

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

105



FROM: Auditor-Controller

SUBMITTAL DATE:
June 24, 2014

SUBJECT: Internal Audit Report 2013-007: Assessor-County Clerk-Recorder, [District: All]: [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2013-007: Assessor-County Clerk-Recorder Audit Report

BACKGROUND:

Summary

We have completed an audit of the Riverside County Office of the Assessor-County Clerk-Recorder to provide management and the Board of Supervisors with an independent assessment of internal controls over capital and non-capital assets, cash handling, information security, Property Tax Administrative Cost (Senate Bill 2557) reimbursements, Real Estate Fraud Prosecution fund, records management, and revolving fund. The audit covered the period July 1, 2010 through June 30, 2012.

(Continued on page 2)

Paul Angulo

Paul Angulo, CPA, MA
County Auditor-Controller

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost:	POLICY/CONSENT (per Exec. Office)
COST	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	Consent <input checked="" type="checkbox"/> Policy <input type="checkbox"/>
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

BY: *Karen L. Johnson*
Karen L. Johnson

County Executive Office Signature

MINUTES OF THE BOARD OF SUPERVISORS

- Positions Added
- Change Order

- A-30
- 4/5 Vote

Prev. Agn. Ref.:

District: ALL

Agenda Number:

2-11

Departmental Concurrence

SUBMITTAL TO THE BOARD OF SUPERVISORS, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA
FORM 11: County of Riverside Auditor-Controller's Office - Internal Audit Report 2013-007: Assessor-County Clerk-Recorder Audit

DATE: June 24, 2014

PAGE: Page 2 of 2

BACKGROUND:

Summary (continued)

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to the processes of capital and non-capital assets and revolving fund. We determined the Assessor-County Clerk-Recorder has adequate internal controls over information security, Property Tax Administrative Cost (Senate Bill 2557, chapter 466 of 1990 Statutes of California) reimbursements, Real Estate Fraud Prosecution fund, records management, and cash handling.

Impact on Citizens and Businesses

Provide an assessment of internal controls over the audited areas.

SUPPLEMENTAL:

Additional Fiscal Information

Not applicable

ATTACHMENTS:

A: County of Riverside Auditor-Controller's Office - Internal Audit Report 2013-007

Internal Audit Report 2013-007

Assessor-County Clerk-Recorder

Report Date: June 24, 2014



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ACC | AUDITOR
CONTROLLER
COUNTY OF RIVERSIDE

Paul Angulo, CPA, MA
AUDITOR-CONTROLLER

June 24, 2014

Mr. Larry W. Ward, Assessor-County Clerk- Recorder
4080 Lemon Street
Riverside, CA 92502

Subject: Internal Audit Report 2013-007: Assessor-County Clerk-Recorder

Dear Mr. Ward,

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Riverside County Office of the Assessor-County Clerk-Recorder to provide management and the Board of Supervisors with an independent assessment of internal controls over capital and non-capital assets, cash handling, information security, Property Tax Administrative Cost (Senate Bill 2557) reimbursements, Real Estate Fraud Prosecution fund, records management, and revolving fund. The audit covered the period July 1, 2010 through June 30, 2012.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require 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 operational efficiency, compliance with laws and regulations, reliability of financial information, and to safeguard county assets. Management is responsible for establishing and maintaining adequate internal controls; our responsibility is to assess the adequacy of internal controls based upon our audit.

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to the processes of capital and non-capital assets and revolving fund. We determined the Assessor-County Clerk-Recorder has adequate internal controls over information security, Property Tax Administrative Cost (Senate Bill 2557, chapter 466 of 1990 Statutes of California) reimbursements, Real Estate Fraud Prosecution fund, records management, and cash handling.

As requested, in accordance with paragraph IIC of the Board of Supervisors Resolution 83-338, management responded to each reported condition and recommendation contained in our

Internal Audit Report 2013-007: Assessor-County Clerk-Recorder

report. Management's responses are included in the report. We will follow-up in one year to verify that management implemented the corrective actions.

We thank the Riverside County Office of the Assessor-County Clerk-Recorder management and staff for their cooperation; their assistance contributed significantly to the successful completion of this audit.

