

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



**ITEM**  
2.12  
(ID # 3173)

**MEETING DATE:**

Tuesday, January 17, 2017

**FROM :** AUDITOR CONTROLLER:

**SUBJECT:** AUDITOR-CONTROLLER: Internal Audit Report 2016-024: Riverside County FLOOD CONTROL AND WATER CONSERVATION DISTRICT, Change in Department Head [District: All]; [\$0]

**RECOMMENDED MOTION:** That the Board of Supervisors:

1. Receive and file Internal Audit Report 2016-024: Riverside County Flood Control and Water Conservation District, Change in Department Head

**ACTION: Consent**

  
Paul Angulo, Director of Auditor Controller 12/5/2016

**BACKGROUND:**

**Summary**

We have completed an audit of the Riverside County Flood Control and Water Conservation District. In an effort to provide independent, objective, and reliable assessments of internal controls to the Board of Supervisors and management in accordance with Board of Supervisors Resolution 83-338, we conducted a Change of Department Head audit. This audit is conducted to ensure accountability over the transfer of revolving funds and capital assets from the predecessor to the new appointed department head. The audit covered the period of July 1, 2014, through June 30, 2016.

Based upon the results of our audit, we determined the capital assets and revolving funds were not transferred to the new director of Riverside County Flood Control and Water Conservation District in a timely manner. Additionally, we identified an opportunity for improvement in internal controls over capital assets.

<b>FINANCIAL DATA</b>	<b>Current Fiscal Year:</b>	<b>Next Fiscal Year:</b>	<b>Total Cost:</b>	<b>Ongoing Cost</b>
<b>COST</b>	\$ 0	\$ 0	\$ 0	\$ 0
<b>NET COUNTY COST</b>	\$ 0	\$ 0	\$ 0	\$ 0

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STATE OF CALIFORNIA**

<b>SOURCE OF FUNDS:</b> N/A	<b>Budget Adjustment:</b> No
	<b>For Fiscal Year:</b> N/A

**C.E.O. RECOMMENDATION:** APPROVE

**Impact on Residents and Businesses**

Provide an assessment of internal controls over the audited areas.

**SUPPLEMENTAL:**

**Additional Fiscal Information**

N/A

**ATTACHMENT A.**

Riverside County Auditor-Controller Internal Audit Report 2016-024: Riverside County Flood Control and Water Conservation District, Change in Department Head

  
Stephanie Pasi 1/10/2017

**Internal Audit Report 2016-024**

**Riverside County Flood Control and Water  
Conservation District,  
Change in Department Head**

**Report Date: November 15, 2016**



**Office of Paul Angulo, CPA, MA  
Riverside County Auditor-Controller  
4080 Lemon Street, 11th Floor  
Riverside, CA 92509  
(951) 955-3800**

[www.auditorcontroller.org](http://www.auditorcontroller.org)



**COUNTY OF RIVERSIDE**  
OFFICE OF THE  
AUDITOR-CONTROLLER

County Administrative Center  
4080 Lemon Street, 11<sup>th</sup> Floor  
P.O. Box 1326  
Riverside, CA 92502-1326  
(951) 955-3800  
Fax (951) 955-3802



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

**Frankie Ezzat, MPA**  
Assistant Auditor-Controller

November 15, 2016

Jason Uhley  
General Manager-Chief Engineer  
Riverside County Flood Control and Water Conservation District  
1995 Market Street  
Riverside, CA 92501

**Subject: Internal Audit Report 2016-024: Riverside County Flood Control and Water Conservation District, Change in Department Head**

Dear Mr. Uhley:

We have completed an audit of Riverside County Flood Control and Water Conservation District to provide management and the Board of Supervisors with an independent assessment of internal controls over the transfer of capital assets and revolving funds from the predecessor to the new appointed department head. The audit covered the period July 1, 2014, through June 30, 2016.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain sufficient, reliable, relevant, and useful information to provide reasonable assurance that our objective as described above is achieved. An internal audit includes the systematic analysis of information to evaluate and improve the effectiveness of internal controls. We believe this audit provides a reasonable basis for our conclusion.

Internal controls are processes designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial and non-financial information. Management is responsible for establishing and maintaining adequate internal controls. Our responsibility is to evaluate the internal controls.

Based upon the results of our audit, we determined the capital assets and revolving funds were not transferred to the new director of Riverside County Flood Control and Water Conservation District in a timely manner. Additionally, we identified an opportunity for improvement in internal controls over capital assets.

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.

**Internal Audit Report 2016-024: Riverside County Flood Control and Water Conservation District,  
Change in Department Head**

We thank the Riverside County Flood Control and Water Conservation District management and staff for their cooperation. Their assistance contributed significantly to the successful completion of this audit.

