

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

304



FROM: Riverside County Auditor-Controller

SUBMITTAL DATE:
October 29, 2015

SUBJECT: Internal Audit Report 2015-002: Riverside County Economic Development Agency, Community Services Division, County Service Area Administration [District: All]; [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2015-002: Riverside County Economic Development Agency, Community Services Division, County Service Area Administration

BACKGROUND:

Summary

We have completed an audit of the Riverside County Economic Development Agency, Community Services Division, County Service Area Administration to provide management and the Board of Supervisors with an independent assessment of internal controls over capital assets, cash handling, contract management, expenditures, non-capital assets, revenue, and revolving fund. We conducted the audit during the period July 29, 2014 through August 19, 2015 for operations of July 1, 2012 through June 30, 2015.

(Continued on page 2)

Paul Angulo
Paul Angulo, CPA, CGMA, MA
Riverside County Auditor-Controller

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost:	POLICY/CONSENT (per Exec. Office)
COST	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	Consent <input checked="" type="checkbox"/> Policy <input type="checkbox"/>
NET COUNTY COST	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	
SOURCE OF FUNDS: N/A				Budget Adjustment: No	
				For Fiscal Year: n/a	

C.E.O. RECOMMENDATION:

APPROVE

BY: *Samuel Wong 1/4/16*
Samuel Wong

County Executive Office Signature

MINUTES OF THE BOARD OF SUPERVISORS

- Positions Added
- Change Order
- A-30
- 4/5 Vote

Prev. Agn. Ref.:

District: ALL

Agenda Number:

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

FORM 11: Riverside County of Riverside Auditor-Controller's Office - Internal Audit Report 2015-002:
Riverside County Economic Development Agency, Community Services Division, County Service Area
Administration Audit Report, [District: All]; [\$0]

DATE: November 2, 2015

PAGE: Page 2 of 2

BACKGROUND:

Summary (continued)

Based upon our audit, we identified opportunities for improvement of internal controls relating to revenue, capital assets, cash handling, revolving fund, and non-capital assets. We determined County Service Area Administration's internal controls relating to expenditures and contract management provides reasonable assurance that its objectives will be achieved. We will follow-up to verify that management implemented the corrective actions.

Impact on Citizens and Businesses

Provide an assessment of internal controls over the audited areas.

SUPPLEMENTAL:

Additional Fiscal Information

Not applicable

ATTACHMENTS:

A: Riverside County Auditor-Controller's Office - Internal Audit Report 2015-002: Riverside County Economic Development Agency, Community Services Division, County Service Area Administration.

Internal Audit Report 2015-002

**Riverside County Economic Development
Agency, Community Services Division,
County Service Area Administration**

Report Date: October 29, 2015



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ACC | **AUDITOR**
CONTROLLER
COUNTY OF RIVERSIDE

Paul Angulo, CPA, CGMA, MA
AUDITOR-CONTROLLER

Frankie Ezzat, MPA
ASSISTANT AUDITOR-CONTROLLER

October 29, 2015

Mr. Robert Field, CEO/EDA
Economic Development Agency
3403 10th Street, Suite 500
Riverside, CA 92501

Subject: Internal Audit Report 2015-002: Riverside County Economic Development Agency, Community Services Division, County Service Area Administration

Dear Mr. Field:

We have completed an audit of Riverside County Economic Development Agency, Community Services Division, County Service Area Administration to provide management and the Board of Supervisors with an independent assessment of internal controls over capital assets, cash handling, contract management, expenditures, non-capital assets, revenue, and revolving fund. We conducted the audit from July 29, 2014 through August 19, 2015 for operations for the period July 1, 2012 through June 30, 2014 and subsequently expanded the audit period to include July 1, 2014 through June 30, 2015.

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 sufficient, reliable, relevant and useful information to provide reasonable assurance that our objective as described above is achieved. An internal audit includes the systematic analysis of information to evaluate and improve the effectiveness of internal controls. We believe this audit provides a reasonable basis for our conclusion.