Paul Angulo, CPA, MA
County Auditor-Controller

Mark W. Cousineau

By: Mark Cousineau, CPA, CIA, CFE
Chief Internal Auditor

cc: Board of Supervisors
Executive Office

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Executive Summary

Overview

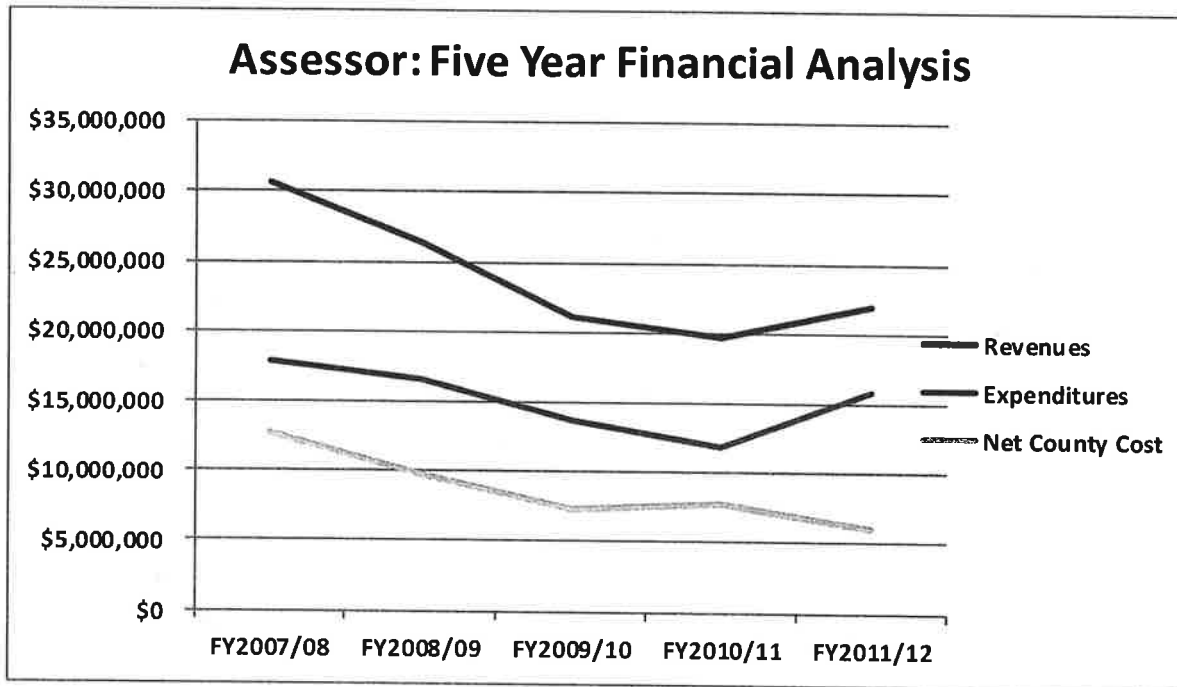
The Office of the Assessor-County Clerk-Recorder consists of four divisions, Assessor, County Clerk Recorder, RMAP (Records Management and Archives Program), and CREST (County of Riverside Enterprise Solutions for Property Taxation). Our audit comprised an independent assessment of internal controls over cash handling, revolving fund, capital assets, non-capital assets, County Property Tax Administrative Cost Reimbursement allowed under Senate Bill 2557 chapter 466 of 1990 Statutes of California, and information security and records management in the Assessor division. In addition, our audit included an independent assessment of internal controls over the Recorder's Real Estate Fraud Prosecution Fund.

The Assessor manages a staff of approximately 200 employees, which are located in six offices throughout Riverside County; offices are located in Blythe, Hemet, Indio, Temecula and two in Riverside (Gateway and downtown). The Assessor's office consists of the following five divisions: Agriculture, Business Personal Property, Commercial, Manufactured Homes, and Residential.

The primary responsibility of the Assessor division is to value taxable property. This is accomplished by locating all taxable property in Riverside County, identifying owners, and describing the property. The Assessor determines a value for all taxable property and applies applicable legal exemptions and exclusions. The Assessor completes an assessment roll showing details of property assessed values for all property and maintains records and provides access, as granted by law, to the assessment roll.

The Recorder's division is charged with the responsibility of examining, recording, imaging, indexing, and archiving all official records that are recorded and filed within the County of Riverside. Additionally, they maintain custody of permanent records as well as providing public access to information regarding land and land ownership. The Recorder is also the local registrar of marriages and maintains copies of vital records (certificates) of births, deaths, and marriages occurring in Riverside County. All birth records from the origin of the County in 1893 have been adapted from microfilm to electronic image.

The Assessor is a general government function partially supported through general fund contributions (net county cost). The below chart depicts actual revenue, expenses and net county cost over the past five fiscal years. The last two fiscal years were the period under audit review:



Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls in the Assessor’s division over capital and non-capital assets, cash handling, information security, Property Tax Administrative Cost (SB 2557, chapter 466 of 1990 Statutes of California), reimbursements, Real Estate Fraud Prosecution Fund, records management, and revolving fund.

Audit Conclusion

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to the processes of capital, non-capital assets, and revolving fund. We determined the Assessor-County Clerk-Recorder has adequate internal controls over information security, Property Tax Administrative Cost (Senate Bill 2557, chapter 466 of 1990 Statutes of California) reimbursements, Real Estate Fraud Prosecution fund, records management, and cash handling.

Capital Assets: Assessor Division

Background

SPM Policy Number 913, *Capitalization Thresholds* (SPM 913), defines capital assets as fixed assets and intangible assets of significant value having a utility which extends beyond the current year that are broadly classified as land, infrastructure (or, long-lived assets), buildings and improvements, equipment, livestock, and intangible assets. Capital assets include real property such as building (structures), land, and land improvements, regardless of value, as well as vehicles, machineries, and all equipment with a value of \$5,000 or more. The cost of a capital asset includes all costs necessary to place the asset in service (e.g. shipping, set-up, testing, and other ancillary costs).

