

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



ITEM: 2.5
(ID # 24153)

MEETING DATE:
Tuesday, February 27, 2024

FROM : AUDITOR CONTROLLER:

SUBJECT: AUDITOR-CONTROLLER: Internal Audit Report 2024-310: Riverside County Office of Economic Development, Follow-up Audit, All Districts [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2024-310: Riverside County Office of Economic Development, Follow-up Audit

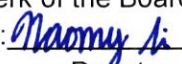
ACTION: Consent


Ben J. Benoit, COUNTY AUDITOR-CONTROLLER 2/6/2024

MINUTES OF THE BOARD OF SUPERVISORS

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

Ayes: Jeffries, Spiegel, Washington, Perez and Gutierrez
Nays: None
Absent: None
Date: February 27, 2024
xc: Auditor Controller

Kimberly A. Rector
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 the Riverside County Office of Economic Development. Our audit was limited to reviewing actions taken as of July 11, 2023, to correct findings noted in our original audit report 2022-014 dated July 12, 2022. The original audit report contained six recommendations, all of which required implementation to help correct the reported findings.

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

- Two of the recommendations were implemented.
- One of the recommendations was not implemented.
- Three of the recommendations were no longer applicable.

For an in-depth understanding of the original audit, please refer to Internal Audit Report 2022-014 included as an attachment to this follow-up audit report or it can also be found at <https://auditorcontroller.org/divisions/internal-audit/reports>.

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 2024-310: Riverside County Office of Economic Development, Follow-up Audit.



Office of Ben J. Benoit
Riverside County Auditor-Controller

Internal Audit Report

2024-310

Follow-up

6 Recommendations

- ✓ 2 Implemented
- ✗ 1 Not Implemented
- ▶ 3 No Longer Applicable



**Riverside County
Office of Economic Development,
Follow-up Audit**

February 27, 2024



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

Ben J. Benoit, Auditor-Controller
Tanya S. Harris, DPA, CPA, Assistant Auditor-Controller

4080 Lemon Street, 11th Floor
P.O. Box 1326
Riverside, CA 92502-1326
951-955-3800



February 27, 2024

Suzanne Holland
Director
Riverside County Office of Economic Development
3403 Tenth Street, Suite 400
Riverside, CA 92501

**Subject: Internal Audit Report 2024-310: Riverside County Office of Economic Development,
Follow-up Audit**

Dear Ms. Holland:

We completed the follow-up audit of Riverside County Office of Economic Development. Our audit was limited to reviewing actions taken as of July 11, 2023, to help correct the findings noted in our original audit report 2022-014 dated July 12, 2022.

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 six recommendations, all of which required implementation to help correct the reported findings. Based on the results of our audit, we found that of the six recommendations:

- Two of the recommendations were implemented.
- One of the recommendations was not implemented.
- Three of the recommendations were no longer applicable.



Internal Audit Report 2024-310: Riverside County Office of Economic Development, 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 2022-014 included as "Attachment A" of this audit report along with your department status letter as "Attachment B." You can also find the original audit report at <https://auditorcontroller.org/divisions/internal-audit/reports>.

We thank you and your staff for the help and cooperation. The assistance provided contributed significantly to the successful completion of this audit.

Ben J. Benoit
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 2024-310: Riverside County Office of Economic Development, Follow-up Audit

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Attachments:

A. Internal Audit Report 2022-014: Riverside County Office of Economic Development Audit

B. Status of Findings as Reported by Riverside County Office of Economic Development, Follow-up Audit on July 11, 2023



Internal Audit Report 2024-310: Riverside County Office of Economic Development, Follow-up Audit

Library Operations

Finding 1: Service Contract Agreement

“Our review of the professional service agreement identified the following:

- Uncollected fees and fines were not reported by Contractor to County Library. Uncollected fees and fines totaling of \$421,105 was not reported for fiscal years 2019, 2020, and 2021, in the amounts of \$170,871, \$96,705, and \$153,529, respectively. The Board of Supervisors, *Professional Service Agreement*, states, ‘Contractor will provide detailed County Library annual revenue and expense financial reports.’ Not monitoring for these reports can result in misuse of funds and agreement non-compliance.
- Contractor disposed 18,733 materials valued at \$320,044 without prior approval from the County Librarian. Circulation Procedures, *Weeding and disposal of library materials*, states, ‘Library staff will remove such weeded materials from the library collection only with the prior written permission of the County Librarian.’ Parties involved over the write-off process were not aware of the requirement to obtain County Librarian approval prior the disposal of materials. Proper approval ensures there is no misappropriation of assets and adequate review of transactions.
- We identified five instances where there were discrepancies between the value of disposed materials recorded by Contractor and the original value of the same materials recorded by County Library. Standard Practice Manual 1001, *Internal Control*, states, ‘review and reconciliation records are routinely examined and reconciled to determine that transactions were properly processed.’ The Contractor inaccurately recorded materials price based on bibliographic information. When records are not accurate, it inhibits management ability to make proper operating and planning decisions, also, it hinders management ability to rely on its records and reduces the accuracy of financial and operating reporting.”

