

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



ITEM: 2.8
(ID # 25466)

MEETING DATE:
Tuesday, July 09, 2024

FROM : AUDITOR CONTROLLER

SUBJECT: AUDITOR-CONTROLLER: Internal Audit Report 2024-012: Riverside County Office of Economic Development Audit [District: All]; [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2024-012: Riverside County Office of Economic Development Audit

ACTION: Consent

Ben J. Benoit

Ben J. Benoit, COUNTY AUDITOR-CONTROLLER

7/2/2024

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	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
NET COUNTY COST	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
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 Office of Economic Development to provide management and the Board of Supervisors with an independent assessment of internal controls over contract and supplier management, and service delivery.

Based on the results of our audit, internal controls over service delivery are functioning as designed to help Office of Economic Development achieve its business 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 encounters challenges with contract compliance.

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 2024-012: Riverside County Office of Economic Development Audit



Office of Ben J. Benoit
Riverside County Auditor-Controller

Number of Recommendations

2

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

2024-012

Riverside County Office of Economic Development 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

Suzanne Holland
Director of Office of Economic Development
Riverside County Office of Economic Development
3403 10th Street, Suite 400
Riverside, CA 92501

Subject: Internal Audit Report 2024-012: 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 contract and supplier management, and service delivery.

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.

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



Internal Audit Report 2024-012: Riverside County Office of Economic Development Audit

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
Juan Perez, Chief Operating Officer
Grand Jury



Internal Audit Report 2024-012: Riverside County Office of Economic Development Audit

Table of Contents

	Page
Executive Summary	4
Results:	
Contract and Supplier Management	6
Service Delivery.....	9
Appendix A: Finding Priority Level Classification	11



Internal Audit Report 2024-012: Riverside County Office of Economic Development Audit

Executive Summary

Overview

Riverside County Office of Economic Development (Office of Economic Development) provides services that foster economic vitality, preserve and enhance neighborhoods, improve the quality of life, and promote learning to customers, businesses, patrons, and residents of Riverside County. Services provided by the department include business consulting, tourism promotion, international trade assistance, film advocacy, job and career development, and access to the library system which includes books, materials, and electronic resources.

The Office of Economic Development has an adopted budget of \$111.8 million for FY 2023-24 and 89 adopted positions. *County of Riverside, Fiscal Year 2023-24 Adopted Budget Volume 1, 288-295.*

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 service delivery. 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 29, 2024, through April 25, 2024, for operations from July 1, 2022, through April 3, 2024. Using a risk-based approach, our scope included the following:

AUDIT HIGHLIGHTS

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



Internal Audit Report 2024-012: Riverside County Office of Economic Development Audit

- Contract and Supplier Management
- Service Delivery

Through inquiry, observations, and limited examination of relevant documentation, it was determined through a risk assessment of the business process for service delivery, that the risk exposure to the Office of Economic Development associated with this process is well mitigated with internal controls and is functioning as designed. Therefore, we focused our audit scope to internal controls over contract and supplier management.

Audit Conclusion

Based on the results of our audit, internal controls over service delivery are functioning as designed to help Office of Economic Development achieve its business 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 encounters challenges with contract compliance.



Internal Audit Report 2024-012: Riverside County Office of Economic Development Audit

Contract and Supplier Management

Background

The Riverside County, Purchasing Policy Manual (2016), 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 be paid are reasonable considering all of the circumstances pertaining to the particular purchase under consideration.” Price reasonableness is established through competitive bidding and supported cost analysis. 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 monitoring is a key process in ensuring compliance with a contract established terms and conditions. This process is crucial in maintaining effective partnerships, ensuring quality services, and achieving optimal value from supplier relationships. Contract monitoring consists of understanding the terms and conditions and 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 Office of Economic Development’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 contract monitoring processes.
- Obtained and reviewed a listing of all suppliers/contracts/memorandums of understanding (MOU) associated with the Office of Economic Development during the audit period.
- Verified there was adequate segregation of duties in place relating to contract management.



Internal Audit Report 2024-012: Riverside County Office of Economic Development Audit

- Selected a sample of ten suppliers to determine if adequate controls exist over contract monitoring.
- Examined contract agreements to ensure compliance with terms.
- Verified suppliers maintained insurance that meets the required coverage limits as outlined in the contract terms.
- Verified completeness, accuracy, and adequate managerial review of documentation.
- Recalculated invoice amounts against contract rates.
- Reviewed invoices from supplier and supporting documentation for adequacy.
- Verified supplier contracts were entered into in accordance with the Riverside County Purchasing & Fleet Services Purchasing Policy Manual.
- Verified supplier addresses were complete, accurate, and legitimate business addresses.

