

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



ITEM: 2.19
(ID # 19531)

MEETING DATE:
Tuesday, July 12, 2022

FROM : AUDITOR CONTROLLER:

SUBJECT: AUDITOR-CONTROLLER: Internal Audit Report 2022-014: Riverside County Office of Economic Development Audit

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2022-014: Riverside County Office of Economic Development Audit

ACTION:Consent

Tanya Harris

Tanya Harris, Assistant Auditor Controller 7/1/2022

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
NET COUNTY COST	\$ 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 audited of the Riverside County Office of Economic Development. This audit is conducted to provide management and the Board of Supervisors with an independent assessment of internal controls over library operations, COVID-19 small business assistant grant program, and small business revolving loan funds.

Our conclusion and details of our audit are documented in the body of this audit report.

BACKGROUND:

Summary (continued)

Please refer to the audit report for the result of the audit

Impact on Citizens and Businesses

Provide an assessment of internal controls over the audited areas.

SUPPLEMENTAL:

Additional Fiscal Information

Not applicable

ATTACHMENTS:

A: Riverside County Auditor-Controller's Office - Internal Audit Report 2022-014: Riverside County the Office of Economic Development Audit

Internal Audit Report 2022-014

**Riverside County
Office of Economic Development
Audit**

Report Date: July 12, 2022



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

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Assistant Auditor-Controller

July 12, 2022

Suzanne Holland
Director
Riverside County Office of Economic Development
3403 Tenth Street, Suite 400
Riverside, CA 92501

Subject: Internal Audit Report 2022-014: Riverside County Office of Economic Development Audit

Dear Ms. Holland:

In accordance with Board of Supervisors Resolution 83-338, we audited the Riverside County Office of Economic Development to provide management and the Board of Supervisors with an independent assessment of internal controls over library operations, COVID-19 small business assistant grant program, and small business revolving loan funds.

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, 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.

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
Dave Rogers, Chief Administrative Officer
Grand Jury

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Executive Summary

Overview

Riverside County Office of Economic Development consists of Economic Development (Economic Development), the Riverside County Library System (County Library), the Edward Dean Museum, County Service Areas, and the Office of International Business. The department, and various grant and administrative budget units that support operations are the distribution of Coronavirus Aid, Relief, and Economic Security Act (CARES) funding via small business grants and assisting to collect Census data.

County Library contracted with Library Systems & Services LLC (Contractor) to manage library operations and track its collections, including overdue materials and assessing late fees and fines. The Contractor utilizes Polaris Software (Polaris) to assist in tracking material by barcodes, generating financial and non-financial reports, calculating fees and fines, collecting payment, and maintaining library members' personal information.

Additionally, Economic Development offers support to businesses and creates economic opportunities for businesses and employees. Economic Development partners with 75 economic development partners to foster growth and build assets in communities across the county.

On August 23, 2016, the Board of Supervisors ratified the financial assistant award from the United States Department of Commerce's Economic Development Administration (U. S. Department of Commerce) to establish a Revolving Loan Fund Program (Loan Program). At the onset of COVID-19, Economic Development was approved to enter into an agreement with AmPac Tri-State CDC, Inc. (AmPac) to manage the loan process which included collecting applications, processing the loan application, underwriting the loans, and recommending whether the loans should be approved or denied.

Additionally, on June 2, 2020, the Board of Supervisors accepted CARES funding from the United States Department of Treasury and authorized the allocation of \$50M in funds for countywide business assistance. This was in response to COVID-19 impacts on the economy and was to be administered by Economic Development. Economic Development was approved to enter into an agreement with Main Street Launch, a California non-profit public benefit corporation (Main Street) to administer the COVID-19 Small Business Assistance Grant Program (Grant Program).