Recommendation 1.1

“Ensure the Contractor provides on time financial reports in accordance with the Professional Service Agreement.”

Current Status 1.1: Implemented



Internal Audit Report 2024-310: Riverside County Office of Economic Development, Follow-up Audit

Recommendation 1.2

“Ensure approval is obtained from the County Librarian prior material disposal.”

Current Status 1.2: Not Implemented

Documentation with evidence of a formal approval process over the disposal of materials is not maintained. As such, we cannot independently determine whether the approval over the disposal of materials is performed by the County Librarian.

Management’s Response

“The Riverside County Library System (RCLS) Policies & Regulations Manual has been expanded to allow the RCLS County Librarian and Branch Managers to delegate trained staff that have authorization to approve materials proposed for disposal (referred to as 'weeding'). This Manual is being reviewed by staff for additional updates and will be routed for approval of the Board of Supervisors within this 2023/2024 fiscal year.”

Recommendation 1.3

“Develop a process to ensure materials are recoded by its original price of which Contractor records must match County Library records.”

Current Status 1.3: Implemented



Internal Audit Report 2024-310: Riverside County Office of Economic Development, Follow-up Audit

COVID-19 Small Business Assistance Grant Program

Finding 2: Grant Program Usage

“Eight (80%) out of 10 grant program files for COVID-19 relief to local businesses did not contain documentation required to support the use of funds. The Grant Program Framework, *Grant Use*, states, ‘The Grant must be used for employee salary and benefits and other business capital and operating expenses directly related to the immediate impacts of COVID-19 as identified in the application submitted by Business. No other use of funds is allowed by the Business.’ Department relies on Business to upload the required documents without following up to ensure the intended use of funds. These documents were required to comply with federal grant guidelines.”

Recommendation 2

“Ensure the collection and verification of documentation supporting the use of Grant Program funds is consistently obtained as intended in current and future programs of similar nature.”

Current Status 2: No Longer Applicable

The COVID-19 grant program discussed in the original finding ended in December 2021 and falls outside of our audit review period. Additionally, there were no current programs of a similar nature to review.



Internal Audit Report 2024-310: Riverside County Office of Economic Development, Follow-up Audit

Small Business Revolving Loan Funds

Finding 3: Compliance with the Revolving Loan Fund Program

“Loan funds provided to local small businesses are approved and/or evaluated without obtaining complete documentation and information required by the respective fund. We identified the following:

- One (25%) out of four loan applications was approved and awarded without obtaining required documentation for eligibility determination. Personnel managing program missed to obtain required tax documentation to establish eligibility before funding the loan. The loan was funded in April 2020, without 2018 and 2019 tax documentation. As such, there is no evidence that the loan proceeds provided were based on the funding requirements. The Economic Development Revolving Loan Fund Administrative Plan Policies and Procedures, *Application Requirements*, states, ‘To be eligible for funding, a proposed project shall meet the following minimum requirements, financial data: current personal financial statements of principals; the last three years’ business financial statements and tax returns for established operations.’ Non-compliance with the respective Loan Program requirements, it can negatively impact the department ability to receive future funding from the federal agency.
- Nine (100%) out of nine loan packages did not contain the schedule of performance reports. The U. S. Department of Commerce, *Revolving Loan Fund Financial Assistance Award Standard Terms and Conditions*, states, ‘Borrower shall submit the following performance and/or evaluation report to Economic Development to facilitate mandated reporting to the U.S. Department of Commerce: A calendar quarterly report of progress and accomplishments for all funded activities.’ Department’s concern was whether the businesses were still operating without requesting the ongoing performance reports. Non-compliance with the respective Loan Program requirements, it can negatively impact the department ability to receive future funding from the Federal agency.”

Recommendation 3.1

“Ensure required documentation obtained prior to awarding loan fund, is consistently in accordance with the Economic Development Revolving Loan Fund Administrative Plan Policies and Procedures, *Application Requirements*.”



Internal Audit Report 2024-310: Riverside County Office of Economic Development, Follow-up Audit

Current Status 3.1: No Longer Applicable

Office of Economic Development has established a contract agreement with AmPac for the management and operation of the Revolving Loan Fund Program. The finalization of updated policies and procedures for this program is currently in progress. The respective contract agreement received approval from the Board during the meeting held on Tuesday, June 24, 2023. As such, the operating nature of how this program was managed when we did the original audit has change. For this reason, we state that our recommendation as it was originally made is no longer applicable as a direct operational procedure for Office of Economic Development. However, the required reports and other respective documentation that will need to be obtained prior to awarding loan funds will be the responsibility of AmPac, and Office of Economic Development will need to monitor that the needed documents are obtained. Therefore, we now recommend for Office of Economic Development to monitor the adherence of the contract agreement requirements. We will include the Revolving Fund Loan Program in future audits.

Recommendation 3.2

“Ensure the required reports meant to be collected throughout the life of the loans are collected as outlined in the terms and conditions.”

