

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



**ITEM  
2.7  
(ID # 10461)**

**MEETING DATE:**

Tuesday, August 27, 2019


**FROM :** AUDITOR CONTROLLER:

**SUBJECT:** AUDITOR-CONTROLLER: Internal Audit Report 2018-021: Riverside County Economic Development Agency, Community Services Division, County Service Area Administration Audit, Districts: All. [\$0]

**RECOMMENDED MOTION:** That the Board of Supervisors:

1. Receive and file Internal Audit Report 2018-021: Riverside County Economic Development Agency, Community Services Division, County Service Area Administration Audit

**ACTION:**Consent


  
Paul A. Angulo, County Auditor-Controller 7/12/2019

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**MINUTES OF THE BOARD OF SUPERVISORS**

On motion of Supervisor Washington, seconded by Supervisor Spiegel and duly carried by unanimous vote, IT WAS ORDERED that the above matter is approved as recommended.

Ayes: Jeffries, Spiegel, Washington, Perez and Hewitt  
Nays: None  
Absent: None  
Date: August 27, 2019  
xc: Auditor

Kecia R. Harper  
Clerk of the Board  
By:   
Deputy

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

**BACKGROUND:**

**Summary**

Our objective is to provide management and the Board of Supervisors with an independent assessment about the adequacy and effectiveness of internal controls over administrative service rates, delivery of services, and rate assessments.

| <b>FINANCIAL DATA</b>       | <b>Current Fiscal Year:</b> | <b>Next Fiscal Year:</b> | <b>Total Cost:</b>        | <b>Ongoing Cost</b> |
|-----------------------------|-----------------------------|--------------------------|---------------------------|---------------------|
| <b>COST</b>                 | \$ 0.0                      | \$ 0.0                   | \$ 0.0                    | \$ 0.0              |
| <b>NET COUNTY COST</b>      | \$ 0.0                      | \$ 0.0                   | \$ 0.0                    | \$ 0.0              |
| <b>SOURCE OF FUNDS: N/A</b> |                             |                          | <b>Budget Adjustment:</b> | No                  |
|                             |                             |                          | <b>For Fiscal Year:</b>   | N/A                 |

**C.E.O. RECOMMENDATION:** Approve

**BACKGROUND:**

**Summary (continued)**

Based upon the results of our audit, we:

1. Determined internal controls over the rate assessments for properties located within the County Service Areas are operating effectively.
2. Identified opportunities for improvement of internal controls relating to the development of administrative service rates.
3. Determined internal controls over the delivery of services are not operating effectively to provide reasonable assurance that its objectives relating to these areas will be achieved. Specifically, County Service Area Administration is not monitoring their memorandum of understanding with the Transportation Land Management Agency to provide street sweeping services.

We will follow-up in one year to determine if actions were taken to correct the findings noted.

**Impact on Residents and Businesses**

Provide an assessment of internal controls over the audited areas.

**SUPPLEMENTAL:**

**Additional Fiscal Information**

Not applicable

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

**ATTACHMENT A.** Internal Audit Report 2018-021: Riverside County Economic Development Agency, Community Services Division, County Service Area Administration Audit

  
Stephanie Perez, Principal Management Analyst 8/19/2019

**Internal Audit Report 2018-021**

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

**Report Date: June 19, 2019**



**Office of Paul Angulo, CPA, MA  
Riverside County Auditor-Controller  
4080 Lemon Street, 11th Floor  
Riverside, CA 92509  
(951) 955-3800**

**[www.auditorcontroller.org](http://www.auditorcontroller.org)**



**COUNTY OF RIVERSIDE  
OFFICE OF THE  
AUDITOR-CONTROLLER**

County Administrative Center  
4080 Lemon Street, 11<sup>th</sup> Floor  
P.O. Box 1326  
Riverside, CA 92502-1326  
(951) 955-3800  
Fax (951) 955-3802

