

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



ITEM: 2.7
(ID # 25371)

MEETING DATE:
Tuesday, July 09, 2024

FROM : AUDITOR CONTROLLER

SUBJECT: AUDITOR-CONTROLLER: Internal Audit Report 2024-018: Riverside County Transportation and Land Management Agency, Aviation Division Audit [District: All]; [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2024-018: Riverside County Transportation and Land Management Agency, Aviation Division Audit

ACTION:Consent

Ben J. Benoit

Ben J. Benoit, COUNTY AUDITOR-CONTROLLER 6/13/2024

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: July 9, 2024
xc: Auditor Controller

Kimberly A. Rector
Clerk of the Board

By: *Kimberly A. Rector*
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

In accordance with Board of Supervisors Resolution 83-338, we audited the Riverside County Transportation and Land Management Agency, Aviation Division. This audit is conducted to provide management and the Board of Supervisors with an independent assessment of internal controls over contract and supplier management and grant management.

Based on the results of our audit, we determined internal controls over grant management are functioning as designed to help Aviation achieve its business process objectives. However, we have identified improvement opportunities for internal controls over contract and supplier management that can help provide reasonable assurance that its objectives relating to this area will be achieved. Specifically, the department's process for managing contracts faces challenges with contract compliance and linkage of expenditures to contracts.

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

Impact on Citizens and Businesses

Provide an assessment of internal controls over the audited areas.

SUPPLEMENTAL:

Additional Fiscal Information

Not applicable

ATTACHMENTS:

A: Riverside County Auditor-Controller's Office - Internal Audit Report 2024-018: Riverside County Transportation and Land Management Agency, Aviation Division Audit



Office of Ben J. Benoit
Riverside County Auditor-Controller



Number of Recommendations

4 Priority Level 1
High Risk

0 Priority Level 2
Medium Risk

0 Priority Level 3
Low Risk

* Please refer to Appendix A for a classification of the priority levels.

Internal Audit Report

2024-018

Riverside County
Transportation and Land Management Agency, Aviation Division Audit

July 9, 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



July 9, 2024

Charissa Leach
Assistant County Executive Officer
Riverside County Transportation and Land Management Agency, Aviation Division
4080 Lemon Street, 14th Floor
Riverside, CA 92501

Subject: Internal Audit Report 2024-018: Riverside County Transportation and Land Management Agency, Aviation Division Audit

Dear Ms. Leach:

In accordance with Board of Supervisors Resolution 83-338, we audited the Riverside County Transportation and Land Management Agency, Aviation Division to provide management and the Board of Supervisors with an independent assessment of internal controls over contract and supplier management and grant management.

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.



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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.

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, Jr., County Executive Officer
Dave Rogers, Chief Administrative Officer
Grand Jury



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Internal Audit Report 2024-018: Riverside County Transportation and Land Management Agency, Aviation Division Audit

Executive Summary

Overview

Riverside County Transportation and Land Management Agency, Aviation Division (Aviation) manages five airports: Blythe, Hemet Ryan, French Valley, Jacqueline Cochran, and Chiriaco Summit encompassing over 5,000 acres of land and provide aviation facilities and services to private and corporate tenants, aircraft users, and businesses. Aviation utilizes grants from the Federal Aviation Administration (FAA) and California Department of Transportation (Caltrans) for capital improvement projects for each airport.

Aviation has an adopted budget of \$9.9 million for FY23/24 and 16 authorized positions to execute its responsibilities. *County of Riverside, FY 2023-2024 Adopted Budget, Volume 1, 335.*

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 contract and supplier management and grant management. 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 January 25, 2024, through May 6, 2024, for operations from July 1, 2021, through April 26, 2024. Following a risk-based approach, our scope included the following:

- Contract and Supplier Management
- Grant Management

AUDIT HIGHLIGHTS

- Invoices need to be reviewed to ensure compliance with contract payment provisions.
- Invoices need to be linked to existing contracts.



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Audit Conclusion

Based on the results of our audit, we determined internal controls over grant management are functioning as designed to help Aviation achieve its business process objectives. However, we have identified improvement opportunities for internal controls over contract and supplier management that can help provide reasonable assurance that its objectives relating to this area will be achieved. Specifically, the department's process for managing contracts faces challenges with contract compliance and linkage of expenditures to contracts.



