

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

931



FROM: County Auditor-Controller

SUBMITTAL DATE:
January 12, 2009

SUBJECT: Internal Audit Report 2007-014: Transportation Department: Billing and Accounts Receivable Operations

RECOMMENDED MOTION: Receive and file Internal Auditor's Report 2007-014: Transportation Department, Billing and Accounts Receivable Operations.

BACKGROUND: The Auditor-Controller completed an audit of the Transportation Department's billing and accounts receivable operations.

The audit found the department's internal controls over billing and accounts receivable operations are adequate. Recommendations to strengthen internal controls in various areas were communicated to and were addressed by the department during the audit.

Departmental Concurrence

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 | <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

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



County of Riverside

INTERNAL AUDIT REPORT

Transportation Department Billing and Accounts Receivable Operations

January 12, 2009

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, MBA
ASSISTANT
AUDITOR-CONTROLLER

January 12, 2009

Mr. Juan C. Perez, Director
Transportation Department
Transportation and Land Management Agency
4080 Lemon St., 14th Floor
Riverside, CA 92502-1605

Subject: Internal Audit Report 2007-014: Transportation Department, Billing and Accounts Receivable Operations

Dear Mr. Perez:

We have completed an audit of the Transportation Department's billing and accounts receivable operations. We conducted the audit during the period January 16, 2007 through November 6, 2007, for operations of July 1, 2004 through November 6, 2007.

Our purpose was to provide management and the Board of Supervisors with an independent assessment about the adequacy and effectiveness of internal controls over the billing and accounts receivable operations.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance that our objective as described in the preceding paragraph is achieved. An audit includes examining, on a test basis, evidence about the adequacy and effectiveness of internal controls, compliance with applicable laws, reliability of financial information, and performing such other procedures as we considered necessary in the circumstances. We believe the audit provides a reasonable basis for our opinion.

In our opinion, the Transportation Department's internal controls over billing and accounts receivable operations are adequate; however, we identified areas that need improvement. Improvements to each of the recommendations have been implemented with the intent of making business processes more efficient. We discussed and reviewed the implemented procedures with senior management and concluded the changes can be effective to improve the billing and accounts receivable operations.

Throughout the audit, we discussed the results contained in this report with the appropriate level of management.

We thank the management and staff of the Transportation Department for their full cooperation and assistance.

Robert E. Byrd, CGFM
County Auditor-Controller

A handwritten signature in black ink, appearing to read "Michael G. Alexander", with a long horizontal line extending to the right.

By: Michael G. Alexander, MBA, CIA
Deputy Auditor-Controller

cc: Board of Supervisors
District Attorney
Grand Jury
County Counsel
George Johnson, Director, Transportation and Land Management Agency

Table of Contents

| | Page |
|---|-------------|
| Executive Summary | 1 |
| Objectives and Methodology | 3 |
| Results | |
| Billing and Accounts Receivable Operations | 4 |

Executive Summary

Overview

The Transportation and Land Management Agency consists of six departments: Building and Safety, Code Enforcement, Planning, Transportation, Environmental Programs and Agency Administration. The majority of the agency's revenue, \$80 million annually, is processed through the Transportation Department.

The Transportation Department's stated mission is "to provide the citizens of Riverside County with increasingly more courteous, efficient, and cost effective services dedicated to improving the quality of life and orderly economic development by the provision and management of a safe, efficient and convenient transportation system, enhancing the mobility of people, goods and services within the integrated Agency activities." More specifically, the Transportation Department is primarily responsible for the planning, construction and operations of the 2,600 mile county road system. The department provides the following services: road maintenance, land development, engineering services and county surveyor.

The Road Maintenance Division is responsible for the maintenance of county roads. The maintenance crews preserve the roads, bridges, traffic signals and signs, provide inventory management, warehousing of supplies and equipment and maintenance of large heavy construction equipment.

The Land Development Division provides review, plan checking and approval for all street improvement plans, water/sewer plans, storm drain plans, grading plans, landscaping plans, and signing and striping plans for all subdivisions and land development projects. The transportation construction section is primarily responsible for the construction inspection of public roadway improvements located in Riverside County. Staff provides inspection of private development's subdivision improvements and the Transportation Department's capital improvement projects.

The Engineering Division is dedicated to providing the residents and motorists in the county with an efficient and safe transportation system. They coordinate the following traffic engineering programs: traffic engineering investigations, adult crossing guards for schools, traffic control devices, traffic counts and highway safety review.

The County Surveyor Division is responsible for all land surveying functions within the Transportation Department and offers its services to other county departments and local agencies. This division performs field surveys including preliminary, property, construction and geodetic (including GPS) surveys; provides public information and keeps land

surveying and public right-of-way records; performs office analysis of all field surveys including those surveys using GPS equipment; performs and reviews right-of-way work for transportation projects and private development, reviews LAFCO documents; and checks and recommends for approval of street names; performs tract and parcel map checking, record of survey and corner record checking and the review of lot line adjustments.

The department also has an Administration Division which is responsible for financial transactions and records, employee safety and computer support. The billing section of the Administration Division consists of four employees: one Supervising Accountant and three staff employees. They process over \$80 million in annual billings; some consist of multiple revenue sources and/or entail complex transactions.

Objective

Our primary audit objective was to evaluate the adequacy of internal controls and the effectiveness of billing and accounts receivable operations.