Paul Angulo, CPA, MA  
Riverside County Auditor-Controller



By: René Casillas, CPA, CRMA  
Interim Chief Internal Auditor

cc: Board of Supervisors  
Executive Office  
Grand Jury

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## Executive Summary

### Overview

"The Riverside County Flood Control and Water Conservation District (Flood Control) is the regional flood management authority for the western part of Riverside County." Flood Control is considered a special district which provides non-tax supported functions such as development review and Floodplain Management for the county. As a special district, it has the authority to disburse tax dollars in the city and unincorporated areas of Riverside. "The purpose of Flood Control is to provide:

- Identification of flood hazards and problems
- Regulation of floodplains and development
- Regulations of drainage and development
- County Watercourse and drainage planning
- Education for flood prevention & safety
- Construction of Flood Control Structures and Facilities
- Flood Warning and Early Detection
- Maintenance and operation of completed structures

With approximately 235 employees, Flood Control is divided into eight divisions including planning, design & construction, regulatory, surveying and mapping, operations information technology, finance and watershed protection. Revenue for the department is generated from property taxes, developer fees and cost sharing with other governmental entities. The total annual budget for Flood Control is approximately \$150 million." *Riverside County Flood Control and Water District, Riverside County Flood Control and Water District website, accessed November 10th 2016, <http://www.rcflood.org/DistrictOverview.aspx>*

### Audit Objective

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

### Audit Conclusion

Based upon the results of our audit, we determined the capital assets and revolving funds were not transferred to the new director of Riverside County Flood Control and Water Conservation District in a timely manner. Additionally, we identified an opportunity for improvement in internal controls over capital assets.

## Revolving Funds

### Background

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

The Riverside County Flood Control and Water Conservation District has one revolving fund, with an authorized balance of \$600, maintained in the form of petty cash. The revolving fund/petty cash is primarily used to pay for Metro Link rides for work related training, fuel, and parking, as well as other similar items. Flood Control has an established process for the use of revolving fund. We were able to observe the petty cash locked in two locations where access was limited access to the assigned custodian. Reconciliations are performed daily for the cash drawer and monthly for the remaining petty cash balance.

There were a total of nine revolving fund replenishment transactions during the audit period. We reviewed the supporting documentation for three revolving fund transactions totaling \$753 or \$1,483 (or 51% of total outstanding reimbursements as of June 1, 2016), and determined these transactions were for official county business.

We reviewed the latest copy of the Riverside County Auditor-Controller Standard Practice Manual (SPM) Form AR-1, *Revolving Fund Request Order & Change Form* dated July 8, 2013. The new department head was made the Interim General Manager effective April 14, 2016 and hired permanently effective May 12, 2016. During fieldwork, department officials provided a revised form signed June 16, 2016.

### Objective

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

### Audit Methodology

To accomplish our objectives, we:

- Reviewed Riverside County Auditor-Controller Standard Practice Manual Form AR-1, *Revolving Fund Request Order & Change Form* for the establishment and transfer of the revolving funds.



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- Interviewed key personnel and reviewed department procedures over the revolving funds.
- Verified revolving fund reconciliations were prepared.
- Performed a surprise cash count and reconciled to the fund assignment amounts without exception.
- Verified adequate segregation of duties existed.

**Finding 1: Transfer of Accountability**

Based on our review of the most recent Riverside County Auditor-Controller Standard Practice Manual Form AR-1, *Revolving Fund Request Order & Change Form* which was filed with the Auditor Controller's office effective July 8, 2013, Flood Control had not revised the form to reflect the change in department head. The new department head was appointed interim effective April 14, 2016 and permanently effective May 12, 2016. Flood Control did not revise the form when the change in department head occurred. *Riverside County Board of Supervisors Board Resolution 74-156, Section 7*, states, "In the event that the officer having a revolving fund is succeeded by another person for whom a like fund is established, the fund may be transferred by said officer to his successor..." The potential for loss or misappropriation of funds may occur when the transfer of revolving funds is not completed when due.

After entrance conference, department officials moved quickly to file the Standard Practice Manual Form AR-1 with the Auditor-Controller's Office.

**Recommendation 1**

When the department head changes ensure Standard Practice Manual Form AR-1 is complete in accordance with Board of Supervisor's Resolution No. 74-156.

**Management's Response:**

**"Concur.** The District's past practice was to complete required forms at the beginning of each fiscal year to meet the requirement. Once notified of the requirement to complete at the time of change in General Manger-Chief Engineer, the District immediately completed the necessary form."

**Actual/estimated Date of Corrective Action: June 15, 2016**

"On a go-forward basis, the District will ensure the Form AR-1 is completed at the time specified in accordance with Board of Supervisors Resolution No. 74-156."

