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SUPERIOR COURT OF THE STATE OF CALIFORNIA,
COUNTY OF RIVERSIDE

In the Matter of the 2021-2022 Grand Jury
Report:

ORDER UPON REVIEW OF
GRAND JURY REPORT

County Leadership Failures Result in
Unnecessary Financial Risks: Internal Audits
Marginalized

Pursuant to California Penal Code §933, *et seq.*, the Presiding Judge or designee
has reviewed the Report of the Grand Jury. The report is:

Approved for filing.
 Rejected for filing.

Dated this 26th of May, 2022


John M. Monterosso
Presiding Judge



County Leadership Failures Result in Unnecessary Financial Risks: Internal Audits Marginalized



SUMMARY

Riverside County's Board of Supervisors (Board) sets priorities for the county and oversees county departments. It has authority to approve departmental budgets, adopt countywide policies, ordinances, and procedures department leaders must follow as long as those policies, ordinances, and procedures do not conflict with federal or state laws. Except for departments led by elected officials, the Board appoints a County Executive Officers to supervise the day-to-day operations of the County's various departments.

One of those departments is the Auditor-Controller's Office (ACO). By California law, the ACO has the legal obligation to (1) review departmental and countywide internal controls and (2) review accounts of all offices, departments, and institutions under the control of the Board whose funds are kept in the County treasury. The ACO performs these reviews through the use of the Internal Audit Unit.

Realizing the importance of internal audits to the County, the 2021-2022 Riverside County Civil Grand Jury (Grand Jury) initiated an investigation into the County's internal audit processes and value to the County. After an extensive number of interviews and document reviews, the Grand Jury found the following:

1. California Government Code §25250 requires counties to audit their departments every two-years. The ACO's use of Follow-Up and "Change of Department Head" audits to fulfill this legal requirement violates California law.
2. Professional Standard 1100 requires the Internal Audit Unit be independent. With the Internal Audit Unit included within the ACO's "Audits and Specialized Accounting Division," the Internal Audit Unit is not completely independent. Hence, the ACO does not comply with Standard 1100.
3. The County's internal audits are marginalized and, in many cases, just ignored.
4. The County's Internal Audit Unit members do not have the combined knowledge, skill, and experience to perform their responsibilities as required by Standard 1210.
5. The County consistently fails to rectify known limitations in its Internal Audit Unit.
6. The County's Internal Audit Unit members lack professional certifications and experience in critical areas, which in turns exposes the County to potential financial and operational risks.
7. The County's lack of an audit oversight committee has resulted in some high-risk areas missed by internal audits for several years.

8. The County's internal audit reports do not provide the Board and Executive Office with (a) summary information about the seriousness of its findings, (b) likelihood of negative impacts to the County, or (c) how quickly corrections need to be made.
9. The County's follow-up internal audit reports do not provide the Board and Executive Office with summary information on the status of departments implementing required corrective actions.
10. The County lacks summary reports and a monitoring mechanism that provides the Board and Executive Office with the following types of reports:
 - Bi-Annual Systemic Internal Audit Findings Reports
 - Annual Risk Assessment and Management Plan
 - Quarterly Internal Audit Status Reports
 - Contract Monitoring Reports
 - Countywide Risk Management Dashboard
11. An internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility, including access to confidential records. The County's internal audit charter has not been updated in 39 years. The County's internal charter is outdated and does not comply with Standard 1010.
12. Dysfunctional working relationships among County and department leaders significantly hinders the effectiveness of internal audits.

The Board, Executive Office, and ACO have known about the issues surrounding internal audits for many years. Now, they have the opportunity to demonstrate their leadership abilities by rectifying issues. The question is, "Will they?" The Grand Jury submits 13 recommendations for their consideration.

BACKGROUND

As required by California law, Riverside County has a Board of Supervisors (Board) consisting of five members.¹ The Board sets priorities for the county, oversees most county departments and programs, and annually approves department budgets. The Board appoints County Executive Officers (Executive Office) to supervise the day-to-day operations of the County's nearly 50 departments and 23,000 employees.

The Board and Executive Office have limited oversight authority over the five departments managed by elected officials. Those elected officials are (1) Assessor-Clerk-Recorder, (2) Auditor-Controller, (3) District Attorney, (4) Sheriff/Coroner, and (5) Treasurer/Tax Collector. Although the Board and Executive Office do not have day-to-day oversight authority over departments managed by elected officials, the Board does have the authority to approve their annual budgets and adopt countywide policies, ordinances, and procedures those departments must follow, as long as those policies, ordinances, and procedures do not conflict with federal or state laws.

Riverside County’s policies include monitoring financial transactions and seeking ways to eliminate unnecessary expenditures.² One of the principal ways the County monitors financial transactions resides in the Auditor-Controller’s Office (ACO). The ACO “is responsible for budget control, issuing warrants (checks) for payments, recording receipts of revenues, payroll, accounting for assets and liabilities such as fixed assets, accounts receivable/payable, long-term debt, and preparation of the county’s financial statements.”³

The ACO also has the authority to “review departmental and countywide internal controls, over the accounting forms and the method of keeping the accounts of all offices, departments and institutions under the control of the board of supervisors and of all districts whose funds are kept in the county treasury.”⁴ The ACO performs these reviews through internal audits.

An internal audit is an “independent appraisal” of a department’s financial and operational work to achieve its goals by following applicable laws, policies, ordinances, and procedures.⁵ For example, an internal audit of the Human Resources Department (HR) could assess whether (1) the department followed financial procedures as required and (2) if the department followed the County’s “Fraud, Waste, and Abuse Guidelines.”⁶

Failure to conduct regular internal audits will increase the County’s exposure to financial risks and increase the length of time before operational problems are identified and rectified.