Current Status 3.2: No Longer Applicable

Office of Economic Development has established a contract agreement with AmPac for the management and operation of the Revolving Loan Fund Program. The finalization of updated policies and procedures for this program is currently in progress. The respective contract agreement received approval from the Board during the meeting held on Tuesday, June 24, 2023. As such, the operating nature of how this program was managed when we did the original audit has change. For this reason, we state that our recommendation as it was originally made is no longer applicable as a direct operational procedure for Office of Economic Development. However, the required reports and other respective documentation that will need to be maintained, will be the responsibility of AmPac, and Office of Economic Development will need to monitor that the needed documents are maintained. Therefore, we now recommend for Office of Economic Development to monitor the adherence of the contract agreement requirements. We will include the Revolving Fund Loan Program in future audits.

Attachment A

Internal Audit Report 2022-014

**Riverside County
Office of Economic Development
Audit**

Report Date: July 12, 2022



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

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

July 12, 2022

Suzanne Holland
Director
Riverside County Office of Economic Development
3403 Tenth Street, Suite 400
Riverside, CA 92501

**Subject: Internal Audit Report 2022-014: Riverside County Office of Economic
Development Audit**

Dear Ms. Holland:

In accordance with Board of Supervisors Resolution 83-338, we audited the Riverside County Office of Economic Development to provide management and the Board of Supervisors with an independent assessment of internal controls over library operations, COVID-19 small business assistant grant program, and small business revolving loan funds.

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 2022-014: Riverside County Office of Economic Development
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
Dave Rogers, Chief Administrative Officer
Grand Jury

**Internal Audit Report 2022-014: Riverside County Office of Economic Development
Audit**

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Internal Audit Report 2022-014: Riverside County Office of Economic Development Audit

Executive Summary

Overview

Riverside County Office of Economic Development consists of Economic Development (Economic Development), the Riverside County Library System (County Library), the Edward Dean Museum, County Service Areas, and the Office of International Business. The department, and various grant and administrative budget units that support operations are the distribution of Coronavirus Aid, Relief, and Economic Security Act (CARES) funding via small business grants and assisting to collect Census data.

County Library contracted with Library Systems & Services LLC (Contractor) to manage library operations and track its collections, including overdue materials and assessing late fees and fines. The Contractor utilizes Polaris Software (Polaris) to assist in tracking material by barcodes, generating financial and non-financial reports, calculating fees and fines, collecting payment, and maintaining library members' personal information.

Additionally, Economic Development offers support to businesses and creates economic opportunities for businesses and employees. Economic Development partners with 75 economic development partners to foster growth and build assets in communities across the county.

On August 23, 2016, the Board of Supervisors ratified the financial assistant award from the United States Department of Commerce's Economic Development Administration (U. S. Department of Commerce) to establish a Revolving Loan Fund Program (Loan Program). At the onset of COVID-19, Economic Development was approved to enter into an agreement with AmPac Tri-State CDC, Inc. (AmPac) to manage the loan process which included collecting applications, processing the loan application, underwriting the loans, and recommending whether the loans should be approved or denied.

Additionally, on June 2, 2020, the Board of Supervisors accepted CARES funding from the United States Department of Treasury and authorized the allocation of \$50M in funds for countywide business assistance. This was in response to COVID-19 impacts on the economy and was to be administered by Economic Development. Economic Development was approved to enter into an agreement with Main Street Launch, a California non-profit public benefit corporation (Main Street) to administer the COVID-19 Small Business Assistance Grant Program (Grant Program).

See Table A for a Summary of the Board approved agreements Revolving Loans and Grant Program

Internal Audit Report 2022-014: Riverside County Office of Economic Development Audit

Table A: Comparison Between Revolving Loans Program and Grant Program

| Items | Grant Program | Revolving Loans Before COVID | Revolving Loans After COVID |
|-------------------|---------------------------|--------------------------------|-----------------------------|
| Approval Date | Tuesday, June 2, 2020 | Tuesday, August 23, 2016 | Tuesday, May 5, 2020 |
| Amendments Date | Tuesday, October 6, 2020 | Tuesday, May 5, 2020 | Tuesday, November 24, 2020 |
| Amendments Purpos | Increase Budget | Reprogram Fund Due to COVID-19 | Increase Budget |
| Source of Fund | 100% CARES Act | US Administrative and County | County |
| Purpose of Fund | Small Business Assistance | Jobs | Small business assistance |
| Approved Amount | 50 Million | 1.5 Million | 2.5 Million |
| Amount/Recipient | Up to \$10,000 | Up to \$382,000 | Up to \$30,000 |
| Loan/grant terms | No pay back | Ongoing Payments | Ongoing Payments |
| Admin fees | 3.50% | 5% | 5% |
| Manage By | Main Street | Economic Development | AmPac |

County Library has an adopted budget of \$35.6 million for FY 2021-22 and four authorized positions to execute its responsibilities. *County of Riverside, Fiscal Year 2021-22 Adopted Budget Volume 1, 207.*

Economic Development has an adopted budget of \$9.5 million for FY 2021-22 and 39 authorized positions to execute its responsibilities. *County of Riverside, Fiscal Year 2021-22 Adopted Budget Volume 1, 207.*