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Contract and Supplier Management

Background

The Riverside County Purchasing Policy Manual (2021) defines a contract as “an agreement or purchase order for the purchase or disposal of commodities or services.” The Purchasing Policy Manual further states, “Purchase contracts shall be entered into only after it has been determined that prices to be paid are reasonable considering all of the circumstances pertaining to the particular purchase under consideration” which includes “price reasonableness [which] can be established through [competitive bidding and] supported [through a] ... cost analysis.” Contracts are established between Riverside County and suppliers to procure goods/services and typically include pricing agreements, terms and conditions, and limits on expenditures. The terms and conditions of county contracts identify the rights and responsibilities of the parties involved. Terms and conditions include, but are not limited to the following: payment, penalties, record retention, confidentiality, scope of services, and inspection of services.

Contract and supplier management is a key process in ensuring compliance with a contract’s established terms and conditions and requires an understanding of the scope of work. Departments can promote contract compliance through validation of satisfactory work performance, ensuring timely performance of contracted work, maintaining adequate documentation, and proper review and approval of invoices prior to payment to a contractor.

Objective

To verify the existence and adequacy of internal controls over the Aviation’s contract and supplier management process.

Audit Methodology

To accomplish these objectives, we:

- Obtained and reviewed the Riverside County Purchasing Manual as it relates to purchasing authority limitations.
- Conducted interviews with department management and staff to gain an understanding of the process to monitor service contractors.
- Obtained and reviewed a listing of all suppliers/contracts/memorandums of understanding (MOU) associated with Aviation during the audit period.



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- Selected a sample of four contractors to determine if adequate controls exist over contractor management.
- Examined contract agreements to ensure compliance with terms.
- Verified completeness, accuracy, and adequate managerial review of documentation.
- Recalculated invoice amounts against contract rates.

Finding 1: Contract Compliance

Priority Level: 1¹

Standard Practice Manual 1001, *Internal Controls*, states, “Records are routinely examined and reconciled to determine that transactions were properly processed,” and further emphasizes, the need for “Ensuring accuracy, reliability and timeliness of financial records and reports” as methods of internal control.

Six out of 30 (20%) randomly selected invoices that did not comply with their respective contract’s terms and conditions. Specifically, four invoices had pricing discrepancies, and two invoices dated December 2023 were linked to a contract that was not effective until January 2024. Internal policies and procedures tailored to Aviation’s operations to ensure invoice compliance with contract terms, are currently not in place and are instead relying on general countywide purchasing policies. The lack of thorough review in the invoices increases the risk of financial loss, contract non-compliance, and inefficient use of public funds.

Recommendation 1.1

Develop internal policies and procedures to ensure invoices are thoroughly reviewed to ensure compliance with contract payment provisions.

Management’s Response

“**Concur.** TLMA fiscal management has initiated a formal written procedure to enhance the monitoring of active contracts. This involves compiling details such as the contract biller title, billing rate, terms, contract amount, subcontractor name, where applicable. Aviation had reached out to Mead & Hunt regarding the use of incorrect billing rates. Mead & Hunt is conducting an audit and will issue a credit to Aviation for erroneous charges.”

Actual/Estimated Date of Corrective Action: May 2024

¹ Please see Appendix A (Page 12) for a description of the finding priority level classifications



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Recommendation 1.2

Ensure invoice payments accurately reflect contract payment provisions.

Management's Response

“Concur. With the procedure initiated by TLMA fiscal management, TLMA will catch incorrect billing and will be able to notify the Aviation Manager of any discrepancies to the original contractor agreement that may have been overlooked during the review process.”

Actual/Estimated Date of Corrective Action: May 2024

Finding 2: Contract Monitoring

Priority Level: 1²

Standard Practice Manual 1001, *Internal Controls*, states, “safeguarding of assets” and “ensuring accuracy, reliability, and timeliness of financial records and reports” are internal controls used to, “provide reasonable assurance regarding the achievement of objectives.”

Five out of five (100%) invoices sampled were not linked to their respective county contract. Expenditures were not closely monitored to ensure they were linked to their respective contracts. Linking expenditures to contracts is a control designed to ensure contract limitations are monitored, reduce the risk of expenditures exceeding the contract limit, and ensure that departments are within the contract's terms and conditions. By not linking expenditures to contracts, management's ability to closely monitor contract expenditures and limits is reduced, impacting their ability to stay within contract limitations, monitor appropriateness of expenditures, and negotiate future pricing terms.