Realizing the importance of internal audits to the County, the 2021-2022 Riverside County Civil Grand Jury (Grand Jury) became familiar with the County’s internal audit reports. In August 2021, the Grand Jury initiated an investigation into internal audit processes, effectiveness, and compliance with applicable laws, policies, ordinances, and procedures.

METHODOLGY

The Grand Jury conducted an extensive series of interviews, document reviews, accessed websites, and communicated with other Southern California counties.

Interviews Conducted

Assistant Auditor-Controller, Riverside County	County Executive Officer, Riverside County
Auditor-Controller, Riverside County	12 Department Directors, Riverside County
5 Board of Supervisors, Riverside County	Principal Accountant, Riverside County
Chief Administrative Officer, Riverside County	4 Internal Auditors, Riverside County
Chief Internal Auditor, Riverside County	Principal Management Analyst, Riverside County
Chief of Audits, San Diego County	Principal Policy Analyst, Riverside County
Chief Information Officer, Riverside County	5 Risk Management Steering Committee, Riverside County
Chief Operating Officer, Riverside County	

Documents, Emails, and Websites Reviewed

Sources of information used in the report, but not specifically cited in the “Reference” section, came from email exchanges between the Grand Jury and internal audit leaders in Orange, San Bernardino, San Diego, and Ventura counties.

INVESTIGATION

General Topics

The Grand Jury’s investigation focused in three general topics: (1) purpose of internal audits, (2) expertise of internal auditors, and (3) effectiveness of internal audits.

GENERAL TOPIC 1 PURPOSE OF INTERNAL AUDITS

Fact 1.1 Internal Audits

According to California law, the Board shall examine and audit “the financial accounts and records of all officers having responsibility for the care, management, collection, or disbursement of money belonging to the county or money received or disbursed by them under authority of law.”⁷ The Board delegates the responsibility to conduct these required audits to the ACO.

Fact 1.2 Professional Standards

According to California law, county internal audits must follow the “general and specified standards prescribed by the Institute of Internal Auditors (IIA) or the Government Auditing Standards issued by the Comptroller General of the United States.”⁸ The IIA adopted the “International Standards for the Professional Practice of Internal Auditing” (Standards) and Riverside County adopted the Standards.

Fact 1.3 Internal Audit Charter

Standard 1000 states, “The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization, including the nature of the chief audit executive’s functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.”⁹

Professional standards require internal audit charters be reviewed and updated from time to time. Riverside County’s internal audit charter has not been reviewed and updated since 1983 (i.e., 39 years ago). As a result, the County’s internal audit charter is outdated.

For example, Standard 1010 requires an internal charter include the “mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing must be recognized in the internal audit charter.”¹⁰ The County’s internal charter does not include these concepts. The ACO has been aware of this situation since at least 2019¹¹ and has failed to resolve this issue.

Fact 1.4
Coverage-Based and Risk-Based Internal Audits

California Government Code §25250 requires counties to audit their departments every two-years. To fulfill this legal requirement, the ACO’s focus is to develop an internal audit plan that “covers” all departments so that all departments are audited once every two-years. This approach to developing an internal audit plan is a “coverage-based” internal audit plan.¹²

Standard 2010 requires “risk-based” internal audits.¹³ The purpose of risk-based internal audits is to identify, assess, and prepare for potential financial losses, dangers, hazards, and other potentials that may harm or interfere with the County’s financial stability and operations. Some Riverside County officials indicated, through the interview process, that they would prefer risk-based internal audits because they can quickly respond to changing risk factors.

It is difficult to develop coverage-based internal audits, as required by California law, and at the same time, develop risk-based internal audits, as required by a professional standard.

To resolve this dilemma, some other California counties have developed multi-year internal audit plans that require all departments to have an internal audit every two fiscal years, which incorporate high-risk areas of misuse of funds, theft of assets, operational inefficiencies, cybersecurity breaches in their county’s internal audits.¹⁴ In 2021, Infotech Global Audit and Security, Inc., (Infotech) conducted a “Peer Review” of the County’s Internal Audit Unit. Infotech made that exact recommendation to the ACO.

Fact 1.5
Oversight Audit Committee

Unlike Orange County,¹⁵ San Diego County,¹⁶ and San Bernardino County,¹⁷ Riverside County does not have an audit oversight committee.

In the aftermath of Orange County’s bankruptcy in 1994, the Orange County Board of Supervisors established an Audit Oversight Committee (AOC). Orange County’s AOC is

responsible for ensuring the independence of the internal audit function, reviews and recommends Annual Audit Plans, reviews audit reports, and ensures that corrective actions are based on audit findings.

Riverside County's lack of an oversight committee has resulted in some high-risk areas missed by internal audits for several years (e.g., Public Guardian and Information Technology).

GENERAL TOPIC 2 EXPERTISE OF INTERNAL AUDITORS

Fact 2.1

Internal Audit Independence

The ACO has five divisions. One of those divisions is called the "Audits and Specialized Accounting Division." This division has two units: (1) "Audits" unit and (2) "Specialized Accounting" unit. These two units are responsible for performing different functions. Their functions are as follows:

"Internal Audits: Conducts independent, objective financial and operational audits of departments, offices, boards and institutions under the Board of Supervisors control, and of any district whose funds are kept in the County treasury. Provides consulting services to assist management in bringing a systematic and disciplined approach to risk management and control."¹⁸

"Specialized Accounting: Prepares, reviews and certifies reports for countywide cost and revenue reimbursements which includes oversight over State mandated cost reimbursement (SB90) program, the cost allocation plan and the Schedule of Expenditures of Federal Awards subject to the Single Audit. Reviews methodology of rates and charges submitted to the Board of Supervisors for approval for cost recovery."¹⁹

According to Standard 1100, internal audit activities must be completely independent. The Internal Audit Unit is **not** independent when part of its division is involved with County finances and records. For example, the Internal Audit Unit should independently review the methodology a department uses to set service rates and charges. The Specialized Accounting Unit is involved in exactly the same activity.