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 library operations, COVID-19 small business assistance grant program, and small business revolving loan funds. 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 August 30, 2021, through January 12, 2022, for operations from July 1, 2019, through December 30, 2021. Following a risk-based approach, our scope included the following:

- Library Operations
- COVID-19 Small Business Assistance Grant Program
- Small Business Revolving Loan Funds

Internal Audit Report 2022-014: Riverside County Office of Economic Development Audit

Audit Highlights

Summary of Existing Conditions

The risks areas the current processes are unable to mitigate are the following:

- Uncollected fees and fines were not reported by Contractor to County Library as required by contract agreement. This is non-compliant with the performance service agreement and can impact County Library decision making and reporting when crucial information is not available.
- Contractor disposed 18,733 materials valued at \$320,044 without prior approval from the County Librarian. Proper approval ensures there is no misappropriation of assets and adequate review of transactions.
- We identified discrepancies between the value of disposed materials recorded by Contractor and the original value of books recorded by County Library. When records are not accurate, it inhibits management's ability to make proper operating and planning decisions. Also, it hinders management ability to rely on its records and reduces the accuracy of management and financial reporting.
- Grant Program files for COVID-19 relief to local businesses did not contain documentation required to support the use of funds. These documents were required to ensure compliance with federal grant guidelines.
- Loan Program funding local small businesses are approved without obtaining all required documentation prior to loan approval. Non-compliance with the respective Loan Program requirements can negatively impact the department's ability to receive future funding from the federal agency.
- Loan Program packages did not contain the schedule of performance reports, which determine whether borrowers have met the requirements to fund the loan. Non-compliance with the respective Loan Program requirements can negatively impact the department ability to receive future funding from the federal agency.

Internal Audit Report 2022-014: Riverside County Office of Economic Development Audit

Summary of Improvement Opportunities

The major improvement opportunities are in the following areas:

- Ensure the Contractor provides on time financial reports in accordance with the professional service agreement.
- Ensure approval is obtained from County Librarian prior to material disposal.
- Develop a process to ensure materials are recorded by its original price of which Contractor records must match County Library records.
- Ensure the collection and verification of documentation supporting the use of Grant Program funds is consistently obtained as intended in current and future programs of similar nature.
- Ensure required documentation obtained prior to awarding funds, is consistently in accordance with the Economic Development Revolving Loan Fund Administrative Plan Policies and Procedures, *Application Requirements*.
- Ensure the required reports meant to be collected throughout the life of the loans are collected as outlined in the terms and conditions.

Audit Conclusion

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to library operations, COVID-19 small business assistance grant program, and small business revolving loan funds.

Internal Audit Report 2022-014: Riverside County Office of Economic Development Audit

Library Operations

Background

The professional service agreement between County Library and Contractor was approved by the Board of Supervisors to manage the libraries operations as well as, generating financial and non-financial reports.

Library core services, which organize and conduct the daily routine and expected business of County Library, are the full responsibility of the Contractor. Some of these responsibilities are as follows:

- Remove materials from the library collection that are obsolete, unused, or damaged. However, Contractor library staff can only do so with prior written permission from the County Librarian.
- Provide financial operation reports within 45 days after the fiscal year end. These reports provide detailed annual revenue and expense, and invoices to support expenditures.

Objective

To evaluate the existence and adequacy of internal controls over library operations.

Audit Methodology

To accomplish these objectives, we:

- Obtained an understanding of the professional service agreement related to library operations disposal, collection, and cash processes.
- Interviewed management and the appropriate staff to obtain an understanding on disposal of library materials, collection of materials, and cash processes.
- Utilized Polaris to query materials disposals, fees and fines, and transaction details.
- Obtained a list of library materials written-off during our audit period.
- Compared the original value of materials with the amount written-off.

Internal Audit Report 2022-014: Riverside County Office of Economic Development Audit

- Reviewed for appropriate levels of management oversight and approval.
- Reviewed processes for safeguarding cash, segregation of duties, timeliness of deposits, and recording of cash transactions.
- Observed selected library operations and performed cash count.

Finding 1: Service Contract Agreement

Our review of the professional service agreement identified the following:

- Uncollected fees and fines were not reported by Contractor to County Library. Uncollected fees and fines totaling of \$421,105 was not reported for fiscal years 2019, 2020, and 2021, in the amounts of \$170,871, \$96,705, and \$153,529, respectively. The Board of Supervisors, *Professional Service Agreement*, states, "Contractor will provide detailed County Library annual revenue and expense financial reports." Not monitoring for these reports can result in misuse of funds and agreement non-compliance.
- Contractor disposed 18,733 materials valued at \$320,044 without prior approval from the County Librarian. *Circulation Procedures, Weeding and disposal of library materials*, states, "Library staff will remove such weeded materials from the library collection only with the prior written permission of the County Librarian." Parties involved over the write-off process were not aware of the requirement to obtain County Librarian approval prior the disposal of materials. Proper approval ensures there is no misappropriation of assets and adequate review of transactions.
- We identified five instances where there were discrepancies between the value of disposed materials recorded by Contractor and the original value of the same materials recorded by County Library. *Standard Practice Manual 1001, Internal Control*, states, "review and reconciliation records are routinely examined and reconciled to determine that transactions were properly processed." The Contractor inaccurately recorded materials price based on bibliographic information. When records are not accurate, it inhibits management ability to make proper operating and planning decisions, also, it hinders management ability to rely on its records and reduces the accuracy of financial and operating reporting.

