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

357

SUBMITTAL DATE:
January 29, 2007

FROM: Auditor-Controller

SUBJECT: Management Letter for Fiscal Year 2004-05

RECOMMENDED MOTION:
That the Board of Supervisors receive and file the attached Management Letter for the year ended June 30, 2005, rendered by Varinek, Trine, Day & Co., LLP.

BACKGROUND:
The Management Letter is submitted in accordance with Section 25253 of the Government Code of the State of California and follows four-to-eight months after the filing of the Comprehensive Annual Financial Report. The Management Letter provides recommendations with the intent to improve internal controls and operational efficiencies. These recommendations are summarized in the comments section of the Management Letter, and all have been implemented or are in the process of being implemented.

Robert E Byrd
ROBERT E. BYRD
County Auditor-Controller

FINANCIAL DATA				
	Current F.Y. Total Cost:	-0-	In Current Year Budget:	No
	Current F.Y. Net County Cost:	-0-	Budget Adjustment:	No
	Annual Net County Cost:	-0-	For Fiscal Year:	

SOURCE OF FUNDS:

Positions To Be Deleted Per A-30 ☐
Requires 4/5 Vote ☐

C.E.O. RECOMMENDATION:

RECEIVE AND FILE

County Executive Office Signature

Dep't Recomm.: ☐ Consent ☐ Policy
Per Exec. Ofc.: ☒ Consent ☐ Policy

2007 JAN 31 AM 11:30
RECEIVED RIVERSIDE COUNTY CLERK / BOARD OF SUPERVISORS

Prev. Agn. Ref.: | **District:** | **Agenda Number:**

2.4

COUNTY OF RIVERSIDE,

CALIFORNIA

MANAGEMENT LETTER

JUNE 30, 2005

vtd
Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants & Consultants

December 31, 2005

Board of Supervisors
4080 Lemon Street
Riverside, CA 92502

Gentlemen:

We have audited the basic financial statements of the County of Riverside (the County) for the year ended June 30, 2005 and have issued our report thereon dated November 18, 2005. In planning and performing our audit of the financial statements of the County, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized on the accompanying pages.

A separate management letter dated December 29, 2005, was issued for the Riverside County Regional Medical Center.

8270 Aspen Street Rancho Cucamonga, CA 91730 Tel: 909.466.4410 Fax: 909.466.4431 www.vtdcpa.com

MANAGEMENT LETTER COMMENTS

GENERAL APPLICATION CONTROLS RE: PROPERTY TAX SYSTEM

OBSERVATION

The County should maintain appropriate and effective controls over the Property Tax System to satisfy the following internal control objectives:

- Physical and logical security
- Access control
- Change control
- Segregation of duties

It was noted that the County must strengthen its internal control over the Property Tax System due to the lack of consistent and common standards of the control environment, lack of documentation over the system and lack of segregation of duties. As a result of the above, the internal control environment over the Property Tax System is weakened.

RECOMMENDATION

We recommend that the County implement policies and procedures to strengthen the internal controls over the Property Tax System.

MANAGEMENT RESPONSE

The three departments have demonstrated their commitment to work together to implement written policies and procedures. Departmental initiatives regarding work tasks and the review of those tasks have taken place; documentation is in process. Good internal controls and system integrity is our goal.

TEETER FUND RECONCILIATION

OBSERVATION

It was noted that the County modified its policies and procedures related to the determination of Teeter related property taxes receivable as well as the reconciliation of activity and related accounting transactions in the Teeter Debt Service Fund for the year-ended June 30, 2005. During the course of the audit, the policies, reconciliations and procedures documentation were being updated.

RECOMMENDATION

We recommend that the County formalize the revised policies, reconciliations and procedures to ensure that each respective department involved in the Teeter Alternative Property Tax Distribution program is knowledgeable of the flow of transactions, sources of supporting documentation and relevant financial indicators.

MANAGEMENT RESPONSE

The County will continue to develop revised, formal procedures in conjunction with each respective department involved in the Teeter Alternative Property Tax Distribution program. This joint development initiative will ensure that each department is knowledgeable of and in agreement with those procedures.

ACCOUNTS RECEIVABLE

OBSERVATION

During the year-end closing, receivables were captured in the general ledger in one of the two major categories:

1. System based receivables- Receivables are automatically calculated and maintained in a control account within the general ledger, based on transactions initiated by departments in the billing module of PeopleSoft.
2. Non-system receivables- Account balances for this category are established and recorded during the year-end closing process on Auditor Controller prescribed schedules.

During our testing of system based receivables, it was noted that an accounts receivable aging report is not produced for analyzing "System Based Receivables" in the general ledger and query access to identify detailed transactions was limited. Further, each department had to manipulate transaction detail and/or utilize other information systems to reconcile the composition of the balances reported in the general ledger to invoices outstanding.