See Table A for a Summary of the Board approved agreements Revolving Loans and Grant Program

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Table A: Comparison Between Revolving Loans Program and Grant Program

Items	Grant Program	Revolving Loans Before COVID	Revolving Loans After COVID
Approval Date	Tuesday, June 2, 2020	Tuesday, August 23, 2016	Tuesday, May 5, 2020
Amendments Date	Tuesday, October 6, 2020	Tuesday, May 5, 2020	Tuesday, November 24, 2020
Amendments Purpos	Increase Budget	Reprogram Fund Due to COVID-19	Increase Budget
Source of Fund	100% CARES Act	US Administrative and County	County
Purpose of Fund	Small Business Assistance	Jobs	Small business assistance
Approved Amount	50 Million	1.5 Million	2.5 Million
Amount/Recipient	Up to \$10,000	Up to \$382,000	Up to \$30,000
Loan/grant terms	No pay back	Ongoing Payments	Ongoing Payments
Admin fees	3.50%	5%	5%
Manage By	Main Street	Economic Development	AmPac

County Library has an adopted budget of \$35.6 million for FY 2021-22 and four authorized positions to execute its responsibilities. *County of Riverside, Fiscal Year 2021-22 Adopted Budget Volume 1, 207.*

Economic Development has an adopted budget of \$9.5 million for FY 2021-22 and 39 authorized positions to execute its responsibilities. *County of Riverside, Fiscal Year 2021-22 Adopted Budget Volume 1, 207.*

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 library operations, COVID-19 small business assistance grant program, and small business revolving loan funds. 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 August 30, 2021, through January 12, 2022, for operations from July 1, 2019, through December 30, 2021. Following a risk-based approach, our scope included the following:

- Library Operations
- COVID-19 Small Business Assistance Grant Program
- Small Business Revolving Loan Funds

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Audit Highlights

Summary of Existing Conditions

The risks areas the current processes are unable to mitigate are the following:

- Uncollected fees and fines were not reported by Contractor to County Library as required by contract agreement. This is non-compliant with the performance service agreement and can impact County Library decision making and reporting when crucial information is not available.
- Contractor disposed 18,733 materials valued at \$320,044 without prior approval from the County Librarian. Proper approval ensures there is no misappropriation of assets and adequate review of transactions.
- We identified discrepancies between the value of disposed materials recorded by Contractor and the original value of books recorded by County Library. When records are not accurate, it inhibits management's ability to make proper operating and planning decisions. Also, it hinders management ability to rely on its records and reduces the accuracy of management and financial reporting.
- Grant Program files for COVID-19 relief to local businesses did not contain documentation required to support the use of funds. These documents were required to ensure compliance with federal grant guidelines.
- Loan Program funding local small businesses are approved without obtaining all required documentation prior to loan approval. Non-compliance with the respective Loan Program requirements can negatively impact the department's ability to receive future funding from the federal agency.
- Loan Program packages did not contain the schedule of performance reports, which determine whether borrowers have met the requirements to fund the loan. Non-compliance with the respective Loan Program requirements can negatively impact the department ability to receive future funding from the federal agency.

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Summary of Improvement Opportunities

The major improvement opportunities are in the following areas:

- Ensure the Contractor provides on time financial reports in accordance with the professional service agreement.
- Ensure approval is obtained from County Librarian prior to material disposal.
- Develop a process to ensure materials are recorded by its original price of which Contractor records must match County Library records.
- Ensure the collection and verification of documentation supporting the use of Grant Program funds is consistently obtained as intended in current and future programs of similar nature.
- Ensure required documentation obtained prior to awarding funds, is consistently in accordance with the Economic Development Revolving Loan Fund Administrative Plan Policies and Procedures, *Application Requirements*.
- Ensure the required reports meant to be collected throughout the life of the loans are collected as outlined in the terms and conditions.

Audit Conclusion

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to library operations, COVID-19 small business assistance grant program, and small business revolving loan funds.

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Library Operations

Background

The professional service agreement between County Library and Contractor was approved by the Board of Supervisors to manage the libraries operations as well as, generating financial and non-financial reports.

