

Internal Audit Report 2019-003

**Riverside County Treasurer-Tax Collector,
Change of Department Head Audit**

Report Date: June 20, 2019



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June 20, 2019

Jon Christensen
Treasurer – Tax Collector
Riverside County Treasurer-Tax Collector
4080 Lemon Street, 4th Floor
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**Subject: Internal Audit Report 2019-003: Riverside County Treasurer-Tax Collector,
Change of Department Head Audit**

Dear Mr. Christensen:

In accordance with Board of Supervisors Resolution 83-338, we completed a change of department head audit for Riverside County Treasurer – Tax Collector (Treasurer-Tax Collector). This audit is conducted to ensure accountability over the transfer of revolving funds and capital assets when there is a change in department head.

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 determined:

- 1) Internal controls are in place to ensure the safeguarding and timely transfer of the revolving funds to the newly elected Treasurer-Tax Collector.
- 2) Internal control are in place to ensure the timely transfer of capital assets. However, the internal controls to ensure the timely disposal, tagging and tracking of capital assets are not in place. Specifically, five assets were disposed without proper forms filed with the Auditor-Controller's Office and three assets did not have the proper county tags attached.

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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.

Paul Angulo, CPA, MA
Riverside County Auditor-Controller



By: René Casillas, CPA, CRMA
Chief Internal Auditor

cc: Board of Supervisors
George Johnson, County Executive Officer
Grand Jury

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Executive Summary

Overview

The Riverside County Treasurer-Tax Collector (Treasurer-Tax Collector) serves as the chief investment officer of the county treasury, and is responsible for the billing and collection of various forms of taxes for the county, schools, and special districts. The Treasury receives and invests all public funds into a \$7 billion pooled investment fund, and processes nearly \$3.3 billion of taxes through their office each year.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over the transfer of revolving funds and capital assets when there is a change in department head.

Audit Conclusion

Based upon the results of our audit, we determined:

- 1) Internal controls are in place to ensure the safeguarding and timely transfer of the revolving funds to the newly elected Treasurer-Tax Collector.
- 2) Internal control are in place to ensure the timely transfer of capital assets. However, the internal controls to ensure the timely disposal, tagging and tracking of capital assets are not in place. Specifically, five assets were disposed without proper forms filed with the Auditor-Controller's Office and three assets did not have the proper county tags attached.

Revolving Funds

Background

Under the authority of Government Code Section 29320-29334, the Riverside County Board of Supervisor's adopted Board Resolution 74-156 on May 14, 1974, authorizing the establishment of a revolving fund, under the custodianship of a county officer, for use on official county business. The Board of Supervisors adopted Board Resolution 83-338, authorizing the Riverside County Auditor-Controller to audit revolving funds of any officer accountable for such resources upon transfer of such resources to a new officer.

The Riverside County Treasurer-Tax Collector has one revolving fund, with an authorized balance of \$5,000, maintained in the form of petty cash totaling \$200 and bank account totaling \$4,800. The revolving fund/petty cash is primarily used to pay for emergency needs. The department holds petty cash in a lockbox, and bank checks in a locked drawer with one person having access, with two back-up staff. Replenishments are reviewed and approved by the fund custodian, while the check is written by an accounting technician. The bank checks written are signed by two authorized signers. The fund is reconciled monthly, signed, and dated by the preparer and reviewer.

Objective

Our objective is to determine if the required forms for the transfer of accountability of revolving funds from the predecessor to the new appointed department head were completed, and properly filed with the Riverside County Auditor-Controller's Office. Also, to assess the adequacy of internal controls over the safeguarding of the revolving funds.

Audit Methodology

To accomplish these objectives, we:

- Reviewed Riverside County Auditor-Controller Standard Practice Manual Form AR-1, *Revolving Fund Request Order & Change Form* for the establishment and transfer of the revolving funds
- Interviewed key personnel and reviewed department procedures over the revolving funds.
- Verified revolving fund reconciliations were prepared
- Performed a surprise cash count and reconciled to the fund assignment amounts without exception
- Verified adequate segregation of duties existed

Finding: None Noted

We reviewed and verified Riverside County Auditor-Controller Standard Practice Manual Form AR-1, *Revolving Fund Request Order & Change Form*, was completed and filed with the Riverside County Auditor-Controller's Office for the transfer of custodianship of the revolving funds to the new department head. The Riverside County Treasurer-Tax Collector has an established process in place for the use of the revolving funds. The fund is used primarily for emergency needs. Access to the revolving fund/petty cash is limited to the fund custodian and two back-up individuals. We physically observed the petty cash funds are kept in locked boxes in locked drawers with access limited.