**ACC** | **AUDITOR  
CONTROLLER**  
COUNTY OF RIVERSIDE

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

**Oscar Valdez**  
Assistant Auditor-Controller

June 19, 2019

Robert Field  
Assistant Chief Executive Officer  
Riverside County Economic Development Agency  
3403 Tenth Street, Suite 300  
Riverside, CA 92501

**Subject: Internal Audit Report 2018-021: Riverside County Economic Development Agency, Community Services Division, County Service Area Administration Audit**

Dear Mr. Field:

Our objective is to provide management and the Board of Supervisors with an independent assessment about the adequacy and effectiveness of internal controls over administrative service rates, delivery of services, and rate assessments.

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 the results of our audit, we:

- 1) Determined internal controls over the rate assessments for properties located within the County Service Areas are operating effectively.
- 2) Identified opportunities for improvement of internal controls relating to the development of administrative service rates.

**Internal Audit Report 2018-021: Riverside County Economic Development Agency, Community Services Division, County Service Area Administration Audit**

- 3) Determined internal controls over the delivery of services are not operating effectively to provide reasonable assurance that its objectives relating to these areas will be achieved. Specifically, County Service Area Administration is not monitoring their memorandum of understanding with the Transportation Land Management Agency to provide street sweeping services.

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. Management's responses are included in the report.

Paul Angulo, CPA, MA  
Riverside County Auditor-Controller



By: René Casillas, CPA, CRMA  
Chief Internal Auditor

cc: Board of Supervisors  
George Johnson, County Executive Officer  
Grand Jury

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## Executive Summary

### Overview

Riverside County Economic Development Agency, Community Services Division, County Service Area Administration (Administration) oversees the operation of 58 County Services Areas. This includes 22 county owned parks, two water treatment facilities, and over eight million square feet of landscaping.

### Audit Objective

Our objective is to provide management and the Board of Supervisors with an independent assessment about the adequacy and effectiveness of internal controls over administrative service rates, delivery of services, and rate assessments.

### Audit Scope and Methodology

We conducted the audit from May 7, 2018, through September 21, 2018, for operations from July 1, 2016, through July 31, 2018. Following a risk based approach, our scope included administrative service rates, delivery of services, and rate assessments.

### Audit Highlights

#### *Existing Conditions*

The current processes have not mitigated the following areas:

- Administrative service fees charged to the County Service Areas are not based on actual expenditures or have a supportable rate development methodology. This may result in the County Service Areas being overcharged for services.
- County Service Area Administration does not receive documentation to support street sweeping invoices, which may result in the county being overbilled.
- Department policies and procedures have not been standardized, nor reviewed and approved by management. This may result in policies and procedures being inconsistently applied by staff.
- The department is not processing street light invoices timely and is incurring late fee charges.



### ***Improvement Opportunities***

The improvement opportunities are in the following areas:

- Create a methodology that supports the administrative service rate charges to County Service Areas in accordance with Board of Supervisors Policy B-4, *Rates Charged for Current Services*, County Ordinance 573, *Establishing Charges for Extended Services provided in County Service Areas*, Government Code 54985, and Proposition 218.
- Ensure supporting documentation is submitted and reviewed to support street sweeping services.
- Update department policies and procedures to ensure they are standardized, periodically reviewed and approved by management, and communicated to staff.
- Implement a process to ensure timely processing of street light invoices.

### **Audit Conclusion**

Based upon the results of our audit, we:

- 1) Determined internal controls over the rate assessments for properties located within the County Service Areas are operating effectively.
- 2) Identified opportunities for improvement of internal controls relating to the development of administrative service rates.
- 3) Determined internal controls over the delivery of services are not operating effectively to provide reasonable assurance that its objectives relating to these areas will be achieved. Specifically, County Service Area Administration is not monitoring their memorandum of understanding with the Transportation Land Management Agency to provide street sweeping services.