In 2022, Infotech recommended separating the Internal Audit Unit from the Specialized Accounting Unit.²⁰ The ACO rejected the recommendation.

Fact 2.2
Budgets

Riverside County is the fourth most populous county in California and the 10th most populous county in the United States. Its population increased by 14.47% in the past 10 years.²¹

To serve its increasing community needs, the County’s overall budget increased by \$2,207,637,226 (47.2%). The ACO’s overall budget increased by \$1,055,452 (11.9%).^{22, 23} The ACO’s financial support for internal audits has decreased as Table 1 demonstrates.

Table 1
ACO’s Decreasing Financial Support for Internal Audits

	Fiscal Year 2012-2013	Fiscal Year 2021-2022	Differences
Dollars ACO Allocated to Support Internal Audits	\$1,606,894	\$1,475,029	(\$131,865)
Percent of ACO's Overall Budget to Support Internal Audits	18.12%	14.87%	-3.25%

Source: Riverside County Adopted Budgets

(See Appendix 2 for specific budget figures by fiscal years).

Fact 2.3
Financial Compensation

Internal auditor positions are classified as “professional” positions. The minimum education requirement is a Bachelor's degree, from an accredited college or university, with a specialization in accounting **or** possession of a valid certificate as a Certified Internal Auditor, Certified Fraud Examiner, Certified Information Systems Auditor, or licensed as a Certified Public Accountant.

Riverside County’s starting salary is lower than in other counties. For example, the starting salary for an “Internal Auditor I” is about \$2,000 less than San Bernardino County and at least \$13,000 less than Orange, San Diego, and Ventura counties. Table 2 displays the starting salary for each internal audit position by title and by county.

Table 2
Starting Internal Auditor Pay by County

Internal Audit Positions	Orange County	Riverside County	San Bernardino County	San Diego County	Ventura County
Chief Accountant/Internal Auditor	NA	\$91,876.30	\$103,064.00	NA	NA
Supervising Internal Auditor IV	\$71,697.00	\$66,319.00	\$68,910.00	\$89,856.00	NA
Senior Internal Auditor / Auditor III	\$72,322.00	\$60,201.00	\$56,992.00	\$75,649.00	\$72,943.78
Internal Auditor II	\$64,417.56	\$49,234.00	\$52,728.00	\$72,321.00	\$66,338.54
Internal Auditor I	\$62,712.00	\$46,717.00	\$48,464.00	\$63,190.00	\$59,704.69

Source: Each County's Internal Audit Department

Fact 2.4
Internal Auditor Positions

During the 2007-2008 fiscal year, Riverside County had 22 internal audit authorized positions and all 22 positions were filled. The County's number of internal auditors dramatically decreased by 59% from the 2007-2008 fiscal year to 2021-2022 fiscal year (Table 3).

Table 3
Number of Authorized Riverside County Internal Auditors:
Fiscal Years 2007-2008 to 2021-2022

Fiscal Years	Positions Authorized	Positions Filled	Fiscal Years	Positions Authorized	Positions Filled
2007-08	22	22	2015-16	13	11
2008-09	22	22	2016-17	13	11
2009-10	14	14	2017-18	13	9
2010-11	11	11	2018-19	9	7
2011-12	7	7	2019-20	14	9
2012-13	13	13	2020-21	14	9
2013-14	12	10	2021-22	11	9
2014-15	10	9			

Source: Riverside County's Adopted Budgets

Fact 2.5
Internal Audit Positions in Nearby Counties

Table 4 illustrates the number of internal auditors in Riverside County compared to other Southern California counties.

Table 4
Number of Internal Auditors by County
(March 2022)

Counties	Number of Internal Auditors (April 2022)
Orange	13
Riverside	9
San Bernardino	15
San Diego	13
Ventura	8

Source: Each County's Internal Audit Department

The ACO's approach is to fill internal audit positions with individuals who have no or very limited internal audit experience, whereas other counties frequently fill their internal audit positions with individuals with years of experience as internal auditors. Table 6 illustrates this point.

Fact 2.6
Internal Auditor Unit Staff

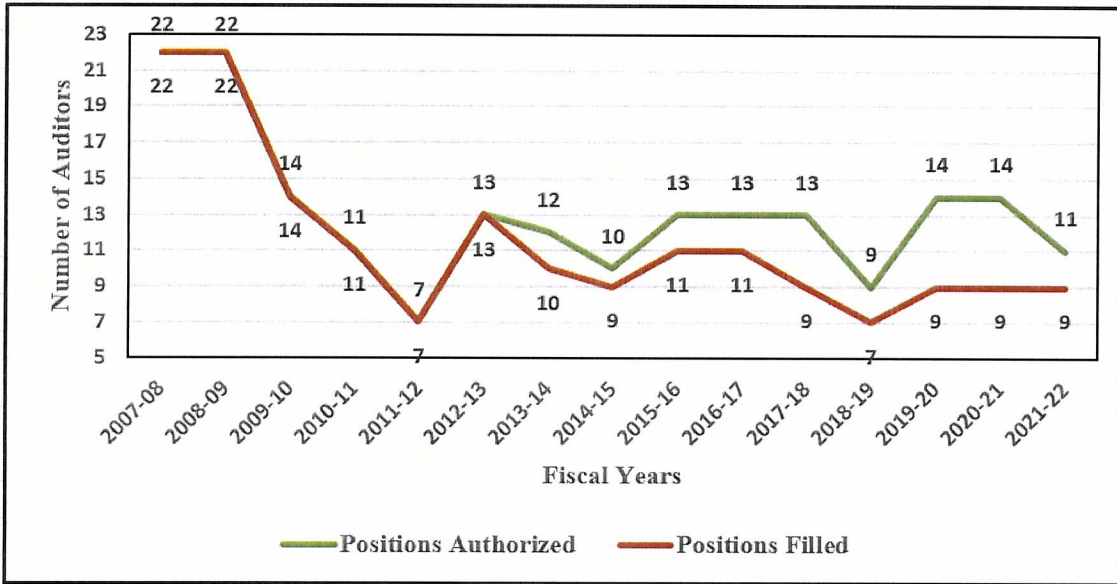
Understaffing the Internal Audit Unit is not a new issue. It has been brought to the Board and ACO's attention in a long series of Civil Grand Jury reports (1990, 1992, 1993, 1996, 1997, 2001, 2004, 2012).^{24, 25} The County's current ACO has been aware of the understaffing problem since at least 2012.²⁶

