

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



**ITEM: 2.11
(ID # 16804)**

MEETING DATE:
Tuesday, July 20, 2021

FROM : AUDITOR CONTROLLER:

SUBJECT: AUDITOR-CONTROLLER: Internal Audit Report 2021-018 Riverside County Registrar of Voters Audit, All Districts. [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2021-018: Riverside County Registrar of Voters Audit

ACTION:Consent


Tanya Harris, Assistant Auditor Controller 7/9/2021

MINUTES OF THE BOARD OF SUPERVISORS

**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 completed an audit of the Riverside County Registrar of Voters. This audit was conducted to provide management and the Board of Supervisors with an independent assessment of internal controls over equipment leases, poll inspector training, procurement cards, and purchase order process.

Please see report for audit results.

Impact on Residents and Businesses

Provide an assessment of internal controls over the audited areas.

Additional Fiscal Information

Not applicable

ATTACHMENT A: Riverside County Auditor-Controller's Office - Internal Audit Report 2021-018: Riverside County Registrar of Voters Department Audit


 Stephanie Perez, Principal Management Analyst 7/12/2021

Internal Audit Report 2021-018

Riverside County Registrar of Voters

Report Date: Month, July 20, 2021



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**Paul Angulo, CPA, MA
Riverside County Auditor-Controller**

**Tanya S. Harris, DPA, CPA
Assistant Auditor-Controller**

July 20, 2021

Rebecca Spencer
Registrar of Voters
Riverside County Registrar of Voters
2724 Gateway Dr.
Riverside, CA 92507

Subject: Internal Audit Report 2021-018: Riverside County Registrar of Voters Audit

Dear Ms. Spencer:

In accordance with Board of Supervisors Resolution 83-338, we audited the Riverside County Registrar of Voters to provide management and the Board of Supervisors with an independent assessment of internal controls over equipment leases, poll inspector training, procurement cards, and the purchase order process.

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.

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As requested, in accordance with paragraph III.C of the Board of Supervisors Resolution 83-338, we asked management to provide a response to our audit findings and recommendations. However, a response was not submitted and therefore not included in this report. We will follow-up to verify that management implemented the corrective actions.

Paul Angulo, CPA, MA
Riverside County Auditor-Controller



By: René Casillas, CPA, CRMA
Chief Internal Auditor

cc: Board of Supervisors
Jeff A. Van Wagenen, Jr., County Executive Officer
Grand Jury

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Internal Audit Report 2021-018: Riverside County Registrar of Voters

Executive Summary

Overview

The Registrar of Voters (Registrar) is responsible for providing equal access for all eligible citizens in Riverside County to participate in the democratic process. The Registrar is also entrusted with protecting the integrity of votes and maintaining transparent, accurate, and fair elections for federal, state, and local offices. Registrar of Voters has an adopted budget of \$17 million for FY 2020-21 and has 39 authorized positions to execute its responsibilities *County of Riverside, Fiscal Year 2020-21 Adopted Budget, September 2020 141*.

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 equipment leases, poll inspector training, procurement cards, and purchase order process. 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 Scope and Methodology

We conducted the audit from March 16, 2021, through May 20, 2021, for operations from July 1, 2019, through May 20, 2021. Following a risk-based approach, our scope initially included the following:

- Help America Vote Act fund
- Equipment leases
- Poll inspector training
- Procurement cards
- Purchase order process
- Equipment maintenance contract

Through inquiry, observations, and examination of relevant documentation related to Help America Vote Act fund and equipment maintenance contract, we concluded that internal controls over these areas are sufficient to mitigate the risk we initially assessed in these areas. As such, we focused our audit scope to internal controls over equipment leases, poll inspector training, procurement cards, and purchase order process.

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Audit Highlights

Summary of Existing Conditions

The current processes have not mitigated the following risk areas:

- Registrar has no evaluation methods and survey forms in place to measure the effectiveness of the poll inspector training program. Evaluation methods and survey forms help assess the quality of the training and improve future trainings for elections to help ensure the efficacy of elections.
- Registrar misclassified operational leases as capital leases. With no communication and coordination with the Auditor-Controller Office reporting team, operating leases were not accounted for accurately. This impacts the accuracy and reliability of financial reporting.
- Identified instances of split purchases using the procurement card. This weakens the internal controls within the procurement card program that help safeguard county resources.
- Identified Purchase orders that were created after receipt of the invoices. Purchase orders formalize requirements, and pricing, and serve as legally binding documentation of the goods/services. It helps avoid duplicate orders, surprise price increases and helps keeping track of incoming orders.