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. Furthermore, the Riverside County Purchasing & Fleet Services Purchasing Policy Manual states, "Purchase of goods, equipment, and contractual services may be purchased off of other government and agency bids or cooperative purchasing agreements without additional competitive bidding."

Of the 115 randomly selected invoices, we identified 27 instances (23%) of paid invoices which did not comply with their respective contract's terms and agreements. Specifically, invoices contained discrepancies in the pricing of contracted goods. Discrepancies in pricing occurred due to the Riverside County Library System obtaining a separate quote while an active contract was already in place, leading to the use of incorrect pricing. While the department has policies and procedures in place to review invoices for compliance with contract provisions, these procedures require strengthening to the review process to prevent departmental oversight and ensure compliance. Lack of thorough review of invoices increases the risk of financial loss, contract non-compliance, and inefficient use of public funds.

¹ Please see Appendix A (page 11) for a description of the finding priority level classifications.



Internal Audit Report 2024-012: Riverside County Office of Economic Development Audit

Recommendation 1.1

Enhance internal policies and procedures to ensure invoice payments accurately reflect contract payment provisions.

Management's Response

“Concur. The samplings pulled were paid outside of the contract timing provision due to invoice auditing that found the vendor had incomplete back up or incorrect billable hours. These issues were violations of the contract payment provisions by the vendor which caused a delay in payment. Our staff were in communications with vendor to receive back up or corrected invoices and payments were made as soon as all items were received. The Fiscal Division tracks all contract payments separately using an Excel worksheet. The tracking spreadsheets will be enhanced by adding the payment terms to the tracking sheet and any billing issues will be noted to show payment delays due to either the vendor or the department and the cause. The payment delay notation requirement will be added to internal procedures.”

Actual/estimated Date of Corrective Action: July 30, 2024

Recommendation 1.2

Request assistance from Riverside County Purchasing when requesting quotes for goods or services with an established county supplier.

Management's Response

“Concur. The library contract discussed was for security guard services, which our staff consulted with our PCS to receive a Purchase Order using the available County Awarded Contract for Security Guard Services and were told that since the Library division was not included with the original security RFP conducted previously by Purchasing, we would not be able to use the County contract as the library division was adding twelve countywide locations and would be using over \$800,000 of the current contract. We were instructed to procure bids as a new job, which were then provided to our PCS who created a Purchase Order for the department. Invoices were paid according to the bid award, which were different rates than the County award. We currently have our PCS located in our offices, one day per week and continue to have constant communications regarding any purchasing needs with him.”

Actual/estimated Date of Corrective Action: Already in place



Internal Audit Report 2024-012: Riverside County Office of Economic Development Audit

Service Delivery – Efficient and Effective Delivery of Service

Background

The Office of Economic Development provides a variety of services to customers, businesses, patrons, and residents of the County such as business assistance programs, incentives and financial assistance, and access to the County library system. The purpose of these services is to foster economic vitality, to preserve and enhance neighborhoods, to improve the quality of life and to promote learning for all residents of Riverside County. One of the key service offerings of the department is the Business Assistance NOW Program. The Business Assistance NOW Program is a combined effort between the department's business support team, the County's Ombudsman, and other County departments to ensure that new businesses are provided the resources required to establish and grow their business within Riverside County. The program primarily provides permit assistance, financial resources, hiring and training, and business consulting.

To provide these services in an efficient and effective manner, the department works directly with other County departments and contractors to ensure services are provided by the most experienced professionals within a reasonable timeframe. Office of Economic Development employees are tasked with serving as the initial point of contact for all inquiries from potential customers, and based on their needs, the department will direct them to the appropriate business partner so they can provide the requested services. Customer contact is first received through phone call or submission through the online portal, which is then assigned to the Office of Economic Development's business support team. Cases received are examined by the business support team and are subsequently routed to the business partner most suited to handle their case.

Objective

To verify the existence and adequacy of internal controls over Office of Economic Development's service delivery process.

Audit Methodology

To accomplish these objectives, we:

- Obtained and reviewed the department's policies and procedures as it relates to delivery of services.
- Conducted interviews with department management and staff to gain an understanding of the service delivery process.



Internal Audit Report 2024-012: Riverside County Office of Economic Development Audit

- Obtained a list of customer inquiries and verified whether they were resolved.
- Observed the functionality of the department's website and online portal for submitting assistance requests.

Finding: None noted

Based on the results of our audit, we determined Office of Economic Development's internal controls over service delivery provide reasonable assurance that its objective related to this area will be achieved. Reasonable assurance recognizes internal controls have inherent limitations, including cost, mistakes and intentional efforts to bypass internal controls.



Internal Audit Report 2024-012: Riverside County Office of Economic Development Audit

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.