In response to a 2012 Grand Jury report, the ACO acknowledged the understaffing problem and responded that it was caused by the previous ACO, employee attrition, lengthy recruiting process, and the higher pay auditors can earn in the private sector.²⁷ Those same reasons are mentioned as to why the current Internal Audit Unit is understaffed.

Fact 2.7
Internal Auditor Positions Filled

Prior to the 2012-13 fiscal year, the ACO filled the number of internal audit positions authorized by the Board. As Chart 1 illustrates, the ACO failed to fill all the Board authorized internal audit positions every year since the 2012-13 fiscal year.^{28, 29} Other nearby counties have filled their number of authorized internal audit positions.

Chart 1
Comparison of Authorized Internal Audit Positions with Filled Positions



Source: Riverside County’s Adopted Budgets

Fact 2.8
Retention of Internal Auditors

Based on information obtained from Orange, San Bernardino, San Diego, and Ventura counties, Riverside County loses internal auditors at a faster rate than other counties, and the primary reason for leaving their positions is low salary (see Table 5).

Table 5
Three-Year Turnover Rate by Counties

	Orange County	Riverside County	San Bernardino County	San Diego County	Ventura County
3-Year Turnover Rate	3%	30%	3%	8%	21%
Left for More Money	0%	75%	0%	67%	20%

Source: Each County’s Internal Audit Department

In a three-year period, Riverside County lost 30% of its internal auditors. Of the Riverside County auditors who left, 75% said they left because of low salary.

Fact 2.9
Years of Experience

Table 6 compares the median years of experience as internal auditors in each nearby county. Riverside County’s median years of internal auditor experience is significantly lower than other counties.

Table 6
County Comparisons Median Internal Auditor Years of Service

Locations	Median Years of Experience as an Internal Auditor	Median Years of Experience as an Internal Auditor within Cuurent County
Orange County	9.5	6.0
Riverside County	2.0	2.0
San Diego County	12.0	7.0
Ventura County	6.0	5.0

* San Bernardino County did not provide the information.

Fact 2.10
Professional Certifications

The Institute of Internal Auditors offers four core global designations: Certified Internal Auditor,[®] Certification in Risk Management Assurance,[®] Qualification in Internal Audit Leadership,[®] and Internal Audit Practitioner.[®]

Table 7 compares the number of internal auditor certifications in each nearby county. Riverside County has few experienced, professionally certified internal auditors.

Table 7
Number of Internal Audit Certifications by County

	Orange County	Riverside County	San Bernardino County	San Diego County	Ventura County
Number of Professional Certifications	19	2	8	19	11
Number of Internal Auditors	13	9	15	13	8

Source: Each County’s Internal Audit Department

It is important to note that a single individual may have more than one professional certification. For example, Riverside County has one-person with two certifications: Certified Internal Auditor and Certification in Risk Management Assurance.

Fact 2.11
Internal Audit Unit Competencies

Standard 1210 indicates that, “Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.”³⁰

Based on interviews, Internal Auditor Unit members perform their duties to the best of their abilities. However, the lack of internal auditors, lack of years of experience as auditors, and so few professional certifications result in an overall unit lacking the knowledge, skills, and other competencies needed to perform its responsibilities as required by Standard 1210.

GENERAL TOPIC 3
EFFECTIVENESS OF INTERNAL AUDITS

Fact 3.1
Non-Compliance Audits

Based on County internal audits dated 2020 and 2021, the ACO conducted 59 internal audits. Of the 59 internal audits, 14 (23.7%) were identified as follow-up audits, five (8.5%) were identified as “Change of Department Head” audits.

“Follow-Up” and “Change of Department Head” audits are not considered new audits. This means 32.2% of the internal audits conducted during 2020 and 2021 did not fulfill Government Code §25250 and Riverside County Resolution 83-338³¹ that requires new department internal audits every two years.

Recently, the Grand Jury was informed that the ACO no longer uses follow-up audits and “Change of Department Head” audits in the same manner as before.

Fact 3.2
Information Technology

When a county has at least one internal auditor with a “Certification in Information Technology,” it is able to identify and prevent more security and financial risks than counties without that expertise. Orange County, San Diego County, and Ventura County have internal auditors with information technology expertise. Riverside County does not have an internal auditor with a “Certification in Information Technology.”

Fact 3.3

Information Technology Department Internal Audits

The ACO performed the following internal audits of the Riverside County Information Technology Department (RCIT) since 2016:³²

- 2016 – Countywide Contract Amendments and Competitive Bidding
- 2017 – Follow-Up Audit (on 2016 audit findings)
- 2018 – “Change of Department Head” Audit
- 2020 – Procurement Card Audit
- 2021 – “Change of Department Head” Audit

The ACO’s 2016 and 2020 internal audits had not include cybersecurity, validation of Internal Service Fund rates, ransomware, or any other RCIT operation or procedure.