Internal controls are processes designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial and non-financial information. Management is responsible for establishing and maintaining adequate internal controls; our responsibility is to evaluate the internal controls.

Based upon our audit, we identified opportunities for improvement of internal controls relating to revenue, capital assets, cash handling, revolving fund, and non-capital assets. We determined Riverside County Economic Development Agency, Community Services Division, County Service Area Administration's internal controls over expenditures and contract management provides reasonable assurance that its objectives, as it relates to the aforementioned areas, will be achieved. Reasonable assurance recognizes internal controls have inherent limitations, including cost, mistakes, and intentional efforts to bypass internal controls.

Internal Audit Report 2015-002: Riverside County Economic Development Agency, Community Services Division, County Service Area Administration

As requested, in accordance with paragraph III.C of the Board of Supervisors Resolution 83-338, management responded to the reported conditions and recommendations contained in our report. Management's responses are included in the report. We will follow-up to verify that management implemented the corrective actions.

We thank the Riverside County Economic Development Agency, Community Services Division, County Service Area Administration's management and staff for their cooperation; their assistance contributed significantly to the successful completion of this audit.

Paul Angulo, CPA, CGMA, MA
Riverside County Auditor-Controller



By: René Casillas, CPA, CRMA
Interim Chief Internal Auditor

cc: Board of Supervisors
Executive Office
Grand Jury

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Executive Summary

Overview

Government Code Section 25210.1 was created in the 1950's to provide a means for expanded service levels in areas where residents are willing to pay for extra service. The law allows residents or county supervisors to initiate the formation of a County Service Area (CSA). A CSA is authorized to provide a wide variety of services, including fire protection, landscaping, parks and recreation, sewer, street lighting, street sweeping, and water services.

A CSA may span to all unincorporated areas of a county or only selected portions. It may issue General Obligation or Revenue Bonds, or develop improvement areas for the purpose of issuing bonds that specifically benefit, and will be charged to part of the CSA. Any bond issuance or other long-term debt will require approval of voters residing within the CSA.

A CSA is initiated by a petition of registered voters or by adoption of a resolution at the county level. Once proposed, the formation of the CSA will be subject to public notice and a public hearing. If more than 50% of registered voters or landowners protest, the CSA may need to be subject to voter approval at a special election. Once formed, a special tax must be approved by a 2/3rd vote of CSA residents. CSAs are normally granted limited powers and the Riverside County Board of Supervisors (Board of Supervisors) act as the CSA board.

When a CSA exists, the property owner will pay taxes and fees to it instead of the county for the services provided. These will be billed as line items on the county property tax bill and may take a variety of forms.

The Riverside County Economic Development Agency, Community Services Division, County Service Area Administration (Administration) manages the operation of 60 CSAs of which six have community advisory boards appointed by the Board of Supervisors.

The Administration selected Psomas to prepare all of their engineer's reports for all new annexations, annual levies for 60 CSAs including countywide CSA 152, and yearly enrollment of all fixed charge assessments on the tax rolls. Psomas maintains per parcel information regarding the taxation process and has dedicated bilingual, direct customer support for all related calls from the public. Psomas also performs ongoing audits of parcels ensuring that all parcels are benefiting from services rendered and are assessed using proper methodology.

The Administration is supported with tax revenue received from the CSAs. Following table depicts actual Administration revenue and expenditures over the past four fiscal years. The last three fiscal years were the period under audit review:

Internal Audit Report 2015-002: Riverside County Economic Development Agency, Community Services Division, County Service Area Administration

Fiscal Year	Revenues	Expenditures	Deficit
FY2011/12	\$1,196,768	\$1,426,396	\$(229,628)
FY2012/13	2,082,538	2,109,139	(26,601)
FY2013/14	2,030,456	2,356,810	(326,354)
FY2014/15	2,288,807	2,310,595	(21,788)

