

Internal Audit Report 2017-312

**Riverside County Purchasing and
Fleet Services Department, Follow-up**

Report Date: March 27, 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

ACO | AUDITOR
CONTROLLER
COUNTY OF RIVERSIDE

Paul Angulo, CPA, MA
Riverside County Auditor-Controller

Frankie Ezzat, MPA
Assistant Auditor-Controller

March 27, 2017

Lisa Brandl
Director
Riverside County Purchasing and Fleet Services Department
2980 Washington Street
Riverside, CA 92504

Subject: Internal Audit Report 2017-312: Riverside County Purchasing and Fleet Services Department, Follow-up Audit

Dear Ms. Brandl:

We have completed the first follow-up audit of the Riverside County Purchasing and Fleet Services Department. Our audit was limited to reviewing actions taken as of December 20, 2016, to correct the findings noted in our original audit report 2014-005 dated June 25, 2014.

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 opinion.

The original audit report contained eleven recommendations, which required implementation to correct the reported findings. Based on the results of our audit, we found that of the eleven recommendations:

- Ten recommendations were implemented.
- One recommendation was partially implemented.

Details of the findings from the original audit and 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 2014-005 at www.auditorcontroller.org/Divisions/InternalAudit/InternalAuditReports.

Internal Audit Report 2017-312: Riverside County Purchasing and Fleet Services, Follow-up Audit

We appreciate the cooperation and assistance provided by the staff of the Riverside County Purchasing and Fleet Services Department during this follow-up audit. Their assistance contributed significantly to the successful completion of the audit.

Paul Angulo, CPA, MA
Riverside County Auditor-Controller



By: René Casillas, CPA, CRMA
Interim Chief Accountant

cc: Board of Supervisors
Executive Office
Grand Jury

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Capital Assets

Finding 1: Improving Capital Asset Management

Capital assets were not properly tagged and/or identified in the County of Riverside Financial System, PeopleSoft - Asset Management Module (Asset Module). We excluded vehicles and structures from our sample and selected 30 capital assets from the Asset Module and five capital assets from the actual location. Based on our review, six (17%) of the 35 capital assets selected for review either contained partial inaccurate record information or had the wrong or no asset tag attached. These inaccuracies resulted from the Purchasing and Fleet Services Department (Department) focusing on the existence of capital assets while performing their annual inventory rather than validating the fixed asset tag or accuracy of records. Failure to properly record capital assets in the Asset Module may negatively affect the process of identifying, controlling, and valuing County of Riverside assets.

Recommendation 1

Conduct physical inventories and update the Asset Module to ensure accuracy and completeness of asset identification information and ensure all assets are properly tagged or marked as County of Riverside property.

Current Status: Implemented

Capital assets are inventoried annually. The inventory process ensures asset tags are present and validates Asset Module records with assets.

Finding 2: Timely Reporting of Capital Assets

Capital asset acquisitions and retirements were not reported to the Auditor-Controller's Office (ACO) in a timely manner. Our review of 30 acquisitions and 30 retirements from July 1, 2011, through June 30, 2013, disclosed documents for 20 (67%) of the 30 acquired assets were submitted for asset capitalization on average 74 days after the assets were placed in service and 15 (97%) of the 30 retired asset from inventory were submitted 57 days after the assets were sold at auction. This occurred because the requirement to report capital asset transaction within 30 days to the ACO was not included in the Department's capital assets policies and procedures manual. Reporting the acquisition or retirement of capital assets in an untimely manner may result in loss of control over assets and/or misstating the value of capital assets.

Recommendation 2.1

Update the capital assets policies and procedures manual to include a 30-day reporting requirement for acquisitions and retirements to the ACO.

Current Status: Implemented

A requirement to report new capital asset additions and retirements to the ACO within 30 days was included in the Department's capital asset procedures and its capital asset processors have been instructed to comply with the procedures.

Recommendation 2.2

Regularly monitor capital asset acquisition and retirements are reported to the ACO promptly after the transaction occurs.

Current Status: Implemented

Department continuously monitors acquisitions and retirements to ensure capital asset record changes are promptly reported to the ACO. The capital asset management policy developed after our original audit, requires coordination and monitoring of capital assets by the accounts payable staff and fixed asset coordinator.

