

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



ITEM: 2.16
(ID # 25644)

MEETING DATE:
Tuesday, August 27, 2024

FROM : AUDITOR CONTROLLER

SUBJECT: AUDITOR-CONTROLLER: Internal Audit Report 2024-022: Riverside County Office of Economic Development, County Service Areas Division [District: All]; [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2024-022: Riverside County Office of Economic Development, County Service Areas Division


ACTION:Consent


Ben J. Benoit, COUNTY AUDITOR-CONTROLLER 8/12/2024

MINUTES OF THE BOARD OF SUPERVISORS

On motion of Supervisor Perez, seconded by Supervisor Spiegel 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: August 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

In accordance with Board of Supervisors Resolution 83-338, we audited the Riverside County Office of Economic Development, County Service Areas Division 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, we have identified improvement opportunities for internal controls over contract and supplier management, and service delivery that can help provide reasonable assurance that its objectives relating to these areas will be achieved. Specifically, the department's process for managing contracts has challenges with adequate supporting documentation, while the service delivery process could be improved in terms of the inventory of streetlights and the authorization of services.

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

Impact on Residents and Businesses

Provide an assessment of internal controls over the audited areas.

SUPPLEMENTAL:

Additional Fiscal Information

Not applicable

ATTACHMENTS:

A: Riverside County Auditor-Controller's Office - Internal Audit Report 2024-022: Riverside County Office of Economic Development, County Service Areas Division Audit



Office of Ben J. Benoit
Riverside County Auditor-Controller

Number of Findings & Recommendations

High Risk

3 Findings
• **11 Recommendations**

Medium Risk

0 Findings

Low Risk

0 Findings

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

Internal Audit Report

2024-022

Riverside County Office of Economic Development,
County Service Areas Division Audit

August 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



August 27, 2024

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

**Subject: Internal Audit Report 2024-022: Riverside County Office of Economic Development,
County Service Areas Division Audit**

Dear Ms. Holland:

In accordance with Board of Supervisors Resolution 83-338, we audited the Riverside County Office of Economic Development, County Service Areas Division 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



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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



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Executive Summary

Overview

The Riverside County Office of Economic Development, County Service Areas (County Service Areas) division provides municipal community services for neighborhoods within unincorporated communities in Riverside County. Each County Service Area is authorized to provide services based on the needs of each community. The County Service Areas collect special taxes and assessments to provide services to specific areas of the county. County Service Areas' jurisdiction covers the entire unincorporated Riverside County and provides municipal services such as streetlights, parks and recreation, landscaping, street sweeping, water and sewage, and road maintenance.

County Service Areas has a recommended budget of \$27.9 million for FY 2024-25 and 36 recommended positions. *County of Riverside, Fiscal Year 2024-25 Recommended Budget Volume 1, 280-288.*

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 HIGHLIGHTS

- Sufficient documentation needs to be maintained to ensure expenses are accurately allocated to County Service Areas based on extent and location of services performed.
- Inventory of streetlights serviced need to be properly accounted for to ensure accuracy of billings and eligibility of services.
- Services provided need to be monitored to ensure they are authorized and are performed within County Service Area boundaries.



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Audit Scope and Methodology

We conducted the audit from January 29, 2024, through May 14, 2024, for operations from July 1, 2022, through May 13, 2024. Using a risk-based approach, our scope included the following:

- Contract and Supplier Management
- Service Delivery

Audit Conclusion

Based on the results of our audit, we have identified improvement opportunities for internal controls over contract and supplier management, and service delivery that can help provide reasonable assurance that its objectives relating to these areas will be achieved. Specifically, the department's process for managing contracts has challenges with adequate supporting documentation, while the service delivery process could be improved in terms of the inventory of streetlights and the authorization of services.



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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 County Service Areas 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 process.
- Obtained and reviewed a listing of all suppliers/contracts/memorandums of understanding (MOU) associated with the County Service Areas during the audit period.



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- Verified there was adequate segregation of duties in place relating to contract management.
- Selected a sample of three 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: Invoice Documentation

Priority Level: 1¹

Standard Practice Manual 1001, *Internal Control*, states, "Records are routinely examined and reconciled to determine that transactions were properly processed." Furthermore, Riverside County Ordinance No. 573, *An Ordinance of the County of Riverside Establishing Charges for Extended Services Provided in County Service Areas*, states, "The rate of charge for each service to be provided in each service area shall be computed by dividing the net cost of each service by the total number of parcels."

Of the 98 randomly selected samples, we identified 14 (14%) instances of paid invoices which did not have sufficient supporting documentation. We identified the following in our review:

- Ten of 98 invoices tested did not contain sufficient detail to determine the extent and location of services provided. Additionally, written post orders² were not updated by the supplier when a change of service was requested by County Service Areas.