Shortages in revenue are supported by excess revenues from prior years. An administration fund was established during FY 2011/12. At the end of FY 2011/12, \$1,326,169 of restricted program money was available to support any revenue shortfalls. During FY 2012/13, a restricted program money disbursement of \$102,188 was processed to correct year end charges to the wrong fund. This resulted in reducing restricted program money to \$994,353 at the end of FY 2012/13. At the end of FY 2013/14, \$967,752 of restricted program money was available to cover the \$326,354 shortfall in revenues. At the end of FY 2014/15, \$641,398 of restricted program money was available to cover the \$21,788 shortfall in revenues.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of the department's internal controls over CSAs.

Audit Conclusion

Based upon our audit, we identified opportunities for improvement of internal controls relating to revenue, capital assets, cash handling, revolving fund, and non-capital assets. We determined Riverside County Economic Development Agency, Community Services Division, County Service Area Administration's internal controls over expenditures and contract management provides reasonable assurance that its objectives, as it relates to the aforementioned areas, will be achieved. Reasonable assurance recognizes internal controls have inherent limitations, including cost, mistakes, and intentional efforts to bypass internal controls.

Revenue

Background

Board of Supervisor's Policy B-4 "*Rates Charged for Current Services*", states, "All county departments will evaluate existing charges for services and in conjunction with the Auditor-Controller and the Executive Officer make recommendations to the Board of Supervisors on changes annually during preparation of the budget or more frequently if necessary." The policy also states, "Charges should recover actual costs of providing services." The Administration charges rates to CSAs to recover their cost and are based on current revenue of the CSAs. Following are the rates:

- Street lights - 6.0%.
- Street Sweeping - 8.5%.
- CSA 152 (National Pollutant Discharge Elimination System) - 8.5%.
- Road, Fire or Combined Services (without employees) - 10.0%.
- Combined services (with employees) - 15.0%.

The Administration's revenues consist of property tax current secured monies, interest-invested funds, CSA administrative charges, reimbursement for services, two interfund accounts and other miscellaneous revenue. The following table provides a summary of the Administration's revenues for FY 2012/13, FY 2013/14, and FY 2014/15:

Revenue Category	FY 2012/13	FY 2013/14	FY 2014/15
Property Tax Current Secured	\$ -	\$ -	\$ 3,005
Interest-Invested Funds	2,051	1,176	1,056
CSA Administrative Charges	245,849	242,407	260,039
Reimbursement For Services	-	-	8,536
Interfund – CSA Administrative Charges	1,138,566	1,106,233	1,167,109
Interfund – Reimbursement For Service	670,091	673,531	836,178
Other Miscellaneous Revenue	25,981	7,109	12,884
Total Revenues	\$ 2,082,538	\$ 2,030,456	\$2,288,807

Internal Audit Report 2015-002: Riverside County Economic Development Agency, Community Services Division, County Service Area Administration

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over revenues.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed policies, applicable laws, codes, regulations, and ordinances.
- Conducted interviews and performed walk-throughs with Administration personnel.
- Utilized financial queries from the Riverside County financial system to select samples of revenues to perform detailed testing.
- Verified appropriate levels of management review and approval.

Finding 1: Cost Allocation

The Administration charged administrative rates to CSAs based on current revenue instead of actual expenditures. A percentage based on the complexity of the service provided, is multiplied by the current revenues of the CSA to determine the annual amount charged by the Administration. These percentages consisted of the following:

- Street lights - 6.0%.
- Street Sweeping - 8.5%.
- CSA 152 (National Pollutant Discharge Elimination System) - 8.5%.
- Road, Fire or Combined Services (without employees) - 10.0%.
- Combined services (with employees) - 15.0%.