Library core services, which organize and conduct the daily routine and expected business of County Library, are the full responsibility of the Contractor. Some of these responsibilities are as follows:

- Remove materials from the library collection that are obsolete, unused, or damaged. However, Contractor library staff can only do so with prior written permission from the County Librarian.
- Provide financial operation reports within 45 days after the fiscal year end. These reports provide detailed annual revenue and expense, and invoices to support expenditures.

Objective

To evaluate the existence and adequacy of internal controls over library operations.

Audit Methodology

To accomplish these objectives, we:

- Obtained an understanding of the professional service agreement related to library operations disposal, collection, and cash processes.
- Interviewed management and the appropriate staff to obtain an understanding on disposal of library materials, collection of materials, and cash processes.
- Utilized Polaris to query materials disposals, fees and fines, and transaction details.
- Obtained a list of library materials written-off during our audit period.
- Compared the original value of materials with the amount written-off.

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- Reviewed for appropriate levels of management oversight and approval.
- Reviewed processes for safeguarding cash, segregation of duties, timeliness of deposits, and recording of cash transactions.
- Observed selected library operations and performed cash count.

Finding 1: Service Contract Agreement

Our review of the professional service agreement identified the following:

- Uncollected fees and fines were not reported by Contractor to County Library. Uncollected fees and fines totaling of \$421,105 was not reported for fiscal years 2019, 2020, and 2021, in the amounts of \$170,871, \$96,705, and \$153,529, respectively. The Board of Supervisors, *Professional Service Agreement*, states, "Contractor will provide detailed County Library annual revenue and expense financial reports." Not monitoring for these reports can result in misuse of funds and agreement non-compliance.
- Contractor disposed 18,733 materials valued at \$320,044 without prior approval from the County Librarian. *Circulation Procedures, Weeding and disposal of library materials*, states, "Library staff will remove such weeded materials from the library collection only with the prior written permission of the County Librarian." Parties involved over the write-off process were not aware of the requirement to obtain County Librarian approval prior the disposal of materials. Proper approval ensures there is no misappropriation of assets and adequate review of transactions.
- We identified five instances where there were discrepancies between the value of disposed materials recorded by Contractor and the original value of the same materials recorded by County Library. *Standard Practice Manual 1001, Internal Control*, states, "review and reconciliation records are routinely examined and reconciled to determine that transactions were properly processed." The Contractor inaccurately recorded materials price based on bibliographic information. When records are not accurate, it inhibits management ability to make proper operating and planning decisions, also, it hinders management ability to rely on its records and reduces the accuracy of financial and operating reporting.

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Recommendation 1.1

Ensure the Contractor provides on time financial reports in accordance with the Professional Service Agreement.

Management's Response

“Concur. In 2016 the Credit Bureaus agreed to no longer include outstanding public library fines and fees on credit reports which made it more difficult to collect past due fines and fees. LS&S agrees to draft quarterly reports for the County that includes the past due fines and fees that may or may not be collected from the public based on a patron's individual circumstances which could include moving out of the RCLS jurisdiction, being unable to afford the fines, or death.”

Actual/Estimated Date of Corrective Action: June 2022

Recommendation 1.2

Ensure approval is obtained from the County Librarian prior material disposal.

Management's Response:

“Concur. LS&S has specific procedures in which staff are trained on how to assess materials for disposal (referred to as 'weeding'). Instructions for material disposal are included in the LS&S Materials Selection Policy and procedures that are currently being updated to allow approval from the County Librarian or their authorized designee. The policy manuals are placed at each library branch for operating instruction and reference. Employee review and training occurs annually, or as new employees are hired.”

Actual/Estimated Date of Corrective Action: August 2022

Recommendation 1.3

Develop a process to ensure materials are recoded by its original price of which Contractor records must match County Library records.

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Management's Response

“**Concur.** In the five instances that the discrepancies were discovered, the Item Record pricing defaults to bibliographic records which are automatically generated, often listing the "library edition" pricing which includes administrative costs in addition to the amount paid and is the most expensive. When a patron was billed, the library staff would manually research the item cost through other booksellers to ensure the patron was paying the correct price, but the bibliographic record was still reflected in Polaris (which is a tracking software for materials) creating a price difference. Effective 2016, LS&S no longer employs this practice as the collections are centrally maintained and purchased. The current LS&S process is to record the books at the purchase price, which occurs automatically at the time of purchase, ensuring the customer is billed back at the same/correct cost.”

