

Internal Audit Report 2017-006

**Riverside County Treasurer-Tax Collector
Control Environment**

Report Date: September 13, 2017



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September 13, 2017

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Subject: Internal Audit Report 2017-006: Riverside County Treasurer-Tax Collector, Control Environment

Dear Mr. Christensen:

We have completed an audit of Riverside County Treasurer-Tax Collector to provide management and the Board of Supervisors with an independent assessment of internal controls over the adequacy and effectiveness of the control environment. We conducted the audit from November 16, 2016, through March 8, 2017, for operations from July 1, 2014, through February 16, 2017.

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.

Based upon the results of our audit, we identified areas of opportunities that can help department management optimize the internal control component known as the control environment. Specifically, in the areas related to establishment and acknowledgement of a code of ethics, succession planning, and completion of public service ethics training.

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.

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We thank the Riverside County Treasurer-Tax Collector management and staff for their cooperation. Their assistance contributed significantly to the successful completion of this audit.

Paul Angulo, CPA, MA
Riverside County Auditor-Controller



By: René Casillas, CPA, CRMA
Interim Chief Internal Auditor

cc: Board of Supervisors
Executive Office
Grand Jury

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Executive Summary

Overview

Riverside County Treasurer-Tax Collector (Treasurer) mission is to provide “sound investment of public funds, fair, efficient tax collection and exceptional public service.” As mandated by the state of California, the Treasurer has the responsibility for “billing and collecting property taxes and for the receiving, processing, investing and safeguarding of public funds.” The state mandated function for the Treasurer is to safeguard public funds into the \$5 billion Treasurer’s Pooled Investment Fund which has sustained the highest achievable ratings by two nationally recognized rating firms. For the Tax-Collector, the state mandated function is for “the billing and collection of secured, unsecured, supplemental, transient occupancy tax as well as various other special assessments for the county, school and community colleges, and special districts.” *Treasurer Tax-Collector, About-What we Do, Treasurer-Tax Collector website, accessed April 11, 2017, <http://www.countytreasurer.org/About/WhatWeDo.aspx>*

Audit Objective

Our objective is to provide management and the Board of Supervisors with an independent assessment of the adequacy and effectiveness of the internal control component known as the control environment.

Audit Conclusion

Based upon the results of our audit, we identified areas of opportunities that can help Riverside County Treasurer-Tax Collector management optimize the internal control component known as the control environment. Specifically in the areas related to establishment and acknowledgement of a code of ethics, succession planning, and completion of public service ethics training.

Control Environment

Background

Internal controls are a coordination of policies and procedures established to provide reasonable assurance regarding the achievement of respective organization objectives related to the effectiveness and efficiency of operations, compliance with applicable laws and regulations, reliability of reporting, and the safeguarding of assets. Everyone in an organization affects internal controls, but it is the ultimate responsibility of management to implement them and to ensure the controls are functioning as intended. Doing so allows management to stay focused on its pursuit of an organization's strategic objectives.

In support of management efforts to achieve the objectives of the organization, management should consider the following five internal control components:

- Control Environment: Sets the tone to the organization and is the foundation of all other internal control components
- Risk Assessments: Identifies and analyzes the risk associated with the achievement of the entity's objectives
- Control Activities: Actions established by policies and procedures to help ensure that management's directives are carried out
- Information and Communication: Actions to carry out the responsibilities in support of the achievement of the objectives
- Monitoring Activities: Ongoing or separate evaluations to ascertain whether each of the components of internal controls is present and functioning

For an organization to have an effective control environment, management should consistently demonstrate and communicate its commitment to integrity and ethical values, establish adequate governance oversight processes, and implement an organizational structure with adequate authority and responsibility. Furthermore, an organization should also demonstrate a commitment to attract, develop and retain a competent workforce, and have strong workforce accountability measures for the achievement of the organizational objectives.

Our audit focused on the control environment component since it is the foundation of an effective system of internal controls. It provides discipline and structure to the achievement of the primary objectives of an entity and establishes the tone from the top-down of organizations. As such, when management, at every level of the organization views internal controls as essential to the successful achievement of its objectives, it is expected that the same view will be conveyed to everyone within the organization and as a result, internal controls will work as designed. The opposite effect will occur when management view the internal controls as obstacles and/or unrelated to the achievement of the entity's objectives.

