

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



ITEM: 2.11
(ID # 23313)

MEETING DATE:
Tuesday, October 31, 2023

FROM : AUDITOR CONTROLLER:

SUBJECT: AUDITOR-CONTROLLER: Internal Audit Report 2024-304: Riverside County Office of Economic Development, County Service Areas, Follow-up Audit, All Districts, [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2024-304: Riverside County Office of Economic Development, County Service Areas, Follow-up Audit

ACTION:Consent


Ben J. Benoit, COUNTY AUDITOR-CONTROLLER 10/23/2023

MINUTES OF THE BOARD OF SUPERVISORS

On motion of Supervisor Gutierrez, seconded by Supervisor Spiegel and duly carried, IT WAS ORDERED that the above matter is received and filed as recommended.

Ayes: Jeffries, Spiegel, Washington and Gutierrez
Nays: None
Absent: Perez
Date: October 31, 2023
xc: Auditor Controller

Kimberly A. Rector
Clerk of the Board

By: 
Deputy

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

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost
COST	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
NET COUNTY COST	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
SOURCE OF FUNDS: N/A			Budget Adjustment: No	
			For Fiscal Year: n/a	

C.E.O. RECOMMENDATION:

BACKGROUND:

Summary

We completed a follow-up audit of the Riverside County Office of Economic Development, County Service Areas. Our audit was limited to reviewing actions taken as of June 22, 2023, to correct findings noted in our original audit report 2021-201 dated December 8, 2020. The original audit report contained 2 recommendations, all of which required implementation to help correct the reported findings.

Based on the results of our audit, we found that the two recommendations were not implemented.

For an in-depth understanding of the original audit, please refer to Internal Audit Report 2021-201 included as an attachment to this follow-up audit report or it can also be found at

<https://auditorcontroller.org/divisions/internal-audit/reports>

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 - Internal Audit Report 2024-304: Riverside County Office of Economic Development, County Service Areas, Follow-up Audit.

Office of Ben J. Benoit
Riverside County Auditor-Controller

4080 Lemon Street, 11th Floor

Riverside, CA 92501

(951) 955-3800

Internal Audit Report

2024-304

Follow-up

2 Recommendations

- ✓ 0 Implemented
- ▶ 0 Partially Implemented
- ✗ 2 Not Implemented



Riverside County
Office of Economic Development
County Service Areas
Follow-up Audit

October 31, 2023



COUNTY OF RIVERSIDE
OFFICE OF THE
AUDITOR-CONTROLLER

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ACO | **AUDITOR**
CONTROLLER
COUNTY OF RIVERSIDE

Ben J. Benoit
County Auditor-Controller

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

October 31, 2023

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

Subject: Internal Audit Report 2024-304: Riverside County Office of Economic Development, County Service Areas, Follow-up Audit

Dear Ms. Holland:

We completed the follow-up audit of Riverside County Office of Economic Development, County Service Areas. Our audit was limited to reviewing actions taken as of June 22, 2023, to help correct the findings noted in our original audit report 2021-201 dated December 8, 2020.

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 reasonable assurance that our objective, as described in the preceding paragraph, is achieved. Additionally, the standards require that we conduct the audit to provide sufficient, reliable, and relevant evidence to achieve the audit objectives. We believe the audit provides a reasonable basis for our conclusion.

The original audit report contained two recommendations, all of which required implementation to help correct the reported findings. Based on the results of our audit, we found that the two recommendations were not implemented.

**Internal Audit Report 2024-304: Riverside County Office of Economic Development,
County Service Areas, Follow-up Audit**

Summary of the conditions from the original audit and the results of our review on the status of the implementation of the recommendations are provided in this report. For an in-depth understanding of the original audit, please refer to Internal Audit Report 2021-201 included as "Attachment A" of this audit report along with your department status letter as "Attachment B." You can also find the original audit report at <https://auditorcontroller.org/divisions/internal-audit/reports>.

We thank you and your staff for the help and cooperation. The assistance provided contributed significantly to the successful completion of this audit.