The Administration could not provide support for the basis of these percentages. Furthermore, the rates have not been evaluated in conjunction with the Riverside County Auditor-Controller (Auditor-Controller) and Riverside County Executive Office (Executive Office) during preparation of the budget. Board of Supervisor's Policy B-4 "*Rates Charged for Current Services*", states, "All county departments will evaluate existing charges for services and in conjunction with the Auditor-Controller and the Executive Officer make recommendations to the Board of Supervisors on changes annually during preparation of the budget or more frequently if necessary." The policy also states, "Charges should recover actual costs of providing services." The Administration believed this was an allowable basis for allocating its cost since the Board of Supervisors approved the aforementioned percentages. Charging costs to CSAs based on a

Internal Audit Report 2015-002: Riverside County Economic Development Agency, Community Services Division, County Service Area Administration

percentage of current revenue of the CSAs may result in some paying for more services than received while others paying for less service than received. We conducted a follow-up review of the administrative fees to determine if the finding was corrected. As of June 30, 2015, no supporting documentation was available to support the basis of percentages used to calculate the administration fee charged to CSAs.

Recommendation 1

Calculate an administrative rate to charge to CSAs in accordance with Board of Supervisors policy B-4, *Rates Charged for Current Services*.

Management's Response

“Concur. Board Policy A-48, which is the policy for the formation, alteration, and operation of County Service Areas, authorized that administrative fees would be charged to each CSA as listed in section 5 of this policy. This section states that a basic charge for administration shall be charged to each CSA, depending on administrative complexity. The percentage rate, ranging from 6% to 15%, would be applied against revenue earned by each CSA based on the services provided.

EDA will be analyzing the administrative cost allocation methodology to ensure charges recover actual costs of providing service.”

Actual/estimated Date of Corrective Action: **December 31, 2015**

Capital Assets

Background

The Auditor-Controller's Standard Practice Manual 501 (SPM 501), *Capitalization Thresholds* (previously known as subsection 913), defines capital assets as fixed assets and intangible assets of significant value having a utility which extends beyond the current year that are broadly classified as land, infrastructure, buildings and improvements, equipment, livestock, and intangible assets. Capital assets include real property such as buildings, land, and land improvements, regardless of value, as well as vehicles, machineries, and all equipment with a value of \$5,000 or more. The cost of a capital asset includes all costs necessary to place the asset in service (e.g. shipping, set-up, testing, and other ancillary costs).

SPM 501 requires all *real property* with a value of \$1 and all capital assets with a value of \$5,000 or more to be recorded in the Riverside County financial system asset management module (asset module). Auditor-Controller's Standard Practice Manual 516, *Capital Asset Tags* (previously known as subsection 903), requires that capital assets be tagged or marked as county property. If the county property tag will not adhere to an item because of size, shape or use of the item, the department or agency should affix the assigned number in some other manner, i.e., engraving, inscribing, stenciling, etching, or painting the number on the item itself, or labeling the box in which it is kept. The number must be affixed in some way that will ensure identification for accountability.

The responsibility for processing and maintaining an accurate record of capital assets primarily resides with the Administration. The Administration's management also have roles related to these assets, including following proper purchasing procedures when acquiring assets, properly recording the asset and value into the asset module and performing an annual physical inventory to account for all assets under the department head's responsibility.

As of June 30, 2015, the Administration maintained 55 capital assets in the asset module, consisting of computers, equipment, vehicles, buildings, and structures, with the combined acquisition value of \$2,503,144.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over capital assets.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed policies, applicable laws, codes, regulations, and ordinances.

Internal Audit Report 2015-002: Riverside County Economic Development Agency, Community Services Division, County Service Area Administration

- Conducted interviews and performed walk-throughs with Administration personnel.
- Utilized asset module queries to identify the quantity, locations, and capital asset movement.
- Verified appropriate levels of management review and approval.
- Selected samples of capital asset transactions to perform detailed testing.

