

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

514



FROM: Riverside County Auditor-Controller

SUBMITTAL DATE:
December 17, 2015

SUBJECT: Internal Audit Report 2015-004: Riverside County Economic Development Agency, Facilities Management, Energy Division of Water and Power, [District: All]; [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2015-004: Riverside County Economic Development Agency, Facilities Management, Energy Division of Water and Power

BACKGROUND:

Summary

We have completed an audit of the Riverside County Economic Development Agency, Facilities Management, Energy Division of Water and Power to provide the Board of Supervisors and management with an independent, objective, and reliable assessment of internal controls over utility account management, billing, and energy conservation program. The audit covered the period of July 1, 2012 through June 30, 2015.

(Continued on page 2)

Paul Angulo

Paul Angulo, CPA, 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*
Samuel Wong

County Executive Office Signature

MINUTES OF THE BOARD OF SUPERVISORS

On motion of Supervisor Ashley, seconded by Supervisor Jeffries and duly carried by unanimous vote, IT WAS ORDERED that the above matter is received and filed as recommended.

Ayes: Jeffries, Tavaglione, Washington, Benoit and Ashley
Nays: None
Absent: None
Date: February 2, 2016
xc: Auditor

Kecia Harper-Ihem
Clerk of the Board
By: *Kecia Harper-Ihem*
Deputy

Prev. Agn. Ref.:

District: ALL

Agenda Number:

2-5

Departmental Concurrence

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

SUBMITTAL TO THE BOARD OF SUPERVISORS, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA
FORM 11: Riverside County Auditor-Controller's Office - Internal Audit Report 2015-004: Riverside County Economic Development Agency, Facilities Management, Energy Division of Water and Power Division, [District: All]; [\$0]

DATE: December 17, 2015

PAGE: Page 2 of 2

BACKGROUND:

Summary (continued)

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to utility account management, billing, and energy conservation program. We determined Riverside County Economic Development Agency, Facilities Management, Energy Division of Water and Power internal controls over these areas did not provide reasonable assurance that its objectives relating to these areas will be achieved. Reasonable assurance recognizes internal controls have inherent limitations, including costs, mistakes, and intentional efforts to bypass internal controls.

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 2015-004: Riverside County Economic Development Agency, Facilities Management, Energy Division of Water and Power



RIVERSIDE COUNTY
OFFICE OF THE
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CONTROLLER
COUNTY OF RIVERSIDE

Paul Angulo, CPA, MA
Auditor-Controller

Frankie Ezzat, MPA
Assistant Auditor-Controller

December 17, 2015

Robert Field, Assistant CEO /EDA
Riverside County Economic Development Agency
3403 10th St, Suite 305
Riverside, CA 92501

Subject: Internal Audit Report 2015-004: Riverside County Economic Development Agency, Facilities Management, Energy Division of Water and Power

Dear Mr. Field:

We have completed an audit of the Riverside County Economic Development Agency, Facilities Management, Energy Division of Water and Power to provide management and the Board of Supervisors with an independent assessment of internal controls over utility account management, billing, and energy conservation program. We conducted the audit from September 30, 2014 through June 30, 2015 for operations for the period July 1, 2012 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 assess the adequacy of internal controls.

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to utility account management, billing, and energy conservation program. We determined Riverside County Economic Development Agency, Facilities Management, Energy Division of Water and Power internal controls over these areas did not provide reasonable assurance that its objectives relating to these areas will be achieved. Reasonable assurance recognizes internal controls have inherent limitations, including costs, mistakes, and intentional efforts to bypass internal controls.

Internal Audit Report 2015-004: Riverside County Economic Development Agency, Facilities Management, Energy Division of Water and Power

As requested, in accordance with paragraph III.C of the Board of Supervisors Resolution 83-338, management responded to each reported condition and recommendation contained in our report.

We thank the Riverside County Economic Development Agency, Facilities Management, Energy Division of Water and Power management and staff for their cooperation. Their assistance contributed significantly to the successful completion of this audit.