The scope included the following areas:

- Code of ethics – implementation, training and communication
- Employee developmental training
- Evaluations – completion and goal setting
- Organizational and reporting structure – effective and efficient
- Succession planning – development for business continuity
- Communication of mission and other pertinent matters
- Employee exit interviews – organizational improvement opportunities as viewed from department employees
- Policies and Procedures – development, implementation and communication

Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of the adequacy and effectiveness of Riverside County Treasurer-Tax Collector's control environment.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed applicable codes, regulations, and policies
- Conducted interviews with department management and staff
- Selected a sample of employees and reviewed files for completion of employee evaluations, development training programs, and goal setting
- Determined if the Treasurer-Tax Collector had a formal succession plan
- Performed an employee turnover analysis to determine the turnover rate and benchmarked against other local governments
- Reviewed organizational and reporting structure
- Determined if exit interviews were conducted

Finding 1: Written Acknowledgment of Standards of Ethical Conduct

Riverside County Board Policy C-35, *Standards of Ethical Conduct to Address Fraud, Waste and Abuse*, requires “department shall have all current employees provide written acknowledgment that they received and read this policy at the time of hire.” The Treasurer-Tax Collector did not ensure that all employees provided written acknowledgement on the receipt of policy relating to the standards of ethical conduct. Specifically, we requested acknowledgments for 11 employees selected in our review. However, we did not obtain verification that they were aware of standards of ethical conduct. Furthermore, leading practices for a good control environment recommends employees in any organization sign an acknowledgement annually to ensure compliance with the code of ethics policy.

Recommendation 1.1:

Ensure all employees have read and acknowledged in writing the standards on ethical conduct.

Management’s Response:

Concur.

-Actual/estimated Date of Corrective Action: August 31, 2017

Recommendation 1.2:

Implement the leading practice requiring all employees complete the acknowledgment annually.

Management’s Response:

Concur. “In lieu of completing annually, the acknowledgement form will be completed when an employee is promoted or newly hired.”

-Actual/estimated Date of Corrective Action: Ongoing

Finding 2: Formal Succession Plan

The Treasurer-Tax Collector does not have a formal written succession plan. Formal plans would identify risks and strategies, providing a basis for specific succession initiatives, including how employees are eligible to participate. In addition, transfer of knowledge is a critical component of succession management. Written procedures formalize the experience-transfer from management and key personnel to successors. Without a succession plan, an organization may not have the means of ensuring that services important to its operations are maintained when management or key personnel changes occur.

Recommendation 2:

Develop formal written succession plan for management and key personnel.

Management's Response:

Concur. "The Treasurer-Tax Collector recognizes its critical mission and thrives to ensure its operations are maintained with minimal disruptions under all threats and conditions. Through the COO/COGP (Continuity of Operations/Continuity of Government Plan), we have identified all mission essential functions and developed an advance team of key personnel to ensure our critical functions are performed during an emergency. Coupling with staff cross training for knowledge and experience transfer, this continuity plan could serve as a formal plan for succession management. In addition, we are currently developing a department-wide re-organizational plan to re-structure, accommodate and take advantage of the many business process changes and enhancements brought about by the anticipated implementation of the new integrated property tax system. This plan may bring staffing changes and will help ensure our services and functions are maintained efficiently."

-Actual/estimated Date of Corrective Action: Ongoing

Finding 3: Public Service Ethics Training

Riverside County Board Policy A-60, *Ethics Training for Local Officials*, states "individuals shall receive at least two hours of training in general ethics principles and ethics laws relevant to his or her public service every two years..." which includes Board of Supervisors, all elected county officials, any member of the legislative body, and any employee designated by the Board of Supervisors. Public service ethics training required was not completed by a member of the Treasurer-Tax Collector. The last filing prior to our request for the proof of participation certificate was March 26, 2013. Upon notification of incompleteness, the department member completed the training on February 9, 2017, and provided the certificate.

Recommendation 3:

We found a single instance that board policy was not followed. It was corrected when we brought it to their attention. As such, we make no recommendation.