Finding 2: Capital Asset Management

Capital assets were not properly recorded in the asset module. Our review of 20 capital assets from July 1, 2012 through June 30, 2014, identified eight (40%) had discrepant/erroneous information recorded. These errors resulted from miscommunication between the asset user and the Administration fiscal staff; and a belief that all information does not require recording in the asset module. Improperly recording capital assets in the asset module may hinder the process of identifying, controlling, and valuing county assets. The categories of errors included:

1. Three of 20 (15%) assets were retired or disposed but still remained in the asset module as active.
2. One of 20 (5%) asset had no manufacturer's name, model number or serial number in the asset module.
3. One of 20 (5%) asset had no manufacturer's name or model number in the asset module.
4. One of 20 (5%) asset had no model number or serial number.
5. One of 20 (5%) asset had no manufacturer's name recorded in the asset module.
6. One of 20 (5%) asset had no serial number recorded in asset module, was inoperable, and should be disposed.

We conducted a follow-up review of capital assets recorded in the asset module to determine if the finding was corrected. As of June 30, 2015, items one, five, and six were corrected by removing the record from the asset module. However, items two through four were not corrected. We also reviewed the inventory certification list submitted to the Auditor-Controller's Office as of June 30, 2015 and we identified several other capitalized assets missing essential information.

Recommendation 2

Conduct physical inventories and update the asset module to ensure accuracy and completeness of asset identification information.

Internal Audit Report 2015-002: Riverside County Economic Development Agency, Community Services Division, County Service Area Administration

Management's Response

"Concur. EDA will conduct a physical inventory of all assets and update all asset information in the PeopleSoft asset module to ensure accuracy in asset tracking."

Actual/estimated Date of Corrective Action: **March 31, 2016**

Finding 3: Timely Reporting of Capital Assets

Capital asset acquisitions were not reported to the Auditor-Controller's Office in a timely manner. Our review of five acquisitions from July 1, 2012 through June 30, 2014, disclosed documents for two (40%) of the five assets were submitted for asset capitalization 93 days after the assets were placed in service. This occurred because the Administration was under-staffed during the timeframe. Also, the Administration believed there was no time requirement to submit the documentation to Auditor-Controller's Office because there is no Auditor-Controller's Standard Practice Manual requiring submission of acquisition documentation in a specific timeframe. Reporting the acquisition of capital assets in an untimely manner may result in loss of control over assets and/or misstating the value of capital assets.

We expanded our review period to include acquisitions obtained between July 1, 2014 and June 30, 2015; however, no acquisitions were obtained during the expanded review period.

Recommendation 3

Develop and follow a written capital asset policy to include a maximum 30 day reporting requirement to the Auditor-Controller's Office for acquisitions.

Management's Response

"Concur. EDA will write capital asset procedures to include a maximum 30 day reporting of newly acquired assets to the Auditor-Controller's Office."

Actual/estimated Date of Corrective Action: **December 31, 2015**

Cash Handling

Background

Checks are received to pay for engineering reports and street light fees. Checks are received through the mail or are hand-carried to the Administration's Riverside Center office. These checks come from developers responsible for paying fees until the property is sold.

All checks received should be restrictively endorsed when received and recorded on a check log with all negotiable instruments. The check log should be maintained and reconciled to the amount deposited and recorded in the Riverside County financial system.

Cash deposits should be secured in office safes with limited access until picked up by armored courier services and/or delivered to the bank or the Riverside County Treasurer-Tax Collector (Treasurer-Tax Collector) by office personnel. In outlying areas, funds are deposited directly into a county consolidated zero balance account. The bank debits the zero balance account for the amount of the deposit and transmits a credit for the amount to the Treasurer-Tax Collector.

The Auditor-Controller's Standard Practice Manual 303, *Receiving Payments Deposits of Monies and Applying Payments* (previously known as subsection 705), indicates, "at the close of each business day, monies collected must be reconciled to the receipts issued and then deposited in the Treasurer-Tax Collector or an authorized zero balance account, or secured per an authorized daily deposit exemption. If the business day ends after the deadline for making Treasurer-Tax Collector deposits, the cash collected must be secured in a locked facility and deposited the next business day."

