

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



ITEM: 2.4
(ID # 13986)

MEETING DATE:
Tuesday, December 08, 2020

FROM : AUDITOR CONTROLLER:

SUBJECT: AUDITOR-CONTROLLER: Internal Audit Report 2021-201: Riverside County Business and Community Services, County Service Areas Audit, All Districts. [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2021-201: Riverside County Business and Community Services, County Service Areas Audit

ACTION: Consent


Paul A. Angulo, County Auditor-Controller 11/18/2020

MINUTES OF THE BOARD OF SUPERVISORS

On motion of Supervisor Jeffries, seconded by Supervisor Washington 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: December 8, 2020
xc: Auditor

Kecia R. Harper
Clerk of the Board

By: 
Deputy

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STATE OF CALIFORNIA**

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost
COST	\$ 0	\$ 0	\$ 0	\$ 0
NET COUNTY COST	\$ 0	\$ 0	\$ 0	\$ 0
SOURCE OF FUNDS: N/A			Budget Adjustment: No	
			For Fiscal Year: N/A	

C.E.O. RECOMMENDATION: Approve

BACKGROUND:

Summary

In accordance with Board of Supervisors Resolution 83-338, we completed an audit of the Riverside County Business and Community Services, County Service Areas. This audit is conducted to provide management and the Board of Supervisors with an independent assessment of internal controls over the fund balance.

Based upon the results of our audit, we identified:

Opportunities for improvement of internal controls relating to fund balances. Specifically, Riverside County Business and Community Services, County Service Areas should develop policies and procedures to address the maintenance of County Service Areas related fund balances.

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

ATTACHMENT A.

Internal Audit Report 2021-201: Riverside County Business and Community Services, County Service Areas Audit

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STATE OF CALIFORNIA



Stephanie Perez, Principal Management Analyst 11/30/2020

Internal Audit Report 2021-201

**Riverside County
Business and Community Services,
County Service Areas Audit**

Report Date: December 8, 2020



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CONTROLLER
COUNTY OF RIVERSIDE

Paul Angulo, CPA, MA
Riverside County Auditor-Controller

Tanya Harris, CPA, DPA, MPA
Assistant Auditor-Controller

December 8, 2020

Suzanne Holland
Director
Riverside County Business and Community Services, County Service Areas
3499 Tenth Street, 2nd Floor
Riverside, CA 92501

Subject: Internal Audit Report 2021-201: Riverside County Business and Community Services, County Service Areas Audit

Dear Ms. Holland:

In accordance with Board of Supervisors Resolution 83-338, we audited the Business and Community Services, County Service Areas to provide an independent assessment of internal controls over the fund balance.

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.

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County Service Areas Audit**

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to fund balances. Specifically, Riverside County Business and Community Services, County Service Areas should develop policies and procedures to address the maintenance of County Service Areas related fund balances.

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. We will follow-up to verify that management implemented the corrective actions.

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

**Internal Audit Report 2021-201: Riverside County Business and Community Services,
County Service Areas Audit**

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**Internal Audit Report 2021-201: Riverside County Business and Community Services,
County Service Areas Audit**

Executive Summary

Overview

Riverside County Business and Community Services, County Service Areas (Business and Community Services) provide municipal community services for neighborhoods within unincorporated communities in Riverside County. To provide these services County Service Areas have a budget of \$26.7 million, and 41 authorized positions. County Service Areas administration oversees the operation of 60 County Service Areas. This includes twenty-two county owned parks, two water treatment facilities and over eight million square feet of landscaping. *County of Riverside, Fiscal Year 2020/21 Adopted Budget, September, 2020, 75. County of Riverside, County Service Areas, accessed July 1, 2020, [https://rivcoccsd.org/County Service Area](https://rivcoccsd.org/County%20Service%20Area).*

Audit Objective

Our objective is to provide an independent assessment about the adequacy and effectiveness of internal controls over fund balances. Internal controls are processes designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial information.

Audit Scope and Methodology

We conducted the audit from April 16, 2020, through July 1, 2020, for operations from July 1, 2018, through June 30, 2020. Our scope included a review of fund balances.

Audit Highlights

Existing Conditions

- There is no policy or procedure to document the maximum amount for fund balances, the amount and methodology that constitutes an emergency fund, nor a plan for the amount held in reserves. This increases the risk of fund balances being used for purposes not directly benefitting respective County Service Area taxpayers. It also implies an overcollection of funds through the special assessment taxes for services.

Improvement Opportunities

- Develop policies and procedures to address the maintenance of County Service Areas related fund balances, establish a methodology for determining the amount to constitute an emergency reserve, and a plan to substantiate the amount being held in reserves.

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Audit Conclusion

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to fund balances. Specifically, Riverside County Business and Community Services, County Service Areas should develop policies and procedures to address the maintenance of County Service Areas related fund balances.

