

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



ITEM: 2.13
(ID # 20721)

MEETING DATE:

Tuesday, December 13, 2022

FROM : AUDITOR CONTROLLER:

SUBJECT: AUDITOR-CONTROLLER: Internal Audit Report 2023-310 Riverside County Flood Control and Water Conservation District, Follow-up Audit

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2023-310: Riverside County Flood Control & Water Conservation District, Follow-up Audit

ACTION:Consent

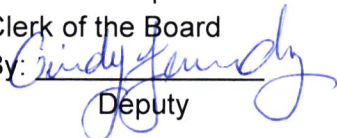

Tanya Harris, Assistant Auditor Controller 12/1/2022

MINUTES OF THE BOARD OF SUPERVISORS

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

Ayes: Jeffries, Spiegel, Washington, and Hewitt
Nays: None
Absent: Perez
Date: December 13, 2022
xc: Auditor

Kecia R. Harper
Clerk of the Board

By: 
Deputy

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

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost
COST	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
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

BACKGROUND:

Summary

We completed a follow-up audit of Riverside County Flood Control & Water Conservation District. Our audit was limited to reviewing actions taken as of August 30, 2022, to correct findings noted in our original audit report 2021-019 dated July 20, 2021. The original audit report contained five recommendations, all of which required implementation to help correct the reported findings.

Based on the results of our audit, we found that of the five recommendations:

- Four of the recommendations were implemented.
- One of the recommendations was partially implemented.

For an in-depth understanding of the original audit, please refer to Internal Audit 2021-019 at www.auditorcontroller.org/Divisions/AuditsandSpecializedAccounting/InternalAuditReports.

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 - Internal Audit Report 2023-310: Riverside County Flood Control & Water Conservation District, Follow-up Audit.

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



Stephanie Perez, Principal Management Analyst 12/1/2022

Internal Audit Report 2023-310

**Riverside County Flood Control
& Water Conservation District,
Follow-up Audit**

Report Date: December 13, 2022



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

4080 Lemon Street, 11th Floor
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www.auditorcontroller.org



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Paul Angulo, CPA, M.A.
Riverside County Auditor-Controller

Tanya S. Harris, DPA, CPA
Assistant Auditor-Controller

December 13, 2022

Jason Uhley
General Manager – Chief Engineer
Riverside County Flood Control & Water Conservation District
1995 Market St.
Riverside, CA 92501

Subject: Internal Audit Report 2023-310: Riverside County Flood Control & Water Conservation District, Follow-up Audit

Dear Mr. Uhley:

We completed the follow-up audit of Riverside County Flood Control & Water Conservation District. Our audit was limited to reviewing actions taken as of August 30, 2022, to help correct the findings noted in our original audit report 2021-019 dated July 20, 2021.

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 reasonable assurance that our objective, as described in the preceding paragraph, is achieved. Additionally, the standards require that we conduct the audit to provide sufficient, reliable, and relevant evidence to achieve the audit objectives. We believe the audit provides a reasonable basis for our conclusion.

The original audit report contained five recommendations, all of which required implementation to help correct the reported findings. Based on the results of our audit, we found that of the five recommendations:

- Four of the recommendations were implemented.
- One of the recommendations was partially implemented.

Internal Audit Report 2023-310: Riverside County Flood Control & Water Conservation District, Follow-up Audit

Summary of the conditions from the original audit and the results of our review on the status of the implementation of the recommendations are provided in this report. For an in-depth understanding of the original audit, please refer to Internal Audit Report 2021-019 at [www.auditorcontroller.org/ Divisions / Audits and Specialized Accounting / Internal Audit Reports](http://www.auditorcontroller.org/Divisions/Audits%20and%20Specialized%20Accounting/Internal%20Audit%20Reports).

Paul Angulo, CPA, MA
Riverside County Auditor-Controller



By: René Casillas, CPA, CRMA
Deputy Auditor-Controller

cc: Board of Supervisors
Jeff A. Van Wagenen, County Executive Officer
Dave Rogers, Chief Administrative Officer
Grand Jury

Internal Audit Report 2023-310: Riverside County Flood Control & Water Conservation District, Follow-up Audit

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Internal Audit Report 2023-310: Riverside County Flood Control & Water Conservation District, Follow-up Audit

Employee Certification and Training

Finding 1: Employee Certification

Three (21%) out of 14 employees did not receive training for heavy equipment operation as required by department policies. Flood Control's, *Special Purpose Vehicle Program*, states, "prior to permitting a District employee to operate a powered industrial truck or forklift, each employee must successfully complete specialized training that includes formal classroom training and a driving evaluation to certify that they can safely operate a forklift." Flood Control is not verifying that certifications and trainings are complete before signing off on an employees' training record. It is essential that every operator or driver is thoroughly and properly trained on the equipment they use. It is also important for employees to stay on top of department policies, changing regulations and guidelines, and to keep certifications up to date. Much of the risk in heavy equipment operation stems from improper use of machinery, or equipment.

Recommendation 1

Ensure all required trainings are complete as required by Flood Control's Safety Operations Manual-9, *Special Purpose Vehicle Program*.