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over cash handling.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed policies, applicable laws, codes, regulations, and ordinances.
- Conducted interviews and performed walk-throughs with Administration personnel.
- Utilized financial queries from the Riverside County financial system to identify the volume, location, and frequency of cash receipt.
- Verified appropriate levels of management review and approval.

Internal Audit Report 2015-002: Riverside County Economic Development Agency, Community Services Division, County Service Area Administration

- Selected samples of deposits to perform detailed testing.
- Verified the safeguarding of cash.

Finding 4: Adherence to Daily Deposit Requirement

The Administration did not deposit checks in a timely manner nor obtain a daily deposit exemption from the Auditor-Controller's Office. Our review of 20 deposits from July 1, 2014 through June 30, 2014, identified six (30%) were not deposited in a timely manner. Five of the late submissions averaged over two business days and one submission took over 13 business days to deposit. This resulted from the Administration holding checks during staff members time-off due to segregation of duties requirements. Auditor-Controller's Standard Practice Manual 303, *Receiving Payments Deposits of Monies and Applying Payments*, indicates, "at the close of each business day, monies collected must be reconciled to the receipts issued and then deposited in the Treasurer-Tax Collector or an authorized zero balance account; or secured per an authorized daily deposit exemption." Depositing checks in an untimely manner may result in lost interest and/or lost or stolen checks.

We expanded our review to include 23 deposits from July 1, 2014 through June 30, 2015. We identified four (17%) of the 23 deposits were deposited into the Treasurer-Tax Collector an average of two business days. Overall, 14 (29%) of the 43 deposits were deposited into the Treasurer-Tax Collector an average of two business days.

Recommendation 4

Deposit checks when received or obtain approval for a daily deposit exemption from the Auditor-Controller's office as required per Auditor-Controller's Standard Practice Manual 303, *Receiving Payments Deposits of Monies and Applying Payments*.

Management's Response

"**Concur.** EDA will review internal deposit procedures to ensure they correspond with Auditor-Controller SPM 303, *Receiving Payments Deposits of Monies and Applying Payments*. EDA will determine if an exemption request will be necessary."

Actual/estimated Date of Corrective Action: **October 31, 2015**

Revolving Fund

Background

Revolving funds are established by the county department under the custodianship of a county officer for the use of official county business. The Administration has two revolving funds, accounts 13 and 84. Both accounts are in the amount of \$500. These accounts were initiated because of the great distance between downtown Riverside and the desert locations these funds support. Funds are used for paying necessary maintenance, repairs and other miscellaneous expenses.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over the revolving fund process.

Audit Methodology

To accomplish our objectives, we:

- Conducted interviews and observed operating procedures of office personnel.
- Identified and reviewed laws, codes, and regulations, ordinances, applicable policies and procedures.
- Obtained and understood policy and procedures regarding revolving fund management.
- Verified the safeguarding of cash.
- Performed testing to ensure internal controls were adequate over revolving funds.

Finding 5: Timely Reconciliation of Revolving Fund Account

The revolving fund account was not reconciled in a timely manner. We judgmentally selected a sample of eight cash reconciliation months for testing. Of the eight months reviewed, seven (88%) were prepared an average of 109 days after a 30 day allowance period. This resulted from a shortage of staff to assist in the preparation of the reconciliation. California State Controller's Office Internal Control Guidelines for California local agencies, page 7 states, "Bank reconciliations are effective tools to detect mistakes, errors, or embezzlements if they are prepared timely, reviewed in detail, and approved by a second person." Timely performance of cash reconciliation is a critical internal control to ensure errors or fraudulent activities do not go undetected.

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We expanded our review to include four bank reconciliations from March through June 2015 and we determined the bank reconciliations were prepared in a timely manner. Since the finding has been corrected no recommendation is necessary.