## Administrative Service Rate

### Background

The Administration charges rates to County Service Areas to cover their costs for services. These rates are identified in Board of Supervisors Policy A-48, *Formation, Alteration and Operation of County Service Areas*, and are based on the complexity of the service provided. This policy was last updated in 2006. The following are the rates:

- Street lights - 6%
- Street Sweeping - 8.5%
- Community Service Area 152 (National Pollutant Discharge Elimination System) - 8.5%
- Road, Fire or Combined Services (without employees) - 10%
- Combined services (with employees) - 15%

The County Service Areas are charged these percentages based on their current revenue.

Board of Supervisor's Policy B-4, *Rates Charged for Current Services*, states, "Charges should recover actual costs of providing services." County Ordinance 573, *Establishing Charges for Extended Services provided in County Service Areas*, states, "The charges established hereunder shall be levied to pay in whole or in part the cost of providing such extended governmental services. Additionally, Government Code 54985 requires that any government fee to be, "in the amount reasonably necessary to recover the cost of providing any product or services." Finally, Proposition 218 states, "The amount of a fee or charge upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel."

### Objective

To verify the methodology used to establish the administrative service rate for each County Service Area reflects the recovery of the actual cost of providing the services and is compliant with Board of Supervisors Policy B-4, *Rate Charged for Current Services*, County Ordinance 573, *Establishing Charges for Extended Services provided in County Service Areas*, Government Code 54985, and Proposition 218.

### Audit Methodology

To accomplish these objectives, we:

- Obtained an understanding of board policies, county ordinances, and government codes

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- Conducted interviews with Administration management and staff
- Met with County Counsel to clarify how administrative service rates should be determined based on Board Policy A-48, *Formation, Alteration and Operation of County Service Areas*
- Obtained an understanding of the basis of the administrative service rate
- Requested and reviewed support from the department regarding their administration rate fee methodology

**Finding 1: Administrative Service Rate Methodology**

Administrative service rates are charged to County Service Areas based on a percentage of current revenue instead of actual expenditures. The percentages, identified in Board of Supervisors Policy A-48, *Formation, Alteration and Operation of County Service Areas*, are based on the complexity of the service provided and are multiplied by the current revenues of the County Service Areas to determine the annual amount charged by the Administration. However, this policy does not contain support for the methodology used to determine these percentages and Administration could not provide support for the basis of these percentages.

Board of Supervisor's Policy B-4, *Rates Charged for Current Services*, states, "Charges should recover actual costs of providing the services." County Ordinance 573, *Establishing Charges for Extended Services provided in County Service Areas*, Government Code 54985, and Proposition 218 also state similar language. Riverside County Economic Development Agency, Community Services Division believed this was an allowable basis for billing its cost since the Board of Supervisors approved the aforementioned percentages through Board Policy A-48, *Formation, Alteration and Operation of County Service Areas*. Charging costs to County Service Areas based on a percentage of current revenue of the County Service Area may result in the overpayment or underpayment of services.

**Recommendation 1**

Create a methodology and calculate an administrative service rate to charge to County Service Areas in accordance with Board of Supervisors Policy B-4, *Rate Charged for Current Services*, County Ordinance 573, *Establishing Charges for Extended Services provided in County Service Areas*, Government Code 54985, and Proposition 218.

**Management's Response:**

"**Partial Concur.** CSA Administration's Board approved administrative service rates are listed in Board Policy A-48 and are charged against the special assessments that have been determined based on the cost to provide each service within a CSA. CSA Administration agrees that a study should be completed to support the administrative rates charged to each CSA."

Actual/estimated Date of Corrective Action: **June 1, 2020**

## Delivery of Services

### Background

Basic services such as water, sewer, police, and fire protection are provided by the county for unincorporated areas. Counties often consist of large and diverse geographical areas, which provide a consistent and adequate service level across all areas. Residents of urban communities may want more services than those residing in rural areas. The County Service Area Law was created in the 1950's to provide a means of providing expanded service levels in areas where residents are willing to pay for the extra service.