Current Status 1: Implemented

Internal Audit Report 2023-310: Riverside County Flood Control & Water Conservation District, Follow-up Audit

Equipment and Vehicle Inspections

Finding 2: Equipment and Vehicle Inspections

In our review of 15 of Flood Control's inspection records, we noted the following:

- Fourteen (93%) equipment and vehicle inspections were not signed by department personnel with supervisor capacities. Supervisory review and sign-off of inspection reports ensures the integrity of the department's equipment safety program is maintained as it reassures inspections are completed and documented.
- Four (27%) vehicles contained partially completed driver's inspection reports. This is an indication that the operators did not fully go through the inspection process to ensure the safe operation of the respective equipment.
- Two (13%) vehicles had small engine oil leaks, but maintenance action was not scheduled as of the time of the audit procedures.

Flood Control's Safety Operations Manual-9, *Special Purpose Vehicle Program, Section 8*, states, "operators of all commercial vehicles and heavy construction type equipment perform a daily "walk around" safety inspection to ensure it is in safe operating condition." The manual further states, "all vehicle system discrepancies will be documented on Driver's Inspection Report and operators will notify their supervisor who will determine if the vehicle can be operated safely or if the vehicle should be taken out of service." Additionally, *Federal Motor Carrier Safety Administration, Title 49 Code of Federal Regulation (CFR), Section 396.13*, requires that the vehicle inspection reports are to be signed which acknowledges and certifies that requiring repairs have been performed. Maintaining the integrity of the department's safety inspection program for the operation of their equipment, helps Flood Control in the event of any equipment issues or accidents as it provides evidence of timely and consistent equipment inspections in case of any investigations. Furthermore, it ensures compliance with *Federal Motor Carrier Safety Administration, Title 49 Code of Federal Regulation (CFR), Section 396.13*.

Internal Audit Report 2023-310: Riverside County Flood Control & Water Conservation District, Follow-up Audit

Recommendation 2.1

Ensure vehicle inspection reports are completed in accordance with Flood Control's *Special Purpose Vehicle Program, Section 8, and Federal Motor Carrier Safety Administration, Title 49 Code of Federal Regulation (CFR), Section 396.13.*

Current Status 2.1: Implemented

Recommendation 2.2

Ensure vehicle inspection reports are signed off by a designated reviewer on the same day to ensure inspections are completed accurately and heavy equipment is safe for operation.

Current Status 2.2: Partially Implemented

Flood Control's updated policies and procedures do not require a supervisor to sign-off and approve equipment and vehicle inspections. Although a supervisor's specific review and approval are not legally mandated, it ensures that the equipment and vehicle inspection reports are completed as required by law and that any mechanical issues are addressed timely. Alternatively, the department made changes to their Safety Operations Manual-9, *Special Purpose Vehicle Program*, to clarify proper use of the equipment and vehicle inspection forms. Additional training was provided to maintenance supervisors and equipment operators to reemphasize proper equipment and vehicle inspection procedures. Although we were unable to verify whether the additional training was actually performed, this recommendation's implementation will not be verified any further.

Internal Audit Report 2023-310: Riverside County Flood Control & Water Conservation District, Follow-up Audit

Payment Collection Process

Finding 3: Debt Collection Process

Riverside County Flood Control is not in compliance with their Fiscal Policy F1, *Account Receivable Management*. It is also not in conformity with generally accepted accounting principles in writing off bad debts, FSB ASC paragraph 310-10-35-41 which requires the write-off of uncollectible accounts. We identified the following in our review:

- Based on our review of the account receivable aging report, the total uncollectible amount as of February 28, 2021, was \$472,490, of which \$176,411 was from 2006 through 2009 accounts. This exceeds the 180-day stipulated by department policy and the reasonableness test guidelines from the accounting principles. As such, the financial statements for Flood Control overstated the assets presented.
- On November 19, 2019, Flood Control submitted for approval to write-off uncollectible accounts totaling \$512,699 in accordance with California Government Code Section 25257-25259, authorizing the Flood Control's Board to assign delinquent bills, claims, and accounts to a collection agency under certain circumstances. Since approval was not provided, Flood Control could not move forward as planned.
- Six (86%) out of seven collection letters reviewed were not mailed as outlined in their policy. The total represents debt in the amount of \$ 62,114 over a period of more than 6 months. Furthermore, Flood Control did not cease their service efforts when debt payments were not received.

Flood Control's Fiscal Policy F1, *Accounts Receivable Management*, establishes its objective to carefully manage the "efficient and effective collection of all debts owed to the District." It outlines in their procedures that, "a diligent effort should be made to collect all outstanding accounts," and, "accounts receivable write-offs should be approved by management and/or the District's Board of Supervisors." It further outlines specifics on the receivable aging timelines, collection effort guidelines, and write off procedures for uncollectible accounts. When policies and procedures are not consistently followed, it renders the policy objectives ineffective, weakens the internal controls established within the procedures, and inhibits the districts cost recovery efforts for services rendered. Furthermore, assets presented in the financial statements are overstated since old uncollectible accounts have not been written off.

Internal Audit Report 2023-310: Riverside County Flood Control & Water Conservation District, Follow-up Audit

Recommendation 3.1

Ensure Flood Control's policies and procedures to collect accounts receivable and write off bad debt is consistently followed and in compliance with generally accepted accounting principles.

Current Status 3.1: Implemented

Recommendation 3.2

Ensure department services on projects cease when fees are not paid when owed.