SPM 913 requires all *real property* with a value of \$1 (one dollar) and all capital assets with a value of \$5,000 or more to be recorded in the PeopleSoft Asset Management Module (Asset Module). SPM 903, *Capital Asset Tags* (SPM 903), requires that capital assets be tagged or marked as County property. If the County property tag will not adhere to an item because of size, shape or use of the item, the department or agency should affix the assigned number in some other manner, i.e., engraving, inscribing, stenciling, etching, or painting the number on the item itself, or labeling the box in which it is kept. The number must be affixed in some way that will ensure identification for accountability.

The responsibility for processing and maintaining an accurate record of capital assets primarily resides with the Department. Department management also have roles related to these assets, including following proper purchasing procedures when acquiring assets, properly recording the asset and value into the Asset Module and performing an annual physical inventory to account for all assets under the department head's responsibility.

As of June 30, 2013, the Assessor maintained 118 capital assets in the Asset Module, consisting of computer servers, equipment, vehicles, buildings, and structures, with the combined acquisition cost of \$3,118,000.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over capital assets.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed policies, applicable laws, codes, regulations, and board ordinances.
- Conducted interviews and performed walk-throughs with Assessor personnel.

Internal Audit Report 2013-007: Assessor-County Clerk-Recorder

- Utilized PeopleSoft queries to identify the quantity, locations, and capital asset movement.
- Verified appropriate levels of management review and approval.
- Traced assets to inventory records to ensure completeness and vouched from inventory records to assets to ensure existence.

Finding 1: Timely Reporting of Capital Assets

Capital asset acquisitions and retirements from July 1, 2010 through June 30, 2012 were not reported to the ACO in a timely manner. Our review of five acquisitions disclosed documents for three of the five, 60%, acquired assets were submitted for asset capitalization on average 80 calendar days after the asset were received. Our review of 10 retirements disclosed one of the ten, 10% retired asset from inventory was submitted 34 days after the asset was removed from service. Reporting the acquisition or retirement of capital assets in an untimely manner may result in loss of control over assets and/or misstating the value of capital assets for internal and external reporting purposes.

Management's Response

“Concur. We agree that asset acquisitions and retirements should be reported to the ACO and recorded in PeopleSoft timely. Although the ACO Standard Practice Manual specifies a 30-day timeframe for reporting and recording asset retirements, it does not specify any timeframe for asset acquisitions.”

Recommendation 1.1

Include a 30 day requirement to report acquisitions and retirements to the ACO in the Assessor office's written capital assets policies and procedures manual.

Management's Response

“Concur. We have started implementing a 30-day period within which to report asset acquisitions and retirements to the ACO and record the activity in PeopleSoft asset module.”

Recommendation 1.2

Monitor procedures to ensure capital asset acquisitions and retirements are reported to the ACO promptly after the transaction occurs.

Management's Response

“Concur. We have instructed our supervisors to monitor that procedures for reporting capital asset acquisitions and retirements are followed.”

Finding 2: Management of Capital Asset Records

Capital assets were not properly identified in the Asset Module. Over twenty-one percent (eight out of 38) of capital assets selected for review either contained inaccurate identification or were not included in the Asset Module. These errors resulted from the office focusing on the existence of capital assets when performing their annual inventory rather than validating the fixed asset tag or accuracy of records. Recording capital assets improperly may hinder the process of identifying, controlling, and valuing County assets. The categories of errors noted included:

- 5 of 38 (13.16%) - assets were not tagged or marked as County property; and
- 3 of 38 (7.89%) - asset tag numbers were incorrectly recorded.

Management's Response

"Partially Concur. The five of 38 assets, described above as "not tagged or marked as County property" had actually been tagged: #077024, #077820, #077821, #077440, and #077794. It was common for the old tags to fall off due to the heat generated by the computer equipment. On 7/9/13 our department obtained new tags from ACO and retagged the equipment: #080999, #081000, #081001, #081004, #081005, respectively.

The three of 38 assets, described above as "asset tag numbers incorrectly recorded", were assets with the following tag: #079925, #077428, and #077023. Our internal review found that the equipment were actually correctly recorded in PeopleSoft; however, the issued tags were affixed to the wrong equipment. On 7/9/13, our department obtained new tags from the ACO and retagged the equipment with #081002, #81006, and #81008, respectively."

Recommendation 2.1

Perform a physical inventory of capital assets. Trace each asset to its inventory record, validating asset description and fixed asset tag numbers documented in the Asset Module to ensure completeness.

Management's Response

"Concur. We have completed a physical inventory of capital assets as part of the 2014 annual capital asset certification process. We are currently in the process of reconciling the results of the physical inventory with the PeopleSoft records."

Recommendation 2.2

Validate the inventory records by vouching the inventory records recorded in the Asset Module to the fixed asset to ensure existence; and ensure all assets are properly tagged or marked as County Property.

Management's Response

"Concur. This is in the process of being completed as part of the annual capital asset certification process."