Paul Angulo, CPA, 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

The Riverside County Economic Development Agency's, Energy Division of Water and Power (Energy Division of Water and Power) is responsible for all utilities in facilities countywide (either owned or leased). Energy Division of Water and Power manages gas, electricity, water, sewer, certain phone lines, and refuse, as well as a Cogeneration Plant located at the Southwest Detention Center. Energy Division of Water and Power has management authority through Board Policy H-32, *Countywide Utilities*, and is tasked with the responsibility of ensuring a uniform and consistent approach to utility costs within county-owned and leased facilities. It is also tasked with enforcing energy conservation as required under Board Policy H-4, *Conservation of Energy*.

Our focus for this audit included an analysis of active and inactive utility accounts, electronic account management system features, billing, and energy conservation program.

As an integral part of the Energy Division of Water and Power's internal control structure, management is responsible for a system of internal controls that effectively and efficiently performs financial related activities and the safeguarding of assets. The system should provide management with reasonable assurance that assets are safeguarded against loss from unauthorized use or theft, and transactions are executed in accordance with management's authorization.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of the Energy Division of Water and Power's internal controls over utility account management, billing, and energy conservation program.

Audit Conclusion

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to utility account management, billing, and energy conservation program. We determined Riverside County Economic Development Agency, Facilities Management, Energy Division of Water and Power internal controls over these areas did not provide reasonable assurance that its objectives relating to these areas will be achieved. Reasonable assurance recognizes internal controls have inherent limitations, including costs, mistakes, and intentional efforts to bypass internal controls.

Utility Account Management

Background

Energy Division of Water and Power manages purchased utilities through an energy tracking software program called Energy Cap. The purpose of the software program (Energy Cap) is to track monthly usage by utility account. Notification of new occupants in county-owned or leased buildings is provided to Energy Division of Water and Power to establish accounts with utility companies and within Energy Cap. Locations are assigned account numbers by the utility companies and the account numbers are entered into Energy Cap with the corresponding location and department information. Identifying information documented for each account includes the building number, department name, occupancy percentage, and unique utility account number. Since Energy Cap tracks utility usage by month, Energy Division of Water and Power is able to identify irregularities and inefficiencies in a timely manner.

Energy Cap also permits the Energy Division of Water and Power to create separate accounts when multiple departments occupy one location. In these instances, each department or agency is assigned a percentage of the utility costs based on the square footage they occupy in the space. Not only has the system provided for better efficiencies and historical data for accounts, it is more accurate in the calculations of energy use than the prior methods of compiling data. Energy Division of Water and Power can run queries and compare historical data when necessary. The system allows Energy Division of Water and Power to maintain inactive accounts in the system for a historical view of data and store the related account information in case reactivation is requested.

Objective

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

Audit Methodology

To accomplish our objectives, we:

- Conducted interviews and performed walk-throughs with personnel regarding utility management and Energy Cap.
- Identified information and historical data Energy Cap provides for accounts.
- Requested reports listing all active and inactive accounts within Energy Cap.
- Conducted a walk-through of the Energy Division of Water and Power's procedures for managing and updating accounts within Energy Cap.

Internal Audit Report 2015-004: Riverside County Economic Development Agency, Facilities Management, Energy Division of Water and Power

- Reviewed, observed, and tested procedures for segregation of duties.
- Selected 65 active and 60 inactive accounts for review and detailed testing, to determine if addresses were for county owned or leased facilities.
- Verified that inactive accounts did not incur charges for the months of January, February, and March of 2015.
- Reviewed county Board of Supervisors Policies, Government Codes, and the Standard Practice Manual related to the management of utilities.