Current Status 3.2: Implemented

Attachment A

Internal Audit Report 2021-019

**Riverside County
Flood Control and Water
Conservation District Audit**

Report Date: July, 20, 2021



**Office of Paul Angulo, CPA, MA
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COUNTY OF RIVERSIDE

Paul Angulo, CPA, MA
Riverside County Auditor-Controller

Tanya S. Harris, DPA, CPA
Assistant Auditor-Controller

July 20, 2021

Jason Uhley
General Manager-Chief Engineer
Riverside County Flood Control and Water Conservation District
1955 Market Street
Riverside, CA 92501

Subject: Internal Audit Report 2021-019: Riverside County Flood Control and Water Conservation District Audit

Dear Mr. Uhley:

In accordance with Board of Supervisors Resolution 83-338, we audited the Riverside County Flood Control and Water Conservation District to provide management and the Board of Supervisors with an independent assessment of internal controls over deposit-based fees, employee certification and training, equipment vehicle inspections, and payment collection process.

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.

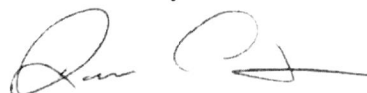
Internal controls are processes designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial and non-financial information. Management is responsible for establishing and maintaining adequate internal controls.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

Our conclusion and details of our audit are documented in the body of this audit report.

**Internal Audit Report 2021-019: Riverside County Flood Control and Water
Conservation District Audit**

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
Jeff A. Van Wagenen, Jr., County Executive Officer
Grand Jury

**Internal Audit Report 2021-019: Riverside County Flood Control and Water
Conservation District Audit**

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Internal Audit Report 2021-019: Riverside County Flood Control and Water Conservation District Audit

Executive Summary

Overview

Riverside County Flood Control and Water Conservation District (Flood Control) was created in 1945 following the floods of 1938. Flood Control oversees 2,700 square miles of stormwater management of the western part of the county. It is also responsible for planning, designing, constructing, and operating regional storm drains, channels, levees, and dams.

It has an adopted budget of \$194.1 million for FY 2020-21 and 305 authorized positions to execute its responsibilities. *County of Riverside, Fiscal Year 2020-21 Adopted Budget, September 2020, 303.*

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 deposit-based fees, employee certification and training, equipment vehicle inspection, and payment collection process. 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. Reasonable assurance recognizes internal controls have inherent limitations, including cost, mistakes, and intentional efforts to bypass internal controls.

Audit Scope and Methodology

We conducted the audit from March 10, 2021, through May 12, 2021, for operations from July 1, 2019, through May 12, 2021. Following a risk-based approach, our scope initially included the following:

- Change order review process
- Construction bidding process
- Deposit-based fees
- Employee certification and training
- Equipment vehicle inspection
- Proposition 84 and Federal Emergency Management Agency (FEMA) Grants
- Payment collection process

Internal Audit Report 2021-019: Riverside County Flood Control and Water Conservation District Audit

Through inquiry, observations, and examination of relevant documentation related to the change order review process, construction bidding process, Proposition 84 and federal emergency management agency grants, we concluded that internal controls over these areas are sufficient to mitigate the risk we initially assessed in these areas. As such, we focused our audit scope to internal controls over deposit-based fees, employee certification and training, equipment vehicle inspections, and payment collection process.

Audit Highlights

Summary of Existing Conditions

The current processes have not mitigated the following risk areas:

- Flood Control required heavy equipment training of employees was not completed. This training is meant to ensure the safe operation of department heavy equipment.
- Equipment vehicle safety inspections policies and procedures are not consistently followed. Maintaining the integrity of the department's safety inspection program for the operation of their equipment, helps Flood Control in the event of any equipment issues or accidents as it provides evidence of timely and consistent equipment inspections in case of any investigations.
- Flood Control fiscal policy and procedures on accounts receivable management and collection process is not consistently followed. When policies and procedures are not consistently followed, it renders the policy objectives ineffective, weakens the internal controls established within the procedures, and inhibits the districts cost recovery efforts for services rendered.

Summary of Improvement Opportunities

The improvement opportunities are in the following areas:

- Ensure all required training are completed in accordance with Flood Control's *Safety Operation Manual-9*.
- Ensure vehicle inspection reports are completed and signed off by a designated reviewer.

**Internal Audit Report 2021-019: Riverside County Flood Control and Water
Conservation District Audit**

- Ensure Flood Control's policies and procedures to collect accounts receivable and write off bad debt is consistently followed and in compliance with generally accepted accounting principles.
- Ensure department services on projects cease when fees are not paid.

Audit Conclusion

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to employee certification and training, equipment vehicle inspections, and payment collection process.

**Internal Audit Report 2021-019: Riverside County Flood Control and Water
Conservation District Audit**

Deposit-Based Fees

Background

The Riverside County Board of Supervisors has adopted ordinances to collect fees for the staff-related costs of reviewing application for land development projects, road improvements, grading, and building permits. Certain applications are “Deposit Based,” meaning that the initial deposit may be supplemented by additional fees, based upon actual labor costs. Deposit based fees (DBF) were adopted in response to the building industry’s concern that some applications required more labor than others and that a DBF rate would reflect the project’s actual labor costs, compared to a potentially higher standard flat fee. An applicant is required to deposit fees to initiate staff review of an application. County departments draw against these deposited funds at the staff hourly rates adopted by the Board of Supervisors as part of the county budget. Deposits are monitored, and when significantly depleted, the applicant is contacted for additional supplemental fees, to cover the estimated full cost of the project to completion.

Objective

To determine the adequacy of internal controls over the deposit-based fees process.