Fact 3.4

Fraud Identification

A major threat to institutional integrity is fraud.³³ Individuals with a Certified Fraud Examiner (CFE) certification possess a unique set of diverse skills in preventing, detecting and investigating fraud. CFE auditors catch fraudulent activities within a governmental agency more frequently than other certified auditors. Riverside County does not have an internal auditor with a CFE certification.

Fact 3.5

High-Risk Divisions

The County has over 50 departments and agencies to audit every two-years. There are some divisions within County departments that have not been audited for extended periods of time.

For example, the Riverside University Health System’s Behavioral Health Department provides a variety of services to the community,³⁴ including the Public Guardian Division. The Public Guardian Division provides a variety of services for individuals the Court deems unable to handle their own finances safely. Public Guardian employees are assigned to assist clients by collecting their Social Security income, then using those funds to pay the client’s bills such as rent, utilities, medical expenses, and clothing.³⁵

The Public Guardian Division has not received a new audit since 2014. In the 2014 audit, the ACO wrote, “We will follow-up in one year to determine if actions were taken to correct the findings noted.”³⁶ The follow-up audit did not occur until 2017.

Fact 3.6

Follow-Up Internal Audits

Some internal audits require a follow-up audit. Follow-up audits are extensions of the original audits. The purpose of follow-up audits is to “monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.”³⁷

The Grand Jury examined 15 follow-up internal audits dating from December 2018 to April 2022. There was an average of two-years between the original audits and their corresponding follow-up audits. Although there are times when lengthy periods are required to complete corrective actions identified in an internal audit, the vast majority of follow-up audits need to occur within months rather than years.

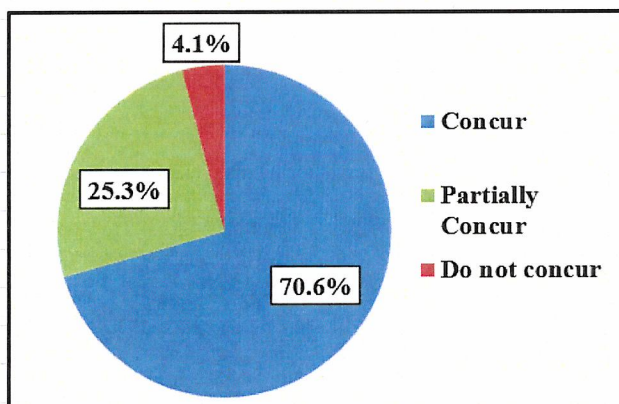
Fact 3.7

Responses to Internal Audit Findings

Internal audit reports list findings and recommendations. Recommendations are areas where corrective action(s) need to be made. Departments have the right to respond to each finding with a “Concur,” “Partially Concur,” or “Do Not Concur.”

The Grand Jury randomly selected and then examined 35 internal audit reports dated from December 2018 to April 2022. Combined, there were a total of 146 ACO findings and recommendations. Chart 2 illustrates the “Concur,” “Partially Concur,” or “Do Not Concur” percentages among the 146 findings.

Chart 2
Percent ACO-Department Agreements on Internal Audit Findings



Fact 3.8
Corrective Actions

Of the 35 randomly selected internal audit reports dated from December 2018 to April 2022, 15 internal audits were follow-up audits. Table 8 illustrates that, even when departments agree that corrective actions are necessary, departments do not feel an urgency to complete those corrective actions. Less than half the time corrective actions are completed by the time a follow-up audit occurs, and follow-up audits may not occur for two-years.

Table 8
Number and Percent of Completed Corrective Actions by Departments

15 Follow-Up Audits: ACO-Department Agreed on Recommendations		
Number of ACO-Department Agreed Recommendations	Number of Completed Corrective Actions by Department	Percent of Completed Agreed on Corrective Actions by Department
45	22	48.9%

Fact 3.9
Value of Internal Audits

Based on interviews and document reviews, internal audit reports cover a narrow area within a department (e.g., use of procurement cards). Even when departments agree with the ACO, internal audits are marginalized, and, in many cases, just ignored.

When there are disputes on the accuracy of internal audit findings, there is no policy or procedure to resolve the issue(s) between the ACO and departments other than writing about their disagreements in final internal audit reports.

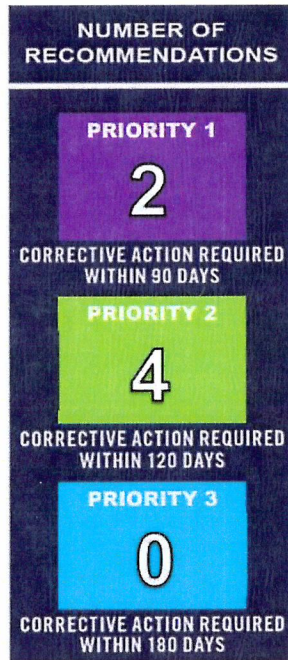
Fact 3.10
Classifying Internal Control Findings

Unlike some counties, Riverside County’s internal audits do not classify the severity of control findings within its internal audit reports. Currently, there is no way for the reader to know how critical an issue is or how fast it needs to be rectified.