¹ Please see Appendix A (page 15) for a description of the finding priority level classifications.

² "Post Orders" refer to the detailed, site-specific instructions and protocols that supplier must follow while providing the service. These orders outline the supplier's responsibilities, procedures for various scenarios, and the specific tasks they need to perform to ensure the services to the premises of respective County Service Areas.



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- Four of the 98 invoices included charges to erroneous County Service Areas due to their outdated boundary lines for County Service Area 80, County Service Area 84, and County Service Area 146. The documentation sufficiency needs pertain to the department not having up to date records of the County Service Areas maps, thereby making it challenging to identify which County Service Area specific streetlights are being billed.

Maintaining sufficient documentation from suppliers ensures that County Service Area expenses are properly allocated. This has multiple benefits, including accurate representation of the County Service Areas' budgets, preventing excessive charges to residents, and accurate financial reporting. Any discrepancies in billings are directly passed on to the County Service Area residents' bills for services.

Recommendation 1.1

Develop policies and procedures to ensure invoices from suppliers contain sufficient detail of the extent and location of services provided, identify invoices lacking this information, and when possible, work with suppliers to obtain detailed, itemized breakdowns.

Management's Response

"Concur. Procedures will be updated to request vendors submit itemized invoices listing level of services being provided and identifying locations of services provided."

Actual/estimated Date of Corrective Action: August 1, 2024

Recommendation 1.2

Ensure required documentation such as services to be provided and locations serviced is maintained between County Service Areas and contracted suppliers.

Management's Response

"Concur. Staff agree that the invoices from vendors should accurately reflect the service provisions and will ensure vendors submit revised invoices if they are not properly updated."

Actual/estimated Date of Corrective Action: July 1, 2024



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Recommendation 1.3

Enhance County Service Area annexation policies and procedures to ensure County Service Areas boundaries are documented internally upon formation and updated whenever boundaries change.

Management's Response

"Concur. CSA staff will add a step to the annexation/formation procedures to work with internal GIS team to update in-house maps after every annexation or change of boundary."

Actual/estimated Date of Corrective Action: August 1, 2024

Recommendation 1.4

Ensure documentation of current County Service Areas boundaries is maintained.

Management's Response

"Concur. In-house GIS staff will prepare updated maps for internal use. Staff will share these maps with County GIS team but can't guarantee County GIS will update County GIS website."

Actual/estimated Date of Corrective Action: October 1, 2024

Recommendation 1.5

Update policies and procedures for invoice review and payment processing to ensure accurate allocation of expenses.

Management's Response

"Concur. The existing in-house audit reports used to verify streetlight inventory needs to be updated to reflect changes in city incorporations and CSA boundary changes."

Actual/estimated Date of Corrective Action: October 1, 2024

Recommendation 1.6

Ensure expenses are accurately allocated to the correct County Service Areas.



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Management's Response

“**Concur.** The existing in-house audit reports used to verify streetlight inventory needs to be updated to reflect changes in city incorporations and CSA boundary changes.”

Actual/estimated Date of Corrective Action: October 1, 2024.

Service Delivery – Efficient and Effective Delivery of Service

Background

The delivery of services such as public safety, infrastructure maintenance, and community amenities, are administered by County Service Areas staff and carried out by suppliers to ensure the well-being of communities served by County Service Areas. Authorization of services provided to each County Service Area, including extent of services and service boundaries, are initially determined when a new County Service Area is annexed, and is reapproved each year by the Riverside County Board of Supervisors pursuant to Riverside County Ordinance No. 573 and California Government Code section 25215. To meet the needs of residents in an efficient and effective manner, County Service Areas have dedicated administration and field staff that monitor the delivery of services provided by contractors to ensure work performed is carried out according to schedule and in compliance with service agreement requirements.

The following services are provided by the County Service Areas:

- Landscaping: Maintaining and replacing landscape.
- Parks and recreation: Maintaining 19 county-owned parks, with recreation services available at 12 of the County Service Areas parks.
- Road Maintenance: Maintaining and repairing potholes, road signs, and street markings.
- Sheriff: Providing enhanced sheriff protection for the community.
- Streetlights: Repairing electrical wiring and light fixtures, replacing burned-out lamps, and repair and replacement of damaged equipment.
- Street sweeping: Street sweeping to keep roads clear of debris, which can contain oil solvents, lawn chemicals, and leaves.
- Water and Sewage: Water meter reading, water treatment, and distribution facilities.



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Service charges for County Service Areas residents are adopted annually based on the nature, extent, and cost of extended services provided by each County Service Area, estimated cost of providing the extended services, and dividing the net cost for each service to be provided in each service area by the total number of parcels, with such service area receiving the service.

Objective

To verify the existence and adequacy of internal controls over County Service Areas service delivery process.

