

Internal Audit Report 2017-302

**Riverside County
Economic Development Agency,
Aviation Department
Follow Up Audit**

Report Date: April 4, 2017



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April 4, 2017

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Subject: Internal Audit Report 2017-302: Riverside County Economic Development Agency, Aviation Department, Follow-up Audit

Dear Mr. Field,

We have completed a follow-up audit of Riverside County Economic Development Agency, Aviation Department. Our audit was limited to reviewing actions taken as of February 14, 2017, to correct the findings noted in our original audit report 2013-005 dated February 26, 2014.

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 reasonable assurance that our objective, as described in the preceding paragraph, is achieved. Additionally, the standards require that we conduct the audit to provide sufficient, reliable, and relevant evidence to achieve the audit objectives. We believe the audit provides a reasonable basis for our conclusion.

The original audit report contained eight recommendations, all of which required implementation to help correct the reported findings. Based on the results of our audit, we found that of the eight recommendations:

- Six of the recommendations were implemented.
- Two of the recommendations were not implemented.

Details of the findings from the original audit and the status of the implementation of the recommendations are provided in this report. For an in-depth understanding of the original audit, please refer to Internal Audit Report 2013-005 at www.auditorcontroller.org/Divisions/InternalAudit/InternalAuditReports.

We made stylistic changes to the original report findings to reduce the usage of acronyms.

**Internal Audit Report 2017-302: Riverside County Economic Development Agency, Aviation
Department, Follow-up Audit**

We appreciate the cooperation and assistance provided by the staff of the Riverside County Economic Development Agency, Aviation Department during this follow-up audit. Their assistance contributed significantly to the successful completion of the 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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Lease Agreements

Finding 1: Monitoring Compliance with Lease Insurance Requirements

Aviation Department did not monitor lessee compliance with lease agreements to ensure required insurance was maintained. Seventy-seven percent, 23 out of 30, of lease agreements reviewed did not comply with one or more of the county insurance requirements. In addition, Aviation Department did not track sub-leases to ensure compliance with contractual insurance requirements. By not monitoring compliance with insurance requirements, the county could be held liable for any injuries or property and environmental damages occurring on county property if the airport tenants causing the accidents do not have the needed insurance coverage.

Recommendation 1.1

Review all lease agreement files to ensure copies of required insurance have been obtained and are in effect.

Current Status 1: Implemented

The Aviation Department implemented a database system (Airport Business Manager) which tracks insurance data for all lessees. A report is generated on a monthly basis to identify insurance expirations and letters are sent notifying tenants of their upcoming expiration date. We observed the new system, the monthly report as well as the letters and determined that the Aviation Department has an established method to track insurance data for all tenants and sub-tenants.

Recommendation 1.2

Establish procedures to ensure contractual insurance requirements are kept current and obtained upon expiration or when sub-leasing arrangements have been made.

Current Status 1.2: Implemented

We reviewed the draft of their Aviation procedures. The procedure addresses the recommendation and requires insurance information to be maintained by all tenants and sub-tenants. Additionally, we observed the Airport Business Manager database utilized by Aviation officials to track all aspects of the contractual insurance requirements which include the amount required, amount obtained, how much over or under the required amount, the expiration date and days remaining before expiration of policy for all tenants and sub-tenants. Finally, if the tenants do not comply with airport insurance requirements their gate card, allowing access to the premises is deactivated.

Capital Assets

Finding 2: Inadequate Control over Capital Asset Equipment

We selected for review and verification ten of the 23 Aviation Department equipment assets capitalized in the Riverside County Financial System, PeopleSoft Asset Module (Asset Module) and selected four physical assets from the airports to determine if they were properly capitalized. Below are the results of our review:

- ✓ The Riverside County asset identification number was not visible on any of the ten selected assets.
- ✓ Information necessary for inventory control (tag number, serial ID, model and location) was incomplete in the Asset Module for nine (90%) of ten assets tested. Of the four physical assets selected from the airports, none (100%) could be traced to the Asset Module.

We were informed that previous Aviation Department staff entered the asset capitalization data into the Asset Module without having detailed asset information and subsequent updating had not occurred. Since this issue was brought to the Aviation Department's attention, we were informed actions were taken to complete identifying information in the Asset Module. We have noticed that some of the identifying information has been updated in the Asset Module; however, the county asset identification number is still incomplete or omitted. Asset inventory control is essential to ensure Aviation Department assets are adequately safeguarded, financial records are accurate, and county policies and procedures are adhered to.

Recommendation 2

Review and update the Asset Module to ensure accuracy and completeness of asset identification information and contact the Auditor-Controller's Office (ACO) capital asset staff to obtain asset identification numbers and asset tags for any not previously obtained.