Non-Capital Assets: Assessor Division

Background

Board of Supervisor's Policy H-26, "Non-Capitalized Asset Management," defines non-capitalized "walk-away" assets as assets which are small, mobile, easily converted for personal use and have an acquisition cost from \$200 to less than \$5,000. Examples include, but are not limited to laptops, personal digital assistants (PDAs), global positioning system (GPS) receivers, and cell phones. Departments are required to track walk-away assets through the PeopleSoft Asset Management Module, or another established system, if reviewed and approved by the Auditor-Controller.

The Assessor's non-capital assets included 22 laptops acquired prior to 9/3/08 in the Asset Module. No cell phones or acquisitions after 9/3/08 were tracked in PeopleSoft. However, the Assessor did maintain an Excel spreadsheet, which included 80 cell phones and 102 laptops. No identification numbers, acquisition dates or valuation data were maintained for the walk-away assets listed.

In addition, the Assessor currently utilizes the Microsoft SCCM (Systems Center Configuration Manager) and DNS (Domain Name Service) for accounting for laptops connected to the system and utilizes the exchange server and a cell phone detail report from the monthly invoices from Verizon Wireless to monitor cell phones. The current cell phone detail report identifies 53 cell phones currently in service. The cell phone detail report is tracked by cell phone number not the asset identification number, acquisition cost, or serial number. The Microsoft SCCM, the DNS, the exchange server, and cell phone detail report have not been reviewed or approved by the Auditor-Controller as an acceptable replacement for the PeopleSoft Asset Management Module.

Finding 3: Accountability of Non-Capital Walk-Away Assets

The Assessor was not utilizing the Asset Module, or a system reviewed and approved by the Auditor-Controller, to track non-capital "walk-away" assets. In addition, the number of walk-away assets under the responsibility of the Assessor varied depending on the source record reviewed. Without, one central record to track walk-away assets, control is lost as to the quantity and specific identification of assets under the responsibility of the Assessor making them susceptible to undetected loss or theft.

Management's Response

Concur. Since 7/1/2009, with the exception of cell phones which are tracked separately, non-capital assets are maintained by our department using the Track-it! Software. In addition, ACR is using Track-it! for issuing help desk tickets, assigning service orders, and maintaining IT customer service records; these are functionalities not available in PeopleSoft. Our records indicated that on 2/3/2009 our department requested the ACO-Specialized Accounting office for approval of the Track-it! Software. However, we did not find any record showing that a written

Internal Audit Report 2013-007: Assessor-County Clerk-Recorder

approval was received from the office. We therefore renewed our request for approval on 12/17/2013. To date, 6/3/2014, we have not received a response to our request.”

Recommendation 3.1

Perform a physical inventory of walk-away assets comparing the physical assets to accounting records and existing inventory lists to ensure all walk-away assets are properly identified and recorded.

Management's Response

“**Concur.** The department will conduct a physical inventory of walk-away assets starting in June.”

Recommendation 3.2

Determine the disposition of walk-away assets, and if appropriate, obtain a discharge of liability for missing assets identified during the physical inventory.

Management's Response

“**Concur.**”

Recommendation 3.3

Record all non-capitalized walk-away assets in the PeopleSoft Asset Management Module or obtain ACO approval of an alternative tracking system.

Management's Response

“**Concur.** We are awaiting approval from the ACO on our request to use Track-it! Software for maintaining our non-capital asset records.”

Revolving Fund: Assessor Division

Background

Under the authority of Government Code Section 29320—29334, the Board of Supervisor's adopted Board Resolution number 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 number 82-75 on January 12, 1982, authorizing the Auditor-Controller to perform the functions of the Board of Supervisors in establishing, increasing or discontinuing any of the revolving funds.

Under the custodial responsibility of the Assessor, a \$20,000 revolving fund was established for employee travel advances and job specific training and the authorized amount is maintained in a checking account with Altura Credit Union.

Auditor-Controller's Internal Control Handbook (ICH), Section 12, Policy 1202, Paragraph III. 1. states, "Each fund should be maintained on an imprest basis. The fund must be kept at the assigned amount comprised of cash on-hand or in a bank checking account, plus the receipt/invoices for which reimbursement has not yet been requested or requested but not yet received". In addition, paragraph III. 6 states, "The fund custodian should perform cash counts and reconciliations on a daily and monthly basis.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over the revolving fund.

Audit Methodology

To accomplish our objectives, we:

- Gained an understanding of the procedures over the revolving fund through interviews with key personnel of the office.
- Verified revolving fund reconciliations were performed.
- Reviewed supporting documentation for all transactions that were replenished.
- Verified adequate segregation of duties existed.

Finding 4: Excessive Amount of Revolving Fund

Current business needs indicate a smaller revolving fund balance. For the two year audit period under review, July 1, 2010 through June 30, 2012, the office averaged less than three transactions totaling under \$200 per month. The largest monthly dollar amount was \$1,250. Since

Internal Audit Report 2013-007: Assessor-County Clerk-Recorder

the office obtained a County procurement card (P-card), the usage of the revolving fund for travel and training costs has been minimized. Maintaining unnecessary money in a non-interest bearing account outside of the Treasury reduces interest earning potential countywide and increases the risk for unauthorized purchases or theft.