Audit Methodology

To accomplish these objectives, we:

- Obtained and reviewed the department's policies and procedures over street sweeping, streetlights, and County Service Area annexation as it relates to delivery of services.
- Conducted interviews with department management and staff to gain an understanding of the service delivery process.
- Obtained and reviewed a list of all County Service Areas, map of County Service Area boundaries, and listing of approved services to be provided by each County Service Area during the audit period.
- Obtained and reviewed a listing of all vouchers related to delivery of services to County Service Area residents.
- Selected a sample of six County Service Areas to determine if adequate controls exist over delivery of services.
- Verified scope of services provided agrees with the approved service offerings and work performed outside of the scope of the contract was approved before service was performed.
- Utilized the county geographic software to verify the address of service locations within County Service Areas boundaries and the services performed at the address agrees with the list of approved services for the service area.
- Verified the service delivery process was actively monitored by management.
- Verified the department maintains and monitors service requests submitted online.



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Finding 2: Inventory of Streetlights

Priority Level: 1³

Standard Practice Manual 1001, *Internal Control*, states, internal controls "are used to provide reasonable assurance regarding the achievement of objectives" for the purpose of "Ensuring accuracy, reliability and timeliness of financial records and reports." Furthermore, Riverside County Ordinance No. 573, *An Ordinance of the County of Riverside Establishing Charges for Extended Services Provided in County Service Areas*, states, "The rate of charge for each service to be provided in each service area shall be computed by dividing the net cost of each service by the total number of parcels."

Of the six County Service Areas selected for testing, we identified three instances (50%) of which detailed inventory of streetlights being serviced is not maintained. Maintenance of a detailed inventory of streetlights to be serviced by the County Service Areas is not maintained since there is a reliance on a monthly streetlight audit. This audit does not sufficiently (or specifically) identify the location and quantity of streetlights serviced by the County Service Areas. Absence of a detailed inventory of streetlights increases the risk of County Service Areas paying for streetlights no longer in service or outside of the approved service boundaries, inaccurate financial reporting and budgeting, and inadequate monitoring of services provided. This impacts County Service Area taxpayers as they may pay for services provided to other County Service Areas or areas outside of the County Service Areas jurisdiction that already charge for and provide these services to their residents.

Recommendation 2.1

Improve process of maintaining detailed listing of all streetlights serviced by County Service Areas by adding streetlight maps from Southern California Edison.

Management's Response

"**Concur.** Staff will update the existing streetlight inventory audit to include detail of streetlight locations and include maps where applicable."

Actual/estimated Date of Corrective Action: October 1, 2024

Recommendation 2.2

Refine policies and procedures to ensure County Service Areas captures the completeness and accuracy of streetlight listing.

³ Please see Appendix A (page 15) for a description of the finding priority level classifications.



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Management's Response

"**Concur.** The policy for the streetlight inventory audit logs will be updated to include mapping from SCE where applicable."

Actual/estimated Date of Corrective Action: October 1, 2024

Finding 3: Authorization of Services

Priority Level: 1³

Standard Practice Manual 1001, *Internal Control*, states, "Transactions are authorized by a person assigned approval authority." Furthermore, Riverside County Ordinance No. 573, *An Ordinance of the County of Riverside Establishing Charges for Extended Services Provided in County Service Areas*, states, "At the same time each fiscal year that the Board of Supervisors considers the budget for the County, it shall also determine the nature, extent and cost of the extended services to be provided by and within each service area and any zones therein, during the fiscal year for which the final budget of the County is adopted."

We identified instances of paid services provided outside the approved County Service Area boundaries. Service locations for streetlights in County Service Area 80 were not closely monitored to ensure they are within the County Service Area's approved boundaries. This issue stems from the department not maintaining a detailed listing of streetlights to verify the service location of each streetlight. Providing services outside of the approved County Service Areas boundaries resulted in misallocation of county resources, inaccurate budgeting for respective County Service Area, and residents billed for unapproved services.

Recommendation 3.1

Develop a process to ensure service locations are adequately monitored.

Management's Response

"**Concur.** The process for updating service boundaries will be updated to reflect changes of boundaries after new development has been completed."

Actual/estimated Date of Corrective Action: October 1, 2024

Recommendation 3.2

Enhance policies and procedures to ensure development of a process to monitor service locations.



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Management's Response

"Concur. The process for updating service boundaries will be updated to reflect changes of boundaries after new development has been completed."

Actual/estimated Date of Corrective Action: October 1, 2024

Recommendation 3.3

Review and update streetlight listing based on current County Service Areas boundaries.

Management's Response

"Concur. The policy for the streetlight inventory audit logs will be updated to include mapping from SCE where applicable."

Actual/estimated Date of Corrective Action: October 1, 2024



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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.