Orange County uses the following classification system, which identifies the severity of a control finding as well as how quickly the control finding needs to be addressed on the front page of the report.³⁸

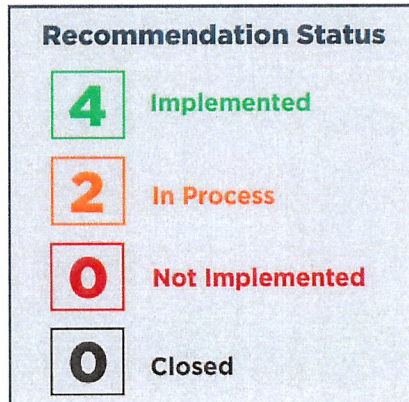
Critical Control Weakness	Significant Control Weakness	Control Finding
<p>These are audit findings or a combination of audit findings that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise the department's or County's reputation for integrity. Management is expected to address Critical Control Weaknesses brought to its attention immediately.</p>	<p>These are audit findings or a combination of audit findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses require prompt corrective actions.</p>	<p>These are audit findings concerning the effectiveness of internal control, compliance issues, or efficiency issues that require management's corrective action to implement or enhance processes and internal control. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.</p>

Los Angeles County internal audit reports indicate the number of recommendations and how quickly they need to be addressed on the first page.³⁹ Recommendations are ranked from Priority 1 to 3 based on the potential seriousness and likelihood of negative impact on the Agency's operations if corrective action is not taken. (See Appendix 3 for detailed definitions for each priority level.)



Fact 3.11
Status of Follow-Up Audits

Unlike Orange County, Riverside County’s follow-up internal audits do not provide an easy way for readers to see what type of progress a department is making toward implementing recommended improvements. Orange County’s follow-up internal audit have the following type of status image on them.⁴⁰



Fact 3.12
ACO Accountability

Professional Standard 1320 requires the ACO to “communicate the results of the quality assurance and improvement program [a.k.a. Peer Reviews] to senior management and the board.⁴¹ The ACO provides the Board and CEO with separate department audits. Those reports frequently appear on the Board’s meeting agendas.

Professional Standard 1312 states, “External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization.”⁴² The ACO did arrange for Peer Reviews in 2011, 2014, 2019, and 2022.

To demonstrate conformance with Standard 1320, “the results of external and periodic internal assessments are communicated upon completion of such assessments, and the results of ongoing monitoring are communicated at least annually.”⁴³

In 2019, Santa Cruz County conducted a Peer Review of Riverside County’s Internal Audit Unit. One of the findings in that Peer Review states, “results of the previous external quality review were not communicated to senior management and the Board of Supervisors.”⁴⁴

Infotech Global Audit and Security, Inc. conducted a Peer Review of the ACO’s Internal Audit Unit at the end of 2021 and released its report to the ACO on March 9, 2022. Standard 1320 requires the ACO to provide the results of that Peer Review to the Board upon completion. The ACO indicated that it would provide the Board with a copy of the report in June or July 2022. This delay does not comply with Standard 1320.

Riverside County does not produce the following monitoring reports and accountability displays.

- Systemic Internal Audit Findings (Reports that identify similar problems across multiple departments.)
- Annual Risk Assessment and Management Plan⁴⁵ (Internal audit plan based on a countywide risk assessment.)
- Quarterly Internal Audit Status Reports⁴⁶ (Reports comparing internal audit plans to audits completed, summary of recommendations, and status of completing recommendations.)
- Contract Monitoring Reports⁴⁷ (Reports monitoring vendors' satisfactorily completing contractual agreements.)
- Countywide Risk Management Dashboard⁴⁸ (Dashboard summarizing countrywide risks and the county's ability to reduce and/or eliminate risks.)

Fact 3.13

Working Relationships

Based on interviews and document reviews, there are dysfunctional working relationships among the ACO and many other County leaders.

Many County and department leaders perceive the ACO department as hypocritical. On one hand, the ACO stresses that it saves the County money by how it operates. On the other hand, County and department leaders are aware of the reports contributing large, unnecessary expenditures to the ACO.^{49, 50} The following expenditures are attributed to the ACO:

- General Liability Claims - \$4,435,000.00⁵¹
- Worker's Compensation Claims - \$73,023.00⁵²
- Professional Development - \$89,000⁵³

It is important to note that County leaders are expected to continually learn and keep up with their respective fields of expertise. However, it is also expected that those professional learning experiences will come at reasonable costs. Paying approximately \$89,000 to attend professional development opportunities at Harvard University, UC Berkeley and the University of Southern California is considered excessive and unnecessary when similar professional development opportunities were available locally for far less money.

The appearance of the ACO's hypocrisy results in mistrust of the ACO. This is demonstrated by six specific County departments that have openly questioned the integrity and value of internal audits. These departments question the competence of those conducting internal audits and, at times, provide minimal cooperation with internal auditors because they mistrust how the information will be used.

FINDINGS

Finding 1

California Government Code §25250 requires counties to audit their departments every two-years. The ACO's use of "Follow-Up" and "Change of Department Head" audits to fulfill this legal requirement violates California law.

Supported by Facts 1.1 and 3.1

Finding 2

Professional Standard 1100 requires the Internal Audit Unit be independent. With the Internal Audit Unit included within the ACO's "Audits and Specialized Accounting Division," the Internal Audit Unit is not completely independent. Hence, the ACO is not complying with Standard 1100.

Supported by Fact 2.1

Finding 3

The County's internal audits are marginalized and, in many cases, just ignored.

Supported by Facts 3.5, 3.6, 3.7, 3.8, and 3.9

Finding 4

The County's Internal Audit Unit members do not have the combined knowledge, skill, and experience to perform their responsibilities as required by Standard 1210.

Supported by Facts 2.2, 2.3, 2.4, 2.5, 2.6, 2.7, 2.8, 2.9, 2.10, and 3.2

Finding 5

The County consistently fails to rectify known limitations in its Internal Audit Unit.

Supported by Facts 2.2, 2.3, 2.4, 2.5, 2.6, 2.7, 2.8, 2.9, and 2.10

Finding 6

The County's Internal Audit Unit members lack professional certifications and experience in critical areas, which in turns exposes the County to potential financial and operational risks.