RECOMMENDATION

Although we acknowledge that the County is decentralized in nature, we recommend that the Auditor Controller's Office develop procedures for county departments to use in order to analyze and validate material balances and transactions. Use of these procedures will allow the County to improve the accuracy of financial reporting as well as safeguard County assets.

MANAGEMENT RESPONSE

The Auditor-Controller is pursuing the development of reports and tools necessary for departments to analyze and validate material balances and transactions as well as to reconcile their AR/BI (Accounts Receivable / Billing) transactions to the general ledger. These reports and tools are being developed as a supplement to the existing PeopleSoft financial system capabilities. Appropriate training and documentation will be made available and a year-end schedule will be developed and included as part of the County's year-end process.

CAPITAL ASSETS

OBSERVATION

The County utilizes the PeopleSoft "AM" (Asset Management) module as the basis for reporting capital assets at year-end. During the fiscal year, the County implemented new procedures designed to streamline and ensure the accuracy of the capital assets and infrastructure reporting process, however, additional efforts are still needed to improve the overall timeliness and accuracy of this process. The following was noted during the process review:

- Infrastructure (Construction in Progress) costs and related information are compiled from ancillary project costing systems and offline spreadsheets provided by department personnel. The PeopleSoft "AM" module is not a construction in progress, project costing and tracking module. It was designed to track and account for completed capital assets only,
- The process of compiling financial details regarding the total capital asset population includes the preparation and consolidation of numerous excel spreadsheets with data queried from PeopleSoft,
- The "AM" module contains system-related and procedure-related glitches causing differences in the calculation of depreciation expense and accumulated depreciation at year-end,
- A few capital asset certifications identified discrepancies that were not resolved or reflected in the "AM" module and
- Adjustments were required to restate capital assets due to infrastructure costs not recorded to construction in progress in a prior period, certain infrastructure was entered twice in the "AM" module and maintenance costs were inappropriately capitalized.

RECOMMENDATION

We recommend that the County continue to develop and implement procedures necessary to streamline and ensure the accuracy of the capital assets reporting process. Such procedures may include one or more of the following:

- Develop and make available standard or "official" capital asset reports that summarize financial data for statement preparation; perhaps utilizing "nVision" or "Crystal" technologies and formats,
- Modifying the responsibilities of departments in the annual closing with respect to capital assets,
- Adjusting the timelines in the annual certification of capital assets to distribute the workload during the fiscal year, subject to the requirements of the government code,
- Implementing procedures for the proper cutoff and capitalization of infrastructure assets and
- Preparing periodic reconciliations or status reports during the fiscal year on infrastructure activity and amounts to assist in the year-end compilation of data.

MANAGEMENT RESPONSE

County departments and the Auditor-Controller's Office (ACO) continue to cooperatively develop new procedures and implement process controls to assure accuracy in tracking and reporting capital asset activity. Certain infrastructure projects in progress are now kept open in order to capture all related costs. Historically, projects were closed prematurely thus not capturing all capital costs.

Standard public queries can be duplicated and unknowingly modified resulting in an inconsistent certification process. The ACO will continue to work with OASIS to develop a standard set of "official" capital asset reports, or develop reports as a supplement to the existing PeopleSoft financial system capabilities. Additionally the ACO will work with departments to clear all known, unresolved certification differences and continue to inspect certified capital asset listings through the internal audit function. The County will consider the feasibility of moving the capital asset certification process to a date other than year-end.

The ACO will continue the "AM" module training efforts for new County employees as well as provide refresher sessions for those previously trained. The Auditor-Controller will also initiate a series of department management discussions emphasizing the importance of accountability regarding the tracking and reporting all of the County's capital assets.

FRAUD PREVENTION PROGRAM

OBSERVATION

It was noted that the County does not maintain a formalized fraud prevention program. Further, based on inquiry of personnel in County departments, there is no formal chain of communication to report suspected instances or allegations of improper acts.

RECOMMENDATION

Given the size of the County and complexity of its operations, we recommend that the County develop and appropriately staff a fraud prevention program. This program could include; formal procedures/policies for the reporting of allegations, a fraud hotline and/or contracted assistance for the intake of information.

MANAGEMENT RESPONSE

The County will take the recommendation under advisement and initiate a preliminary investigation of the possible approaches to establishing this type of program. The Auditor-Controller supports this initiative, recognizing that other counties have already implemented such programs through their Auditor-Controller departments.

PROCUREMENT EDIT CHECKS

OBSERVATION

It was noted that the procurement process provides for authorization and expenditure controls. In conjunction with these procedures, buyers in the Purchasing Department have established purchase limits that cannot be exceeded without further supervisory approval. The specified limits are assigned to each buyer based on experience level. It was noted that PeopleSoft does not currently maintain a proactive control or edit check to prevent a buyer from exceeding the purchase amount restrictions, consistent with the procurement policies.