The Riverside County Economic Development Agency (Economic Development Agency) assumed control of the County Service Areas in July of 2002. Each County Service Area is authorized to provide services based on the needs of each community. The County Service Areas collect special taxes and assessments to provide services to specific areas of the county.

The following services are provided by the County Service Areas:

- Landscaping: Maintaining and replacing landscape is done on a daily basis
- Parks and recreation: Recreation services are available at 12 of County Service Area parks, which host year-round events
- Road Maintenance: Maintaining and repairing potholes, road signs, and street markings
- Sheriff: Provides enhanced sheriff protection for the community
- Streetlights: Repairs electrical wiring and light fixtures, replacement of burned-out lamps, and repair and replacement of damaged equipment
- Street sweeping: Street sweeping to keep roads clear of debris, which can contain oil solvents, lawn chemicals, and leaves
- Water and Sewage: Water meter reading, water treatment, and distribution facilities are provided

These services are administered by County Service Area Administration staff with exception of street sweeping and road maintenance. Those services are administered by Riverside County Transportation Land Management Agency (Transportation), which have specialized staff in these areas.

County Service Area 152 provides countywide street sweeping services in selected residential areas of the County of Riverside where property owners have voted to assess themselves for the service. These services are contracted with a vendor. Assessments are collected by

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Administration to pay for the contract and Transportation is responsible for administering the street sweeping services. Although Transportation administers the contract, Administration is ultimately responsible to ensure the street sweeping services are actually performed.

**Objective**

To evaluate internal controls over the delivery of services to ensure services provided to the County Service Areas are performed and monitored.

**Audit Methodology**

To accomplish these objectives, we:

- Obtained an understanding of applicable board policies and department policies and procedures
- Interviewed management to obtain an overview of services contracted and administered by the County Service Areas
- Reviewed contracts for all services provided by the County Service Areas
- Selected a sample of services provided to the County Service Areas to perform detailed testing that included landscape maintenance, parks and recreation, enhanced sheriffs protection, street lighting, and street sweeping

**Finding 2: *Street Sweeping Contract***

Administration receives an annual invoice from Transportation for street sweeping services. However, the invoice does not include supporting documentation that supports street sweeping services were actually performed. In addition, Transportation charges Administration a 15% administrative fee that is not supported by a rate methodology. This administrative fee is in addition to the fee charged by Administration to the County Service Areas. Board of Supervisor's Policy B-4, *Rates Charged for Current Services*, states, "Charges should recover actual costs of providing the services." Additionally, as administrators to the County Service Areas, a responsibility exists to ensure services are provided and that all fees charged are reasonable. A memorandum of understanding does not currently exist between Administration and Transportation defining the responsibilities for each department. Without a clear definition of responsibilities between Transportation and the County Service Areas, the risk of services not being performed at a dependable level and the potential for overbilling is high.

**Recommendation 2.1**

Develop a memorandum of understanding that defines the responsibilities for each department.

## Recommendation 2.2

Request for Transportation to develop a fee that is supported by a rate methodology that reflects the recovery for the cost of providing their service.

### Management's Response:

**"Partial Concur.** A memorandum of understanding currently exists and includes defined responsibilities for each department. CSA Administration will suggest Transportation develop an administrative fee that is supported by a rate methodology that is in compliance with Board Policy B-4."

Actual/estimated Date of Corrective Action: **August 18, 2006**

### Auditor's Response

During our audit and prior to the issuance of our final draft report, we requested a memorandum of understanding and were informed that none existed. Our objective for requesting the document was to identify the root cause and help CSA Administration by recommending internal controls that would help mitigate the cause of the finding. Now that a memorandum of understanding has been located and is in place between CSA Administration and Transportation, the root cause of the finding is a lack of monitoring over the services provided to the county service areas and non-compliance with Board Policy B-4, *Rates Charged for Current Services*. We generally addressed the condition in our finding, the points below are more specifically stated to address the issues.