Conclusion

In our opinion, the Transportation Department's internal controls over billing and accounts receivable operations are adequate; however, we identified areas that need improvement. Improvements to each of the recommendations have been implemented with the intent of making business processes more efficient. We discussed and reviewed the implemented procedures with senior management and concluded the changes can be effective to improve the billing and accounts receivable operations.

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

Detailed Objectives To determine the adequacy and effectiveness of internal controls over the following processes:

- Billing and accounts receivable, including reimbursement for services performed and supplies used;
- Collections; and
- Cost recovery and revenue reconciliation and monitoring.

Methodology To accomplish our objectives, we:

- Performed financial analysis for the period of July 1, 2004, through June 30, 2006;
- Reviewed applicable codes, regulations, board ordinances, policies and procedures;
- Interviewed department personnel;
- Performed walk-through, observation and operational reviews;
- Prepared narratives and flowcharts of various processes;
- Completed a risk assessment of the billing and accounts receivable operations;
- Tested transactions and reconciliations; and
- Reviewed recently implemented procedures with senior management.

Results

Billing and Accounts Receivable Operations

The Transportation Department's billing and accounts receivable process starts when projects are planned throughout the county, budgets are assessed and funding is obtained. Once these components are established, the Transportation Department initiates the projects through either outside contractors or county crews, depending on the complexity of the projects. Project costs and progress are tracked through the department's Transportation Improvement Program. As costs are incurred, staff from the billing unit issues invoices to corresponding parties or prepares journal vouchers to other county departments for cost reimbursement. Journal vouchers are processed upon approval; however, when invoices are issued to outside parties, the payment is received by the revenue section at the Transportation and Land Management Agency level. The revenue section researches the payment to determine the source and identify which department it belongs to. Once identified, they seek instructions from the department on how to apply the payment and process it accordingly.

Observation 1

The department does not have written policies and procedures for the billing and accounts receivable process to ensure appropriate reimbursement of cost. High turnover in the billing section, limited staffing resources and the focus on other high demanding job tasks affected the establishment of written procedures and led to a non-standardized process of billing. The Auditor-Controller's Office Standard Practice Manual 104 states that county departments and agencies shall establish and maintain an effective system of internal controls to promote effectiveness and efficiency of operations and to ensure accuracy, reliability and timeliness of financial records and reports. It further states that policies and procedures should be established and maintained to promote employee understanding, provide day-to-day guidance to staff and help ensure continuity during employee absences or high turnover.

Department's Actions:

The Transportation Department is developing procedures for all of their billing and accounts receivable business processes. They added additional staff, an Accountant II and an Accounting Technician II, which should give the department the resources needed to update procedures in a timely manner. The department's senior management indicated a commitment to developing procedures.

Observation 2

The department does not process invoices for the reimbursement of costs for projects on a monthly basis. Forty-one of forty-seven invoices reviewed were for billing periods beyond a month's period and twenty-four of these billings included costs incurred in past fiscal years. In addition, the remaining six invoices were misplaced and could not be located at the time of audit. According to discussions held with staff, the number of projects increased with the rapid growth of Riverside County, resulting in higher demands and deadlines of the job functions in the billing section. The heavy workload and the recent high turnover in the fiscal section resulted in the inability of processing invoices in a timely manner. The Auditor-Controller's Office Standard Practice Manual Policy 704 states that at a minimum, billing for services rendered should be created monthly.

Based on the project costing system utilized by the department, we recognize that it may not be cost effective for the department to process billings for all active projects on a monthly basis; however, we believe it is essential for the department to implement procedures over the billing of projects that are beyond the planning stages to ensure appropriate reimbursement of costs in a timely manner.

Department's Actions:

Two major changes have been implemented in the billing section; one being the hiring of two additional staff, an Accountant II and an Accounting Technician II. The other major change is the utilization of a new tracking sheet that allows for a more efficient monitoring and invoicing process. Prior to this implementation, staff utilized tracking sheets that were identifiable by funding source, resulting in each tracking sheet having a variety of different projects. This process made it difficult to monitor and to extract the needed information since each project could have multiple funding sources. When information on a project was needed, the billing staff had to use different tracking sheets to summarize the project and, with the implementation of the new tracking sheets per project, all funding sources are easily identifiable for each specific project. The new tracking sheet allows for more detail, provides for a more standardized process among all billing personnel and requires the reconciliation of costs as invoices for services are processed.

Management indicated that it will soon fill a vacant position at the Senior Accountant level. Duties of the new Senior Accountant will include the responsibility of tracking all funding related to roads and bridges. This task is very time consuming and is currently assigned to the billing staff. By relieving the billing staff of this responsibility, management believes

it will alleviate time constraints with billing staff and will allow them to be more efficient.

Observation 3

Project reconciliations are not performed in a timely manner or on a monthly basis, but are prepared upon the issuance of invoices for the reimbursement of costs. As stated above, the limited staffing, demanding deadlines and the increase in projects make it difficult for the billing staff to perform project reconciliations on a monthly basis.

Department's Actions:

The new tracking sheets created also serve as reconciliation sheets. They have been in use since the start of fiscal year 07/08, and are functioning as intended. According to senior management, project information is easily tracked and reconciliations are efficiently completed with the implementation of this new process.