Internal Audit Report 2022-014: Riverside County Office of Economic Development Audit

Recommendation 1.1

Ensure the Contractor provides on time financial reports in accordance with the Professional Service Agreement.

Management's Response

“**Concur.** In 2016 the Credit Bureaus agreed to no longer include outstanding public library fines and fees on credit reports which made it more difficult to collect past due fines and fees. LS&S agrees to draft quarterly reports for the County that includes the past due fines and fees that may or may not be collected from the public based on a patron's individual circumstances which could include moving out of the RCLS jurisdiction, being unable to afford the fines, or death.”

Actual/Estimated Date of Corrective Action: June 2022

Recommendation 1.2

Ensure approval is obtained from the County Librarian prior material disposal.

Management's Response:

“**Concur.** LS&S has specific procedures in which staff are trained on how to assess materials for disposal (referred to as 'weeding'). Instructions for material disposal are included in the LS&S Materials Selection Policy and procedures that are currently being updated to allow approval from the County Librarian or their authorized designee. The policy manuals are placed at each library branch for operating instruction and reference. Employee review and training occurs annually, or as new employees are hired.”

Actual/Estimated Date of Corrective Action: August 2022

Recommendation 1.3

Develop a process to ensure materials are recoded by its original price of which Contractor records must match County Library records.

**Internal Audit Report 2022-014: Riverside County Office of Economic Development
Audit**

Management's Response

“**Concur.** In the five instances that the discrepancies were discovered, the Item Record pricing defaults to bibliographic records which are automatically generated, often listing the "library edition" pricing which includes administrative costs in addition to the amount paid and is the most expensive. When a patron was billed, the library staff would manually research the item cost through other booksellers to ensure the patron was paying the correct price, but the bibliographic record was still reflected in Polaris (which is a tracking software for materials) creating a price difference. Effective 2016, LS&S no longer employs this practice as the collections are centrally maintained and purchased. The current LS&S process is to record the books at the purchase price, which occurs automatically at the time of purchase, ensuring the customer is billed back at the same/correct cost.”

Actual/Estimated Date of Corrective Action: 2016

**Internal Audit Report 2022-014: Riverside County Office of Economic Development
Audit**

COVID-19 Small Business Assistance Grant Program

Background

Grant Program totaling \$50M with the purpose of providing financial assistance to county-based small businesses in amounts of up to \$10,000 to over 5,000 business owners. The Board of Supervisors approved an agreement with Main Street to administer the Grant Program. Main Street fees for services were provided at a rate of 3.5% or \$1,750,000 of deployed capital under the Grant Program.

Grant Program funds were to be exclusively used for employee salary, other business capital and operating expenses, and safe reopening protocols directly related to the immediate impacts of COVID-19. The Grant Program available for existing small businesses with at least one year of operating history with less than 50 employees. In addition, recipients should not have received funding from other federal programs such as Economic Injury Disaster Loan Program or the Paycheck Protection Plan administered by the Small Business Administration. Businesses need to complete a grant application and provide documentation to ensure they are an active business operating in the County of Riverside.

Objective

To evaluate the existence and adequacy of internal controls over Grant Program.

Audit Methodology

To accomplish these objectives, we:

- Obtained an understanding of board and department policies and procedures over Grant Program.
- Interviewed management and the appropriate staff to obtain an understanding of the approval process.
- Sampled grant applications to ensure compliance with grant program requirements.
- Requested and reviewed the supporting financial and non-financial documentation needed throughout the application approval process.

Internal Audit Report 2022-014: Riverside County Office of Economic Development Audit

Finding 2: Grant Program Usage

Eight (80%) out of 10 grant program files for COVID-19 relief to local businesses did not contain documentation required to support the use of funds. The Grant Program Framework, *Grant Use*, states, "The Grant must be used for employee salary and benefits and other business capital and operating expenses directly related to the immediate impacts of COVID-19 as identified in the application submitted by Business. No other use of funds is allowed by the Business." Department relies on Business to upload the required documents without following up to ensure the intended use of funds. These documents were required to comply with federal grant guidelines.

Recommendation 2

Ensure the collection and verification of documentation supporting the use of Grant Program funds is consistently obtained as intended in current and future programs of similar nature.

Management's Response

"Partially Concur. The Office of Economic Development did conduct follow up with grantees on three separate occasions after the closing of the program. This email communication included instructions and links on where the upload information and/or documentation. Email follow up was the most practical form of follow up given 5,000 grants were provided to small businesses. Staff also provided technical assistance to grantees during the application and reporting components.

