

Internal Audit Report 2017-015

**Riverside County
Transportation and Land Management
Agency-Building and Safety**

Report Date: September 28, 2017



**Office of Paul Angulo, CPA, MA
Riverside County Auditor-Controller
4080 Lemon Street, 11th Floor
Riverside, CA 92509
(951) 955-3800**

www.auditorcontroller.org



COUNTY OF RIVERSIDE
OFFICE OF THE
AUDITOR-CONTROLLER

County Administrative Center
4080 Lemon Street, 11th Floor
P.O. Box 1326
Riverside, CA 92502-1326
(951) 955-3800
Fax (951) 955-3802



Paul Angulo, CPA, MA
Riverside County Auditor-Controller

Frankie Ezzat, MPA
Assistant Auditor-Controller

September 28, 2017

Juan Perez, Director
Riverside County TLMA-Building and Safety
4080 Lemon Street, 9th Floor
Riverside, CA 92501

**Subject: Internal Audit Report 2017-015: Riverside County TLMA-Building and Safety,
Control Environment Audit**

Dear Mr. Perez:

We have completed an audit of Riverside County TLMA-Building and Safety to provide management and the Board of Supervisors with an independent assessment of the adequacy and effectiveness of the control environment. We conducted the audit from May 8, 2017, through June 16, 2017, for operations from July 1, 2014, through April 30, 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.

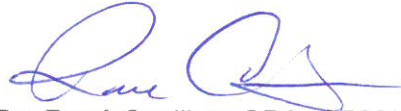
Based upon the results of our audit, we identified areas opportunities that can help department management optimize the internal control component known as the control environment. Specifically, in the areas related to timely completion of performance evaluations and succession planning.

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 TLMA-Building and Safety 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

The Riverside County Transportation and Land Management Agency-Building and Safety department (Building and Safety) has a mission to protect the public and advocate health, safety, and welfare which they accomplish through the adherence of the California Building Codes and county ordinances where applicable. The department is responsible for construction permit services that include grading, building plan check and field inspections. Building and Safety works with the Emergency Management Department in post-disaster assessment and Riverside County Flood Control District and Coachella Valley Water District.

Audit Objective

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

Audit Conclusion

Based upon the results of our audit, we identified areas of opportunities that can help Riverside County Transportation and Land Management Agency-Building and Safety management optimize the internal control component known as the control environment. Specifically in the areas related to timely completion of performance evaluations and succession planning.

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 designed. 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, 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

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- 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 the 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 Building and Safety 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: Performance Evaluations

Board of Supervisors Policy, C-21, *Employee Performance Evaluation Reports*, Section 3 (b) states, "...regular employees of Riverside County shall be evaluated on an annual basis, approximately on the anniversary of their initial employment with the county or on the anniversary of promotion or entry into their current job classification." Annual performance evaluations were not completed timely for 2 of the 6 employees we reviewed in our sample. According to department officials, the turnover with the Building & Safety staff and the completion of projects have delayed the completion of the performance evaluations. Delayed performance evaluations can deter the achievement of the department's overall mission and goals since it documents the

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areas the employees need to improve and gives them the opportunity to enhance their performance.

Recommendation 1:

Annually complete all performance evaluations.

Management's Response:

Concur. No comment

-Actual/estimated Date of Corrective Action: September 14, 2017

Finding 2: Formal Succession Plan

Building and Safety 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 to ensure continuity of core services upon the departure of key personnel.

Recommendation 2:

Develop formal written succession plan for management and key personnel.

Management's Response:

Partially Concur. "We agree that some form of a succession plan is a good business practice. Building and Safety has an organizational chart, which shows a succession plan that can be used if necessary. It has become a standard practice to cross train management staff. However, there are times when the best fit for the department may be an outside hire depending on the circumstances. It is for this reason Building and Safety reserves the right to develop a succession plan to allow for this option."

-Actual/estimated Date of Corrective Action: N/A

Auditor's Response:

An organizational chart is not a succession plan. If it is not memorialized, then it simply does not exist. While department leadership may have a plan, without a written document for staff to consider, staff may not have any idea how future challenges will be met. This could create an operational impediment as departmental leadership and staff change over the course of time. We encourage you to take the lead in this organizational best practice.