Actual/Estimated Date of Corrective Action: 2016

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COVID-19 Small Business Assistance Grant Program

Background

Grant Program totaling \$50M with the purpose of providing financial assistance to county-based small businesses in amounts of up to \$10,000 to over 5,000 business owners. The Board of Supervisors approved an agreement with Main Street to administer the Grant Program. Main Street fees for services were provided at a rate of 3.5% or \$1,750,000 of deployed capital under the Grant Program.

Grant Program funds were to be exclusively used for employee salary, other business capital and operating expenses, and safe reopening protocols directly related to the immediate impacts of COVID-19. The Grant Program available for existing small businesses with at least one year of operating history with less than 50 employees. In addition, recipients should not have received funding from other federal programs such as Economic Injury Disaster Loan Program or the Paycheck Protection Plan administered by the Small Business Administration. Businesses need to complete a grant application and provide documentation to ensure they are an active business operating in the County of Riverside.

Objective

To evaluate the existence and adequacy of internal controls over Grant Program.

Audit Methodology

To accomplish these objectives, we:

- Obtained an understanding of board and department policies and procedures over Grant Program.
- Interviewed management and the appropriate staff to obtain an understanding of the approval process.
- Sampled grant applications to ensure compliance with grant program requirements.
- Requested and reviewed the supporting financial and non-financial documentation needed throughout the application approval process.

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Finding 2: Grant Program Usage

Eight (80%) out of 10 grant program files for COVID-19 relief to local businesses did not contain documentation required to support the use of funds. The Grant Program Framework, *Grant Use*, states, "The Grant must be used for employee salary and benefits and other business capital and operating expenses directly related to the immediate impacts of COVID-19 as identified in the application submitted by Business. No other use of funds is allowed by the Business." Department relies on Business to upload the required documents without following up to ensure the intended use of funds. These documents were required to comply with federal grant guidelines.

Recommendation 2

Ensure the collection and verification of documentation supporting the use of Grant Program funds is consistently obtained as intended in current and future programs of similar nature.

Management's Response

"Partially Concur. The Office of Economic Development did conduct follow up with grantees on three separate occasions after the closing of the program. This email communication included instructions and links on where the upload information and/or documentation. Email follow up was the most practical form of follow up given 5,000 grants were provided to small businesses. Staff also provided technical assistance to grantees during the application and reporting components.

The documentation required by the County from grantees was a local requirement and not required by the U.S. Treasury. The single audit conducted by the Treasury for FY 19/20 found no findings in how the program was implemented.

While typically very rare, any grant program launched in the future will incorporate verification via awardee's self-attestation under penalty of perjury as seen in many state and federal programs during the pandemic."

Actual/Estimated Date of Corrective Action: June 2022 on any future grant programs.

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Small Business Revolving Loan Funds

Background

The County of Riverside is committed to strengthening its local economy with a focus on providing assistance to small business owners. It was awarded a financial assistance from U.S. Department of Commerce to capitalize a Revolving Loans Program for business lending.

The U.S. Department of Commerce received a supplemental appropriation to prevent, prepare for, and respond to coronavirus pandemic, including for necessary expenses for responding to economic injury as a result of coronavirus pandemic. The total funding includes the approved amendment proclaimed on June 5, 2020, were approximately \$2.5 million, where 80% was awarded from the U. S. Department of Commerce and 20% from Economic Development.

Before COVID-19, Department was responsible for the entire loan process. After COVID-19, the Board of Supervisor's approved to enter into an agreement with AmPac to administer, collect applications, process, underwrite the loans, and recommend loan approval or denial.