Audit Methodology

To accomplish these objectives, we:

- Obtained an understanding on County of Riverside Ordinance No. 671 (as amended through 671.20), *Establishing Consolidated Fees for Land Use and Related Functions*.
- Interviewed management to obtain an understanding on deposit-based fees processes.
- Interviewed project engineers to obtain an understanding on deposit-based fees, as it relates to the application process, basis for calculation, monitoring and exceptions to stop work.
- Selected samples to perform detailed testing on submitted initial application fees and requested supporting documentation for detail audit testing.

Finding: None Noted

**Internal Audit Report 2021-019: Riverside County Flood Control and Water
Conservation District Audit**

Employee Certification and Training

Background

Employees receive training according to their job responsibilities. Training and certification requirements have been identified by management and documented in the district training database. Employees who will be working with heavy equipment vehicles have training tailored to their work group. Certification records are documented and kept by the safety coordinator.

Objective

To evaluate internal controls over employee vehicle certification and training programs to ensure Flood Control employees are receiving required certification and training.

Audit Methodology

To accomplish these objectives, we:

- Obtained an understanding of Flood Control regulations, policies, and procedures.
- Conducted interviews and performed walk-throughs with Flood Control personnel.
- Reviewed a sample of certification and training records for Flood Control employee.

Finding 1: Employee Certification

Three (21%) out of 14 employees did not receive training for heavy equipment operation as required by department policies. Flood Control's, *Special Purpose Vehicle Program*, states, "prior to permitting a District employee to operate a powered industrial truck or forklift, each employee must successfully complete specialized training that includes formal classroom training and a driving evaluation to certify that they can safely operate a forklift." Flood Control is not verifying that certifications and trainings are complete before signing off on an employees' training record. It is essential that every operator or driver is thoroughly and properly trained on the equipment they use. It is also important for employees to stay on top of department policies, changing regulations and guidelines, and to keep certifications up to date. Much of the risk in heavy equipment operation stems from improper use of machinery, or equipment.

Internal Audit Report 2021-019: Riverside County Flood Control and Water Conservation District Audit

Recommendation 1

Ensure all required trainings are complete as required by Flood Control's Safety Operations Manual-9, *Special Purpose Vehicle Program*.

Management's Response

"Partially Concur. The three employees mentioned in Finding 1 are all on extended leaves and are not available for training:

- One employee has been on leave since 2016.
- Two employees have been on a leave since September 2020.

These employees' current training records are therefore blank.

The District does keep two separate training records – one record for forklifts that have unique training requirements and a second record for all other heavy equipment that have common training requirements.

The heavy equipment training record does include a line to document forklift training, even though forklift operation is limited to a small number of Garage staff, has unique training requirements, and is officially recorded on a separate training record. We will remove the reference to forklifts from the heavy equipment record to improve clarity as to the official record, prevent duplication of records, and prevent the opportunity for the two training records to be out of alignment."

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

Auditor's Comment

Based on the records provided by Flood Control, the employees mention in the audit finding and management's response were actively working during our audit period and were not on leave. As such, we urge the department to consistently follow Flood Control's, *Special Purpose Vehicle Program*.

Internal Audit Report 2021-019: Riverside County Flood Control and Water Conservation District Audit

Equipment and Vehicle Inspections

Background

A driver inspection form is utilized to perform a pre-trip inspection, whether the vehicle is on the road, or a piece of heavy equipment. Fully completed driver inspection forms are designed to aid vehicle operators in identifying issues that may become dangerous and increase the liability to Flood Control. Equipment operators are required to perform walk-arounds, check tires, first aid kits, fire extinguishers, fluid leaks, and any other safety concerns prior to use. Once operators complete the inspection, the forms are routed to the supervisor to address any concerns noted and determine if work orders need to be submitted. Inspections are only conducted when the equipment or vehicle are to be used.

Objective

To evaluate internal controls over maintenance programs for equipment and vehicles. Specifically, to ensure routine maintenance and daily inspections are being performed and documented.

Audit Methodology

To accomplish these objectives, we:

- Obtained an understanding of Flood Control regulations, policies, and procedures.
- Conducted interviews and performed equipment and vehicle inspection walk-throughs with Flood Control personnel.
- Selected a sample of vehicles and equipment to review safety inspections and maintenance records.

Finding 2: Equipment and Vehicle Inspections

In our review of 15 of Flood Control's inspection records, we noted the following:

- Fourteen (93%) equipment and vehicle inspections were not signed by department personnel with supervisor capacities. Supervisory review and sign-off of inspection reports ensures the integrity of the department's equipment safety program is maintained as it reassures inspections are completed and documented.

Internal Audit Report 2021-019: Riverside County Flood Control and Water Conservation District Audit

- Four (27%) vehicles contained partially completed driver's inspection reports. This is an indication that the operators did not fully go through the inspection process to ensure the safe operation of the respective equipment.
- Two (13%) vehicles had small engine oil leaks, but maintenance action was not scheduled as of the time of the audit procedures.

Flood Control's Safety Operations Manual-9, *Special Purpose Vehicle Program, Section 8*, states, "operators of all commercial vehicles and heavy construction type equipment perform a daily "walk around" safety inspection to ensure it is in safe operating condition." The manual further states, "all vehicle system discrepancies will be documented on Driver's Inspection Report and operators will notify their supervisor who will determine if the vehicle can be operated safely or if the vehicle should be taken out of service." Additionally, *Federal Motor Carrier Safety Administration, Title 49 Code of Federal Regulation (CFR), Section 396.13*, requires that the vehicle inspection reports are to be signed which acknowledges and certifies that requiring repairs have been performed. Maintaining the integrity of the department's safety inspection program for the operation of their equipment, helps Flood Control in the event of any equipment issues or accidents as it provides evidence of timely and consistent equipment inspections in case of any investigations. Furthermore, it ensures compliance with *Federal Motor Carrier Safety Administration, Title 49 Code of Federal Regulation (CFR), Section 396.13*.