Supported by Facts 2.9, 2.10, 3.3, and 3.4

Finding 7

The County's lack of an audit oversight committee has resulted in some high-risk areas missed by internal audits for several years.

Supported by Facts 1.4, 1.5, 2.9, 2.10, 3.3, 3.4, and 3.10

Finding 8

The County's internal audit reports do not provide the Board and Executive Office with (a) summary information about the seriousness of its findings, (b) likelihood of negative impacts to the County, or (c) how quickly corrections need to be made.

Supported by Fact 3.10

Finding 9

The County's follow-up internal audit reports do not provide the Board and Executive Office with summary information on the status of departments implementing required corrective actions.

Supported by Fact 3.11

Finding 10

The County lacks summary reports and a monitoring mechanism that provides the Board and Executive Office with the following types of reports:

- Bi-Annual Systemic Internal Audit Findings Reports
- Annual Risk Assessment and Management Plan
- Quarterly Internal Audit Status Reports
- Contract Monitoring Reports
- Countywide Risk Management Dashboard

Supported by Facts 1.2, 1.5, 3.8, 3.9, 3.11, 3.12, and 3.13

Finding 11

An internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility, including access to confidential records. The County's internal audit charter has not been updated in 39 years. The County's internal charter is outdated and does not comply with Standard 1010.

Supported by Fact 1.3

Finding 12

Dysfunctional working relationships among County and department leaders significantly hinders the effectiveness of internal audits.

Supported by Facts 3.8, 3.9, 3.11, 3.12, and 3.13

DISCUSSION

Governmental agencies that strive for excellence engage in two general activities: (1) actively seek ways to assess their current effectiveness to provide services to their constituents and (2) aggressively take steps to improve. Their attitude is to continuously improve and not settle for the status quo.

Riverside County has the opportunity to transform its current use of internal audits from primarily ignored to highly effective tools to monitor compliance with financial laws, policies, and procedures. One of the many lessons learned from the 1994 Orange County, California bankruptcy was that internal audits play a critical role in preventing serious financial problems and help to improve county procedures.

The Board, Executive Office, and ACO have known about the issues surrounding internal audits for many years and have not yet taken the steps necessary to resolve them. Unlike Orange

County in the 1990s, Riverside County’s Board, Executive Office, and ACO have the opportunity to be proactive in establishing the importance of internal audits and resolve outstanding issues surrounding the County’s internal audits.

Riverside County has changed dramatically in the past decade. However, the County appears to be content with the status quo. The Grand Jury is not aware of anyone who advocates for improvements within the ACO. Other department leaders do advocate for their departments to receive additional funds, additional personnel, and/or resources.

In conclusion, the Board, Executive Office, and ACO have the opportunity to demonstrate their leadership abilities by transforming the current ineffectual internal audit system into a highly effective one. The question is, “Will they?”

RECOMMENDATIONS

Recommendation 1

By January 1, 2024, the Board adopt a policy establishing an Audit Oversight Committee with membership drawn from the Board, Executive Office, ACO, Risk Management Steering Committee, private sector, and all five supervisor districts.

Based on Finding 7

Financial Impact – Minimal

Recommendation 2

By January 1, 2024, the Board adopt a policy that requires internal audit plans to audit all departments every two-years with an emphasis on high-risk financial and operational topics.

Based on Findings 1, 5, and 7

Financial Impact – Minimal

Recommendation 3

By January 1, 2024, the Board adopt a policy that requires the ACO to conduct any internal or external audit at the discretion of the Board and/or Executive Office regardless if the topic appears on an approved annual audit plan or not.

Based on Finding 7, 8, 9, 10, and 11

Financial Impact – Minimal

Recommendation 4

By January 1, 2024, the Board adopt a policy that requires the ACO to have at least one internal auditor with a Certified Fraud Examiner and at least one internal auditor with expertise in Information Technology.

Based on Findings 4 and 6

Financial Impact – Moderate to Significant Depending on Implementation

Recommendation 5

By January 1, 2024, the Board adopt a policy that establishes procedures to resolve disputed internal audit findings between the ACO and department/agency directors.

Based on Findings 3, 5, 11, and 12

Financial Impact – Minimal

Recommendation 6

By January 1, 2024, the Board adopt a policy that requires the ACO to (a) indicate severity of risks identified in internal audit reports, (b) the amount of time departments have to reduce or eliminate those risks, and (c) when follow-up internal audits will occur.

Based on Findings 3, 5, 8, and 9

Financial Impact – Minimal

Recommendation 7

By January 1, 2024, the Board adopt a policy that requires the ACO to include the status of departments implementing required corrective actions in its follow-up audit reports.

Based on Finding 9

Financial Impact – Minimal to Moderate

Recommendation 8

By January 1, 2024, the Board adopt a policy that requires the ACO to provide them with the following types of reports:

- Bi-Annual Systemic Internal Audit Findings Reports
- Annual Risk Assessment and Management Plan
- Quarterly Internal Audit Status Reports
- Contract Monitoring Reports
- Countywide Risk Management Dashboard

Based on Findings 1, 3, 5, 7, 8, 9, 10, and 11

Financial Impact – Minimal to Moderate

Recommendation 9

By January 1, 2024, the Board adopt a policy that requires internal audit findings be included in all department leaders' annual performance reviews.

Based on Findings 3, 5, 9, and 11

Financial Impact – Minimal

Recommendation 10

By January 1, 2024, the Board adopt a policy that establishes a Countywide Risk Management Dashboard.