Finding 1: Deactivating Closed Accounts in the System

Our review of inactive accounts disclosed that four of the 60 accounts (7%), where the leases had expired, were still classified as active accounts. Internal procedures require Facilities Management Accounting Department inform Energy Division of Water and Power regarding any final billings or closed accounts so that accounts are immediately set as inactive in Energy Cap. This occurred because the information was not communicated to the Energy Division of Water and Power. By not deactivating the accounts promptly, the inappropriate charging of utilities to a deactivated account can occur. Energy Division of Water and Power is now aware and diligently looking into correcting the matter. A follow up on July 2, 2015 revealed that two of the four accounts were set as inactive in the system and two were still active.

Recommendation 1

Add procedures to ensure closed accounts are set as inactive in the system to prevent erroneous reporting and charges to inactive accounts.

Management's Response:

“Concur. Accounting and Finance has implemented additional procedures to notify the Energy Division to inactivate EnergyCap utility accounts whenever final billings are received or other circumstances require such action. A monthly report will be generated of all actual costs and will be analyzed. Accounts will be reviewed on a monthly basis to ensure inactive accounts are properly identified. The Energy Division will be notified on a monthly basis if changes occur. This additional step will provide an enhancement to the continued effective management of utilities. Furthermore, all four accounts have been updated in EnergyCap and did not result in an overpayment or inappropriate charging.”

Actual/estimated Date of Corrective Action: Immediately

Estimated cost to implement recommendation: \$ 0.00

Utility Billing

Background

Energy Division of Water and Power processes the utility invoices for gas, electricity, water, and sewer, certain phone lines, refuse, and related maintenance costs for two generators at the Southwest Detention Center. The majority of the utility accounts are billed on a monthly basis; however, some are billed either quarterly or annually. The invoices are submitted via mail to a central location. Utility companies have the opportunity to submit invoices directly to the Facilities Management Accounting Department (Accounting Division) through an Electronic Data Interchange (EDI). The invoices that are received, are date stamped by the front desk to demonstrate date and time of receipt. The invoice is then submitted to the designated individuals in the Accounting Division for further processing.

Once the utility invoice is received by the Accounting Division, the invoice information for that month will be entered into Energy Cap. The monthly invoices are initially paid by the Energy Division of Water and Power to avoid late fees. Once a month, billing information that is entered into Energy Cap for the period is exported to a master excel spreadsheet. The spreadsheet lists all invoices entered for the respective month with the corresponding account and other pertinent information. The data is reviewed and reconciled to ensure that it is accurate and complete. Once the reconciliation is completed, the Accounting Division will calculate all the amounts owed for those locations. In locations operated by multiple departments or agencies, amounts are divided based on occupancy percentage to collect from respective entities accordingly. When the task is completed, the Accounting Division will create an invoice to each department listing each amount being invoiced and the grand total due for the respective month.

Objective

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

Audit Methodology

To accomplish our objectives, we:

- Conducted interviews with personnel regarding the billing cycle, from initial receipt of invoice to department billing.
- Conducted a walk-through of how payments are processed, recorded, and deposited.
- Reviewed, observed, and tested procedures for segregation of duties.
- Selected 30 billings from fiscal years 2013, 2014, and 2015 for review.

Internal Audit Report 2015-004: Riverside County Economic Development Agency, Facilities Management, Energy Division of Water and Power

- Reviewed the related back up documentation for the selected billings, including: utility invoice, Energy Cap exported spreadsheet report, invoice created by Energy Division of Water and Power to recover costs and the related journals.
- Determined whether the Energy Division of Water and Power has a review process in place for the billings through the review of supporting documentation of the selected billings.
- Reviewed relevant Board Policies and Standard Practice Manual (SPM) published by the Auditor Controller's Office.

Finding 2: Documentation of No Charge or Non-billable Accounts

Energy Division of Water and Power processes utility bills and subsequently charges the applicable departments, except for those classified in Energy Cap as "no charge" or "non-billable." Energy Division of Water and Power could not provide documentation to support the determination on which departments are classified as "no-charge" or "non-billable." Board Policy H-32, *Countywide Utilites*, states that Energy Division of Water and Power is responsible for all utilities in facilities countywide, and doing this will "ensure a uniform and consistent approach to utility costs within county-owned leased facilities. The Economic Development Agency will process all utility bills and subsequently charge said bills to applicable county departments." This was the practice established before the current staff administering the program assumed responsibility. By continuing this practice, the Energy Division of Water and Power is not recovering all utility costs and does not comply with Board Policy H-32, *Countywide Utilities*.