The documentation required by the County from grantees was a local requirement and not required by the U.S. Treasury. The single audit conducted by the Treasury for FY 19/20 found no findings in how the program was implemented.

While typically very rare, any grant program launched in the future will incorporate verification via awardee's self-attestation under penalty of perjury as seen in many state and federal programs during the pandemic."

Actual/Estimated Date of Corrective Action: June 2022 on any future grant programs.

**Internal Audit Report 2022-014: Riverside County Office of Economic Development
Audit**

Small Business Revolving Loan Funds

Background

The County of Riverside is committed to strengthening its local economy with a focus on providing assistance to small business owners. It was awarded a financial assistance from U.S. Department of Commerce to capitalize a Revolving Loans Program for business lending.

The U.S. Department of Commerce received a supplemental appropriation to prevent, prepare for, and respond to coronavirus pandemic, including for necessary expenses for responding to economic injury as a result of coronavirus pandemic. The total funding includes the approved amendment proclaimed on June 5, 2020, were approximately \$2.5 million, where 80% was awarded from the U. S. Department of Commerce and 20% from Economic Development.

Before COVID-19, Department was responsible for the entire loan process. After COVID-19, the Board of Supervisor's approved to enter into an agreement with AmPac to administer, collect applications, process, underwrite the loans, and recommend loan approval or denial.

The U. S. Department of Commerce Agreement requires borrowers maintain sufficient records to enable the Economic Development to determine whether borrowers have met the requirements of loan fund. One requirement was the past three years of the borrower income tax return. Additionally, borrowers should periodically submit schedule of performance reports to ensure adherence with the intended use of proposed loan proceeds. The reports required the following documents:

- a) Job creation certificate
- b) Profit and loss statements
- c) Balance sheet

Objective

To evaluate the existence and adequacy of internal controls over revolving loan fund program.

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Audit Methodology

To accomplish these objectives, we:

- Obtained an understanding of board and department policies and procedures over small business revolving loan fund program.
- Interviewed management and the appropriate staff to obtain an understanding on the approval process.
- Sampled loan applications to verify compliance with laws and regulations.
- Requested and reviewed the supporting financial and non-financial documentation needed before and after the loan approval.
- Verified appropriate levels of management review and approval.

Finding 3: Compliance with the Revolving Loan Fund Program

Loan funds provided to local small businesses are approved and/or evaluated without obtaining complete documentation and information required by the respective fund. We identified the following:

- One (25%) out of four loan applications was approved and awarded without obtaining required documentation for eligibility determination. Personnel managing program missed to obtain required tax documentation to establish eligibility before funding the loan. The loan was funded in April 2020, without 2018 and 2019 tax documentation. As such, there is no evidence that the loan proceeds provided were based on the funding requirements. The Economic Development Revolving Loan Fund Administrative Plan Policies and Procedures, *Application Requirements*, states, "To be eligible for funding, a proposed project shall meet the following minimum requirements, financial data: current personal financial statements of principals; the last three years' business financial statements and tax returns for established operations." Non-compliance with the respective Loan Program requirements, it can negatively impact the department ability to receive future funding from the federal agency.
- Nine (100%) out of nine loan packages did not contain the schedule of performance reports. The U. S. Department of Commerce, *Revolving Loan Fund Financial Assistance Award Standard Terms and Conditions*, states, "Borrower shall submit the following performance and/or evaluation report to Economic Development to facilitate mandated

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reporting to the U.S. Department of Commerce: A calendar quarterly report of progress and accomplishments for all funded activities.” Department’s concern was whether the businesses were still operating without requesting the ongoing performance reports. Non-compliance with the respective Loan Program requirements, it can negatively impact the department ability to receive future funding from the Federal agency.

Recommendation 3.1

Ensure required documentation obtained prior to awarding fund, is consistently in accordance with the Economic Development Revolving Loan Fund Administrative Plan Policies and Procedures, *Application Requirements*.

Management's Response

“**Partially Concur.** The Office of Economic Development staff did collect required documentation during the loan application process. The loan in question was for a loan approved by BOS on March 17, 2020, was funded in early April 2020 and subsequently paid off by borrower in August of 2020. The borrower provided three years of tax returns for 2015 through 2017 at the time of application per requirements of the program, but internal review and approval processes took significantly longer than anticipated. The most current tax return available at time of loan approval was one additional year for 2018. Staff will ensure that the most current documents are on file prior to award/approval pursuant to the Administrative Plan. It should be noted that the loan program is now implemented via a public/private partnership with AmPac Business Capital, a SBA certified Community Development Financial Institution and whose primary function and expertise is lending to small businesses.”

Actual/Estimated Date of Corrective Action: June 2022

Recommendation 3.2

Ensure the required reports meant to be collected throughout the life of the loans are collected as outlined in the terms and conditions.

Management's Response

“**Partially Concur.** The Schedule of Performance Reports are used to gather information regarding operational status after the funding has occurred. The goal is to verify with the borrower if they are having any issues with their business. During the pandemic,

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this was accomplished via telephone calls to borrowers. Reports are not required to be in writing; therefore, a change will be made to program per authority given to Office of Economic Development Director on BOS Agenda 12/15/2020, Item 3.7 to not require Balance Sheets and Profit & Loss Statements and that Job Creation Reports can be taken verbally by staff.”