Finding 6: Utilization of Revolving Fund

An Administration staff member used the revolving fund account for charges when they could have used their county procurement card. Our review of 72 revolving fund purchases disclosed 46 (64%) were purchased with a personal credit card and 26 (36%) were purchased with cash. The revolving fund was used to reimburse the personal credit card charges. The revolving fund should be used for immediately required purchases when a county procurement card is unavailable. Board of Supervisor's Policy A-26, *Credit Card Use*, disallows county employees from making county purchases using any credit card other than the county issued procurement card or awarded fleet fuel card. Utilizing a county procurement card instead of a revolving fund could result in reducing the revolving fund dollar amount. Holding more cash than is necessary in a revolving fund account may tie up money that can be used elsewhere.

We expanded our review to include 12 revolving fund purchases processed from July 1, 2014 through June 30, 2015. We identified five (42%) of the 12 deposits were purchased with a personal credit card and seven (58%) were purchased with cash. Overall, we identified 51 (61%) purchases were processed with a personal credit card and 33 (39%) were purchased with cash.

Recommendation 6

Utilize the county procurement card instead of the revolving where accepted and reevaluate the dollar amount of the revolving fund account to determine if using the county procurement card will reduced the required dollar amount.

Management's Response

"Concur. EDA will review both the amount and the necessity of the revolving fund and will conduct a training with staff to prevent further usage of personal credit card payments and to review the best usage of either petty cash or p-card."

Actual/estimated Date of Corrective Action: **October 31, 2015**

Non-Capital Assets

Background

Board of Supervisor's Policy H-26, *Non-Capitalized Asset Management*, defines non-capitalized "walk-away" assets as assets which are small, mobile, easily converted for personal use, have a fair market value of \$200 or more, and an acquisition cost of less than \$5,000 (over \$5,000 are classified as capital assets). Examples include, but are not limited to laptops, personal digital assistants, global positioning system receivers, and cell phones. Departments are required to track walk-away assets through the asset module, or another established system, if reviewed and approved by the Auditor-Controller.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over non-capital walk-away assets.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed policies, applicable laws, codes, regulations, and ordinances.
- Conducted interviews and performed walk-throughs with Administration personnel.
- Utilized Riverside County's financial system queries to identify the quantity, locations, and capital asset movement.

Finding 7: Management of Non-Capital Asset Records

Non-Capital walk-away assets were not properly recorded in the asset module. Our review of 32 non-capital walk-away assets identified all 32 (100%) contained discrepant/erroneous information recorded. These errors resulted from miscommunication between the asset user and asset monitor; and a belief that all information does not require recording in the asset module. Improperly recording non-capital assets in the asset module may hinder the process of identifying, controlling, and valuing county assets. The categories of errors noted included:

- Twenty of 32 assets (63%) did not include manufacturer's name, model number or serial number in the asset module.
- Ten of 32 assets (31%) were returned to Riverside County Information Technology department but still remained in the asset module.

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- Two of 32 assets (6%) did not include manufacturer's name or model number in the asset module.

We conducted a follow-up review of non-capital asset recorded in the asset module to determine if the findings were corrected. As of June 30, 2015, the discrepancies were not corrected.

Recommendation 7.1

Perform a physical inventory of non-capital assets comparing the physical assets to accounting records and ensure all non-capital assets are properly identified in the asset module.

Management's Response

"**Concur.** EDA will conduct a physical inventory of all assets and update all asset information in the PeopleSoft asset module to ensure accuracy in asset tracking."

Actual/estimated Date of Corrective Action: **March 31, 2016**

Recommendation 7.2

Routinely monitor accuracy of new non-capital asset detail recorded in the asset module.

Management's Response

"**Concur.** EDA will prepare written procedures to perform a physical inventory of non-capital assets on a minimum of an annual basis and monitor assets through the review of asset queries from the PeopleSoft system on a quarterly basis. Review will include monitoring of asset descriptions kept in PeopleSoft."

Actual/estimated Date of Corrective Action: **October 31, 2015**