

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

442A



FROM: Auditor-Controller

SUBMITTAL DATE:
January 13, 2016

SUBJECT: Fiscal Year 2014-15 Comprehensive Annual Financial Report (CAFR), Popular Annual Financial Report (Financial Highlights), Management Letter, and Report on Statement on Auditing Standards (SAS) 114 *The Auditors' Communication with those Charged with Governance*. [All Districts]; [\$0].

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file the attached Comprehensive Annual Financial Report, Financial Highlights, Management Letter, and Report on SAS 114 for the fiscal year ended June 30, 2015

BACKGROUND:

Summary

The County's CAFR is hereby submitted in accordance with Section 25253 of the Government Code of the State of California.

Departmental Concurrence


Paul Angulo, CFA, MA
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	Consent <input checked="" type="checkbox"/> Policy <input type="checkbox"/>
NET COUNTY COST	\$ 0	\$ 0	\$ 0	\$ 0	

SOURCE OF FUNDS:	Budget Adjustment: No
	For Fiscal Year: 2015

C.E.O. RECOMMENDATION:

APPROVE

BY: 
Samuel Wong

County Executive Office Signature

MINUTES OF THE BOARD OF SUPERVISORS

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

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

**SUBMITTAL TO THE BOARD OF SUPERVISORS, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA
FORM 11: Fiscal Year 2014-15 Comprehensive Annual Financial Report (CAFR), Popular Annual
Financial Report (Financial Highlights), Management Letter, and Report on Statement on Auditing
Standards (SAS) 114 The Auditors' Communication with those Charged with Governance. [All
Districts]; [\$0].**

DATE: January 13, 2016

PAGE: 2 of 2

BACKGROUND:

Summary (continued)

The Financial Highlights provides a 22-page recap of the County's financial information in an easy-to-read format. The financial information contained in this publication is derived from the County's 225 pages CAFR for Fiscal Year 2014-15.

The Management Letter is issued in accordance with Statement on Auditing Standard (SAS) 112, *Communicating Internal Control Related Matters Identified in an Audit*. It establishes a requirement to our external auditors to communicate with those matters related to the County's internal control over financial reporting identified in an audit of financial statements. The attached Management Letter discloses those matters to the County's Board of Supervisors.

The Report on SAS 114 establishes a requirement for the external auditors to communicate with those charged with governance certain significant matters related to the audit. SAS 114 uses the term *those charged with governance* to refer to those with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity, including overseeing the entity's financial reporting process. The attached Report on SAS 114 discloses those matters to the County's Board of Supervisors.

Impact on Citizens and Businesses

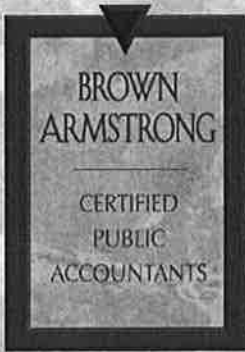
There is no impact on Citizens and Businesses. The items provided are for informational purposes only.

Attachments:

- A. Comprehensive Annual Financial Report
- B. Popular Annual Financial Report
- C. Management Letter
- D. SAS 114 Report

**COUNTY OF RIVERSIDE,
CALIFORNIA**

**MANAGEMENT LETTER
JUNE 30, 2015**



BROWN ARMSTRONG

Certified Public Accountants

To the Honorable Board of Supervisors
County of Riverside, California

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Riverside, California (the County) as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control finding **2015-001** described below to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control finding **2015-002** to be a significant deficiency.

Current Year Management Letter Findings

Finding 2015-001 – Missing Post-Closure and Remediation Liability

Condition:

The Waste Resources Department (the Department) did not properly record the post-closure liability and remediation liability for 26 inactive sites in the prior or current year.

Criteria:

Post-closure liabilities and remediation liabilities should be recorded in the year that they are recognizable.

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Accounting Oversight Board and
MEMBER of the American Institute of
Certified Public Accountants

Cause of Condition:

The amount of liability was just recently quantified and was not historically reported in past audited financial statements.

Effect of Condition:

There is a risk of material misstatements in the financial statements if there is no proper reconciliation between the third party engineer's report and the financial statements.

Recommendation:

We recommend that the post-closure and remediation liabilities reflect the liability estimated by the Department.