Subsequent to our fieldwork, the department completed an analysis of the revolving fund usage and determined a reduction to \$5,000 would be suitable. As such, the department reduced the revolving fund to \$5,000 and returned the excess cash to the County Treasury. Since the department made an immediate reduction, no recommendation is required.

Management's Response

"Concur. None"

Finding 5: Adherence to Daily Deposit Requirement

The office did not deposit revolving fund reimbursement checks on a timely basis or obtain an exemption from daily deposits as required in SPM Number III-E-1-3.2, Paragraph IV. G. Of the 14 revolving fund deposits examined, deposits were made, on average, 37 days after being received. By not depositing cash and checks in a timely manner, the amount is susceptible to loss or theft.

Management's Response

"Partially Concur. The referenced SPM III-E-1-3.2 refers to requiring collected revenue to be deposited daily into the county's treasury account. The department strictly adheres to depositing collected revenue daily in accordance with this SPM. The revolving fund replenishment checks are county warrants and are outside the scope of the referenced SPM. As the audit reported, the average number of replenishment checks was three per month totaling less than \$200. Since the amounts are not material to be deposited daily, in compliance with the audit recommendation, the department had obtained ACO's approval to be exempt from daily depositing of these checks."

Recommendation 5

Ensure revolving fund deposits are made daily or obtain an exemption from daily depositing from the ACO.

Management's Response

"Concur. ACO has approved on March 13, 2014, our request to exempt our department from depositing the replenishment checks daily."

Finding 6: Timely Reconciliation of Bank Account

The revolving fund bank account was not reconciled timely. We judgmentally selected a sample of 12 bank reconciliations for testing. We noted that some bank reconciliations were not date stamped. As such, we used the end of month date for the month tested plus an additional 30 days as a reasonable amount of time to complete the bank reconciliation. Of the 12 bank reconciliations we reviewed, 10 (83.33%) were prepared an average of 81 days after the reasonable date used. Due to the limited number of account transactions, office management decided to utilize their resources on more significant work assignments and perform the revolving fund bank reconciliation at fiscal year- end. Timely performance of cash reconciliation is a critical internal control to ensure errors or fraudulent activities do not go undetected.

Subsequent to our audit period, the department has commenced reconciling the revolving fund bank account on a monthly basis. As such, no recommendation is required.

Management's Response

"Concur."

Property Tax Administration Cost Reimbursement: Assessor Division

Background

Government Code Section 29142 allows the Board of Supervisors to approve an administrative fee for taxes or assessments collected by the county for special districts. When collected this fee shall belong to the county and shall be deposited to the credit of the general fund to cover the expense and compensation of such officials of the county in the collection of such taxes and of the interest or penalties.

The California Property Tax Manager's reference manual also provides two scenarios for calculating the property tax administrative cost and recoverable amount by department. Scenario one applies the direct credit adjustment to the department that receives the Government Code Section 29142 fees and scenario two applies the fees to all departments involved in the property tax collection process. Scenario one is uniformly used throughout California counties and should be used by the County of Riverside.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of the distribution methodology for reimbursement of county property tax administration cost.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed policies, applicable laws, codes, regulations, and board ordinances.
- Conducted interviews and performed walk-throughs with Department personnel.
- Reviewed property tax administration cost reimbursement calculation for accuracy.

Audit Results

In determining property tax administration cost recovery amounts, ACO Property Tax Division treated California Government Code section 29162 fees ("29162 Fees") as offsetting revenues. 29162 Fees are payments by local jurisdictions for specific additional property tax services. This error did not affect local jurisdiction distributions or the total amount of property tax administration cost recovery for the County of Riverside as a whole amongst the six County departments that make up the Property Tax Administration system. ACO Property Tax Division agreed with this analysis and will implement the change in recovery allocation for FY 2013/14. Therefore, no recommendation is required at this time.

Information Security: Assessor Division

Background

The primary computer software systems utilized by the office are Microsoft Office Professional, and CRIS (Complete Recording and Imaging System) Software. CRIS is utilized to maintain electronic recording records. In addition, PeopleSoft Financials and the county network are used and sensitive information is processed on individual employee desktop computers.

Board of Supervisors (BOS) Policy Number A-58, *Riverside County Enterprise Information Systems Security Policy*, is the policy of Riverside County to protect Riverside County information in accordance with all applicable laws, governmental regulations and accepted best practices to minimize information security risk; ensuring the right information is available to the right people at the right time. The Policy authorizes the County Chief Information Security Officer (CISO) to develop and maintain the Information Security Program for Riverside County.

The Information Security Office (ISO) established the Program Framework, Information Security Risk Management Methodology and Information Security Standards to manage the information Security Program. The Program Framework states the information security program vision, mission and roles and responsibilities. The Information Security Risk Management Methodology describes the processes for assessing, accepting and mitigating information security risk. The Information Security Standards explains the specific controls and processes required to mitigate information security risks. The ISO develops information security standards as necessary.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over information security.