Summary of Improvement Opportunities

The improvement opportunities are in the following areas:

- Ensure Registrar design a system to assess the quality performance of the poll inspector training. This will help ensure poll inspectors are prepared to correctly perform their duties on election day and best serve the voters.
- Registrar coordinate with the Auditor-Controller's Office reporting team to ensure proper recognition and reporting of capital and operating lease assets and expenditures.
- Ensure procurement cardholders are following the Riverside County Procurement Card Program procedure handbook. This will provide management assurance that cards can only be used for specific type of purchases with established dollar limits.

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- Establish a process to prevent issuing purchase orders after receipt of invoices. This will ensure compliance with Riverside County policy on purchasing goods, and services.

Audit Conclusion

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to equipment leases, poll inspector training, procurement cards, and purchase order process.

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Equipment Leases

Background

The Financial Accounting Standard Board established principles for lease accounting in its Statement 13, *Accounting for Leases*, and its numerous amendments. These statements specify the appropriate accounting for leases through their classification as either capital or operating. Governmental Accounting Standard Board codification provides that Statement 13 should be the guidelines for accounting and financial reporting for lease agreements, except for operating leases with schedule rent increases that are fixed by contract.

Governmental Accounting Standard Board, Statement 87, *Lease*, requires all leases to be reported as capital leases and eliminates the classification of an operating lease unless the lease is a short-term, defined as 12 months or fewer. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset. Furthermore, a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

Objective

To determine whether internal controls are maintained over recording of capital lease assets.

Audit Methodology

To accomplish these objectives, we:

- Obtained an understanding of GASB Statement No. 62, paragraph 222, *Operating Lease Rental*, and GASB Statement No. 87, paragraph 20, *Lease Accounting Simplified*.
- Obtained a listing of capital lease assets tracked in the Riverside County financial system asset management module.
- Verified whether proper forms and completed supporting documentation submitted to Riverside County Auditor-Controller's Office.

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Finding 1: Lease Expense

Registrar lease expense totaling \$1.0M was incorrectly recorded. We selected eight purchase transactions and reviewed its supporting documentation. We identified one purchase transaction that contained ten leased assets and a leased election software. This purchase was recorded as capital lease expenses instead of an operating lease expense. As such, the total lease obligation and operating expenses were not recognized and recorded to the proper account nor properly reported in the financial statement.

GASB Statement No. 62, paragraph 222, states, "Rental on an operating lease should be charged to expense/expenditure over the lease term as it becomes payable." GASB Statement No. 87, paragraph 20, states, "At the commencement of the lease term, a lessee should recognize a lease liability and an intangible right-to-use lease asset. A lessee should reduce the lease liability as payments are made and recognize outflow of resources."

Recommendation 1.1

Registrar should work with the Auditor-Controller's Office to ensure proper recognition and reporting of capital and operating leased assets and expenditures.

Recommendation 1.2

Registrar should develop procedures to ensure future purchase of assets are properly recorded.

Recommendation 1.3

Ensure department personnel understand the lease agreements of equipment to help determine if assets should be classified and recorded as capital leases or operating leases.

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Poll Inspector Training

Background

The Registrar is responsible for providing access for all eligible citizens in Riverside County to participate in the democratic process. There are key areas where election workers interact with voters: at the polling location, including upon arrival, at check-in, and while moving throughout the routine voting process. To fulfill that role, poll inspectors should be familiar with the rights of voters, be trained in cultural and gender sensitivity, know how and when to assist voters with disabilities, know how and when to assist voters with specific needs, and know their responsibilities and the limits to their authority.

Objective

To determine compliance with the *Office of Secretary of State Standards Poll Worker Training*.

Audit Methodology

To accomplish these objectives, we:

- Obtained an understanding of California Code, Election Code - ELEC 12309.5, *Uniform Standard for the training of precinct board members*.
- Obtained and reviewed Registrar's Election Officer Guide March 2021 Manual and the online virtual source of training.
- Reviewed if Registrar training program complied with "*The Office of the Secretary of State Standards Poll Worker Training*" evaluation methods and survey forms.

Finding 2: Poll Inspector Training

Registrar has no evaluation methods and survey forms in place to measure the effectiveness of the poll inspector training program. Once the training for poll inspectors commences, they are required to complete the training in the established timeframe. However, follow-up survey forms were not provided to poll inspectors. Poll inspector training standards, Section 8, prepared by the Office of the Secretary of State as a best practice, states, "It is important to measure the effectiveness of training programs. After each training session, poll workers should be asked to fill out forms that assess the quality

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of the training. Counties can also improve future training by having poll workers complete post-election response forms to evaluate the complete experience.” With the poll inspectors limited time to acquire the essential election information, the ability to measure the effectiveness of the training is vital for the election process. Monitoring the efficacy of the training process, assessing the quality and performance on a timely basis, and taking the necessary corrective actions will be essential to the elections managed by the Registrar.

Recommendation 2

Ensure Registrar design a system to measure the effectiveness and quality of the poll inspector training.