Management Response:

Department management agrees with the auditor's comments. The 26 landfill sites referred to in this finding fall outside of the State of California's regulatory financial assurance requirements. While the Department has always been aware that there is liability associated with these sites, the amount of liability was not quantified until recently by a third party consultant and staff engineers. The Department apprised the auditor of these liabilities during the audit cycle. In the future, the Department will record the post-closure and remediation liabilities of these sites and adjust accordingly by Consumer Price Index.

Finding 2015-002 – Information Technology (IT) Finding**Condition:**

The County does not currently have a process in place to regularly review user access accounts and permissions within the PeopleSoft systems. Also it was noted during our review of the termination procedures that the County does not consistently follow the documentation procedure for requesting and documenting the completion of the termination actions for non-PeopleSoft systems such as database and operating system accounts. Lastly, during our examination of the password requirement settings within PeopleSoft Financials and Human Resources Management System (HRMS), Oracle Database for PeopleSoft Financials and HRMS, and the AIX operating systems, it was noted that they are not in line with the Password Policy as stated in the County's "Information Security Standard" document.

Criteria:

The County should have a process in place to regularly review user access accounts and permissions within PeopleSoft. The process for removing user accounts for terminated employees for non-PeopleSoft user accounts should be consistently followed. Password requirements for PeopleSoft, Oracle Database, and AIX should be configured to match the password policy defined in the "Information Security Standard."

Cause of Condition:

Periodic user access reviews for PeopleSoft systems are not performed. The process for removing user accounts for terminated employees for non-PeopleSoft user accounts (e.g., Database or operating system accounts) is not consistently followed. Password requirements for PeopleSoft, Oracle Database, and AIX are not configured to match the password policy defined in the "Information Security Standard."

Effect of Condition:

The lack of periodic user access reviews increases the risk that user accounts may have access to system functions that are not commensurate with their current job responsibilities and unneeded or unauthorized user accounts are not identified and removed or disabled on a timely basis. Terminated employees could have unauthorized access to the non-PeopleSoft user accounts without a consistently application of the process to remove user accounts for terminated employees. Certain passwords are not up to the standards of the policy and unauthorized user may be able to access the programs. The combination of these conditions could have a negative impact on the effectiveness of the logical security in place at the County.

Recommendation:

Firstly, it is recommended that the County implement regularly scheduled (on an annual basis, at a minimum) reviews of PeopleSoft user accounts and their associated permissions to ensure that no unneeded or unauthorized user accounts exist, and that the permissions assigned within the systems are appropriate for the individuals job responsibilities. It is recommended that the reviewer compare the active user accounts with an official employee roster provided by the Human Resources or payroll department. All user access permissions should be reviewed by the department head responsible for the function to determine if access is appropriate. All generic, system, and/or service type accounts should be included in the review. If the review is performed by County IT staff members, they may wish to work with individual departments during this process to ensure that they are aware of current employee lists and job positions, if deemed necessary. All access permission changes and removal of user accounts should follow the appropriate procedures and documentation should be provided to Security Administrators to make the identified change(s). Secondly, it is recommended that the County reinforce the termination procedure with all security administrators and ensure that user access rights removal and/or disabling processes including appropriate documentation evidence is taking place within a reasonable timeframe. Lastly, it is recommended that the County examine and revise where appropriate the password configuration for its critical financial applications and the Password Policy within the "Information Security Standard" document to ensure that strong password requirements have been implemented.

Management Response:

The County does not currently have a process in place to regularly review user access accounts and permissions within the PeopleSoft systems.

Implementing according to policy for areas found to exceed or fall short of stated requirements.

County IT has a procedure to produce a bi-annual PeopleSoft user security audit. We will re-engage that process.

Also it was noted during our review of the termination procedures that the County does not consistently follow the documentation procedure for requesting and documenting the completion of the termination actions for non-PeopleSoft systems such as database and operating system accounts.

Subsection 4.1 of the Riverside County Information Security Standard states:

"Accounts no longer necessary for business shall be disabled or removed in a timely fashion."
and,

"Accounts for terminated or transferred employees shall be disabled or removed on the day of termination or transfer."

In regards to the employee termination examined in the audit, this process was followed per the security standard. The policy does not state that an official documentation stream is a requirement. Due to the urgency of this particular case, most communication occurred at the verbal level in order to quickly secure the environment.

Upon locking down the user's personal VPN and Active Directory accounts the day and time of the termination, Request for Change (CR)-10637 was created to request and track all service level account password changes in the PeopleSoft environment, which occurred that evening and over the next few days. An email notification was sent by the CR upon resolution. In addition to the CR, all changes were tracked and documented in a separate spreadsheet as to the progress of the change.