## Capital Assets

### Background

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

Per the Auditor-Controller's Standard Practice Manual (SPM), Policy Number 903, *Capital Asset Tags*, requires that capital assets be marked as county property. Also, Auditor-Controller's Standard Practice Manual 905, *Processing Capital Assets: Buildings and Improvements*, requires that capitalized repairs and other changes in cost should be recorded. The responsibility of processing capital assets and maintaining an accurate record of the assets primarily resides with the department. The management for the department also has a role related to capital assets, including following the proper procedures when purchasing capital assets and annually verifying that all assets assigned to their locations are properly recorded in the asset module.

As of June 30, 2015, Flood Control had a total of 6,282 capital assets they certified, consisting of vehicles, land parcels, easements, copiers and plotters with a combined cost of \$994,744,476. As of April 14, 2016, and May 12, 2016, the time the new director was appointed interim and then appointed permanent, respectively, and acknowledged receipt of capital assets from the outgoing officer, the Riverside County Flood Control and Water Conservation District maintained 6,138 total number of capital assets in the Riverside County financial system asset module, with the combined acquisition cost of \$922,681,961.

### Objective

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

### Audit Methodology

To accomplish our objectives, we:

- Obtained an understanding of board policies and applicable standards.
- Established the date of the department head change.
- Verified proper forms were completed for transfer of accountability of capital assets and submitted to the Riverside County Auditor-Controller's Office.

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Change in Department Head**

- Obtained a listing of capital assets recorded in the Riverside County's Financial System (PeopleSoft) Asset Management Module for Flood Control.
- Verified the existence of capital assets that were transferred to the new department head.
- Verified with Auditor-Controller's Office capital asset personnel the background information on process followed to classify, add and delete assets in the asset module.

**Finding 2: PeopleSoft Asset Module Not Current**

One hundred sixty-eight capital assets were not recorded in the PeopleSoft Asset Module (PeopleSoft). Flood Control does not currently have controls in place to ensure all capital assets are recorded. Auditor-Controller's Standard Practice Manual 903, *Capital Asset Tags*, requires that capital assets be entered as county property in the asset module. According to the Auditor-Controller's Office Capital Assets Division, once an asset is entered in PeopleSoft the asset identification number is generated which indicates the capital asset has been added. When not accounted for or properly identified in the asset module, an understatement of capital assets occurs.

When the issue was brought to their attention during fieldwork, Flood Control officials quickly corrected the matter by entering unrecorded capital assets in PeopleSoft.

**Recommendation 2**

Ensure capital assets are entered in PeopleSoft in accordance with SPM 903.

**Management's Response:**

**"Concur.** The Asset Certification was due to the Auditor-Controller's Office on July 8, 2016 for the FYE 2015-16. Historically, the District's reconciliation occurs annually prior to our submittal of the certification at the scheduled time. The District would assign tag numbers throughout the year and PeopleSoft would assign Asset ID numbers when entered at the fiscal year end."

**Actual/estimated Date of Corrective Action: June 30, 2016**

"On a go-forward basis the District will ensure capital assets are entered into PeopleSoft Financials in accordance with SPM 903."

**Finding 3: Transfer of Accountability**

A transfer of accountability was not completed for the newly appointed General Manager/ Chief Engineer. The outgoing officer retired and the newly appointed General Manager/Chief Engineer was appointed interim effective April 14, 2016 and permanently appointed effective May 12, 2016. By not transferring capital assets to the incoming officer in a timely manner, the

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department did not comply with Standard Practice Manual, Policy Number 912, *Transfer of Capital Assets*, which require acknowledgment of transfer of accountability on capital assets from the outgoing officer.

During fieldwork, the newly appointed General Manager/Chief Engineer acknowledged receipt of the department's capital assets on June 7, 2016 and the department submitted the required form to the Auditor-Controller's office.

**Recommendation 3**

Ensure the transfer of capital assets from the outgoing officer to the incoming officer or acting department head is documented using Standard Practice Manual Form AM-1, Inventory of County Property for Capital Assets and submitted to the Auditor-Controller's Office in a timely manner.

**Management's Response:**

**“Concur.** The Asset Certification was due to the Auditor-Controller's Office on July 8, 2016 for the FTE 2015-16. Historically, the District reconciliation occurs annually prior to its submittal of the certification at the scheduled time. In past years, this has been sufficient even with the change in Department Head during the course of the same fiscal year. Therefore, the District was in line with its previous standard business/accounting practices as it relates to the reconciliation of its asset event though an interim reconciliation was not performed at the time of change in Department Head. On a go-forward basis with a change in General Manager-Chief Engineer, the District will document transfer of capital assets and submit to the Auditor-Controller's Office in accordance with the Standard Practice Manual AM-1.”

**Actual/estimated Date of Corrective Action: June 30, 2016**