Actual/Estimated Date of Corrective Action: June 2022



Attachment B

The following are the current status of the reported findings and planned corrective actions contained in Internal Audit Report 2022-014: Riverside County Office of Economic Development Audit.

Authorized Signature

Date

July 11, 2023

Finding 1: Service Contract Agreement

Our review of the professional service agreement identified the following:

- Uncollected fees and fines were not reported by Contractor to County Library. Uncollected fees and fines totaling of \$421,105 was not reported for fiscal years 2019, 2020, and 2021, in the amounts of \$170,871, \$96,705, and \$153,529, respectively. The Board of Supervisors, *Professional Service Agreement*, states, "Contractor will provide detailed County Library annual revenue and expense financial reports." Not monitoring for these reports can result in misuse of funds and agreement non-compliance.
- Contractor disposed 18,733 materials valued at \$320,044 without prior approval from the County Librarian. Circulation Procedures, *Weeding and disposal of library materials*, states, "Library staff will remove such weeded materials from the library collection only with the prior written permission of the County Librarian." Parties involved over the write-off process were not aware of the requirement to obtain County Librarian approval prior the disposal of materials. Proper approval ensures there is no misappropriation of assets and adequate review of transactions.
- We identified five instances where there were discrepancies between the value of disposed materials recorded by Contractor and the original value of the same materials recorded by County Library. Standard Practice Manual 1001, *Internal Control*, states, "review and reconciliation records are routinely examined and reconciled to determine that transactions were properly processed." The Contractor inaccurately recorded materials price based on bibliographic information. When records are not accurate, it inhibits management ability to make proper operating and planning decisions, also, it hinders management ability to rely on its records and reduces the accuracy of financial and operating reporting.

Current Status

Reported Finding Corrected?

Yes

No

All recommendations have been implemented.

Recommendation 1.1

Ensure the Contractor provides on time financial reports in accordance with the Professional Service Agreement.

Management's Response

“Concur. In 2016, the Credit Bureaus agreed to no longer include outstanding public library fines and fees on credit reports which made it more difficult to collect past due fines and fees. LS&S agrees to draft quarterly reports for the County that includes the past due fines and fees that may or may not be collected from the public based on a patron's individual circumstances which could include moving out of the RCLS jurisdiction, being unable to afford the fines, or death.”

Actual/Estimated Date of Corrective Action: June 2022

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).
Financial reports were received from LS&S that provided revenue and expense as well as fines and fees collected and waived.

Recommendation 1.2

Ensure approval is obtained from the County Librarian prior material disposal.

Management's Response:

“Concur. LS&S has specific procedures in which staff are trained on how to assess materials for disposal (referred to as 'weeding'). Instructions for material disposal are included in the LS&S Materials Selection Policy and procedures that are currently being updated to allow approval from the County Librarian or their authorized designee. The policy manuals are placed at each library branch for operating instruction and reference. Employee review and training occurs annually, or as new employees are hired.”

Actual/Estimated Date of Corrective Action: August 2023

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 LS&S Materials Selection Policy is being updated to allow approval of materials for disposal to come from the County Librarian or their authorized designee, who will be trained under the County Librarian on the Materials Weeding process. Library Admin is targeting August for Board approval of the new policies manual.

Recommendation 1.3

Develop a process to ensure materials are recorded by its original price of which Contractor records must match County Library records.

Management's Response

“**Concur.** In the five instances that the discrepancies were discovered, the Item Record pricing defaults to bibliographic records which are automatically generated, often listing the "library edition" pricing which includes administrative costs in addition to the amount paid and is the most expensive. When a patron was billed, the library staff would manually research the item cost through other booksellers to ensure the patron was paying the correct price, but the bibliographic record was still reflected in Polaris (which is a tracking software for materials) creating a price difference. Effective 2016, LS&S no longer employs this practice as the collections are centrally maintained and purchased. The current LS&S process is to record the books at the purchase price, which occurs automatically at the time of purchase, ensuring the customer is billed back at the same/correct cost.”

Actual/Estimated Date of Corrective Action: 2016

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).

This has been implemented since 2016 when LS&S changed their process by automating the recorded purchase at the time the books are purchased, which is then used to bill back County Library Systems.

Finding 2: Grant Program Usage

Eight (80%) out of 10 grant program files for COVID-19 relief to local businesses did not contain documentation required to support the use of funds. The Grant Program Framework, *Grant Use*, states, “The Grant must be used for employee salary and benefits and other business capital and operating expenses directly related to the immediate impacts of COVID-19 as identified in the application submitted by Business. No other use of funds is allowed by the Business.” Department relies on Business to upload the required documents without following up to ensure the intended use of funds. These documents were required to comply with federal grant guidelines.

Current Status

Reported Finding Corrected? Yes No

The Office of Economic Development did conduct follow up with grant recipients and approximately 75% of recipients did upload the required documents into the online reporting portal. The grant program is no longer operational.

