

Internal Audit Report 2017-009

**Riverside County Children and Families
Commission, Countywide Purchase Order
Process**

Report Date: June 2, 2017



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June 2, 2017

Susan von Zabern
Director
Riverside County Department of Public Social Services
4060 County Circle Drive
Riverside, CA 92503

Subject: Internal Audit Report 2017-009: Riverside County Children and Families Commission, Countywide Purchase Order Process

Dear Ms. von Zabern:

We have completed an audit of Riverside County Children and Families Commission to provide management and the Board of Supervisors with an independent assessment of internal controls over the purchase order process. We conducted the audit from January 24, 2017, through March 20, 2017, for operations from July 1, 2014, through December 31, 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 identified opportunities for improvement of internal controls relating to coding of purchase orders. We determined Riverside County Children and Families Commission internal controls over other purchase order processes provide reasonable assurance that its objectives relating to those areas will be achieved. Reasonable assurance recognizes internal controls have inherent limitations, including cost, mistakes, and intentional efforts to bypass internal controls.

Internal Audit Report 2017-009: Riverside County Children and Families Commission

We thank the Riverside County Children and Families Commission 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

Riverside County Children and Families Commission, also known as First Five Riverside, is a division of the Riverside County Department of Public Social Services. First Five Riverside was formed to provide County of Riverside children up to the age of five, assistance in their health and development. "First Five Riverside is funded by tobacco taxes generated by Proposition 10, which passed in November 1998. The statewide initiative added a 50 cent tax per pack of cigarettes and a comparable tax on other tobacco products." Riverside County Children and Families Commission, About Us, Riverside County Children and Families website, accessed March 13, 2017, <http://www.rccfc.org/aboutus.htm>.

First Five Riverside consists of five units: Administration, Contracts and Grants, Evaluations, Fiscal, and Programs. The Contracts and Grants unit handles purchase orders processing with two buyers authorized to process purchase orders and six low value purchasers authorized to process requisitions under \$400. Riverside County Purchasing and Fleet Services Department (Central Purchasing) staff assist with purchases above First Five Riverside's authorized \$50,000 amount.

First Five Riverside contracts for most of its services and personal property, which include, but is not limited to, daycare, childcare, landscaping, utilities, equipment, computers, furniture, and books.

Audit Objective

Our objective is to provide management and the Board of Supervisors with an independent assessment about the adequacy and effectiveness of internal controls over the purchase order process.

Audit Conclusion

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to coding of purchase orders. We determined Riverside County Children and Families Commission internal controls over other purchase order processes provide reasonable assurance that its objectives relating to those areas will be achieved. Reasonable assurance recognizes internal controls have inherent limitations, including cost, mistakes, and intentional efforts to bypass internal controls.

Purchase Order Process

Background

The purchase order process involves the acquisition of equipment, furnishings, supplies, maintenance, construction, and contractual services within pre-established budgetary constraints. Riverside County Purchasing Policy Manual (Purchasing Policy Manual) provides uniform procedures for the purchasing of goods and services needed in operation by County of Riverside departments and agencies. Purchase orders perform a key role in the acquisition process. A well-detailed purchase order clearly defines the item or service being purchased, vendor information, specific terms of the purchase, and specifications of cost, quantities and delivery terms. The County of Riverside uses a variety of purchase orders to procure supplies and services. Following is a list of purchase orders used by the County of Riverside:

<u>Types</u>	<u>Description</u>
BL-G	Blanket non-rollover purchase order for goods.
BL-S	Blanket non-rollover purchase order for services.
RBLG	Roll over blanket purchase order for goods.
RBLS	Roll over blanket purchase order for services.
REGG	Regular purchase order for goods.
REGS	Regular purchase order for services.
LVPA	Low value purchase order for goods.
LV-S	Low value purchase order for services.
LEAS	Lease purchase payment purchase order.
FIN	Purchase order to vendor when goods are financed through third party.
ELVP	Extended low value purchase order for goods.
ELVS	Extended low value purchase order for services.
CONV	Conversion purchase order from PeopleSoft 7.5 to 8.8.
PRNT	Printing purchase order for inventory business unit only.
SPLY	Supply purchase order for inventory business unit only.

The Board of Supervisors delegated the authority to purchase and contract to the Purchasing Agent, via Riverside County Ordinance 459, as amended through 459.5, *Establishing Purchasing Policies and Procedures*. The Director of Purchasing is the Purchasing Agent for the County of Riverside. The Purchasing Agent has delegated her authority to her staff with varying limitations.

Depending on the size and complexity of the department, the Purchasing Agent may assign staff to the department, or a department may hire their own staff to carryout purchasing duties.

Riverside County Ordinance 459, Section (3), *Exceptions*, indicates no purchases shall be made by any county officer or employee without a purchase order or other written authority first obtained from the Purchasing Agent.

Purchasing Policy Manual dated February 1, 2013, requires a purchase order for all purchases over \$400 and Purchasing Policy Manuals dated August 1, 2015, and September 1, 2016, require a purchase order for all purchases unless the item or service was approved by the Board of Supervisors or exempted by Ordinance 459.

Objective

Our objective is to provide management and the Board of Supervisors with an independent assessment about the adequacy and effectiveness of internal controls over the purchase order process.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed laws, codes, and regulations, ordinances, applicable policies and procedures.
- Conducted interviews and performed walk-throughs with department personnel.
- Reviewed financial information from County of Riverside Financial System for the period of July 1, 2014, through December 31, 2016.
- Selected a judgmental sample of 60 purchase orders valued at \$1,111,548 for review.
- Reviewed purchase orders and verified they had been approved by the appropriate personnel.
- Verified there was no bid splitting of purchases.
- Verified expenditures were incurred after the purchase order was approved.

Finding 1: Coding of Purchase Order

Purchase order type codes were inaccurately recorded. Our review of 60 purchase orders disclosed 10 (17%) totaling \$45,827 contained inaccurate purchase order type codes. Procedures to verify the purchase order type code prior to approval are currently not in place. The Riverside County Purchasing Manual specifically states that different purchase order types require different approvals. Using an inaccurate purchase order type may affect several aspects of the order such as matching for payment, sales tax requirements, reporting requirements, and the appropriate approvals.

Recommendation 1

Revise the purchase order procedure to include verification of purchase order type codes prior to approval of a purchase order.

Management Response: “Concur”

“Although we agree with the auditor’s finding, we believe one purchase order for coffee services totaling \$1,800 was properly coded. This purchase order included a non-taxable amount of \$1,387.25 (77%) for services and a taxable amount of \$412.75 (23%) for filters. Since the majority of the purchase order was for intangibles to include services, we are of the opinion the purchase order type was correctly coded. To improve our purchase order coding, we will have our First 5 division’s designated buyers revise the purchase order procedures. The revision will include verification of purchase order type codes prior to approval.”

Actual/Estimated Date of Corrective Action: June 30, 2017