1. The street sweeping contractor is not in compliance with the contract with Transportation. Required documentation to support the services and charges from the contractor are not submitted.
2. Transportation is not monitoring the street sweeping contractor. When we requested contract required documentation from Transportation to support the services provided and invoiced by the contractor, they had to request it from the contractor since they could not provide the documentation themselves. This indicates how Transportation is not closely monitoring the contract. Transportation then invoices CSA Administration without the support needed to document the amounts billed to the county service areas.
3. An analysis provided by Transportation showed the 15% administrative fee does not recover the cost of providing services. Transportation calculates that an additional \$299,710 would be required from County Service Areas for the last seven fiscal years in order to have recovered the actual cost for providing its services. This is an indication the County of Riverside is subsidizing part of the street sweeping services cost to the county service areas. In addition, this shows that at least for the last seven years, the administrative rate from Transportation has not been updated to reflect the cost of providing services as required by Board Policy B-4, *Rates Charged for Current Services*.

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4. Finally, this creates further concerns regarding the services residents within the county service areas are paying, and whether they are getting the maximum benefit for the money they pay through their property assessments. Even though Transportation has the responsibility to monitor the contracting services, CSA Administration has a fiduciary responsibility to ensure the services paid for the county service areas, are delivered.

To ensure services provided to the county service areas are adequately delivered in accordance to the agreements between all parties involved, we recommend for CSA Administration to develop and implement strong monitoring internal controls over these services.

**Finding 3: *Policies and Procedures***

Policies and procedures provided for County Service Area operations lacked information such as effective date, approval, and revision dates. Administration currently does not have their policies and procedures standardized. SPM 1001, *Internal Controls* (Formerly referred as SPM 104), states, "Well-documented policies and procedures should be established and maintained to promote employee understanding of job duties, provide day-to-day guidance to staff, and help ensure continuity during employee absences or turnover. In addition, good internal controls require the entities' policies and procedures to be reviewed, approved, and periodically updated by management. Not doing so may result in policies and procedures being inconsistently applied by staff. In addition, revising and standardizing policies and procedures improves accuracy and ensures that current business practices and organizational changes are documented.

**Recommendation 3**

Revise department policies and procedures to ensure they are periodically reviewed, approved by management, and communicated to staff.

**Management's Response:**

"Concur. CSA Administration has revised its Policies and Procedures Manual to include annual review and management approval notifications."

Actual/estimated Date of Corrective Action: **February 1, 2019**

**Auditor's Response**

We verified that CSA Administration revised their policies and procedures to include management approval. As this recommendation has been implemented, we will not perform any follow-up procedures in future audits.



**Finding 4: Late Fee Charges**

County Service Areas received and processed approximately 1,500 street light invoices during our audit period. We selected a random sample of nine, of which six (67%) of the lighting invoices reviewed contained late fee charges totaling \$688. Street light payments were not processed within the required time period. There is a fiduciary responsibility to ensure taxes received are used for services rendered.

**Recommendation 4**

Implement a process to ensure timely processing of street light invoices.

**Management's Response:**

**"Do Not Concur.** CSA addressed the SCE utility bill processing deficiency with the implementation of the EnergyCAP system in March of 2018. This took the manual process of bill review and recordation, to bill audit, and payment from a manual process to a paperless hands free process. Thus significantly improving the vendor payments term.

Of the sampled Customer Accounts selected by Internal Audits, where late fees appeared, all but 5 were processed prior to the EnergyCAP remediation. Of those 5, all had been interfaced within 2 days of receipt."

Actual/estimated Date of Corrective Action: **March 1, 2018**

**Auditor's Response**

Our audit period covered July 1, 2016, through July 31, 2018. We selected a random sample of nine invoices of the estimated 1,500 invoices processed during this time period. Six of the nine invoices had late fees totaling \$688. This is significant since a small non-judgmental random sample yielded a high error rate of 67% and the late fees, past and future, are paid from property tax assessments paid by the residents of the county service areas. Our follow up audit will include a testing of invoices in the new system to ensure the new system has mitigated the internal control weaknesses that were found during the audit review period.