Recommendation 2.1

Ensure vehicle inspection reports are completed in accordance with Flood Control's *Special Purpose Vehicle Program, Section 8*, and *Federal Motor Carrier Safety Administration, Title 49 Code of Federal Regulation (CFR), Section 396.13*.

Recommendation 2.2

Ensure vehicle inspection reports are signed off by a designated reviewer on the same day to ensure inspections are completed accurately and heavy equipment is safe for operation.

Internal Audit Report 2021-019: Riverside County Flood Control and Water Conservation District Audit

Management's Response

"Finding 2, First Bullet - Do Not Concur. The Driver's Inspection Report is a form that is required by Federal Law 49 CFR 396.11 and 396.13. The reporting driver (inspector) is required to sign off and did so on all reports. See response to Recommendation 2.2 for further clarification."

Actual/estimated Date of Corrective Action: **July 15, 2021**

"Finding 2, Second Bullet - Concur. The District acknowledges that its commercial licensed drivers must entirely complete Driver's Inspection Reports as proof that drivers are properly conducting inspections. The District will provide direction and training to commercial licensed drivers on how to properly complete this report."

Actual/estimated Date of Corrective Action: **July 15, 2021**

"Finding 2, Third Bullet - Partially Concur. The inspection form noted revealed a minor oil leak on Truck #2340 on two occasions thus creating the need for follow up action. The mechanic did review the issue and top off fluids on Truck #2340 as noted on the forms per procedure. However, the mechanic did not properly countersign the Maintenance Action section as required by District policy. The District will reinforce documenting work performed moving forward."

Actual/estimated Date of Corrective Action: **July 15, 2021**

Management's Response

"Do Not Concur. This comment stems from a misunderstanding of procedure. The District uses a generic trucking form that includes three signature lines. The procedure is covered in SOM-9. According to Federal Law 49 CFR §396.11 (a)(2)(ii), Driver vehicle inspection report(s), the driver must sign the report. The generic trucking form includes a second signature block that is applicable to commercial trucking operations. A third signature block is included for mechanics to sign off on any repairs conducted.

Standard procedure requires the driver to complete and sign the form. If issues are identified, the vehicle is taken to the mechanic. The mechanic evaluates the issue, determines if repairs are needed, then documents his findings in the third signature block. If the vehicle inspection reveals no actionable items, one signature is appropriate.

Internal Audit Report 2021-019: Riverside County Flood Control and Water Conservation District Audit

The District will amend SOM-9 to clarify the proper use of the generic form.”

Actual/estimated Date of Corrective Action: **July 15, 2021**

Auditor’s Comment

We want to emphasize the importance of implementing good internal controls, although a second signature is not required by law, it is a good internal control to ensure that inspection reports are always completed as required by law and that any mechanical issues are addressed timely. Furthermore, the objective of the recommendation is to help management ensure that objectives of their operations are achieved.

**Internal Audit Report 2021-019: Riverside County Flood Control and Water
Conservation District Audit**

Payment Collection Process

Background

In accordance with Fiscal Policy F1, *Account Receivable Management*, Flood Control must make every reasonable effort to collect an account when the total is greater than \$ 1,000, is past due for more than six months and efforts have been exhausted before the amount is written-off. The collection effort should include written notices, attempted phone contact, and a referral to an independent debt collection agency. Also, pursuant to Financial Accounting Standard Board Accounting Standard Codification (FASB ASC) paragraph 310-10-35-41, uncollectible trade receivable shall be deducted from the allowance. The related trade receivables balance should be charged off in the period in which trade receivables are deemed uncollectible. It further states that entity charge off its trade account receivables against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Objective

To determine the adequacy of internal controls over payment collection process.

Audit Methodology

To accomplish these objectives, we:

- Obtained an understanding of Flood Control fiscal policy on account receivable management.
- Interviewed management to obtain an understanding on collection processes.
- Obtained aging reports, selected samples to perform detailed testing on the collection process.
- Obtained an understanding of generally accepted accounting principles on estimating, reporting, and writing off bad debts.

Finding 3: Debt Collection Process

Riverside County Flood Control is not in compliance with their Fiscal Policy F1, *Account Receivable Management*. It is also not in conformity with generally accepted accounting

Internal Audit Report 2021-019: Riverside County Flood Control and Water Conservation District Audit

principles in writing off bad debts, FSB ASC paragraph 310-10-35-41 which requires the write-off of uncollectible accounts. We identified the following in our review:

- Based on our review of the account receivable aging report, the total uncollectible amount as of February 28, 2021, was \$472,490, of which \$176,411 was from 2006 through 2009 accounts. This exceeds the 180-day stipulated by department policy and the reasonableness test guidelines from the accounting principles. As such, the financial statements for Flood Control overstated the assets presented.
- On November 19, 2019, Flood Control submitted for approval to write-off uncollectible accounts totaling \$512,699 in accordance with California Government Code Section 25257-25259, authorizing the Flood Control's Board to assign delinquent bills, claims, and accounts to a collection agency under certain circumstances. Since approval was not provided, Flood Control could not move forward as planned.
- Six (86%) out of seven collection letters reviewed were not mailed as outlined in their policy. The total represents debt in the amount of \$ 62,114 over a period of more than 6 months. Furthermore, Flood Control did not cease their service efforts when debt payments were not received.

