

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



ITEM: 2.12
(ID # 13302)

MEETING DATE:
Tuesday, August 25, 2020

FROM : AUDITOR CONTROLLER:

SUBJECT: AUDITOR-CONTROLLER: Internal Audit Report 2020-009: Riverside County Department of Public Social Services Audit, District: All. [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2020-009: Riverside County Department of Public Social Services Audit

ACTION: Consent


Paul A. Angulo, County Auditor-Controller 8/14/2020

MINUTES OF THE BOARD OF SUPERVISORS

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

BACKGROUND:

Summary

In accordance with Board of Supervisors Resolution 83-338, we audited the Department of Public Social Services to provide an independent assessment of internal controls over procurement cards, capital assets, and revolving funds.

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost
COST	\$ 0	\$ 0	\$ 0	\$ 0
NET COUNTY COST	\$ 0	\$ 0	\$ 0	\$ 0
SOURCE OF FUNDS: N/A			Budget Adjustment: No	
			For Fiscal Year: N/A	

C.E.O. RECOMMENDATION: Approve

Impact on Residents and Businesses

Provide an assessment of internal controls over the audited areas.

SUPPLEMENTAL:

Additional Fiscal Information

Not applicable

ATTACHMENT A.

Riverside County Auditor-Controller - Internal Audit Report 2020-009: Riverside County Department of Public Social Services Audit


 Stephanie Perez, Principal Management Analyst 8/17/2020

Internal Audit Report 2020-009

**Riverside County
Department of Public Social Services
Audit**

Report Date: August 25, 2020



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Riverside County Auditor-Controller

Tanya S. Harris, DPA, CPA
Assistant Auditor-Controller

August 25, 2020

Sayori Baldwin
Director of Riverside County DPSS
4060 County Circle Drive
Riverside, CA 92503

Subject: Internal Audit Report 2020-009: Riverside County Department of Public Social Services Audit

Dear Ms. Baldwin:

In accordance with Board of Supervisors Resolution 83-338, we audited the Department of Public Social Services to provide an independent assessment of internal controls over procurement cards, capital assets, and revolving funds.

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.

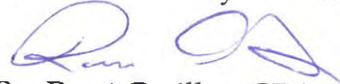
Based upon the results of our audit, we identified improvement opportunities for internal controls over the use and termination of procurement cards, surplus of capital assets, and review of revolving fund reconciliations.

As requested, in accordance with paragraph III.C of the Board of Supervisors Resolution 83-338, management responded to each reported condition and recommendation

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contained in our report. Management's responses are included in the report. We will follow-up to verify that management implemented the corrective actions.

Paul Angulo, CPA, MA
Riverside County Auditor-Controller



By: René Casillas, CPA, CRMA
Chief Internal Auditor

cc: Board of Supervisors
George Johnson, County Executive Officer
Grand Jury

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**Internal Audit Report 2020-009: Riverside County Department of Public Social Services
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Executive Summary

Overview

Riverside County Department of Public Social Services (Public Social Service) has a recommended budget of \$1.15 billion for FY 2020-21 and has 5,202 authorized positions to execute its responsibilities. DPSS is comprised of three divisions, Adult Services Division, Children's Services Division, and Self-Sufficiency Division that provide support services to Riverside County residents. *County of Riverside, Fiscal Year 2020-21 Recommended Budget, 162.*

Public Social Services has experienced two instances of department director changes in the last two years. The first one occurred when an interim director was appointed in September 10, 2018, who was then appointed as the official director on May 14, 2019. The second change of department head occurred in February 13, 2020, when a new official director was appointed. We performed audit procedures for both instances.

Audit Objective

Our audit objective is to provide an independent assessment about the adequacy and effectiveness of internal controls over procurement cards, capital assets, and revolving fund. 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.

Audit Scope

We conducted the audit from December 2, 2019, through March 31, 2020, for operations and transactions from July 1, 2017, through December 31, 2019.