Audit Methodology

To accomplish our objectives, we:

- Conducted interviews and observed operating procedures of office personnel.
- Identified and reviewed laws, codes, and regulations, BOS' ordinances, applicable policies and procedures.
- Obtained and understood policies and procedures regarding information security.
- Performed tests to ensure internal controls were adequate over security of information.
- Determined the nature of information stored by the office.

Audit Results

Based upon the results of our audit, internal controls over information security are adequate and effective.

Records Management: Assessor Division

Background

Board of Supervisors Policy A-43: *County Records Management and Archives Policy*, Section D.5 *Records Retention Schedules – Standard – Retention Period*, indicates "retention periods on Board approved records retention schedules are mandatory, and records shall be disposed of in accordance with those approved retention periods." All County Departments must adhere to the Countywide General Records Retention Schedule (GRRS_2012_Rev07, GRRS_2011_Rev06, and GRS2010_Rev05) if they do not have a departmental records retention schedule approved by the Board of Supervisors.

Assessor's sensitive information consists of property recording, medical and personal data; therefore, they adhere to the approved GRRS for this and other common countywide records. In addition, the Assessor has their own Departmental Records Retention Schedules (DRRS) approved by the Board of Supervisors for documents requiring unique disposition.

We reviewed copies of destruction of records documentation for the period under audit and noted records were destroyed in accordance with the GRRS and DRRS and had proper Department Head verification and approval noted.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over records retention management.

Audit Methodology

To accomplish our objectives, we:

- Conducted interviews and observed operating procedures of office personnel.
- Identified and reviewed laws, codes, and regulations, Board of Supervisors' ordinances, applicable policies and procedures.
- Obtained and understood policy and procedures regarding records retention management.
- Performed testing to ensure internal controls were adequate over records retention.

Audit Results

Based on our review, internal controls over records retention management are adequate and effective and the office is adhering to the Countywide General Records Retention Schedule for their records.

Cash Handling: Assessor Division

Background

The Assessor receives cash and checks for property characteristics, map copies, assessment rolls and miscellaneous items. Cash register transaction receipts or receipts from the billing receipt database are issued; cash is verified, reconciled and reviewed by appropriate levels of management and bundled with supporting documentation at the point of collection for each site and day. Cash receipts are recorded in PeopleSoft. The Assessor restrictively endorses checks when received and records them in a check log. The check log is reconciled to the amount deposited and recorded in PeopleSoft.

Cash deposits are secured in office safes, with limited access, until picked up by armored courier services and delivered to the bank or delivered to the Treasurer by Assessor personnel. In outlying areas, funds are deposited directly into a County Consolidated Zero Balance Account (ZBA). The bank debits the ZBA for the amount of the deposit and transmits a credit for the amount to the Office of the Treasurer-Tax Collector.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over cash handling.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed policies, applicable laws, codes, regulations, and board ordinances.
- Conducted interviews and performed walkthroughs with Assessor personnel.
- Utilized PeopleSoft queries to identify the volume, locations, and frequency of cash receipt.
- Verified appropriate levels of management review and approval.
- Selected samples of deposits to perform detailed testing.
- Verified safeguarding of cash.

Audit Results

Based upon the results of our audit, internal controls over cash handling are adequate and effective.

Real Estate Fraud Prosecution Fund: Recorder Division

Background

On October 27, 1998, the Board of Supervisors adopted Resolution Number 98-310, which authorized imposition of a \$2.00 fee for certain real estate documents recorded with the County of Riverside. These fees are deposited into the established Real Estate Fraud Prosecution Fund, sub General Fund 11041, for use by the District Attorney for real estate fraud investigation and prosecution costs net of program administration costs. Board Resolution Number 2009-025 authorized an increase in the fee to \$3.00 effective January 1, 2009. The \$3.00 fee was in effect for the period covered in our audit. The administrative fee is pursuant to Government Code Section 27388(a), which allows the actual and necessary administrative costs not to exceed 10% of the fee to be deducted from collections for reimbursement to the Recorder.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over the Real Estate Fraud Prosecution fund.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed policies, applicable laws, codes, regulations, and board ordinances.
- Conducted interviews and performed walk-throughs with office personnel.
- Utilized CRIS queries to identify transactions.
- Selected program fee and expenditure transactions to perform detailed testing.

Audit Results

Based upon the results of our audit, internal controls over real estate prosecution fund are adequate and effective.



LARRY W. WARD
COUNTY OF RIVERSIDE
ASSESSOR-COUNTY CLERK-RECORDER

Assessor
(951) 955-6200

County Clerk-Recorder
(951) 486-7000

Mailing Address
P.O. Box 751
Riverside, CA 92502-0751

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DATE: June 5, 2014
TO: Auditor-Controller's Office
Audits and Specialized Accounting Division
FROM: Larry Ward, Assessor-County Clerk-Recorder
SUBJECT: Reply to Draft Audit Report [2013-007]

Finding 1: Timely Reporting of Capital Assets

Capital asset acquisitions and retirements from July 1, 2010 through June 30, 2012 were not reported to the ACO in a timely manner. Our review of five acquisitions disclosed documents for three of the five, 60%, acquired assets were submitted for asset capitalization on average 80 calendar days after the asset were received. Our review of 10 retirements disclosed one of the ten, 10% retired asset from inventory was submitted 34 days after the asset was removed from service. Reporting the acquisition or retirement of capital assets in an untimely manner may result in loss of control over assets and/or misstating the value of capital assets for internal and external reporting purposes.