Flood Control's Fiscal Policy F1, *Accounts Receivable Management*, establishes its objective to carefully manage the "efficient and effective collection of all debts owed to the District." It outlines in their procedures that, "a diligent effort should be made to collect all outstanding accounts," and, "accounts receivable write-offs should be approved by management and/or the District's Board of Supervisors." It further outlines specifics on the receivable aging timelines, collection effort guidelines, and write off procedures for uncollectible accounts. When policies and procedures are not consistently followed, it renders the policy objectives ineffective, weakens the internal controls established within the procedures, and inhibits the districts cost recovery efforts for services rendered. Furthermore, assets presented in the financial statements are overstated since old uncollectible accounts have not been written off.

Recommendation 3.1

Ensure Flood Control's policies and procedures to collect accounts receivable and write off bad debt is consistently followed and in compliance with generally accepted accounting principles.

Management's Response

**Internal Audit Report 2021-019: Riverside County Flood Control and Water
Conservation District Audit**

“Concur. In response to Finding 3: Debt Collection Process, the District is materially in compliance with its policies and procedures to collect accounts receivable and write off bad debt.

1. 96% of the \$512,699 in uncollected debt was accrued between 2003-2010. The District has since reduced the total (presently uncollected) debt to \$472,290. The District concurs that the remaining debt should be discharged. The District will coordinate with County Counsel to confirm we have attempted all legal efforts to collect the debt, and presuming so, an item will be taken to the Board for their consideration by the end of the year. The District will also revise its *Fiscal Policy F1, Accounts Receivable Management* as necessary based on discussions with County Counsel to ensure Policy F1 aligns with best accepted practices.

2. The third bullet referencing "seven collection letters" (totaling \$62,114) is confusing. This appears to be a reference to seven unpaid invoices. Of the seven invoices, five (approximately \$40,000) were invoices for advance fee for service deposits. At the recommendation of the District's external auditors, the District stopped issuing "invoices" for advance deposit requests in December 2020. The use of invoices for deposits was inadvertently creating a liability for a debt that has not yet occurred. The District now issues an informal "request for additional deposit" rather than an "invoice." These requests are tracked through the Customer Deposit accounts once received.

The remaining two unpaid work instances resulted in collection letters sent in March 2021.”

Actual/estimated Date of Corrective Action: **December 31, 2021.**

Recommendation 3.2

Ensure department services on projects cease when fees are not paid when owed.

Internal Audit Report 2021-019: Riverside County Flood Control and Water Conservation District Audit

Management's Response

“Partially Concur. The District makes every effort to ensure that deposit-based fee accounts remain positive, and we do stop work when accounts are delinquent.

Steps to confirm positive account balances include worksheets to calculate an initial deposit that scales with the scope of infrastructure being reviewed, weekly reviews of project account balances, requests for additional deposits when there are low account balances, and account reviews prior to approval of key project milestones to ensure the accounts are in good standing.

However, there are inherent limitations in the billing process that can lead to short term account overdraft, in part, due to the District's reliance on consultants to assist with managing the variable load of plan check work. Consultants bill monthly, and consultant invoices are sometimes not received for several additional weeks after the billable month ends. These delays can lead to situations in which accounts appear to be in good standing at the time of review but are in effect overdrawn due to delays in receiving and processing invoices. We make every effort to account for these delays, and since 2015 have been successful in ensuring that our costs are recovered.

The District would note that since 2015, it has provided over \$9 million in plan check services, and less than 0.5% of that invoiced revenue is over 180 days delinquent. We continually look to improve processes and further reduce the potential for any debt write-off.”

Actual/estimated Date of Corrective Action: **None provided**

Attachment B


JASON E. UHLEY
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RIVERSIDE COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT

The following are the current statuses of the reported findings and planned corrective actions contained in Internal Audit Report 2021-019: Riverside County Flood Control & Water Conservation District Audit.


Authorized Signature

8/30/2022
Date

Finding 1: Employee Certification

Three (21%) out of 14 employees did not receive training for heavy equipment operation as required by department policies. Flood Control's, Special Purpose Vehicle Program, states, "prior to permitting a District employee to operate a powered industrial truck or forklift, each employee must successfully complete specialized training that includes formal classroom training and a driving evaluation to certify that they can safely operate a forklift." Flood Control is not verifying that certifications and trainings are complete before signing off on an employees' training record. It is essential that every operator or driver is thoroughly and properly trained on the equipment they use. It is also important for employees to stay on top of department policies, changing regulations and guidelines, and to keep certifications up to date. Much of the risk in heavy equipment operation stems from improper use of machinery, or equipment.

Current Status

Reported Finding Corrected? Yes No

Employee Certification issue corrected July 2021.

Recommendation 1

Ensure all required trainings are complete as required by Flood Control's Safety Operations Manual-9, *Special Purpose Vehicle Program*.

Management Reply

"Partially Concur. The three employees mentioned in Finding 1 are all on extended leaves and are not available for training:

- One employee has been on leave since 2016.
- Two employees have been on a leave since September 2020.

These employees' current training records are therefore blank.