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Fund Balances

Background

County Service Areas were established by *Senate Bill 1458* authorizing unincorporated areas of the county to form County Service Areas in order to receive specific extended governmental services they would not normally receive. These services can include: street lighting, landscape maintenance, street sweeping, road services, recreation, water and sewer, structural fire protection, drainage basin, national pollutant discharge elimination, and sheriff. Residents pay for the additional services in order to meet the diversity of local conditions, circumstances, and resources.

At the formation of a County Service Area, the amount of the special assessment tax is established by an engineer who estimates cost of service, in collaboration with Business and Community Services. This tax rate is agreed upon by Business and Community Services and the housing developer. When the home buyer agrees to purchase a home, they agree to pay the special assessment taxes. If the County Service Area has a price escalator in the formation agreement, the amount of the special assessment tax will increase annually the greater of two percent or consumer price index. Historically, Business and Community Services have not increased more than two percent.

The California Constitution, Article XIII C, *Voter Approval for Local Tax Levies* and California Constitution, Article XIII D, *Assessment and Property-Related Fee Reform* were added to the California Constitution on November 5, 1996, by initiative measure Proposition 218. Per Article XIII C, Section 1(e)(1), a tax is a "charge imposed for a specific benefit... granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government." Additionally, Article XIII D, Section 4(f) states the agency needs to be able to "demonstrate that the property or properties receive a special benefit over and above the benefits conferred on the public at large and that the amount of any contested assessment is proportional to, and no greater than, the benefits conferred on the property."

The special assessment tax impacts the operational fund balance of each County Service Area. Fund balance is the difference between the fund's assets and liabilities. Every fiscal year there is either an increase or decrease to the fund balance based on the difference in revenues and expenditures. If revenues exceed expenditures for that fiscal year the fund balance will increase, conversely if expenditures exceed revenues the fund balance will decrease.

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Objective

To verify the adequacy and effectiveness of internal controls over fund balances.

Audit Methodology

To accomplish these objectives, we:

- Obtained an understanding of board policies, county ordinance, legislation, and applicable standards.
- Interviewed department management and staff.
- Analyzed financial information from fiscal year 2017 through 2020.
- Reviewed a sample of County Service Areas formation documents.
- Reviewed detailed support for expenditure and interfund transactions.

Finding 1: Fund Balance Maintenance

County Service Areas do not have a plan to determine the appropriate amount of funds being held in fund balance reserves. The amount held to cover anticipated expenditures, emergency funds, and future projects is not determined methodically, nor evaluated for reasonableness. County Service Area fund balance is comprised solely of taxpayer dollars, implying that the taxpayer's dollars are not directly correlated to the taxpayer's benefit.

The California Constitution, Article XIII D, *Assessment and Property-Related Fee Reform, Section 4(a)*, states that, "No assessment shall be imposed on any parcel which exceeds the reasonable cost of the proportional special benefit conferred on that parcel." Furthermore, California Constitution, Article XIII D, *Assessment and Property-Related Fee Reform, Section (2)(b)(1)* states, "revenue derived from the fee or charge shall not exceed the funds required to provide the property related service." The County Service Area administration is not collecting the same amount in special assessment taxes that they are expending to the benefit of the taxpayers. This principle is further asserted by *Government Code §54985(a)* which states "a county board of supervisors shall have the authority to increase or decrease the fee or charge... in the amount reasonably necessary to recover the cost of providing any product or service... for which the fee or charge is

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levied.” The amount of special assessment taxes collected is only intended to recover the costs of providing the County Service Area services. The difference in the amount being collected and the amount being expended has resulted in fund balances that increase annually without oversight. Without the analysis and determination of reasonable fund balances, the County Service Areas cannot know if the increase to the assessment is necessary.

We sampled 10 out of 60 County Service Areas (CSA).

CSA	Service Provided
CSA 084	Lighting
CSA 091	Lighting
CSA 121	Lighting, Drainage Basin
CSA 126	Landscaping, Parks and Recreation, Sheriff
CSA 134	Lighting, Landscaping, Parks and Recreation, Sheriff
CSA 143	Lighting, Landscaping, Parks and Recreation
CSA 145	Parks and Recreation
CSA 149	Roads
CSA 152	Street Sweeping
Admin CSA	General administration, fiscal support, overhead

From the fiscal year ending June 30, 2018, to June 30, 2020, the amount of tax revenue collected compared to the actual costs reported by the County Service Areas are as follows:

	Collection of Special Assessment Taxes									
	CSA 084	CSA 091	CSA 121	CSA 126	CSA 134	CSA 143	CSA 145	CSA 149	CSA 152	Admin CSA
2017-18										
Revenues \$	169,139	\$ 156,932	\$ 103,239	\$ 1,038,122	\$ 1,532,811	\$ 2,514,207	\$ 14,576	\$ 420,923	\$ 3,951,866	\$ 2,227,233
Expenditures	43,195	106,445	90,037	718,828	1,590,799	2,707,951	-	453,333	4,735,394	2,390,953
Variance \$	\$ 125,945	\$ 50,487	\$ 13,202	\$ 319,294	\$ (57,988)	\$ (193,743)	\$ 14,576	\$ (32,410)	\$ (783,528)	\$ (163,720)
2018-19										
Revenues \$	176,064	\$ 177,728	\$ 117,207	\$ 2,611,702	\$ 2,081,628	\$ 2,740,763	\$ 44,994	\$ 444,748	\$ 4,933,694	\$ 3,204,845
Expenditures	37,298	96,829	59,103	1,167,100	1,954,672	3,074,688	-	782,511	5,173,255	2,413,667
Variance \$	\$ 138,766	\$ 80,900	\$ 58,104	\$ 1,444,602	\$ 126,956	\$ (333,925)	\$ 44,994	\$ (337,763)	\$ (239,561)	\$ 791,177
2019-20*										
Revenues \$	176,593	\$ 154,868	\$ 101,191	\$ 2,538,603	\$ 2,133,642	\$ 3,254,325	\$ 16,136	\$ 587,922	\$ 4,603,506	\$ 3,091,046
Expenditures	53,093	93,556	53,414	1,204,856	1,507,020	2,858,256	-	653,415	4,424,399	2,151,384
Variance \$	\$ 123,500	\$ 61,312	\$ 47,777	\$ 1,333,747	\$ 626,622	\$ 396,069	\$ 16,136	\$ (65,494)	\$ 179,107	\$ 939,662

*This data is run as of June 30, 2020 on July 1, 2020 and is not inclusive of all accruals or year journal entries

The collection of special assessment taxes indicates that the amount being collected does not accurately reflect the cost of the services being provided. This inequitable collection of the special assessment taxes has a fixed impact on the fund balance reserves, typically increasing the balances. While high reserves are not inherently prejudicial,

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Business and Community Services should document a plan for those funds to circumvent an unintentional buildup of reserves.

Additionally, Board of Supervisors Policy A-48, *Formation, Alteration, and Operation of County Service Areas*, states that each fund balance should be managed carefully to assure “adequate cash flow during the period between the beginning of the new fiscal year and the first installment receipt of special taxes and property taxes.” The fund balance from the prior year is held to cover approximately six months of expenses in the next fiscal year. The receipt of taxes typically occurs in December and June. The fund balance currently being maintained by Business and Community Services is in excess of this amount, with the exception of the Admin County Service Area.

	Fund Balance as of June 30, 2017	Average six months of expenditures	Fund Balance as of June 30, 2018*	Approximately six months of expenditures	Fund Balance as of June 30, 2019	Approximately six months of expenditures
CSA 084	\$ 678,709	\$ 21,597	\$ 707,174	\$ 18,649	\$ 833,118	\$ 26,546
CSA 091	811,034	53,222	854,825	48,414	905,312	46,778
CSA 121	583,798	45,018	623,309	29,552	636,511	26,707
CSA 126	846,100	359,414	1,216,578	583,550	1,535,872	602,428
CSA 134	682,549	795,400	701,851	977,336	643,863	753,510
CSA 143	3,093,560	1,353,975	2,924,047	1,537,344	2,730,304	1,429,128
CSA 145	1,451,027	-	1,459,025	-	1,473,601	-
CSA 149	1,237,260	226,666	1,339,096	391,256	1,306,686	326,708
CSA 152	12,713,282	2,367,697	12,937,372	2,586,627	12,153,844	2,212,200
Admin CSA	618,410	1,195,477	826,316	1,206,834	662,596	1,075,692

* The change in fund balance over the prior year may not be consistent with variances reported in this report due to entries made directly to fund balance.

In the event of an emergency there is no recourse for the County Service Areas to pay for emergency repairs or services, if the funds are not available in the reserves. The amount held in reserves for emergency funds should be based on a reasonable methodology, in addition to any amounts being held in reserves for future long term, or financially significant projects being held in amounts that are both, reasonable and estimable. These plans should annually document the appropriation or reduction of County Service Area fund balances in conformity with long term plans, specific to the individual County Service Areas goals.

Recommendation 1.1

Develop a methodology to determine appropriate cash flow amounts and emergency funds.

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Management's Response

"Concur. CSA Administration sees the value in developing a policy to manage the appropriate level of funds necessary for standard operations as well as retaining an appropriate level of funding for effective operations in the event of an emergency."

Actual/estimated Date of Corrective Action: June 30, 2021

Recommendation 1.2

Develop and annually update a plan for the unassigned fund balance, based on the County Service Area's needs, emergency fund, and planned improvements.

Management's Response

"Concur. Unassigned fund balance that will carry over with each fiscal year will be included as part of the policy that will be developed to manage the appropriate level of funding and retention for emergencies. Included in the proposed policy will be a plan to improve the process for the issuing of purchase orders. Many of the CSAs with larger fund balances have developed these balances as a result of high value projects in process and unforeseen delays with purchase orders. CSA Admin will coordinate with County Purchasing to ensure CSA projects are executed timely."

Actual/estimated Date of Corrective Action: June 30, 2021