Audit Highlights

Existing Conditions

The current processes have not mitigated the following risk areas:

- Procurement card transactions were non-compliant with restricted uses as written in the Riverside County Procurement Card Program Procedure Handbook.
- Deactivation of procurement cards for terminated employees is not done immediately.

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- Public Social Services did not surplus capital assets when no longer in use as required under Standard Practice Manual 514, Disposal of Capital Assets.
- Revolving fund reconciliations are not reviewed upon completion by appropriate level of management.

Improvement Opportunities

The improvement opportunities are in the following areas:

- Ensure procurement cards are not used to purchase gift cards or gift certificates.
- Develop policies and procedures in accordance with Board Policy A-62, Credit Card Use, to ensure the immediate deactivation of procurement cards when a procurement cardholder no longer works for the department.
- Ensure Public Social Services' surpluses capital assets in accordance with Standard Practice Manual 514, *Disposal of Capital Assets*.
- Ensure prepared reconciliations are reviewed and approved in accordance with Standard Practice Manual 603, *Revolving Funds*.

Audit Conclusion

Based upon the results of our audit, we identified improvement opportunities for internal controls over the use and termination of procurement cards, surplus of capital assets, and review of revolving fund reconciliations.

Procurement Card

The County's Procurement Card program was developed to improve efficiencies associated with the procurement process and reduce the cost associated with making purchases and processing vendor payments. The program requires compliance with current statutes and county procurement procedures and is intended to improve the timely delivery of products and services.

The Riverside County Purchasing & Fleet Services Department (Purchasing) is responsible for managing and monitoring the overall program. Additionally, Purchasing administers the training required for all program participants, establishes and communicates rules and guidelines, oversees participants' compliance with the county's procurement policies and procedures, and coordinates the interface between U. S. Bank and the county. Cardholders are required to comply with the Procurement Card Manual as written by Purchasing. Additionally, cardholders must complete the training prior to being provided with a procurement card.

The procurement card policy has controls developed and implemented that are different than traditional credit cards. The controls ensure the cards can be used only for specific types of purchases with established dollar limits. Additionally, approving officials assigned to each cardholder are required to provide prior approval on the purchases. The cardholder is responsible to verify all purchases once card statement is obtained.

As an integral part of a county department's internal control structure, management within each department is responsible for a system of internal controls that effectively and efficiently performs financial related activities and safeguards assets. The system should provide management with reasonable assurance that assets are properly safeguarded against loss from unauthorized use or theft, and transactions are executed in accordance with management's authorization.