The heavy equipment training record does include a line to document forklift training, even though forklift operation is limited to a small number of Garage staff, has unique training requirements, and is officially recorded on a separate training record. We will remove the reference to forklifts from the heavy equipment record to improve clarity as to the official record, prevent duplication of records, and prevent the opportunity for the two training records to be out of alignment."

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

Current Status

Corrective Action: Fully Implemented Partially Implemented Not Implemented

Description of the corrective action taken (or pending action and estimated date of completion for planned corrective action that is partially or not implemented).

Corrective action fully implemented which included separating forklift training record from the heavy equipment training record to eliminate duplication. Commercial vehicle, equipment and forklift operation training is being completed and documented as required in SOM-9 Special Purpose Vehicle Program.

Finding 2: Equipment and Vehicle Inspections

In our review of 15 of Flood Control's inspection records, we noted the following:

- Fourteen (93%) equipment and vehicle inspections were not signed by department personnel with supervisor capacities. Supervisory review and sign-off of inspection reports ensures the integrity of the department's equipment safety program is maintained as it reassures inspections are completed and documented.
- Four (27%) vehicles contained partially completed driver's inspection reports. This is an indication that the operators did not fully go through the inspection process to ensure the safe operation of the respective equipment.
- Two (13%) vehicles had small engine oil leaks, but maintenance action was not scheduled as of the time of the audit procedures.

Flood Control's Safety Operations Manual-9, *Special Purpose Vehicle Program, Section 8*, states, "operators of all commercial vehicles and heavy construction type equipment perform a daily "walk around" safety inspection to ensure it is in safe operating condition." The manual further states, "all vehicle system discrepancies will be documented on Driver's Inspection Report and operators will notify their supervisor who will determine if the vehicle can be operated safely or if the vehicle should be taken out of service." Additionally, *Federal Motor Carrier Safety Administration, Title 49 Code of Federal Regulation (CFR), Section 396.13*, requires that the vehicle inspection reports are to be signed which acknowledges and certifies that requiring repairs have been performed. Maintaining the integrity of the department's safety inspection program for the operation of their equipment, helps Flood Control in the event of any equipment issues or accidents as it provides evidence of timely and consistent equipment inspections in case of any investigations. Furthermore, it ensures compliance with *Federal Motor Carrier Safety Administration, Title 49 Code of Federal Regulation (CFR), Section 396.13*.

Current Status

Reported Finding Corrected? Yes No

Inspection report process corrected August 2021.

Recommendation 2.1

Ensure vehicle inspection reports are completed in accordance with Flood Control's *Special Purpose Vehicle Program, Section 8*, and *Federal Motor Carrier Safety Administration, Title 49 Code of Federal Regulation (CFR), Section 396.13*.

Recommendation 2.2

Ensure vehicle inspection reports are signed off by a designated reviewer on the same day to ensure inspections are completed accurately and heavy equipment is safe for operation.

Management Reply

"Finding 2, First Bullet - Do Not Concur. The Driver's Inspection Report is a form that is required by Federal Law 49 CFR 396.11 and 396.13. The reporting driver (inspector) is required to sign off and did so on all reports. See response to Recommendation 2.2 for further clarification."

Actual/estimated Date of Corrective Action: July 15, 2021

"Finding 2, Second Bullet – Concur. The District acknowledges that its commercial licensed drivers must entirely complete Driver's Inspection Reports as proof that drivers are properly conducting inspections. The District will provide direction and training to commercial licensed drivers on how to properly complete this report."

Actual/estimated Date of Corrective Action: July 15, 2021

"Finding 2, Third Bullet - Partially Concur. The inspection form noted revealed a minor oil leak on Truck #2340 on two occasions thus creating the need for follow up action. The mechanic did review the issue and top off fluids on Truck #2340 as noted on the forms per procedure. However, the mechanic did not properly countersign the Maintenance Action section as required by District policy. The District will reinforce documenting work performed moving forward."

Actual/estimated Date of Corrective Action: July 15, 2021

Management Reply

"Do Not Concur. This comment stems from a misunderstanding of procedure. The District uses a generic trucking form that includes three signature lines. The procedure is covered in SOM-9. According to Federal Law 49 CFR §396.11 (a)(2)(ii), Driver vehicle inspection report(s), the driver must sign the report. The generic trucking form includes a second signature block that is applicable to commercial trucking operations. A third signature block is included for mechanics to sign off on any repairs conducted.

Standard procedure requires the driver to complete and sign the form. If issues are identified, the vehicle is taken to the mechanic. The mechanic evaluates the issue, determines if repairs are

needed, then documents his findings in the third signature block. If the vehicle inspection reveals no actionable items, one signature is appropriate.

The District will amend SOM-9 to clarify the proper use of the generic form.”

Actual/estimated Date of Corrective Action: July 15, 2021

Current Status

Corrective Action: Fully Implemented Partially Implemented Not Implemented

Description of the corrective action taken (or pending action and estimated date of completion for planned corrective action that is partially or not implemented).

SOM-9 Special Purpose Vehicle Program was revised August 2021 to clarify proper use of the Driver's Inspection Report and Equipment Safety Inspection and Repair Report. Direction and training were provided to maintenance supervisors and employees on repair process and proper completion of Driver and Equipment Inspection Reports.