Ben J. Benoit
Riverside County Auditor-Controller



By: René Casillas, CPA, CRMA
Deputy Auditor-Controller

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

**Internal Audit Report 2024-304: Riverside County Office of Economic Development,
County Service Areas, Follow-up Audit**

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 County Service Areas, Follow-up Audit

Fund Balances

Finding 1: Fund Balance Maintenance

“County Service areas do not have a plan to determine the appropriate amount of funds being held in fund balance reserves. The amount held to cover anticipated expenditures, emergency funds, and future projects is not determined methodically, nor evaluated for reasonableness. County Service Area fund balance is comprised solely of taxpayer dollars, implying that the taxpayer’s dollars are not directly correlated to the taxpayer’s benefit.

The California Constitution, Article XIII D, *Assessment and Property-Related Fee Reform, Section 4(a)*, states that, ‘No assessment shall be imposed on any parcel which exceeds the reasonable cost of the proportional special benefit conferred on that parcel.’ Furthermore, California Constitution, Article XIII D, *Assessment and Property-Related Fee Reform, Section (2)(b)(1)* states, ‘revenue derived from the fee or charge shall not exceed the funds required to provide the property related service.’ The County Service Area administration is not collecting the same amount in special assessment taxes that they are expending to the benefit of the taxpayers. This principle is further asserted by *Government Code §54985(a)* which states ‘a county board of supervisors shall have the authority to increase or decrease the fee or charge... in the amount reasonably necessary to recover the cost of providing any product or service... for which the fee or charge is levied.’ The amount of special assessment taxes collected is only intended to recover the costs of providing the County Service Area services. The difference in the amount being collected and the amount being expended has resulted in fund balances that increase annually without oversight. Without the analysis and determination of reasonable fund balances, the County Service Areas cannot know if the increase to the assessment is necessary.

We sampled 10 out of 60 County Service Areas (CSA).

CSA	Service Provided
CSA 084	Lighting
CSA 091	Lighting
CSA 121	Lighting, Drainage Basin
CSA 126	Landscaping, Parks and Recreation, Sheriff
CSA 134	Lighting, Landscaping, Parks and Recreation, Sheriff
CSA 143	Lighting, Landscaping, Parks and Recreation
CSA 145	Parks and Recreation
CSA 149	Roads
CSA 152	Street Sweeping
Admin CSA	General administration, fiscal support, overhead

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From the fiscal year ending June 30, 2018, to June 30, 2020, the amount of tax revenue collected compared to the actual costs reported by the County Service Areas are as follows:

Collection of Special Assessment Taxes											
	CSA 084	CSA 091	CSA 121	CSA 126	CSA 134	CSA 143	CSA 145	CSA 149	CSA 152	Admin CSA	
2017-18											
Revenues \$	169,139	\$ 156,932	\$ 103,239	\$ 1,038,122	\$ 1,532,811	\$ 2,514,207	\$ 14,576	\$ 420,923	\$ 3,951,866	\$ 2,227,233	
Expenditures	43,195	106,445	90,037	718,828	1,590,799	2,707,951	-	453,333	4,735,394	2,390,953	
Variance \$	\$ 125,945	\$ 50,487	\$ 13,202	\$ 319,294	\$ (57,988)	\$ (193,743)	\$ 14,576	\$ (32,410)	\$ (783,528)	\$ (163,720)	
2018-19											
Revenues \$	176,064	\$ 177,728	\$ 117,207	\$ 2,611,702	\$ 2,081,628	\$ 2,740,763	\$ 44,994	\$ 444,748	\$ 4,933,694	\$ 3,204,845	
Expenditures	37,298	96,829	59,103	1,167,100	1,954,672	3,074,688	-	782,511	5,173,255	2,413,667	
Variance \$	\$ 138,766	\$ 80,900	\$ 58,104	\$ 1,444,602	\$ 126,956	\$ (333,925)	\$ 44,994	\$ (337,763)	\$ (239,561)	\$ 791,177	
2019-20*											
Revenues \$	176,593	\$ 154,868	\$ 101,191	\$ 2,538,603	\$ 2,133,642	\$ 3,254,325	\$ 16,136	\$ 587,922	\$ 4,603,506	\$ 3,091,046	
Expenditures	53,093	93,556	53,414	1,204,856	1,507,020	2,858,256	-	653,415	4,424,399	2,151,384	
Variance \$	\$ 123,500	\$ 61,312	\$ 47,777	\$ 1,333,747	\$ 626,622	\$ 396,069	\$ 16,136	\$ (65,494)	\$ 179,107	\$ 939,662	

*This data is run as of June 30, 2020 on July 1, 2020 and is not inclusive of all accruals or year journal entries

The collection of special assessment taxes indicates that the amount being collected does not accurately reflect the cost of the services being provided. This inequitable collection of the special assessment taxes has a fixed impact on the fund balance reserves, typically increasing the balances. While high reserves are not inherently prejudicial, Business and Community Services should document a plan for those funds to circumvent an unintentional buildup of reserves.