Recommendation 2

Ensure the collection and verification of documentation supporting the use of Grant Program funds is consistently obtained as intended in current and future programs of similar nature.

Management's Response

“**Partially Concur.** The Office of Economic Development did conduct follow up with grantees on three separate occasions after the closing of the program. This email communication included instructions and links on where the upload information and/ or documentation. Email follow up was the most practical form of follow up given 5,000 grants were provided to small businesses. Staff also provided technical assistance to grantees during the application and reporting components.

The documentation required by the County from grantees was a local requirement and not required by the U.S. Treasury. The single audit conducted by the US Department of the Treasury for FY 19/20 had no findings in how the program was implemented.

While typically very rare, any grant program launched in the future will incorporate verification via awardee' s self-attestation under penalty of perjury as seen in many state and federal programs during the pandemic.”

Actual/Estimated Date of Corrective Action: June 2022 on any future grant programs.

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 Office of Economic Development has not implemented a grant program that requires use of funds reporting and therefore this is no longer necessary.

Finding 3: Compliance with the Revolving Loan Fund Program

Loan funds provided to local small businesses are approved and/or evaluated without obtaining complete documentation and information required by the respective fund. We identified the following:

- One (25%) out of four loan applications was approved and awarded without obtaining required documentation for eligibility determination. Personnel managing program missed to obtain required tax documentation to establish eligibility before funding the loan. The loan was funded in April 2020, without 2018 and 2019 tax documentation. As such, there is no evidence that the loan proceeds provided were based on the funding requirements. The Economic Development Revolving Loan Fund Administrative Plan Policies and Procedures, *Application Requirements*, states, "To be eligible for funding, a proposed project shall meet the following minimum requirements, financial data: current personal financial statements of principals; the last three years' business financial statements and tax returns for established operations." Non-compliance with the respective Loan Program requirements, it can negatively impact the department ability to receive future funding from the federal agency.
- Nine (100%) out of nine loan packages did not contain the schedule of performance reports. The U. S. Department of Commerce, *Revolving Loan Fund Financial Assistance Award Standard Terms and Conditions*, states, "Borrower shall submit the following performance and/or evaluation report to Economic Development to facilitate mandated reporting to the U.S. Department of Commerce: A calendar quarterly report of progress and accomplishments for all funded activities." Department's concern was whether the businesses were still operating without requesting the ongoing performance reports. Non-compliance with the respective Loan Program requirements, it can negatively impact the department ability to receive future funding from the Federal agency.

Current Status

Reported Finding Corrected? Yes No

Staff will continue to ensure most up to date tax documentation is requested for any future loans. Modifications have been made to the program to allow for collection of information by phone on an annual basis. A change was made to the program pursuant to authority given to Office of Economic Development Director on BOS Agenda 12/15/2020, Item 3.7 that Job Creation Reports can be taken verbally by fiscal agent or County staff.

Recommendation 3.1

Ensure required documentation obtained prior to awarding fund, is consistently in accordance with the Economic Development Revolving Loan Fund Administrative Plan Policies and Procedures, *Application Requirements*.

Management's Response

“Partially Concur. The Office of Economic Development staff did collect required documentation during the loan application process. The loan in question was for a loan approved by BOS on March 17, 2020, was funded in early April 2020 and subsequently paid off by borrower in August

of 2020. The borrower provided three years of tax returns for 2015 through 2017 at the time of application per requirements of the program, but internal review and approval processes took significantly longer than anticipated. The most current tax return available at time of loan approval was one additional year for 2018. Staff will ensure that the most current documents are on file prior to award/approval pursuant to the Administrative Plan. It should be noted that the loan program is now implemented via a public/private partnership with AmPac Business Capital, a SBA certified Community Development Financial Institution and whose primary function and expertise is lending to small businesses.”

Actual/Estimated Date of Corrective Action: June 2022

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 Revolving Loan Fund is now operated by AmPac Business Capital who collects the required documents prior to loan approval. Office of Economic Development Staff will begin conducting audits of loan files on an annual basis.

Recommendation 3.2

Ensure the required reports meant to be collected throughout the life of the loans are collected as outlined in the terms and conditions.

Management's Response

“Partially Concur. The Schedule of Performance Reports are used to gather information regarding operational status after the funding has occurred. The goal is to verify with the borrower if they are having any issues with their business. During the pandemic, this was accomplished via telephone calls to borrowers. Reports are not required to be in writing; therefore, a change will be made to program per authority given to Office of Economic Development Director on BOS Agenda 12/15/2020, Item 3.7 to not require Balance Sheets and Profit & Loss Statements and that Job Creation Reports can be taken verbally by staff.”

Actual/Estimated Date of Corrective Action: June 2022

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).

Balance Sheets and Profit & Loss statements are only required at time of application pursuant to the Revolving Loan Fund Administrative Plan under the Application Requirements section. Job creation reports can be taken verbally by either fiscal agent or County staff.

RIVERSIDE COUNTY

OFFICE OF ECONOMIC DEVELOPMENT

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