Finding 3: Debt Collection Process

Riverside County Flood Control is not in compliance with their Fiscal Policy F1, *Account Receivable Management*. It is also not in conformity with generally accepted accounting principles in writing off bad debts, FSB ASC paragraph 310-10-35-41 which requires the write-off of uncollectible accounts. We identified the following in our review:

- Based on our review of the account receivable aging report, the total uncollectible amount as of February 28, 2021, was \$472,490, of which \$176,411 was from 2006 through 2009 accounts. This exceeds the 180-day stipulated by department policy and the reasonableness test guidelines from the accounting principles. As such, the financial statements for Flood Control overstated the assets presented.
- On November 19, 2019, Flood Control submitted for approval to write-off uncollectible accounts totaling \$512,699 in accordance with California Government Code Section 25257-25259, authorizing the Flood Control's Board to assign delinquent bills, claims, and accounts to a collection agency under certain circumstances. Since approval was not provided, Flood Control could not move forward as planned.
- Six (86%) out of seven collection letters reviewed were not mailed as outlined in their policy. The total represents debt in the amount of \$ 62,114 over a period of more than 6 months. Furthermore, Flood Control did not cease their service efforts when debt payments were not received.

Flood Control's Fiscal Policy F1, *Accounts Receivable Management*, establishes its objective to carefully manage the "efficient and effective collection of all debts owed to the District." It outlines in their procedures that, "a diligent effort should be made to collect all outstanding accounts," and, "accounts receivable write-offs should be approved by management and/or the District's Board of Supervisors." It further outlines specifics on the receivable aging timelines, collection effort guidelines, and write off procedures for uncollectible accounts. When policies and procedures are not consistently followed, it renders the policy objectives ineffective, weakens the internal controls established within the procedures, and inhibits the districts cost recovery efforts for services rendered. Furthermore, assets presented in the financial statements are overstated since old uncollectible accounts have not been written off.

Current Status

Reported Finding Corrected? Yes No

On December 14, 2021, the Board of Supervisors approved the Form 11 for a Discharge of Accountability for uncollectible accounts receivable. As a result, on December 30, 2021, all uncollectible accounts receivable for the District have been written off to bad debt expense.

Recommendation 3.1

Ensure Flood Control's policies and procedures to collect accounts receivable and write off bad debt is consistently followed and in compliance with generally accepted accounting principles.

Management Reply

Concur. In response to Finding 3: Debt Collection Process, the District is materially in compliance with its policies and procedures to collect accounts receivable and write off bad debt.

1. 96% of the \$512,699 in uncollected debt was accrued between 2003-2010. The District has since reduced the total (presently uncollected) debt to \$472,290. The District concurs that the remaining debt should be discharged. The District will coordinate with County Counsel to confirm we have attempted all legal efforts to collect the debt, and presuming so, an item will be taken to the Board for their consideration by the end of the year. The District will also revise its *Fiscal Policy F1, Accounts Receivable Management* as necessary based on discussions with County Counsel to ensure Policy F1 aligns with best accepted practices.

2. The third bullet referencing "seven collection letters" (totaling \$62,114) is confusing. This appears to be a reference to seven unpaid invoices. Of the seven invoices, five (approximately \$40,000) were invoices for advance fee for service deposits. At the recommendation of the District's external auditors, the District stopped issuing "invoices" for advance deposit requests in December 2020. The use of invoices for deposits was inadvertently creating a liability for a debt that has not yet occurred. The District now issues an informal "request for additional deposit" rather than an "invoice." These requests are tracked through the Customer Deposit accounts once received.

The remaining two unpaid work instances resulted in collection letters sent in March 2021."

Actual/estimated Date of Corrective Action: December 31, 2021

Current Status

Corrective Action: Fully Implemented Partially Implemented Not Implemented

Description of the corrective action taken (or pending action and estimated date of completion for planned corrective action that is partially or not implemented).

The District has created an automated aging report that allows for real-time daily review of accounts receivable. As a result, the District has implemented procedures by which informal dunning letters are sent via email after an account is 30 days past due. Accounts 60+ days past due receive a written dunning letter.

Recommendation 3.2

Ensure department services on projects cease when fees are not paid when owed.

Management Reply

“Partially Concur. The District makes every effort to ensure that deposit-based fee accounts remain positive, and we do stop work when accounts are delinquent.

Steps to confirm positive account balances include worksheets to calculate an initial deposit that scales with the scope of infrastructure being reviewed, weekly reviews of project account balances, requests for additional deposits when there are low account balances, and account reviews prior to approval of key project milestones to ensure the accounts are in good standing.

However, there are inherent limitations in the billing process that can lead to short term account overdraft, in part, due to the District's reliance on consultants to assist with managing the variable load of plan check work. Consultants bill monthly, and consultant invoices are sometimes not received for several additional weeks after the billable month ends. These delays can lead to situations in which accounts appear to be in good standing at the time of review but are in effect overdrawn due to delays in receiving and processing invoices. We make every effort to account for these delays, and since 2015 have been successful in ensuring that our costs are recovered.

The District would note that since 2015, it has provided over \$9 million in plan check services, and less than 0.5% of that invoiced revenue is over 180 days delinquent. We continually look to improve processes and further reduce the potential for any debt write-off.”

Actual/estimated Date of Corrective Action: None provided

Current Status

Corrective Action: Fully Implemented Partially Implemented Not Implemented

Description of the corrective action taken (or pending action and estimated date of completion for planned corrective action that is partially or not implemented).

The District has increased the initial deposit requests to better cover the estimated fees for plan check accounts. The District also makes every effort to stop work on a project once the available deposit has been exhausted. As a result of these efforts, the District's aging has been reduced by approximately 90%.