Recommendation 2

Energy Division of Water and Power work with the Executive Office on determining who will continue under this status and determine the appropriateness for not billing certain departments and agencies on a monthly basis.

Management's Response:

"**Partially Concur.** The Executive Office has provided on a yearly basis general funds to allow for the payment of utilities for a few departments. Therefore, charging these same departments would result in duplicative payments. These accounts have been funded by the EO and were structured in this manner several years. The EDA will work with EO and ACO to determine a reasonable standard to ensure continued accountability and appropriate structure and process that maximizes the county's opportunity for funding and efficiencies."

Actual/estimated Date of Corrective Action: June 2016

Estimated cost to implement recommendation: \$ 0.00

Energy Conservation Program

Background

Energy Division of Water and Power is responsible for transmitting awareness to energy conservation throughout the facilities occupied and operated by the County of Riverside. Board Policy H-4, *Conservation of Energy*, Section 36 states, "The Economic Development Agency shall assume the lead role in utilizing the county's communication and outreach channels to share utility and industry information, facilitate implementation of subsidy and assistance programs for energy-efficiency, and spread energy conservation practices throughout the region." Policy H-4, *Conservation of Energy* also states that the Economic Development Agency will encourage and facilitate communication with other county departments anticipating project rebates/incentives so that the process for obtaining them can be initiated or tracked.

Energy Division of Water and Power monitors utility usage to identify inefficient buildings to prioritize maintenance work and identify improvements to make them more energy efficient and lower utility costs. In addition, the Energy Division of Water and Power has initiated a program, which, when completed, will result in Riverside County becoming the biggest solar-energy producer among all the counties in the nation, with the installation of solar panels at various county facilities.

Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over energy conservation efforts by Energy Division of Water and Power.

Audit Methodology

To accomplish our objectives, we:

- Conducted interviews and performed walk-throughs with personnel regarding Energy Conservation.
- Identified measures Energy Division of Water and Power is implementing to have energy efficient items installed in facilities.
- Inquired as to methods used by Energy Division of Water and Power to communicate awareness of energy conservation to county departments.
- Reviewed relevant county Board of Supervisors Policies, Government Code, and Standard Practice Manuals.

Internal Audit Report 2015-004: Riverside County Economic Development Agency, Facilities Management, Energy Division of Water and Power

Finding 3: Energy Conservation Awareness

Energy Division of Water and Power does not have a program to communicate awareness of energy conservation. Energy Division of Water and Power is not utilizing the county's communication and outreach channels to spread energy conservation practices to county departments. Per discussions with staff members of the division, this occurred due to the reliance on maintenance personnel to handle regulation of energy. If awareness is placed on energy conservation, county employees may consider limiting or preventing the excessive use of energy. Additionally, not having a program to communicate awareness of energy conservation is not in compliance with Board Policy H-4, *Conservation of Energy*.

Recommendation 3

Energy Division of Water and Power increase direct communication with all county personnel, departments, and entities occupying county owned or leased facilities to create awareness and emphasize the importance of energy conservation.

Management's Response:

"Partially Concur: The Energy Division does not rely on maintenance staff to communicate awareness of energy conservation. They are responsible for building controls and temperatures settings outlined in Board Policy H-4, *Conservation of Energy*. The Energy Division will increase its outreach to promote awareness and the importance of energy conservation to all county personnel, departments and entities by utilizing existing employee publications such as the safety newsletter and quarterly email notifications."

Actual/estimated Date of Corrective Action: March 2016

Estimated cost to implement recommendation: \$ 0.00