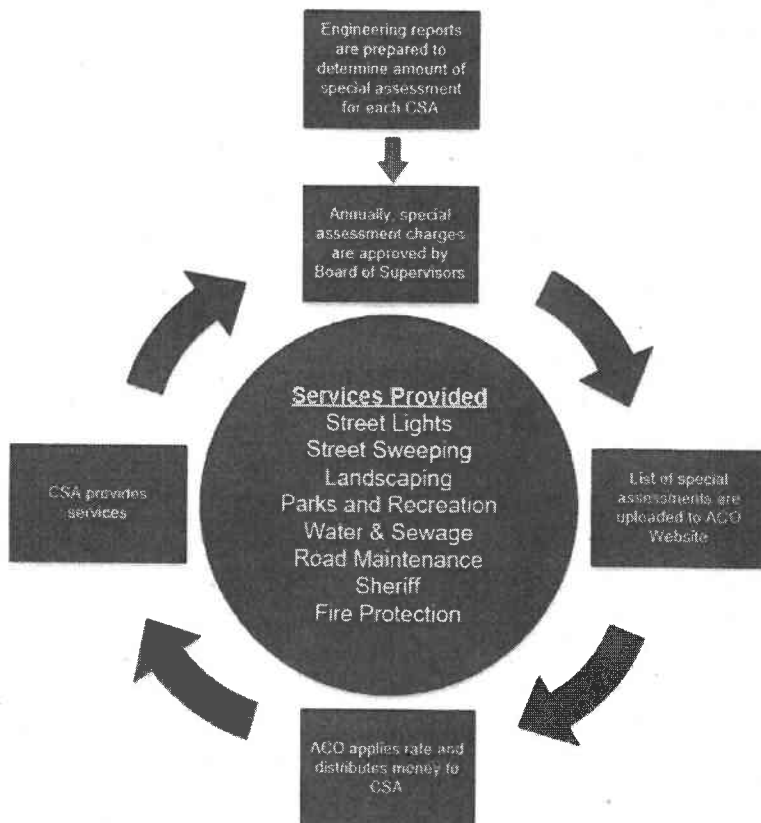
## Rate Assessments

### Background

County Service Areas allow small communities in unincorporated areas to pay for and receive specific services from the county. Each County Service Area determines a rate to charge each parcel in its area based on the cost of service and expected benefit. This rate is placed in the property tax rolls and is assessed as part of the property tax payment. Older County Service Areas have this rate set and do not change. Newer County Service Areas allow for the rates to be changed based on the cost of service and inflation.

The following diagram illustrates the process to establish the rate for all new County Service Areas will charge its residents.

### Rate Assessment Process



### **Objective**

To verify internal controls over the rate assessment process for properties within the county service areas are operating effectively.

### **Audit Methodology**

To accomplish these objectives, we:

- Obtained an understanding of board policies, county ordinances, and department policies and procedures
- Interviewed management to obtain understanding on how rates and budgets are established for each County Service Area
- Obtained and reviewed report submitted to the Board of Supervisors, "Notice of Intent to Establish County Service Area Charges", for fiscal years 2016-2017 and 2017-2018
- Obtained and reviewed the rate packages submitted by the Economic Development Agency to the Auditor-Controller for fiscal year 2016-2017 and 2017-2018
- Selected a sample of County Service Areas to perform detailed testing on their rates

### **Findings: None noted**

Based upon the results of our testing, we verified adequate internal controls are in place to ensure rate assessments submitted to the Auditor-Controller are properly supported, that County Service Area budgets and individual rates are based on actual expenditures, and that the money collected through taxes for each County Service Area correspond to the cost to provide the service.