Current Status 2: Implemented

We were able to determine that an inventory was conducted as of June 30, 2016 and the elements missing originally have been entered in the Asset Module. Further, the Aviation Department developed an asset management policy which was revised December 4, 2014 to ensure capital and non-capital assets are accounted for when acquired, inventoried, safeguarded and disposed as required by Board of Supervisor Policies H-6, *Purchase of Fixed Asset Equipment*, H-26, *Non-Capitalized Asset Management* as well as the ACO Office Standard Practice Manual (SPM) policies. Their policy defines each type of asset, outlines the process for acquiring a new asset, how the asset should be inventoried, when the assets should be disposed and the forms to be completed.

Finding 3: Unrecorded Capital Assets

During our review of the Aviation's Department expenses incurred from July 1, 2010 through June 30, 2012, we discovered three assets (two fuel tanks and an acoustical aircraft counting system), with a total value of \$51,757, that were not capitalized. The purchases were accounted for in appropriation 2 (services and supplies) rather than appropriation 4 (fixed assets) and therefore were not readily identifiable to capitalize. Aviation Department staff intended on making an appropriation transfer to properly classify the acoustical aircraft counting system purchase, but did not follow-through on the transaction. The fuel tanks were not capitalized due to a technical misunderstanding of when to capitalize or expense an asset purchase. As a result, the capital assets held by the Aviation Department and the county as a whole was understated and the assets were not identified in the Asset Module for accountability and control.

Aviation Department staff took immediate corrective action to record the assets upon us bringing this to their attention. A subsequent query of the Asset Module revealed the three assets had been added.

Recommendation 3

Perform a physical inventory to ensure all assets requiring capitalization are identified and documentation is prepared to include them in the Asset Module in accordance with SPM 913.

Current Status 3: Not Implemented

We reviewed an annual certification signed June 30, 2016, and a recertification was also signed on November 29, 2016 by Aviation Department management. This was not proof that a physical inventory was actually conducted as we noted discrepancies in the capital asset listing.

Non-Capital Assets

Finding 4: Inadequate Monitoring of Non-Capital Walk-Away Assets

Aviation Department did not update the Asset Module for disposed non-capital assets. Seventeen of the 28 (61%) non-capital assets were physically disposed and removed from the Aviation Department's inventory; however, the removed assets were still listed in the Asset Module. By not updating the Asset Module, the Aviation Department is unable to control or safeguard assets under their fiduciary responsibility making them susceptible to loss, theft, or misuse without being detected.

Recommendation 4.1

Perform a physical inventory of the Aviation's Department walk-away assets and ensure the Asset Module is updated to reflect all existing assets.

Current Status 4.1: Not Implemented

We received a listing of non-capital assets which identified the total as of June 30, 2016. However, we did not obtain any other documentation supporting that a physical inventory was conducted.

Recommendation 4.2

Establish procedures to ensure disposed assets are removed from the Asset Module on a timely basis.

Current Status 4.2: Implemented

The Aviation Department established the asset management procedures. These procedures provided specific details on disposing assets which process begins with a notification to the ACO within 30 days of disposition. The Aviation staff must add the item to the County Surplus Transfer SPM Form AM-7. The Accounting and Finance Department for the Economic Development Agency will submit the form the ACO.

Expenditures

Finding 5: Incorrectly Classified Aviation Department Expenditure

Aviation Department incorrectly classified some expenditures. For example, the Aviation Department purchased two fuel tanks for \$45,667 and recorded the transaction as a miscellaneous expense. However, since the fuel tanks utility extends beyond one year and the value exceeds the \$5,000 capitalization criteria established in SPM Policy 501 (formerly SPM Policy 913), *Capitalization Thresholds*, the purchase should have been recorded in account 546040, *Equipment-Aircraft*, and capitalized in the Asset Module. Quarterly equipment maintenance costs totaling \$13,457 were incorrectly recorded as professional services instead of as equipment maintenance. The incorrect classification of the fuel tanks was the result of Aviation Department routinely paying invoices from *Services and Supplies*, appropriation 2, and not the available funding in *Capital Assets*, appropriation 4, to record the acquisition. Specifically, payment vouchers should be closely reviewed to ensure account codes properly match the nature of transactions being approved. The incorrect classification of the maintenance expenditures was the result of the Aviation Department trying to maintain all expenditures related to this particular vendor in one expense account. Classifying expenditures incorrectly provides inconsistent and inaccurate financial reporting countywide.

Recommendation 5.1

The Aviation Department should establish a procedure to ensure quality control over the accounting string used to record payments.

Current Status 5.1: Implemented

The Aviation Department management procedure requires monthly reconciliations of all expenditure accounts to ensure the correct accounting string is used to record payments.

Recommendation 5.2

Review *Service and Supplies*, appropriation 2, expense accounts prior to fiscal year-end closing to ensure all assets meeting SPM 913 criteria are properly capitalized.

Current Status 5.2: Implemented

The Aviation Department established procedures to ensure expenditures for capital assets are reconciled to the asset management module on a quarterly basis.