Management position concerning the recommendation: Concur

Comments:

We agree that asset acquisitions and retirements should be reported to the ACO and recorded in PeopleSoft timely. Although the ACO Standard Practice Manual specifies a 30-day timeframe for reporting and recording asset retirements, it does not specify any timeframe for asset acquisitions.

Actual/estimated Date of Corrective Action: June 3, 2014

Estimated cost to implement recommendation (If material): \$ 0.00

Recommendation 1.1

Include a 30 day requirement to report acquisitions and retirements to the ACO in the Assessor office's written capital assets policies and procedures manual.

Management position concerning the recommendation: Concur

Comments:

We have started implementing a 30-day period within which to report asset acquisitions and retirements to the ACO and record the activity in PeopleSoft asset module.

Actual/estimated Date of Corrective Action: June 3, 2014

Estimated cost to implement recommendation (If material): \$ 0.00

Recommendation 1.2

Monitor procedures to ensure capital asset acquisitions and retirements are reported to the ACO promptly after the transaction occurs.

Management position concerning the recommendation: Concur

Comments:

We have instructed our supervisors to monitor that procedures for reporting capital asset acquisitions and retirements are followed.

Actual/estimated Date of Corrective Action: January 30, 2014

Estimated cost to implement recommendation (If material): \$ 0.00

Finding 2: Management of Capital Asset Records

Capital assets were not properly identified in the Asset Module. Over twenty-three percent (nine out of 38) of capital assets selected for review either contained inaccurate identification or were not included in the Asset Module. These errors resulted from the office focusing on the existence of capital assets when performing their annual inventory rather than validating the fixed asset tag or accuracy of records. Recording capital assets improperly may hinder the process of identifying, controlling, and valuing County assets. The categories of errors noted included:

- 5 of 38 (13.16%) - assets were not tagged or marked as County property;
- 3 of 38 (7.89%) - asset tag numbers were incorrectly recorded; and

Management position concerning the recommendation: Partially Concur

Comments:

The five of 38 assets, described above as "not tagged or marked as County property", had actually been tagged: #077024, #077820, #077821, #077440, and #077794. It was common for the old tags to fall off due to the heat generated by the computer equipment. On 7/9/13 our department obtained new tags from the ACO and retagged the equipment: #080999, #081000, #081001, #081004, #081005, respectively.

The three of 38 assets, described above as "asset tag numbers incorrectly recorded", were assets with the following tag: #079925, #077428, and #077023. Our internal review found that the equipment were actually correctly recorded in PeopleSoft; however, the issued tags were affixed to the wrong equipment. On 7/9/13, our department obtained new tags from the ACO and retagged the equipment with #81002, #81006, and #81008, respectively.

Actual/estimated Date of Corrective Action: July 9, 2013

Estimated cost to implement recommendation (If material): \$ 0.00

Recommendation 2.1

Perform a physical inventory of capital assets. Trace each asset to its inventory record, validating asset description and fixed asset tag numbers documented in the Asset Module to ensure completeness.

Management position concerning the recommendation: Concur

Comments:

We have completed a physical inventory of capital assets as part of the 2014 annual capital asset certification process. We are currently in the process of reconciling the results of the physical inventory with the PeopleSoft records.

Actual/estimated Date of Corrective Action: July 10, 2014

Estimated cost to implement recommendation (If material): \$ 0.00

Recommendation 2.2

Validate the inventory records by vouching the inventory records recorded in the Asset Module to the fixed asset to ensure existence; and ensure all assets are properly tagged or marked as County Property.

Management position concerning the recommendation: Concur

Comments:

This is in the process of being completed as part of the annual capital asset certification process.

Actual/estimated Date of Corrective Action: July 10, 2014

Estimated cost to implement recommendation (If material): \$ 0.00

Finding 3: Accountability of Non-Capital Walk-Away Assets

The Assessor was not utilizing the Asset Module, or a system reviewed and approved by the Auditor-Controller, to track non-capital "walk-away" assets. In addition, the number of walk-away assets under the responsibility of the Assessor varied depending on the source record reviewed. Without, one central record to track walk-away assets, control is lost as to the quantity and specific identification of assets under the responsibility of the Assessor making them susceptible to undetected loss or theft.