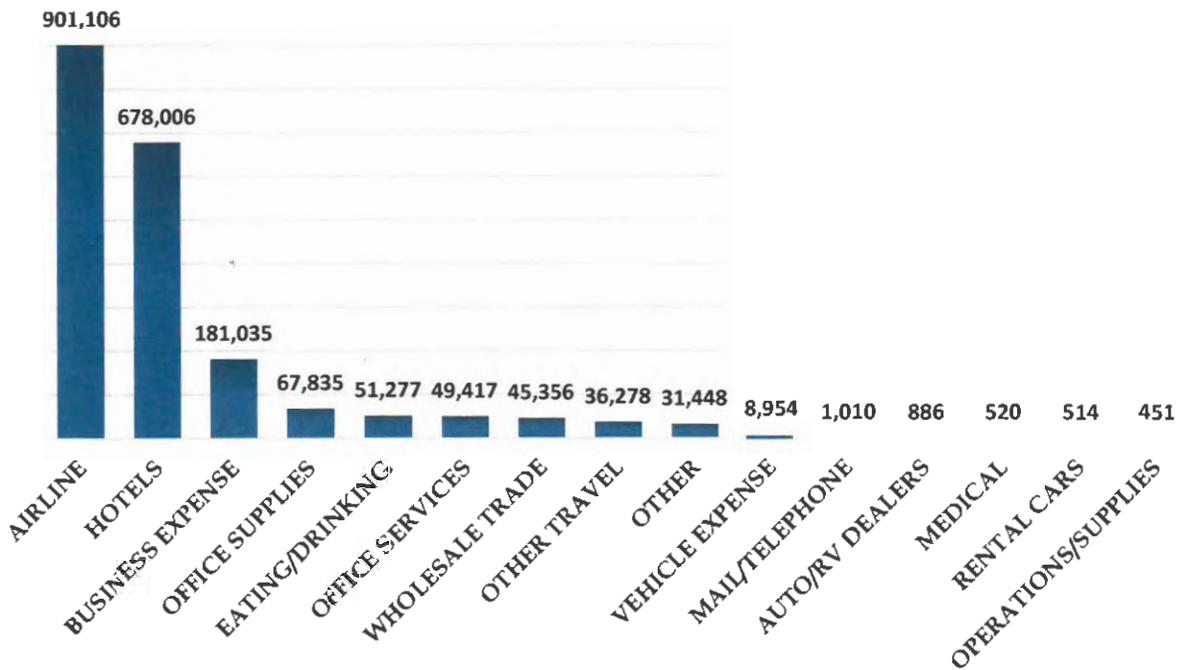
Purchasing authorized approximately 398 procurement cards to cardholders located in 33 departments. Public Social Services had 26 procurement cardholders, as of December 31, 2019. For the period July 1, 2017, through December 31, 2019, Public Social Services had procurement card program expenditures totaling \$2,054,093 consisting of 9,346 transactions.

The chart below illustrates Public Social Services expenditures by category for the period of July 1, 2017, through December 31, 2019 in the following categories: airlines, hotels, business expense, office supplies, eating/drinking, office services, wholesale trade, other

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travel, other, vehicle expense, mail/telephone, auto/rv dealers, medical, rental cars and operations/supplies. The three largest expenditure categories for Public Social Services were made up of airlines at \$901,106, hotels at \$678,006, and business expenses at \$181,035 which make up 86% (or \$1,760,147) of the total procurement card transactions.

**Department of Public Social Services
 Procurement Card Transactions
 (July 1, 2017, through December 31, 2019)**



Objective

To provide an independent assessment of internal controls over the authorizations and use of procurement cards.

Audit Methodology

To accomplish the objective, we performed the following:

- Reviewed county policies and procedures, specifically:
 - County of Riverside Procurement Card Program, Procedure Handbook (8/1/2016).
 - Board Policy A-62, *Credit Card Use*.

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- Board Policy D-1, *Reimbursement for General Travel and Other Actual and Necessary Expenses*
- Obtained and reviewed department policies to determine compliance with Riverside County's procurement card policies and procedures.
- Obtained and reviewed a listing of all procurement card holders.
- Interviewed key personnel regarding procurement card internal controls and their processes.
- Reviewed supporting documentation for procurement card expenditures.
- Analyzed procurement card data pulled from the Riverside County financial systems and U.S. Bank for audit period.
- Examined cardholder transaction logs, receipts, and credit card statements.
- Selected a sample of purchased items for physical existence of items.
- Verified whether appropriate levels of management review and approval are documented.

Finding 1: Compliance with Procurement Card Policies

Public Social Services is not in compliance with the procurement card procedures. We identified the following in our review of procurement cardholder expenditures and supporting documentation:

- In two of three procurement card vouchers tested, procurement cards were used to purchase gift cards and gift certificates with an aggregate value of \$3,060. The Procurement Card Program Procedure Handbook restricts purchasing of gift cards using procurement cards. While gift cards and gift certificates may be necessary and appropriate, they are considered "cash equivalent" as they can easily be converted to cash. By purchasing gift cards/certificates with procurement cards, the risk of fraud and inadequate use of county resources increases.
- Three procurement cards were not immediately terminated for employees no longer working for the department. The close of these procurement cards ranged between 217 and 682 days. The Board Policy A-62, *Credit Card Use*, states, "Each department / agency

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shall develop and implement policies and procedures to ensure the immediate deactivation of cards/accounts assigned to employees who leave county employment for any reason." Additionally, the Riverside County Procurement Card Program Manual requires departments to "contact the Procurement Card Program Coordinator to request that the current card be cancelled." Procurement cards which are not terminated timely increases the risk of fraud and theft of county funds.