Additionally, Board of Supervisors Policy A-48, *Formation, Alteration, and Operation of County Service Areas*, states that each fund balance should be managed carefully to assure 'adequate cash flow during the period between the beginning of the new fiscal year and the first installment receipt of special taxes and property taxes.' The fund balance from the prior year is held to cover approximately six months of expenses in the next fiscal year. The receipt of taxes typically occurs in December and June. The fund balance currently being maintained by Business and Community Services is in excess of this amount, with the exception of the Admin County Service Area.

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	Fund Balance as of June 30, 2017	Average six months of expenditures	Fund Balance as of June 30, 2018*	Approximately six months of expenditures	Fund Balance as of June 30, 2019	Approximately six months of expenditures
CSA 084	\$ 678,709	\$ 21,597	\$ 707,174	\$ 18,649	\$ 833,118	\$ 26,546
CSA 091	811,034	53,222	854,825	48,414	905,312	46,778
CSA 121	583,798	45,018	623,309	29,552	636,511	26,707
CSA 126	846,100	359,414	1,216,578	583,550	1,535,872	602,428
CSA 134	682,549	795,400	701,851	977,336	643,863	753,510
CSA 143	3,093,560	1,353,975	2,924,047	1,537,344	2,730,304	1,429,128
CSA 145	1,451,027	-	1,459,025	-	1,473,601	-
CSA 149	1,237,260	226,666	1,339,096	391,256	1,306,686	326,708
CSA 152	12,713,282	2,367,697	12,937,372	2,586,627	12,153,844	2,212,200
Admin CSA	618,410	1,195,477	826,316	1,206,834	662,596	1,075,692

* The change in fund balance over the prior year may not be consistent with variances reported in this report due to entries made directly to fund balance.

In the event of an emergency there is no recourse for the County Service Areas to pay for emergency repairs or services, if the funds are not available in the reserves. The amount held in reserves for emergency funds should be based on a reasonable methodology, in addition to any amounts being held in reserves for future long term, or financially significant projects being held in amounts that are both, reasonable and estimable. These plans should annually document the appropriation or reduction of County Service Area fund balances in conformity with long term plans, specific to the individual County Service Areas goals.”

Recommendation 1.1

“Develop a methodology to determine appropriate cash flow amounts and emergency funds.”

Current Status 1.1: Not Implemented

The Office of Economic Development is currently working with a consultant to develop a methodology to best implement the recommendation. We will follow up in the future to ensure that the recommendation has been implemented on the final methodology developed in collaboration with the consultant.

Management’s Response

“Staff are working with a consultant to develop a cash flow and emergency fund methodology that will serve as a guide for allocating revenue for operations, capital improvement plans, and emergency reserves. This is a labor-intensive project as each

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CSA is unique and will require an individualized methodology based on the services and amenities specific to each CSA.”

Recommendation 1.2

“Develop and annually update a plan for the unassigned fund balance, based on the County Service Area’s needs, emergency fund, and planned improvements.”

Current Status 1.2: Not Implemented

The Office of Economic Development is currently working with a consultant to develop a methodology to best implement the recommendation. We will follow up in the future to ensure that the recommendation has been implemented on the final methodology developed in collaboration with the consultant.

Management’s Response

“Staff are working with a consultant to develop a plan that will guide the use of unassigned fund balance. This plan will be in coordination with the cash flow methodology in that unassigned fund balance will be allocated to reserve or capital improvements dependent on each individual CSA’s services and amenities as well as risk/exposure to major emergencies, anticipation of severe weather, and population growth within each CSA. These two items will be developed as a package.”