Cash Handling

Finding 3: Adherence to Daily Deposit Requirement

The Department did not post and/or deposit checks in a timely manner nor obtain a daily deposit exemption with the ACO. Our review of 47 deposits disclosed 35 (74.4%) were not deposited and/or posted in a timely manner. These late submissions resulted from the Department holding checks until they reached \$5,000 in the aggregate rather than depositing checks when received. Depositing checks in an untimely manner may result in lost interest and/or lost or stolen checks. The areas noted included:

- Seven (14.8%) checks were deposited late.
- One (2.1%) check was posted late.
- Ten (21.2%) checks were posted and deposited late.

Subsequent to our fieldwork, the Department has obtained an approval for a daily deposit exemption that allows the Department to make deposits to the Office of the Treasurer-Tax Collector when there is more than \$5,000 or every two weeks, whichever comes first. Since the Department has obtained approval for daily deposit exemption, no recommendation is required.

Recommendation 3:

Finding was cleared after fieldwork. As such, no recommendation was required.

Finding 4: Restrictively Endorsing Checks

Our review of internal controls revealed that cash handling staff did not restrictively endorse checks or record checks in a check log upon receipt. This occurred because management was concerned that the receptionist receiving mail could not determine whether checks belong to the Department or perform research to determine where check should go. The Department's accounting personnel restrictively endorse checks and enter checks into a check log when forwarded from the receptionist. However, failure to restrictively endorse checks and record checks in a check log upon receipt may result in fraudulent activity with unauthorized cashing of a check.

Subsequent to our completion of fieldwork, the receptionist obtained an endorsement stamp and check log and is currently restrictively endorsing checks upon receipt and recording checks in a check log. Since the Department made immediate changes, no recommendation is required.

Recommendation 4

Finding was cleared at the end of fieldwork. As such, no recommendation was required.

Materials and Supplies

Finding 5: Materials and Supplies Accountability

A high percentage of materials and supplies line items required adjustments. Inventory for fiscal year 2011/12 consisted of 897 line items of which 348 (38.7%) required adjustments and inventory for fiscal year 2012/13 consisted of 775 line items of which 191 (24.6%) required adjustments. Management identified several reasons for adjustments, such as, unit of issue changes, processing errors, miss-shipments, and surplus adjustments. Maintaining inaccurate inventory balances may result in unnecessary purchases, overages, shortages, obsolescence of stock, or mask inventory shrinkage.

Recommendation 5

Ensure personnel pay close attention to detail when issuing items out of stock and processing warehouse transactions.

Current Status: Implemented

The Department's Supply Services Division closely monitors and controls the accurate logging of inventory items. A large majority of current adjustments were due to reasons out of their control such as, changes to unit of issue and price changes.

Finding 6: Managing Materials and Supplies Inventory

The Department did not properly manage the shelf life inventory. Our review of 17 shelf life line items disclosed 12 (71%) of the line items contained issues with the record. This resulted from staff relying on their knowledge of shelf life of items instead of using actual expiration dates from the manufacturer. Inaccuracies in the shelf life items may result in obsolescence of inventory. The areas noted included:

- Nine (52.9%) shelf life items had a manufacturer's date but no expiration date.
- Two (11.7%) shelf life items did not have a manufacturer or expiration date.
- One (5.8%) marked as shelf life item but, manufacturer stated item does not expire.

Recommendation 6.1

Determine whether stock items qualify as shelf life items. For items without expiration dates contact vendor for expiration date and use permanent marker to record expiration date on each item.

Current Status: Implemented

The Department added a new category in the inventory management system to identify inventory items with expiration dates. With this new category, the Department was able to develop a shelf life listing that identifies shelf life items and provides their expiration dates. The listing ensures shelf life items have proper expiration dates and non-shelf life items are not mistakenly marked as shelf life items.

Recommendation 6.2

Physically inspect all shelf life items and verify that the items are labeled with the correct expiration date and ensure items with the shortest expiration date are located in the front of the shelves. Also, identify all items mistakenly marked as shelf life items and update the stock record to remove the item from the stock replenishment list.

Current Status: Implemented

The Department developed a shelf life listing that identifies shelf life items and provides their expiration dates. This listing ensures shelf life items have proper expiration dates and non-shelf life items are not mistakenly marked as shelf life items. Also, warehouse bins for shelf life items were labeled with a "Dated Items" sticker to easily identify the items and the oldest items are placed in the front of the bin and labeled "Pick Me First."

Recommendation 6.3

Mark warehouse location to identify items as shelf life items to ensure all staff members are aware that the item is a shelf life item that requires issuing the oldest items first.