Recommendation 1.1

Ensure procurement cards are not used to purchase gift cards or gift certificates.

Management's Response

"**Concur.** It is clearly understood that gift cards and gift certificates were purchased with procurement cards due to department oversight. While the purchase of the subject gift cards and gift certificates were necessary and appropriate for adherence to State mandates, the use of procurement cards for said purchases was prohibited. To address this issue, we have discussed the findings with procurement staff and are in the process of revising procurement procedures and implementing quality assurance measures."

Actual/estimated Date of Corrective Action: **July 01, 2020**

Recommendation 1.2

Develop policies and procedures in accordance with Board Policy A-62, *Credit Card Use*, to ensure the immediate deactivation of procurement cards when a procurement cardholder no longer works for the department.

Management's Response

"**Concur.** It is clearly understood that each department is responsible for implementing policies and procedures in accordance with Board Policy A-62, *Credit Card Use* and the Riverside County Procurement Card Program Manual to ensure the immediate deactivation of cards/accounts for departing employees. To address this issue, we have discussed the findings with procurement staff and are in the process of revising procurement card procedures and implementing quality assurance measures."

Actual/estimated Date of Corrective Action: **July 01, 2020**

Recommendation 1.3

Ensure procurement cards are terminated immediately upon employee termination in accordance with Board Policy A-62, *Credit Card Use*.

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Management's Response

"Concur. It is clearly understood that Procurement cards are to be terminated immediately upon an employee's departure from the department, and that the subject cards were not terminated timely due to department oversight. To address this issue, we have discussed the findings with procurement staff and are in the process of revising procurement card procedures and implementing quality assurance measures."

Actual/estimated Date of Corrective Action: **July 01, 2020**

Capital Assets

Background

Capital assets are tangible assets of significant value which have a utility that extends beyond the current year and are broadly classified as land (valued at \$1 or more), buildings and improvements, infrastructure, and equipment (acquisition cost of \$5,000 or greater).

Per the Riverside County Auditor-Controller's Standard Practice Manual, Policy Number 515, *Transfer of Accountability on Capital Assets*, states that upon retirement or termination of a department, accountability for capital assets must be transferred to the new or acting department head and notification filed with the Riverside County Auditor-Controller's Office.

As of May 14, 2019, the time the new director was appointed and acknowledged receipt of capital assets from the outgoing officer, Public Social Services maintained 534 capital assets in the Riverside County financial system asset module, consisting of field and office equipment, with the combined acquisition cost of \$6,843,103.

Objective

To determine if the required Standard Practice Manual Form AM-1, *The Inventory of County Property for Capital Assets*, for the transfer of accountability of capital assets from the predecessor to the new appointed department director was completed and properly filed with the Riverside County Auditor-Controller's Office. Also, to assess the adequacy of internal controls over the safeguarding of capital assets.

Audit Methodology

To accomplish these objectives, we:

- Reviewed Riverside County Auditor-Controller's Office Standard Practice Manual 515, *Capital Asset Certifications*, for the establishment and transfer of capital assets.
- Established the date of the department director change.

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- Verified proper forms were completed for capital asset transfer of accountability and submitted to the Riverside County Auditor-Controller's Office.
- Obtained a listing of capital assets tracked in the Riverside County financial system asset module.
- Verified the existence of capital assets that were transferred to the new department director.
- Verified proper forms were completed for the retirement of capital assets.

