

Internal Audit Report 2017-011

**Riverside County Flood Control and
Water Conservation District, Countywide
Vendor Discount**

Report Date: June 2, 2017



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

www.auditorcontroller.org



COUNTY OF RIVERSIDE
OFFICE OF THE
AUDITOR-CONTROLLER

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



Paul Angulo, CPA, MA
Riverside County Auditor-Controller

Frankie Ezzat, MPA
Assistant Auditor-Controller

June 2, 2017

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

Subject: Internal Audit Report 2017-011: Riverside County Flood Control and Water Conservation District, Countywide Vendor Discount

Dear Mr. Uhley:

We have completed a vendor discount audit to provide management and the Board of Supervisors with an independent assessment of internal controls over vendor discounts. This report assesses the Riverside County Flood Control and Water Conservation District internal controls over the accounts payable process as it relates specifically to vendor discounts. We conducted the audit from January 18, 2017, through April 3, 2017, for vouchers paid during the period of July 1, 2014, through January 31, 2017.

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 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 over the accounts payable process as it relates specifically to vendor discounts. Riverside County Flood Control and Water Conservation District internal controls over vendor discounts does not provide reasonable assurance that its objectives relating to this area will be achieved. Reasonable assurance recognizes internal controls have inherent limitations, including cost, mistakes, and intentional efforts to bypass internal controls.

**Internal Audit Report 2017-011: Riverside County Flood Control and Water Conservation District,
Countywide Vendor Discount**

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

Paul Angulo, CPA, MA
Riverside County Auditor-Controller



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

cc: Board of Supervisors
Executive Office
Grand Jury

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Executive Summary

Overview

“The Riverside County Flood Control and Water Conservation District (Flood Control) is the regional flood management authority for the western part of Riverside County. As a Special District, Flood Control’s jurisdiction does not extend over the entire County but only the western 40%. The responsibility for drainage in the eastern part of the County is borne by a combination of the County Transportation Department, the Coachella Valley Water District, the various cities and a variety of local entities. The District does provide certain non-tax supported functions (such as Floodplain Management, development review, NPDES compliance, etc.) for the entire County. And unlike a County Department, the District has authority to expend tax dollars within city boundaries as well as within unincorporated areas. The purpose of Flood Control is to provide:

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

The District’s 235 employees are divided into eight Divisions: Planning, Design & Construction, Regulatory, Surveying and Mapping, Operations, Information Technology, Finance, and Watershed Protection. The Flood Control District is a special district rather than a County Department, and as such, receives a dedicated share of property taxes – about 3-7%. In addition to property taxes (which are the chief income source), other revenue sources for the District include developer fees and cost sharing arrangements with other governmental entities. Today, the District has an annual budget of approximately \$150 million and total assets of nearly \$1 billion.” *Riverside County Flood Control and Water Conservation District, District Overview, Riverside County Flood Control and Water Conservation District website, accessed March 30, 2017, <http://www.rcflood.org/DistrictOverview.aspx>*

For the period of July 1, 2014, through January 31, 2017, Flood Control paid 437 vouchers, valued at \$665,166, to vendors who could potentially offer a discount for prompt payment. PeopleSoft queries indicated that Flood Control took the discount for prompt payment in seven of those vouchers. Of the remaining 430 vouchers, we selected a statistical sample of 207 for testing. Testing of those 207 vouchers revealed that 171 indeed offered a discount for prompt payment. The discount was not taken on any of those 171 vouchers.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of Flood Control internal controls over the accounts payable process as it relates specifically to vendor discounts.

Audit Conclusion

Based upon the results of our audit, we identified opportunities for improvement of internal controls over the accounts payable process as it relates specifically to vendor discounts. The Riverside County Flood Control and Water Conservation District internal controls over vendor discounts does not provide reasonable assurance that its objectives relating to this area will be achieved. Reasonable assurance recognizes internal controls have inherent limitations, including cost, mistakes, and intentional efforts to bypass internal controls.

Vendor Discounts

Background

Prompt payment discounts are incentives offered by vendors to encourage faster payments. Discounts for early payment may be incorporated into the base of the contract or offered on individual invoices. The discount is available if payment is made within the specified prompt payment period.

The amount of the prompt payment discount is typically one or two percent if payment is made within 10 days. However, the amount of the discount and the time in which you have to take advantage of the prompt payment discount can vary from business to business. To a large extent, a vendor's prompt payment discount is based on what is common for the vendor's line of business. Some vendors offer generous trade discounts, while others offer no trade discounts at all.

Full payment is normally due within 30 days if the department does not take advantage of the prompt payment discount. The vendor's prompt payment discount may be shown as the credit terms on the invoice or purchase order. Prompt payment discounts are generally listed in the following format: "1/10," "2/15," or "4/20" all indicating the amount of the discount offered and the number of days the department has to take advantage of the discount. In these examples a one, two or four percent discount is being offered if the payment is made within 10, 15, or 20 days respectively.

The Riverside County Purchasing & Fleet Services Vendor Handbook states County of Riverside default payment terms as follows:

"For calculating due dates for payment terms, the County will use either the date an acceptable invoice is received by the County or the date the goods/services are received and accepted, whichever is later. Unless negotiated differently, the County default payment terms are Net 30."

Flood Control should strive to take advantage of prompt payment discounts as provided by respective vendors.

Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over the accounts payable process as it relates specifically to vendor discounts.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed applicable policies and procedures.
- Conducted interviews and performed walk-throughs with fiscal staff.
- Utilized the County of Riverside Financial System (PeopleSoft) queries to identify vendors who have offered a discount for prompt payment.
- Selected a statistical sample of 207 vouchers for review.
- Reviewed the vouchers and verified that if a discount for prompt payment was offered, Flood Control took advantage of that discount.

Finding 1: Missed Vendor Discounts

Flood Control did not consistently take advantage of prompt payment discounts offered by vendors. Our review of 207 vouchers disclosed that 171 (83%) of those vouchers, offered a discount for prompt payment and Flood Control did not take advantage of the discount. Flood Control does not have a process to ensure vendor invoices offering a discount for prompt payment are processed in a timely manner to take advantage of the discount. In addition, Flood Control's policies and procedures do not address the need to take advantage of vendor discounts. Based on our statistical sample, we can project with a 95% confidence level, that as many as 370 of the 430 vouchers offered a discount for prompt payment and the discount was not taken. Leading business practices encourage agencies to take discounts for prompt payment as often as possible to maximize the financial benefit.

Recommendation 1:

Flood Control should review its policies and procedures and make changes as necessary to ensure vendor discounts for prompt payment are taken.

Management's Response: "Concur"

"The District concurs and is in the process of making the following changes:

1. Evaluate all vendors' prompt payment discount programs to characterize and prioritize opportunities for savings. Updating existing policies and procedures to specifically include consistently taking advantage of payment discounts offered by vendors within a defined payment turnaround timeframe; and
2. Reorganizing the accounting section, specifically AP and AR, to improve its own internal audit function and use of Best Business Practices."

Actual/Estimated Date of Corrective Action:

Estimated completion date for reorganization (currently in progress) is June 30, 2017. Estimated completion date for the revision and implementation of updated policies and procedures is December 31, 2017.