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Procurement Cards

Background

The County's Procurement Card program was developed to improve efficiencies associated with the procurement process and reduce the costs associated with making purchases and processing vendor payments. The program requires compliance with current statutes and county procurement procedures and is intended to improve the timely delivery of products and services.

The Riverside County Purchasing & Fleet Services Department (Purchasing) is responsible for managing and monitoring the overall program. Additionally, Purchasing administers the training required for all program participants, establishes, and communicates rules and guidelines, oversees participants' compliance with the county's procurement policies and procedures, and coordinates the interface between U. S. Bank and the county. Cardholders are required to comply with the Procurement Card Manual as written by Purchasing. Additionally, cardholders must complete the training prior to being provided with a procurement card.

The procurement card policy has controls developed and implemented that are different than traditional credit cards. The controls ensure the cards can be used only for specific types of purchases with established dollar limits. Additionally, approving officials assigned to each cardholder are required to provide prior approval on the purchases. The cardholder is responsible to verify all purchases once card statement is obtained.

As an integral part of a county department's internal control structure, management within each department is responsible for a system of internal controls that effectively and efficiently performs financial related activities and safeguards assets. The system should provide management with reasonable assurance that assets are properly safeguarded against loss from unauthorized use or theft, and transactions are executed in accordance with management's authorization.

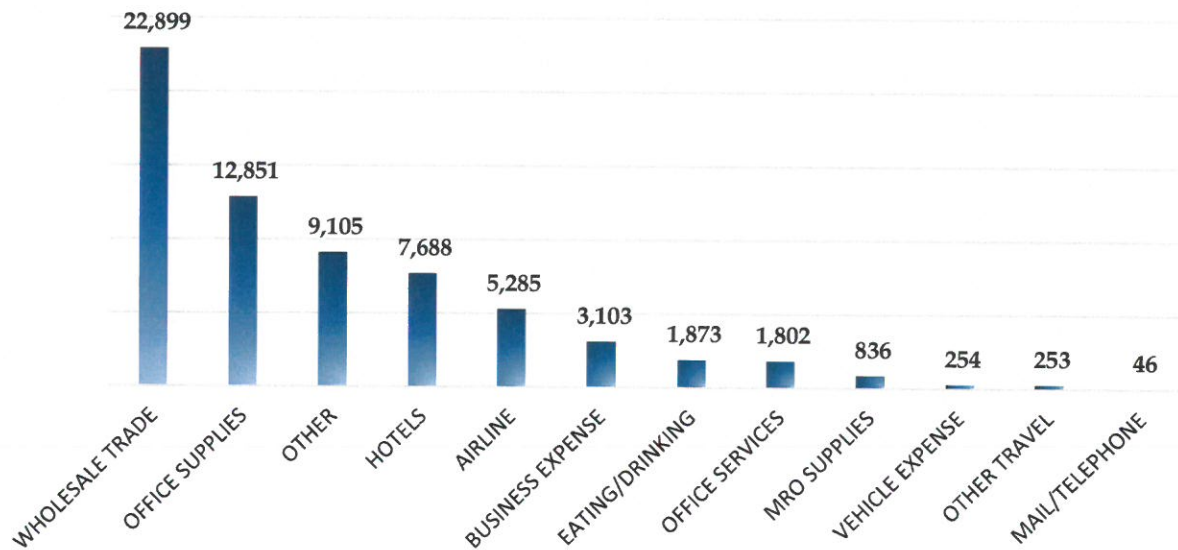
Registrar of Voters has four procurement cardholders, as of February 3, 2021. Procurement card expenditures for the period July 1, 2019, through February 3, 2021, included 262 transactions totaling \$65,996.

The chart below illustrates the Registrar procurement card expenditures for the period July 1, 2019, through February 3, 2021, categorized in the following: wholesale trade, office supplies, other, hotels, airline, business expense, eating/drinking, office services,

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medical repair operations (MRO) supplies, vehicle expense, other travel, and mail/telephone. Expenditures for the top three merchant groups include wholesale trade at \$22,899, office supplies at \$12,851, and other at \$9,105. These transactions make up 68% of the total procurement card transactions, for a total of \$44,855.

**Registrar of Voters
 Procurement Card Transactions
 (July 1, 2019 through February 3, 2021)**



Background of area reviewed.

Objective

To determine if proper management controls are maintained over the authorization and use of the department’s procurement card.