County IT will update the Information Security Standard document to incorporate a documentation procedure for requesting and documenting the completion of a termination action and implement the procedure.

Lastly, during our examination of the password requirement settings within PeopleSoft Financials and Human Resources Management System (HRMS), Oracle Database for PeopleSoft Financials and HRMS, and the AIX operating systems, it was noted that they are not in line with the Password Policy as stated in the County's "Information Security Standard" document.

Implementing according to policy for areas found to exceed or fall short of stated requirements.

Change control system (STAT) Customer Service Requests (CSRs), BASE Service Request (BSE)-267, Help Desk Ticket (HD)-12220 and HD-12221 have been created and will update password controls in all PeopleSoft production environments.

Status of Prior Year Management Letter Findings

Finding 2014-001 - Bond Payable Missed Principle Payment

Condition:

While performing test work over bonds payable, we noted the Pension Obligation Bond 2005 A Series outstanding bond balance was not properly reduced for a current year principal payment of \$12.3 million.

Criteria:

The outstanding bond payable should be properly reduced for current year bond principle payments.

Cause of Condition:

There was a formula error in the bond roll-forward schedule and there was no proper review of the bond roll-forward or financial statements footnotes.

Effect of Condition:

There is a risk of more material errors in the financial statements if there is no proper review of the bond roll-forward and financial statements footnotes.

Recommendation:

We recommend that management review the bond roll-forward and the bond financial statement footnote to verify that all principal payments have been properly applied to the outstanding bond balances.

Management Response:

Management will work with the Executive Office to ensure that all amortization schedules are up to date and verify that the principal payments match with the bond roll forward schedules.

Status of Prior Year Finding:

Implemented.

This communication is intended solely for the information and use of management, the Board of Supervisors, and others within the County, and is not intended to be and should not be used by anyone other than these specified parties.

BROWN ARMSTRONG
ACOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 22, 2015

**BROWN
ARMSTRONG**

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BROWN ARMSTRONG

Certified Public Accountants

To the Honorable Board of Supervisors
County of Riverside, California

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Riverside, California, (the County) for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 15, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County are described in Note 1 to the financial statements. The County adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*; GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*; and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment to GASB Statement No. 68*, during the fiscal year ended June 30, 2015. We noted no transactions entered into by the County during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

We evaluated management's estimates of the net pension liabilities and related deferred outflows and inflows which are based on actuarial reports prepared and provided by an independent third party. We also evaluated management's estimate in establishing allowances for accounts receivable, estimating date of collection to comply with period of availability for certain revenues, establishing self-insurance reserves, estimating closure/post-closure care costs, establishing the other post-employment benefit obligation, depreciation, and valuations of certain infrastructure. We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The disclosure of restatement of Beginning Fund Balances/Net Position in Note 3 to the financial statements.
- The disclosure of Commitments and Contingencies in Note 23 to the financial statements.
- The disclosure of Subsequent Events in Note 20 to the financial statements.
- The disclosure of Self-Insurance in Note 17 to the financial statements.
- The disclosure of the Net Pension Liability in Note 20.
- The disclosure of the Landfill Closure and Post-Closure Care Costs in Note 10.
- The disclosure of the Post-Employment Benefits Other Than Pensions in Note 22.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The attached schedule summarizes audit adjustments that, in our judgment, indicate matters that could have a significant effect on the County's financial reporting.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 22, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the County's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards generally accepted in the United States of America, with management each year prior to retention as the County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis, the County's Retirement Plans Schedules, and Schedules of Funding Progress for the County's Other Post-Employment Benefit Plans, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual fund financial statements and schedules, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally

accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on Introductory Section and Statistical Section, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the use of Board of Supervisors and management of the County and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 22, 2015

Client: *County of Riverside*
 Engagement: *County of Riverside*
 Period Ending: *6/30/2015*
 Workpaper: *Corrected audit adjusting journal entries*

Account	Description	Debit	Credit
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Adjusting Journal Entries JE# 1
 To fix the closure, post-closure liability as it was incorrectly recorded

Dr	Closure Costs - Non-Current	\$ 8,821,776	
Dr.	Unrestricted Net Position	34,909,728	
Dr.	Site Closure	110,751	
Cr.	Site Closure		\$ 5,985,465
Cr	Post-Closure Costs - Non-Current		34,110,517
Cr.	Remediation Costs - Non-Current		3,746,273
Total		\$ 43,842,255	\$ 43,842,255