Based upon the results of our testing, we determined internal controls exist and are adequate over the safeguarding and use of the revolving funds. The appropriate forms were completed and properly filed with the Riverside County Auditor-Controller's Office for the transfer of the revolving funds.

Capital Assets

Background

Capital assets are tangible assets of significant value which have a utility that extends beyond the current year, and are broadly classified as land (valued at \$1 or more), buildings and improvements, infrastructure, and equipment (acquisition cost of \$5,000 or greater).

Per the Riverside County Auditor-Controller's Standard Practice Manual, Policy Number 515, *Transfer of Accountability on Capital Assets*, it states that upon retirement or termination of a department head, accountability for capital assets must be transferred to the new or acting department head and notification filed with the Riverside County Auditor-Controller's Office.

As of August 3, 2017, the time the Treasurer-Tax Collector was elected and acknowledged receipt of capital assets from the outgoing officer, the Riverside County Treasurer-Tax Collector maintained 49 capital assets in the Riverside County financial system asset module, consisting of servers, software, and copiers and fax machines, with the combined acquisition cost of \$809,318.

Objective

To determine if the required Standard Practice Manual Form AM-1, *The Inventory of County Property for Capital Assets*, for the transfer of accountability of capital assets from the predecessor to the new appointed department head was completed and properly filed with the Riverside County Auditor-Controller's Office.

Audit Methodology

To accomplish these objectives, we:

- Obtained an understanding of board policies and applicable standards
- Established the date of the department head change
- Verified proper forms were completed for transfer of accountability of capital assets and submitted to the Riverside County Auditor-Controller's Office
- Verified the existence of capital assets that were transferred to the new department head
- Verified proper forms were completed for the retirement of capital assets
- Ensured the department appropriation 2 and 4 expenses were used for non-capital assets and capital assets

Finding 1: Capital Assets Oversight

The department is not properly tracking capital assets. Out of 15 assets tested, we identified the following:

- Five assets were disposed without proper forms filed with the Auditor-Controller's Office
- Three assets did not have the proper County tags attached

Standard Practice Manual 513, *Capital Asset Tags*, states, "Each department is responsible for the tagging and tracking of all movable assets." Further, Standard Practice Manual 514, *Disposal of Capital Assets*, states, "Completed AM-7 Form must be submitted to the ACO with all supporting documentation, as soon as possible." The department did not properly tag capital assets and submit AM-7 forms for the retirement of assets due to staffing shortages. When not accounted for or properly identified in the Asset Management Module, an over or understatement of County capital assets occurs.

Recommendation 1.1

Ensure capital assets are properly tracked and tagged in accordance with Standard Practice Manual 513, *Capital Assets*.

Management's Response

Concur. "As part of the year-end process, the department does follow the Auditor-Controller's Year End process. Part of that process is completing an annual inventory of all assets at the end of the fiscal year. Originally, asset tags were received and placed on three capital assets. The tags were old, not easily visible, and unbeknownst to staff, fell off. Those tags have been replaced and are currently displayed on those capital assets. However, the department reviewed the current procedure regarding capital assets, and recommends that in the future in order to avoid this problem, a better identification method be utilized. It would be more appropriate, instead of placing tags on these particular assets themselves, to keep the tags separately in a binder with proper back-up documentation referencing the capital asset."

Actual/estimated Date of Corrective Action: **January 24, 2019**

Recommendation 1.2

Ensure Form AM-7 is completed and submitted to the Auditor-Controller's Office for capital assets set to be retired in accordance with Standard Practice Manual 514, *Disposal of Capital Asset*.

Management's Response

Concur. "All capital assets that have been disposed have an AM-7 form completed."

Actual/estimated Date of Corrective Action: **January 24, 2019**