RECOMMENDATION

We recommend that the County consider implementing edit checks or automated detection controls to improve the monitoring of buyers' purchasing authority, consistent with the County's procurement policies.

MANAGEMENT RESPONSE

The County agrees with this recommendation and is currently in the process of reviewing the requirements from the Purchasing department for these controls. We are working with our upgrade partners (Cherry Road Technologies) in determining if this enhancement to the business process can be included in the scope of our upgrade for go-live or as originally planned as a new implementation in conjunction with the stabilization of the upgrade.

SCHEDULE P CASH

OBSERVATION

It was noted that the County permits cash accounts to be maintained outside of the County Treasury. Such cash accounts reflect funds held by County Departments in a fiduciary capacity and funds held by other governmental entities, such as the Superior Courts. For CAFR reporting purposes, the Auditor Controller compiles information related to the cash accounts outside of the County Treasury on the year-end "Schedule P". During our test work over the Schedule P balances we noted the following:

- Bank accounts are subject to the signature authority of individuals in County Departments,
- Receipts and disbursements to the accounts are not processed through the County Treasurer or the Auditor Controller,
- Account balances and related transaction activity are not maintained on the County's general ledger,
- Certain accounts belonging to outside entities (such as the Superior Court) are not held by the County in a fiduciary capacity and as such, may not require inclusion in the CAFR,
- Account balances reported reflect bank statement balances as of May 31.

As a result, the control environment over the custody and tracking of cash is weakened.

RECOMMENDATION

We recommend that the County strengthen its internal controls over cash by performing the following:

- Recording bank accounts outside of the County Treasury in trust or agency funds, as appropriate, within the general ledger.
- Developing appropriate controls to ensure transactions flow through the general ledger.
- Performing an analysis of accounts captured on the Schedule P to determine whether such accounts are required for inclusion in the County's CAFR.
- Ensuring that appropriate information is obtained to reflect the cash balances as of year-end.

MANAGEMENT RESPONSE

The County will comply with these recommendations while recognizing that regular revolving funds held outside the Treasury are currently reimbursed through normal general ledger processes. To ensure that the County is able to meet these other recommendations, the following steps are being taken:

1. The County has modified the year-end Schedule P process to require the inclusion of the June bank statements and related reconciliations needed to appropriately classify the related activity.
2. The County will continue to review the need for accounts outside the treasury and develop adequate procedures for inclusion of activity and balances in the general ledger.
3. The County will determine the necessity of including these accounts in the County's CAFR as well as determining proper reporting presentation.
4. The Auditor-Controller's Office will enhance its audit functions to include further inspection of accounts outside the Treasury and revise practice guidelines in appropriate manuals.

LEASES

OBSERVATION

It was noted that the County's process for capturing and reporting operating and capital lease activities during the fiscal year was strengthened. Guidelines for the reporting of capital and operating leases were included in the year-end closing manual and procedures were developed by the ACO to reconcile schedules from the departments to transactions recorded in the general ledger. This information was prepared in a timely manner for the year-end CAFR preparation. However, the operating and capital leases continue to be tracked in a variety of different excel worksheets requiring manual intervention and manipulation.

RECOMMENDATION

We recommend that the County continue to improve its operating and capital lease reporting procedures. The County should consider standardized templates/workbooks for reporting by departments in order to facilitate the compilation of data for year-end reporting purposes.

MANAGEMENT RESPONSE

The County continues to develop and implement improvements to both the operating lease and capital lease reporting procedures. The County has created standardized worksheets and will recommend that all departments use these worksheets when reporting. To supplement this effort, the County will be issuing a Standard Practice Manual (SPM) section covering this issue. The Auditor-Controller's Office will investigate the potential use of the Asset Management Module features in PeopleSoft for recording, tracking and reporting lease activity of the County.

LONG TERM DEBT REPORTING

OBSERVATION

During our testing, it was noted that debt service principal and interest expense line items include the transfer of funds between departments which may distort the actual principal and interest expense incurred by the County.

RECOMMENDATION

We recommend that the County continue to strengthen its procedures to reconcile the principal and interest expense that is aggregated for financial presentation in order to identify potential material misstatements and/or debt requiring inclusion in the CAFR.

MANAGEMENT RESPONSE

The County continues to strengthen its procedures used to reconcile the long-term debt principal and interest expenses and to identify potential material misstatements by initiating a plan that provides guidance and procedures for departments, entities and agencies needing assistance with proper recording, reconciliations and reclassifications. This plan will require departments to provide the Auditor-Controller with continuous updates of detail debt activity. This plan will facilitate an increase in the County's compliance with this recommendation.

****

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the County of Riverside gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time. This report is intended solely for the information and use of the Board of Supervisors, management, and others within the County and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 31, 2005

COUNTY OF RIVERSIDE,

CALIFORNIA

MANAGEMENT LETTER

JUNE 30, 2005