Based on Findings 3, 4, 6, 7, 8, 9, 10, and 11

Financial Impact – Moderate to Significant Depending on Implementation

Recommendation 11

By January 1, 2024, the County evaluate the financial compensation it provides internal auditors working within the ACO and take the necessary actions to achieve the following:

- Competitive financial compensation packages for each internal audit job classification level.
- Enhanced compensation for internal auditors with a “Certified Internal Audit” certification.
- Enhanced compensation for internal auditors with additional professional certifications in Information Technology and fraud detection.
- Update Job Descriptions to include Enhanced compensation for Professional Certifications

Based on Findings 4, 5, and 6

Financial Impact – Moderate to Significant Depending on Implementation

Recommendation 12

By July 1, 2023, the ACO divide the Audits and Specialized Accounting Division into two divisions: (1) “Audits” Division and (2) “Specialized Accounting” Division.

Based on Finding 2

Financial Impact – Minimal

Recommendation 13

By January 1, 2024, the Board adopt a policy that requires the ACO to review and update the internal audit charter to be in full compliance with the Standards.

Based on Findings 2 and 12

Financial Impact – Minimal

LEGALLY REQUIRED RESPONSES

According to California Penal Code §933 (c), the following responses are required within 90 days:

Riverside County: Board of Supervisors

Recommendations 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 12, and 13

Riverside County: County Executive Officer

Recommendations 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, and 13

Riverside County Auditor Controller

Recommendations 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, and 13

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Appendix 1

List of County Agencies and Departments Audited by ACO

Agricultural Commissioner's Office	Flood Control and Water Conservation District
Animal Services	Human Resources
Assessor – County Clerk – Recorder	Information Technology
Children and Families Commission	In-Home Support Services Public Authority
Clerk of the Board	Office on Aging
Community Action	Parks
Community Services	Probation
Cooperative Extension	Public Defender
County Counsel	Public Social Services
Department of Child Support Services	Purchasing/Fleet Services
Department of Public Social Services	Registrar of Voters
District Attorney	Riverside University Health System - Behavioral Health
Economic Development Agency	Riverside University Health System - Medical Center
Emergency Management Department	Riverside University Health System - Public Health
Environment Health	Sheriff-Coroner
Executive Office	Treasurer-Tax Collector
Edward Dean Museum	Transportation Land Management Agency
Facilities Management	Veteran's Services
Fire Protection	Waste Management

Appendix 2

Specific Riverside County and ACO Approved Budgets: Fiscal Years 2012-2013 to 2021-2022

From the County's 2012-2013 adopted budget to the 2021-2022 adopted budget, the County's budget increased by \$2,207,637,226 (47.2%). During that same period, the ACO's allocation increased by \$1,055,452 (11.9%), while the Internal Audit Unit decreased by **\$131,865 (-8.2%)**.

Fiscal Years	Approved County Budget (Total)	Approved ACO Budget (Total)	ACO's Budget Allocated to Internal Audits
2021-22	\$6,883,337,226	\$9,921,211	\$1,475,029
2020-21	\$6,796,564,463	\$9,628,030	\$1,475,029
2019-20	\$6,098,100,000	\$9,807,621	\$1,611,865
2018-19	\$5,572,900,000	\$9,730,717	\$1,611,865
2017-18	\$5,500,000,000	\$9,518,554	\$1,678,865
2016-17	\$5,439,800,000	\$9,204,902	\$1,795,578
2015-16	\$5,342,200,000	\$9,581,412	\$1,664,568
2014-15	\$4,765,200,000	\$9,231,627	\$1,340,000
2013-14	\$4,701,200,000	\$8,645,771	\$1,459,550
2012-13	\$4,675,700,000	\$8,865,759	\$1,606,894

Appendix 3 Los Angeles County Internal Audit Priority Ranking Definitions

Priority 1 Issues

Priority 1 issues are control weaknesses or compliance lapses that are significant enough to warrant immediate corrective action. Priority 1 recommendations may result from weaknesses in the design or absence of an essential procedure or control, or when personnel fail to adhere to the procedure or control. These may be reoccurring or one-time lapses. Issues in this category may be situations that create actual or potential hindrances to the department's ability to provide quality services to the community, and/or present significant financial, reputational, business, compliance, or safety exposures. Priority 1 recommendations require management's immediate attention and corrective action within 90 days of report issuance, or less if so directed by the Auditor-Controller or the Audit Committee.

Priority 2 Issues

Priority 2 issues are control weaknesses or compliance lapses that are of a serious nature and warrant prompt corrective action. Priority 2 recommendations may result from weaknesses in the design or absence of an essential procedure or control, or when personnel fail to adhere to the procedure or control. These may be reoccurring or one-time lapses. Issues in this category, if not corrected, typically present increasing exposure to financial losses and missed business objectives. Priority 2 recommendations require management's prompt attention and corrective action within 120 days of report issuance, or less if so directed by the Auditor-Controller or the Audit Committee.

Priority 3 Issues

Priority 3 issues are the more common and routine control weaknesses or compliance lapses that warrant timely corrective action. Priority 3 recommendations may result from weaknesses in the design or absence of a procedure or control, or when personnel fail to adhere to the procedure or control. The issues, while less serious than a higher-level category, are nevertheless important to the integrity of the department's operations and must be corrected or more serious exposures could result. Departments must implement Priority 3 recommendations within 180 days of report issuance, or less if so directed by the Auditor-Controller or the Audit Committee.

Source:

County of Los Angeles, Los Angeles County Auditor-Controller, "The Office of County Counsel: Information Technology and Security Review: First and Final Follow-Up Review," page Appendix II. Date November 15, 2019. Accessed April 13, 2022, from http://file.lacounty.gov/SDSInter/auditor/audit_reports/1064558_2019-11-15TheOfficeofCountyCounsel-InformationTechnologyandSecurityReviewReportK18DS-FirstandFinalFollow-UpReview.pdf

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