Audit Methodology

To accomplish our objectives, we performed the following:

- Reviewed County policies and procedures, specifically:
 - County of Riverside Procurement Card Program, Procedure Handbook (8/1/2016)

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- Board Policy A-62, *Credit Card Use*
- Board Policy D-1, *Reimbursement for General Travel and Other Actual and Necessary Expenses*
- Obtained and reviewed department policies and other documents to determine compliance with Riverside County's procurement card policies and procedures.
- Obtained a listing of all procurement cardholders and reviewed transactions for compliance to cardholder agreements.
- Analyzed procurement card data pulled from County of Riverside financial systems and U.S. Bank for audit period.
- Examined cardholder transaction logs, receipts, and credit card statements.
- Verified for appropriate levels of management review and approval.
- Interviewed key personnel regarding procurement card internal controls and their processes.
- Reviewed supporting documentation for procurement card expenditures.

Finding 3: Compliance with Procurement Card Policies

During our testing in a sample of three-monthly statements, we found three instances of non-compliance with the procurement card policies and procedures. These three instances involved expenditures exceeding the cardholder's single purchase limit of \$3,000 and being split into multiple transactions.

The Riverside County Procurement Card Program Manual restricts splitting purchases to circumvent the dollar limitations. When controls are not adequate to ensure compliance with county policies and procedures, it weakens the internal controls established under Riverside County procurement card program and increases the risk of inadequate use of procurement card.

Recommendation 3

Ensure procurement cardholders comply with restricted uses relating to the Riverside County Procurement Card Program Procedure Manual. Specifically, ensure purchases are not split to circumvent established single-transaction limits.

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Purchase Order Process

Background

The purchase order process involves the acquisition of equipment, furnishings, supplies, maintenance, construction, and contractual services within pre-established budgetary constraints. Riverside County Purchasing Policy Manual provides uniform procedures for purchasing goods and services needed in the operation of County of Riverside departments and agencies. Purchase orders perform a key role in the acquisition process. A well-detailed purchase order clearly defines the item or service being purchased, vendor information, specific terms of the purchase, and specifications of cost, quantities, and delivery terms. Riverside County uses a variety of purchase orders to procure supplies and services.

The Board of Supervisors delegated the authority to purchase and contract to the Purchasing Agent, via Riverside County Ordinance No. 459, as amended through 459.5, *Establishing Purchasing Policies and Procedures*. The Director of Purchasing is the Purchasing Agent for Riverside County. The Purchasing Agent has delegated their authority to staff with varying limitations.

Depending on the size and complexity of the department, the Purchasing Agent may assign staff to the department. Purchasing Policy Manual dated August 1, 2015, and September 1, 2016, requires a purchase order for all purchases unless the item or service was approved by the Board of Supervisors or exempt by Board Ordinance 459.

Riverside County Board Ordinance No. 459.6, Section (7), *Exceptions*, indicates no purchases shall be made by any county officer or employee without a purchase order or other written authority first obtained from the Purchasing Agent. An exception to this policy can be made for certain items, including election supplies.

Registrar's of Voters departmental policies and procedures Section No: G-8 *Payment Vouchers Procedures* states, "For non-election related items, if the invoice total is more than \$399.99 but less than \$5,000.00 a purchase order is not required. If the invoice total is over \$5,000.00, purchase order must be acquired from the Purchasing Department."

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Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over purchase order process relating to voting expenditure activities.

Audit Methodology

To accomplish these objectives, we:

- Identified and reviewed Riverside County Purchasing Policy Manual, and Riverside County Board Ordinance No. 459, as amended through 459.5, *Establishing Purchasing Policies and Procedures*.
- Conducted interviews and performed walk-throughs with Registrar personnel.
- Reviewed financial information from the Riverside County financial system for the period of July 1, 2021, through March 18, 2021.
- Selected a sampling of 20 purchase orders from election expenses and 10 purchase orders from printing & binding, valued at \$3,890,557 and \$256,703 respectively.
- Reviewed purchase orders and verified they had been approved by the appropriate personnel.
- Reviewed purchases to ensure compliance with the Purchasing Manual with regards to bid splitting.
- Reviewed expenditures were incurred after the purchase order was approved.

Finding 4: Timely Issuance of Purchase Orders

Our review of 30 purchase orders disclosed that five (17%), totaling \$1,895,968 with the highest purchase order totaling \$918,363, were processed after invoices were issued by vendors. Registrar did not follow departmental nor county procedures regarding purchase orders. Registrar policies and procedures and Riverside County Purchasing Manual, Section 3.4, states, "*Purchases over \$400 require a purchase order unless the item or service was Board approved by Ordinance 459.*" Riverside County Ordinance No. 469, Section (3), *Exceptions*, indicates no purchases shall be made by any county officer or employee

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without a purchase order or other written authority first obtained from the Purchasing Agent. Registrar staff waits until the invoice comes before setting up the purchase order. This practice is non-compliant with Riverside County purchasing policies and procedures. Furthermore, purchase orders formalize requirements, pricing, helps with tracking of the items ordered, and serves as a legally binding document.

Recommendation 4

Ensure Registrar staff complies with departmental and county purchasing manual by issuing a valid purchase order for all purchases over \$400.