Recommendation 2.1

Develop a process to ensure expenditures are linked to existing county contracts.

Management's Response

“Concur. Four out of five invoices mentioned above were tied to RivcoPro (previous Purchasing System). As the historical information was not transferred over to PeopleSoft, TLMA is unable to verify the needed information. With the procedure initiated by TLMA fiscal management, the reviewer will be able to identify the error of the purchase order created in PeopleSoft and make the necessary corrections before it gets approved.”

² Please see Appendix A (Page 12) for a description of the finding priority level classifications



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Actual/Estimated Date of Corrective Action: May 2024

Recommendation 2.2

Ensure expenditures are linked to existing county contracts.

Management's Response

"Concur. With the procedure initiated by TLMA fiscal management, the reviewer will be able to identify the error of the purchase order created in PeopleSoft and make the necessary corrections before it gets approved."

Actual/Estimated Date of Corrective Action: May 2024



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Grant Management

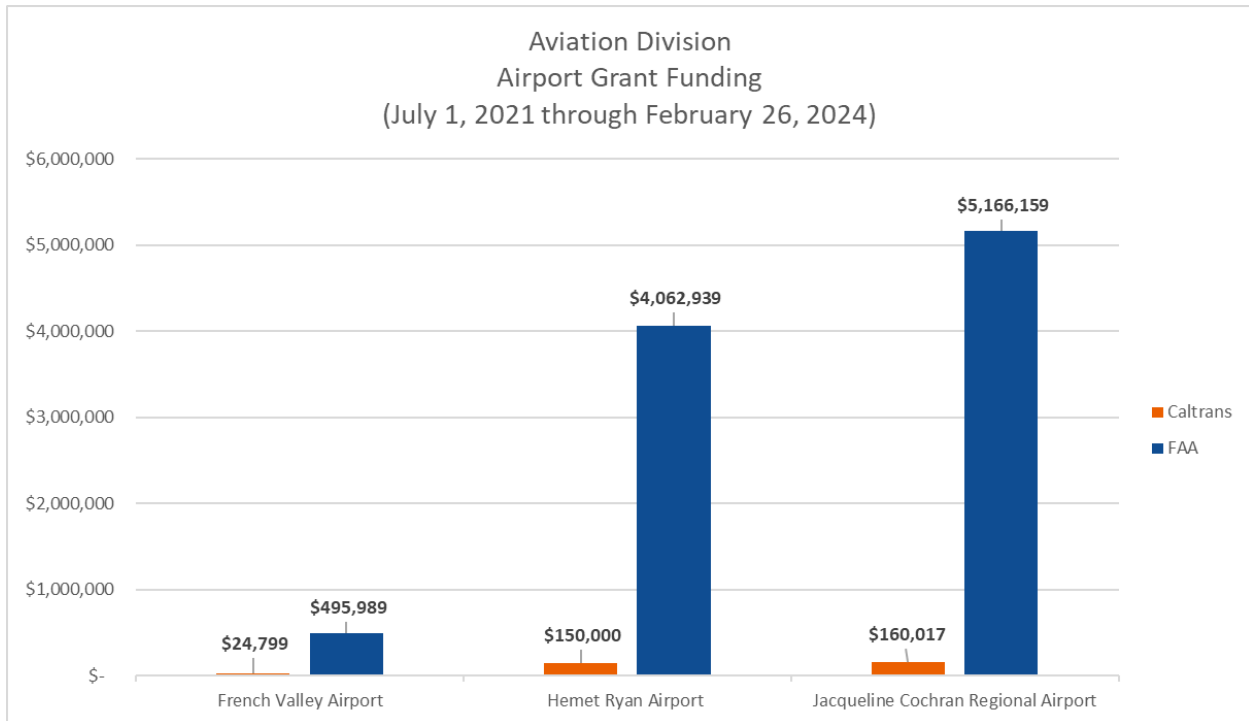
Background

Aviation has been allocated over \$10 million in grant funding for capital improvements across five airports in Riverside County between July 1, 2021, through February 26, 2024. This funding is primarily sourced from federal grants provided by the Federal Aviation Administration (FAA), supplemented by the California Department of Transportation (Caltrans). These funds are designated for enhancing the infrastructure necessary for the airports to meet their strategic goals, which include improving fiscal stability, airport safety, and operational efficiency. Notable projects funded include runway improvements, lighting enhancements, and the construction of navigation towers at facilities such as Jacqueline Cochran Regional Airport and French Valley Airport.

