form to be approved by the other user departments for program changes. Once approved by the user departments the program changes can be moved into production.

ACCOUNTS RECEIVABLE

OBSERVATION

During the year-end closing, of June 30, 2006 receivables were captured in the general ledger in one of the two major categories:

1. System based receivables- Receivables are automatically calculated and maintained in a control account within the general ledger, based on transactions initiated by departments in the billing module of PeopleSoft.
2. Non-system receivables- Account balances for this category are established and recorded during the year-end closing process on Auditor Controller prescribed schedules.

During our testing of system based receivables, it was noted that a comprehensive and accurate PeopleSoft accounts receivable aging report is not produced for analyzing "System Based Receivables" in the general ledger and query access to identify detailed transactions was limited. Further, each department had to manipulate transaction detail and/or utilize other information systems to reconcile the composition of the balances reported in the general ledger to invoices outstanding.

RECOMMENDATION

Although we acknowledge that the County is decentralized in nature, we recommend modifying the current PeopleSoft aging report so it can be used for analysis purposes. In addition to the current fields in the aging report (vendor name, invoice number and amount) the comprehensive aging report should be flexible to the needs of each County department and provide sufficient detail for each line item such as fund, department and account distribution for proper analysis. We also recommend that the Auditor Controller's Office develop procedures for county departments to use in order to analyze and validate material balances and transactions. Use of these procedures will allow the County to improve the accuracy of financial reporting, provide consistency countywide and safeguard County assets.

MANAGEMENT'S RESPONSE

The Auditor-Controller is cooperatively working with other departments in the analysis and validation of the current PeopleSoft aging reports by reconciling the accounts receivable and billing transactions to the general ledger. Upon proper validation of the PeopleSoft aging reports, the Auditor-Controller will provide appropriate training to the departments and a year-end schedule will be developed and included as part of the County's year-end process for future validation of the aging report.

FRAUD PREVENTION PROGRAM

OBSERVATION

It was noted that the County does not maintain a formalized fraud prevention program. Further, based on inquiry of personnel in County departments, there is no formal chain of communication to report suspected instances or allegations of improper acts.

RECOMMENDATION

Given the size of the County and complexity of its operations, we recommend that the County develop and appropriately staff a fraud prevention program. This program could include; formal procedures/policies for the reporting of allegations, a fraud hotline and/or contracted assistance for the intake of information. Statement on Auditing Standards (SAS) 112, Communicating Internal Control Related Matters Identified in An Audit which is effective in fiscal year 2007, specifically identifies the lack of anti-fraud programs as a significant deficiency.

MANAGEMENT'S RESPONSE

The Auditor-Controller Office believes that all governmental agencies and employees have a responsibility to prevent, detect and reduce fraud. As such, the ACO is taking the initiative for fiscal year 2007-08 to introduce a fraud prevention program, recognizing that other counties have successfully implemented such programs through their Auditor-Controller Office.

PROCUREMENT EDIT CHECKS

OBSERVATION

It was noted that the procurement process provides for authorization and expenditure controls. In conjunction with these procedures, buyers in the Purchasing Department have established purchase limits that cannot be exceeded without further supervisory approval. The specified limits are assigned to each buyer based on experience level. It was noted that PeopleSoft does not currently maintain a proactive control or edit check to prevent a buyer from exceeding the purchase amount restrictions, consistent with the procurement policies.

RECOMMENDATION

We recommend that the County consider implementing edit checks or automated detection controls to improve the monitoring of buyers' purchasing authority, consistent with the County's procurement policies.

MANAGEMENT'S RESPONSE

The County agrees and has implemented proactive authorization and expenditure controls to improve the monitoring of buyers' purchasing authority, consistent with the County's procurement policies. The Purchasing department worked with the OASIS Team to build the required controls into the 8.8 version of the County's financial system that went live July 2007.

PRIOR YEAR

Summarized below is the current status of findings reported in the 2005 Management Letter:

<u>Topic</u>	<u>Current Status</u>
General Application Controls Re: Property Tax System	Not Implemented – See Current Year Finding
Teeter Fund Reconciliation	Modified – See Current Year Finding
Accounts Receivable	Not Implemented – See Current Year Finding
Capital Assets	Modified – See Current Year Findings
Fraud Prevention Program	Not Implemented – See Current Year Finding
Procurement Edit Checks	Not Implemented – See Current Year Finding
Schedule P Cash	Implemented
Leases	Implemented
Long Term Debt Reporting	Implemented

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the County of Riverside gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time. This report is intended solely for the information and use of the Board of Supervisors, management, and others within the County and is not intended to be and should not be used by anyone other than these specified parties.

Varrnik, Trine, Day ; Co., LLP

Rancho Cucamonga, California
December 15, 2006