The U. S. Department of Commerce Agreement requires borrowers maintain sufficient records to enable the Economic Development to determine whether borrowers have met the requirements of loan fund. One requirement was the past three years of the borrower income tax return. Additionally, borrowers should periodically submit schedule of performance reports to ensure adherence with the intended use of proposed loan proceeds. The reports required the following documents:

- a) Job creation certificate
- b) Profit and loss statements
- c) Balance sheet

Objective

To evaluate the existence and adequacy of internal controls over revolving loan fund program.

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Audit Methodology

To accomplish these objectives, we:

- Obtained an understanding of board and department policies and procedures over small business revolving loan fund program.
- Interviewed management and the appropriate staff to obtain an understanding on the approval process.
- Sampled loan applications to verify compliance with laws and regulations.
- Requested and reviewed the supporting financial and non-financial documentation needed before and after the loan approval.
- Verified appropriate levels of management review and approval.

Finding 3: Compliance with the Revolving Loan Fund Program

Loan funds provided to local small businesses are approved and/or evaluated without obtaining complete documentation and information required by the respective fund. We identified the following:

- One (25%) out of four loan applications was approved and awarded without obtaining required documentation for eligibility determination. Personnel managing program missed to obtain required tax documentation to establish eligibility before funding the loan. The loan was funded in April 2020, without 2018 and 2019 tax documentation. As such, there is no evidence that the loan proceeds provided were based on the funding requirements. The Economic Development Revolving Loan Fund Administrative Plan Policies and Procedures, *Application Requirements*, states, "To be eligible for funding, a proposed project shall meet the following minimum requirements, financial data: current personal financial statements of principals; the last three years' business financial statements and tax returns for established operations." Non-compliance with the respective Loan Program requirements, it can negatively impact the department ability to receive future funding from the federal agency.
- Nine (100%) out of nine loan packages did not contain the schedule of performance reports. The U. S. Department of Commerce, *Revolving Loan Fund Financial Assistance Award Standard Terms and Conditions*, states, "Borrower shall submit the following performance and/or evaluation report to Economic Development to facilitate mandated

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reporting to the U.S. Department of Commerce: A calendar quarterly report of progress and accomplishments for all funded activities.” Department’s concern was whether the businesses were still operating without requesting the ongoing performance reports. Non-compliance with the respective Loan Program requirements, it can negatively impact the department ability to receive future funding from the Federal agency.

Recommendation 3.1

Ensure required documentation obtained prior to awarding fund, is consistently in accordance with the Economic Development Revolving Loan Fund Administrative Plan Policies and Procedures, *Application Requirements*.

Management's Response

“**Partially Concur.** The Office of Economic Development staff did collect required documentation during the loan application process. The loan in question was for a loan approved by BOS on March 17, 2020, was funded in early April 2020 and subsequently paid off by borrower in August of 2020. The borrower provided three years of tax returns for 2015 through 2017 at the time of application per requirements of the program, but internal review and approval processes took significantly longer than anticipated. The most current tax return available at time of loan approval was one additional year for 2018. Staff will ensure that the most current documents are on file prior to award/approval pursuant to the Administrative Plan. It should be noted that the loan program is now implemented via a public/private partnership with AmPac Business Capital, a SBA certified Community Development Financial Institution and whose primary function and expertise is lending to small businesses.”

Actual/Estimated Date of Corrective Action: June 2022

Recommendation 3.2

Ensure the required reports meant to be collected throughout the life of the loans are collected as outlined in the terms and conditions.

Management's Response

“**Partially Concur.** The Schedule of Performance Reports are used to gather information regarding operational status after the funding has occurred. The goal is to verify with the borrower if they are having any issues with their business. During the pandemic,

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this was accomplished via telephone calls to borrowers. Reports are not required to be in writing; therefore, a change will be made to program per authority given to Office of Economic Development Director on BOS Agenda 12/15/2020, Item 3.7 to not require Balance Sheets and Profit & Loss Statements and that Job Creation Reports can be taken verbally by staff.”

Actual/Estimated Date of Corrective Action: June 2022