Finding 2: Capital Asset Disposal

Public Social Services did not properly surplus capital assets no longer in use. During our review of capital assets, we identified 10 servers that have not been in use for over a year and had not been disposed or surplused. Standard Practice Manual 514, *Disposal of Capital Assets*, states, "capital assets that are being physically disposed of or are not being used, are obsolete, and/or beyond repair, are to be disposed of." Not properly disposing of capital assets increases the risk of overstatements, loss, and theft of county assets. Additionally, servers are intended to store data and it is important to consider the data stored within the unused servers to ensure county data is safeguarded.

Recommendation 2

Public Social Services ensure capital assets are disposed or surplused when no longer in use, in accordance with Standard Practice Manual 514, *Disposal of Capital Assets*.

Management's Response

"**Concur.** The department concurs with Finding 2. For network equipment, DPSS relies on RCIT's expertise to determine the need to remove equipment from use and to coordinate with DPSS when there is a need for any network capital asset movement. Notification to the department of servers removed from use is required to initiate disposal or surplus processes and documentation. As such, the department recommends network capital assets be transferred to RCIT for proper monitoring and record keeping of network infrastructure."

Actual/estimated Date of Corrective Action: **N/A. Effort is ongoing.**

Revolving Funds

Background

Under the authority of Government Code Section 29320-29334, the Riverside County Board of Supervisor's adopted Board Resolution 74-156 on May 14, 1974, authorizing the establishment of a revolving fund, under the custodianship of a county officer, for use on official county business. The Board of Supervisor's adopted Board Resolution 83-338 on November 1, 1983, authorizing the Riverside County Auditor-Controller to audit revolving funds of any officer accountable for such resources upon transfer of such resources to a new officer.

Public Social Services' has one revolving fund, with an authorized balance of \$25,000, maintained in the form of a bank account totaling \$24,600 and petty cash totaling \$400. The revolving fund is primarily used to pay for emergency administrative expenses, operating expenses and travel advances for employees traveling on county business that presents financial hardship.

Objective

To determine if the required forms for the transfer of accountability of revolving funds from the predecessor to the new appointed department director were completed, and properly filed with the Riverside County Auditor-Controller's Office. Also, to assess the adequacy of internal controls over the safeguarding of the revolving funds.

Audit Methodology

To accomplish these objectives, we:

- Reviewed Riverside County Auditor-Controller's Office Standard Practice Manual 603, *Revolving Fund*, for the establishment and transfer of revolving funds.
- Interviewed key personnel regarding the use of revolving funds.
- Verified revolving fund reconciliations were prepared.
- Performed a cash count and reconciled to the fund assignment amounts.

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- Reviewed for adequate segregation of duties.
- Reviewed supporting documentation for transactions.

Finding 3: Revolving Fund Reconciliation Review

Prepared revolving fund reconciliations are not evidenced with date and signature from a reviewer for three of the five randomly selected months sampled. As such, there is no evidence that reconciliation reviews are being performed. The Auditor-Controller's Standard Practice Manual 603, *Revolving Funds*, states "Reconciliations must be properly reviewed and approved by a supervisor..." Further, Standard Practice Manual 1001, *Internal Controls*, states, "Duties are divided or segregated so that no one person has complete control over a key function or activity." Performance of monthly revolving fund reconciliations evidenced with proper signature of review is an internal control to ensure errors or unauthorized activities do not go undetected.

Recommendation 3

Ensure prepared reconciliations are evidenced with dates and signatures by reviewer and approved in accordance with Standard Practice Manual 603, *Revolving Funds*.

Management's Response

"**Concur.** The department concurs with Finding 3. The Department had complied until September 2019, however fell out of compliance due to high turnover in staff and change in Management. The department will establish a review and approval period by when Management should review, sign and date the reconciliation reports and update its internal procedures accordingly."

Actual/estimated Date of Corrective Action: **July 31, 2020**