Grant Number	Grantor	Grant Amount	Description of Grant	Period of Performance
AIP 3-06-0255-030-2023	FAA Caltrans	\$4,246,155 \$150,000	Jacqueline Cochran Regional Airport	2023-2027
AIP 3-06-0104-021-2022	FAA Caltrans	\$3,699,239 \$150,000	Hemet Ryan Airport	2022-2026
AIG 3-06-0255-031-2023	FAA	\$719,663	Jacqueline Cochran Regional Airport	2023-2027
AIP 3-06-0338-034-2022	FAA Caltrans	\$495,989 \$24,799	French Valley Airport	2022-2026
AIP 3-06-0104-018-2021	FAA	\$363,700	Hemet Ryan Airport	2021-2025
AIP 3-06-0255-029-2022	FAA Caltrans	\$200,341 \$10,017	Jacqueline Cochran Regional Airport	2022-2026



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The charts above detail the distribution and utilization of these funds. Aviation’s grant management is crucial in ensuring that the funded projects adhere to safety regulations and contribute to the overall functionality of the airports. Effective oversight is essential to ensure that these significant financial resources are aligned with the county’s strategic plan and contribute to the development of a secure, efficient, and economically sustainable airport infrastructure network.

Objective

To verify the existence and adequacy of internal controls over Aviation’s grant management process.

Audit Methodology

To accomplish these objectives, we:

- Obtained an understanding of department processes and procedures over grant management.
- Conducted interviews with key personnel to gain an understanding of the department’s grant management process.



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- Obtained a listing of all active and inactive grants awarded to the department during the audit review period. Judgmentally selected a sample of grants awarded to the department and obtained all relevant grant agreements.
- Verified that the claim submissions were timely, the amounts reflected grant-related expenditures, and the expenditures claimed were aligned with budgeted items.
- Verified whether expenditures or services provided were accurate, allowable, reviewed, and had sufficient supporting documentation.
- Reviewed all suppliers in the selected grants and verified whether contractors were listed on the United States Government System for Award Management (SAM).
- Ensured that contractor addresses did not match employee addresses.

Finding: None Noted

Based upon the results of our audit, we determined Aviation's internal controls over grant management provide reasonable assurance that its objectives relating to these areas will be achieved. Reasonable assurance recognizes internal controls have inherent limitations, including costs, mistakes, and intentional efforts to bypass internal controls.



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Appendix A: Finding Priority Level Classification

Priority Level 1	Priority Level 2	Priority Level 3
<p>These are audit findings that represent the most critical issues that require immediate attention and pose a significant risk to the department’s objectives, compliance, security, financial health, or reputation. They may indicate serious control failures, non-compliance with laws or regulations, significant financial errors, or vulnerabilities with severe potential impact. Immediate corrective measures are necessary to mitigate the risks associated with these findings.</p>	<p>These are audit findings that are important and require timely resolution, but their impact is not as severe as Priority Level 1. They may highlight moderate control weaknesses, areas of non-compliance with internal policies and procedures, or financial discrepancies that are significant but are not critical. While they might not pose an immediate threat, they should be addressed promptly to prevent further escalation or potential negative consequences.</p>	<p>These are audit findings that are less critical and generally have a lower impact on the department’s objectives, compliance, or operations. They may include minor control deficiencies, procedural deviations with minimal impact, or non-critical administrative errors. While they may not require immediate attention, they should still be acknowledged and addressed within a reasonable timeframe to ensure ongoing improvement and prevent potential accumulation of minor issues.</p>
<p><u>Expected Implementation Date of Recommendation*</u> One to three months</p>	<p><u>Expected Implementation Date of Recommendation *</u> Three to six months</p>	<p><u>Expected Implementation Date of Recommendation *</u> Six to twelve months</p>

* Expected completion to implement recommendation date begins after issuance of final audit report.