Management position concerning the recommendation: Concur

Comments:

Since 7/1/2009, with the exception of cell phones records which are tracked separately, non-capital assets are maintained by our department using the Track-it! software. In addition, ACR is using Track-it! for issuing help desk tickets, assigning service orders, and

maintaining IT customer service records; these are functionalities not available in PeopleSoft. Our records indicated that on 2/3/2009 our department requested the ACO-Specialized Accounting office for approval of the Track-it! software. However, we did not find any record showing that a written approval was received from the office. We therefore renewed our request for approval on 12/17/2013. To date, 6/3/2014, we have not received a response to our request.

Actual/estimated Date of Corrective Action: September 30, 2014

Estimated cost to implement recommendation (If material): \$ 0.00

Recommendation 3.1

Perform a physical inventory of walk-away assets comparing the physical assets to accounting records and existing inventory lists to ensure all walk-away assets are properly identified and recorded.

Management position concerning the recommendation: Concur

Comments:

The department will conduct a physical inventory of walk-away assets starting June.

Actual/estimated Date of Corrective Action: August 31, 2014

Estimated cost to implement recommendation (If material): \$ 0.00

Recommendation 3.2

Determine the disposition of walk-away assets, and if appropriate, obtain a discharge of liability for missing assets identified during the physical inventory.

Management position concerning the recommendation: Concur

Comments: None

Actual/estimated Date of Corrective Action: September 30, 2014

Estimated cost to implement recommendation (If material): \$ 0.00

Recommendation 3.3

Record all non-capitalized walk-away assets in the PeopleSoft Asset Management Module or obtain ACO approval of an alternative tracking system.

Management position concerning the recommendation: Concur

Comments:

We are awaiting approval from the ACO on our request to use Track-it! software for maintaining our non-capital asset records.

Actual/estimated Date of Corrective Action: June 16, 2014

Estimated cost to implement recommendation (If material): \$ 0.00

Finding 4: Excessive Amount of Revolving Fund

Current business needs indicate a smaller revolving fund balance. For the two year audit period under review, July 1, 2010 through June 30, 2012, the office averaged less than three transactions totaling under \$200 per month. The largest monthly dollar amount was \$1,250. Since the office obtained a County procurement card (P-card), the usage of the revolving fund for travel and training costs has been minimized. Maintaining unnecessary money in a non-interest bearing account outside of the Treasury reduces interest earning potential countywide and increases the risk for unauthorized purchases or theft.

Subsequent to our fieldwork, the department completed an analysis of the revolving fund usage and determined a reduction to \$5,000 would be suitable. As such, the department reduced the revolving fund to \$5,000 and returned the excess cash to the County Treasury. Since the department made an immediate reduction, no recommendation is required.

Management position concerning the recommendation: Concur

Comments: None

Actual/estimated Date of Corrective Action: August 5, 2013

Estimated cost to implement recommendation (If material): \$ 0.00

Finding 5: Adherence to Daily Deposit Requirement

The office did not deposit revolving fund reimbursement checks on a timely basis or obtain an exemption from daily deposits as required in SPM Number III-E-1-3.2, Paragraph IV. G. Of the 14 revolving fund deposits examined, deposits were made, on average, 37 days after being received. By not depositing cash and checks in a timely manner, the amount is susceptible to loss or theft.

Management position concerning the recommendation: Partially Concur

Comments:

The referenced SPM III-E-1-3.2 refers to requiring collected revenue to be deposited daily into the county's treasury account. The department strictly adheres to depositing collected revenue daily in accordance with this SPM. The revolving fund replenishment checks are county warrants and are outside the scope of the referenced SPM. As the audit reported, the average number of replenishment checks was three per month totaling less than \$200. Since the amounts are not material to be deposited daily, in compliance with the audit recommendation, the department had obtained ACO's approval to be exempt from daily depositing of these checks.

Actual/estimated Date of Corrective Action: March 13, 2014

Estimated cost to implement recommendation (If material): \$ 0.00

Recommendation 5

Ensure revolving fund deposits are made daily or obtain an exemption from daily depositing from the ACO.

Management position concerning the recommendation: Concur

Comments:

ACO has approved on March 13, 2014, our request to exempt our department from depositing the replenishment checks daily.

Date of Corrective Action: March 13, 2014

Estimated cost to implement recommendation (If material): \$ 0.00

Finding 6: Timely Reconciliation of Bank Account

The revolving fund bank account was not reconciled timely. We judgmentally selected a sample of 12 bank reconciliations for testing. We noted that some bank reconciliations were not date stamped. As such, we used the end of month date for the month tested plus an additional 30 days as a reasonable amount of time to complete the bank reconciliation. Of the 12 bank reconciliations we reviewed, 10 (83.33%) were prepared an average of 81 days after the reasonable date used. Due to the limited number of account transactions, office management decided to utilize their resources on more significant work assignments and perform the revolving fund bank reconciliation at fiscal year- end. Timely performance of cash reconciliation is a critical internal control to ensure errors or fraudulent activities do not go undetected.

Subsequent to our audit period, the department has commenced reconciling the revolving fund bank account on a monthly basis. As such, no recommendation is required.

Management position concerning the recommendation: Concur

Comments: None

Actual/estimated Date of Corrective Action: June 20, 2013

Estimated cost to implement recommendation (If material): \$ 0.00