Current Status: Implemented

Warehouse bins were labeled with a "Dated Item" sticker for easy identification of shelf life items and the oldest items were placed in the front of the bin location and labeled "Pick Me First."

Non-capital Assets

Finding 7: Managing Materials and Supplies Inventory

Non-capital walkaway assets did not agree with detail recorded in the Asset Module. Our review of 18 non-capital walkaway asset records disclosed that five (27.7%) contained inaccurate information. The errors resulted from the office focusing on the existence of non-capital walkaway assets when performing their annual inventory rather than validating the accuracy of records regarding model and serial numbers. Failure to properly record non-capital walkaway assets in the Asset Module may negatively affect the process of identifying, controlling, and valuing County of Riverside non-capital walkaway assets. In addition, inaccurate, missing, and conflicting information creates an operating environment that may mask waste or theft.

Recommendation 7.1

Perform a physical inventory of non-capital walkaway assets comparing the physical assets to accounting records and ensure all non-capital walkaway assets are properly identified in the Asset Module.

Current Status: Implemented

The Department performed a physical inventory of non-capital walkaway assets. Non-capital walkaway assets were identified and changes were made in the Asset Module. Management has established controls for tracking non-capital walkaway assets in the Asset Module and developed a written non-capital walkaway asset procedure that requires each unit to inventory their non-capital walkaway assets annually.

Recommendation 7.2

Routinely monitor accuracy of new non-capital walkaway asset detail recorded in the Asset Module.

Current Status: Implemented

The Department developed non-capital asset procedures requiring each unit to inventory their non-capital walkaway assets annually to ensure non-capital walkaway asset records are accurate. The procedures also require each unit to notify the Department's Fiscal unit of any changes in their non-capital walkaway asset records.

Records Management

Finding 8: Record Destruction Approval

The Department did not submit a Records Management and Archives Policy (RMAP) Form 691 designating an individual or individual's responsibility for implementing County of Riverside retention procedures. In addition, the Department did not obtain proper approval for records destruction by submitting RMAP Form 652 (Records Disposition Certificate) or RMAP Form 784 (Records Disposition Certificate - County Depts. Shred Only) to RMAP. The Department could not provide documentation to support the destruction of fiscal year 2005/06 account payables, account receivables, and fiscal year 2004/05 contracts/agreements files. This was the result of Department's unfamiliarity with the requirement to complete a RMAP form 691, authorizing an individual for approving destruction requests with RMAP or the requirement to submit RMAP Form 652 or 784 for destruction of documents requests. Destroying documentation without the proper approvals may hinder the availability and accessibility of documents in accordance with applicable law.

Subsequent to completion of fieldwork, the Department has submitted and has had approved RMAP form 691 authorizing staff to manage the records for the Department.

Recommendation 8

Prepare and submit a RMAP Form 652 (Records Disposition Certificate) or RMAP Form 784 (Records Disposition Certificate - County Depts. Shred Only) with the proper approvals for all future record destruction requests.

Current Status: Implemented

The Department prepared and submitted RMAP Form 784 with the proper authorizing signatures to request records destruction. Management stated they would prepare RMAP Form 784 or RMAP Form 652 for all future records destruction requests as required per the General Records Retention Schedule.

Revenues

Finding 9: Reconciliation of Receivables Aging Report

A complete reconciliation between the accounts receivable aging subsidiary ledger and general ledger was not accomplished. The aging report identified a total receivable balance of \$237,637 while the general ledger reported a total balance of \$347,094 for the Department resulting in an unreconciled variance of \$109,457. The variance arose from the 2001 PeopleSoft implementation issues, the Department's Central Mail Division, changed from governmental to proprietary fund accounting and irregular reconciliation of accounts receivable subsidiary ledger records to the general ledger amount. While the Department reconciled \$25,578 of the \$109,457 variance, the remaining unreconciled variance of \$83,879 still needs to be investigated. Receivables left unmonitored may result in bad debt and the attending loss of cash resources.

Recommendation 9:

Perform a full reconciliation of the aging report to the general ledger for all Department account receivables on a monthly basis and seek a discharge of accountability for uncollectable accounts.

Current Status: Partially Implemented

The Department reconciles the aging report on a monthly basis. However, the accounts receivables records contain reconciliation errors from past financial and operational changes. The Department will be working with ACO to clear the past reconciliation errors.