

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



**ITEM: 2.15  
(ID # 12918)**

**MEETING DATE:**  
Tuesday, June 30, 2020

**FROM :** AUDITOR CONTROLLER:

**SUBJECT:** AUDITOR-CONTROLLER: Internal Audit Report 2020-010: Riverside County Information Technology, Countywide Procurement Card Audit [District: All]; [\$0]

**RECOMMENDED MOTION:** That the Board of Supervisors:

1. Receive and file Internal Audit Report 2020-010: Riverside County Information Technology, Countywide Procurement Card Audit

**ACTION:Consent**

  
Paul A. Angulo, County Auditor-Controller 6/19/2020

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**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 completed an audit of the Riverside County Information Technology. This audit is conducted to provide management and the Board of Supervisors with an independent assessment of internal controls over the usage of procurement cards.

Please refer to audit report for conclusion on the results of our audit.

<b>FINANCIAL DATA</b>	<b>Current Fiscal Year:</b>	<b>Next Fiscal Year:</b>	<b>Total Cost:</b>	<b>Ongoing Cost</b>
<b>COST</b>	\$ 0	\$ 0	\$ 0	\$ 0
<b>NET COUNTY COST</b>	\$ 0	\$ 0	\$ 0	\$ 0
<b>SOURCE OF FUNDS: n/a</b>			<b>Budget Adjustment:</b>	No
			<b>For Fiscal Year:</b>	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 2020-010: Riverside County Information Technology, Countywide Procurement Card Audit



Stephanie Perez, Principal Management Analyst 6/23/2020

**Internal Audit Report 2020-010**

**Riverside County Information Technology  
Countywide Procurement Card Audit**

**Report Date: June 16, 2020**



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**AO** | AUDITOR  
CONTROLLER  
COUNTY OF RIVERSIDE

Paul Angulo, CPA, MA  
Riverside County Auditor-Controller

Oscar Valdez  
Assistant Auditor-Controller

June 16, 2020

Dave Rogers  
Chief Information Officer  
Riverside County Information Technology  
3450 Fourteenth Street  
Riverside, CA 92501

**Subject: Internal Audit Report 2020-010: Riverside County Information Technology,  
Countywide Procurement Card Audit**

Dear Mr. Rogers:

In accordance with Board of Supervisors Resolution 83-338, we completed an audit of the Riverside County Information Technology to provide management and the Board of Supervisors with an independent assessment of internal controls over the usage of procurement cards.

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 procurement card closures, expenditures exceeding

**Internal Audit Report 2020-010: Riverside County Information Technology, Countywide Procurement Card Audit**

approved spending limits or merchant category code, and the approval process of procurement card expenditures.

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

### Overview

The County of Riverside'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 of the 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, 276 of which were assigned to the 12 departments included in the countywide procurement card audit. Each card holder is granted a single transaction amount, number of transactions per day and a monthly spending limit. Limits are established for each cardholder at the single transaction amount, number of transactions per day, and monthly transaction amount by department management requesting the

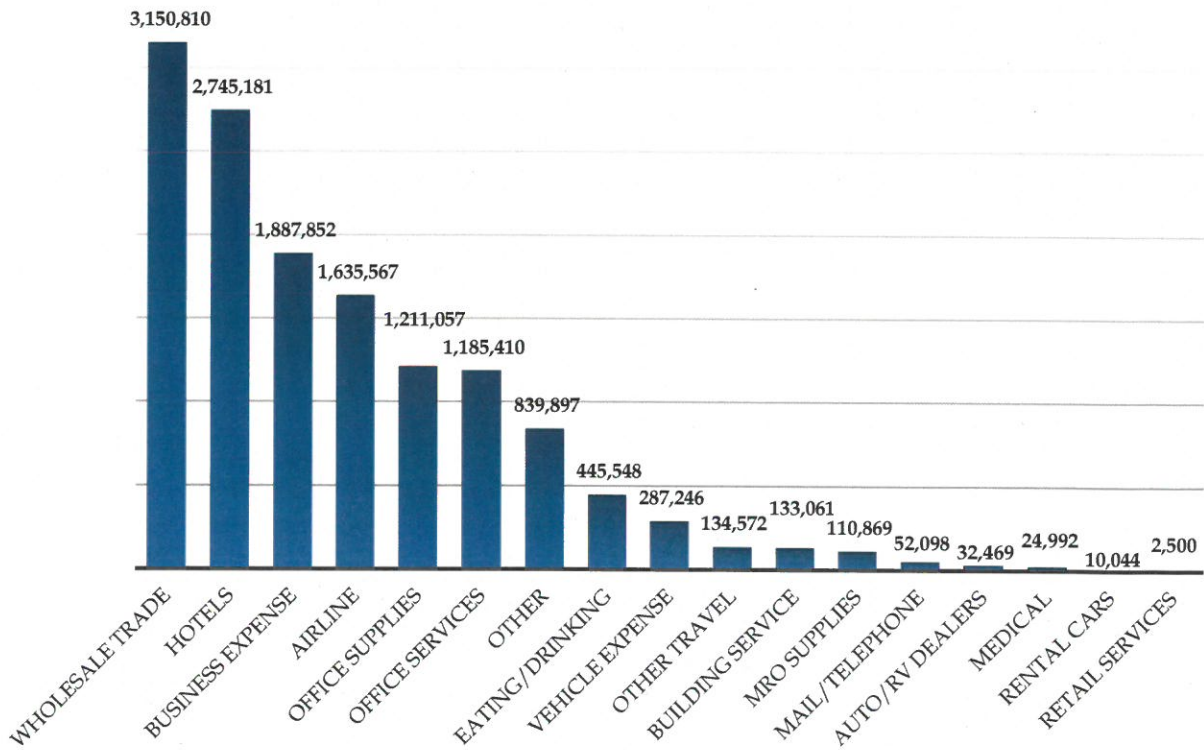
**Internal Audit Report 2020-010: Riverside County Information Technology, Countywide Procurement Card Audit**

procurement cards. Certain goods and services are excluded with the merchant category code, which is a four digit code assigned to a merchant by its merchant bank. This code identifies the type of business the merchant conducts.

For the audit period of July 1, 2017, through December 31, 2019, the procurement card program had expenditures totaling \$13,889,173 (see Table 1 for total expenditures by merchant category) for 33 departments. We selected 12 departments with expenditures in the audit period. These 12 departments represent \$9,720,423 of the \$13,889,173 expended through the County’s procurement card program during July 1, 2017, through December 31, 2019.

**Table 1: Countywide Procurement Card Transactions**

**Countywide Procurement Card Transactions  
(July 1, 2017, through December 31, 2019)**





Internal Audit Report 2020-010: Riverside County Information Technology, Countywide Procurement Card Audit

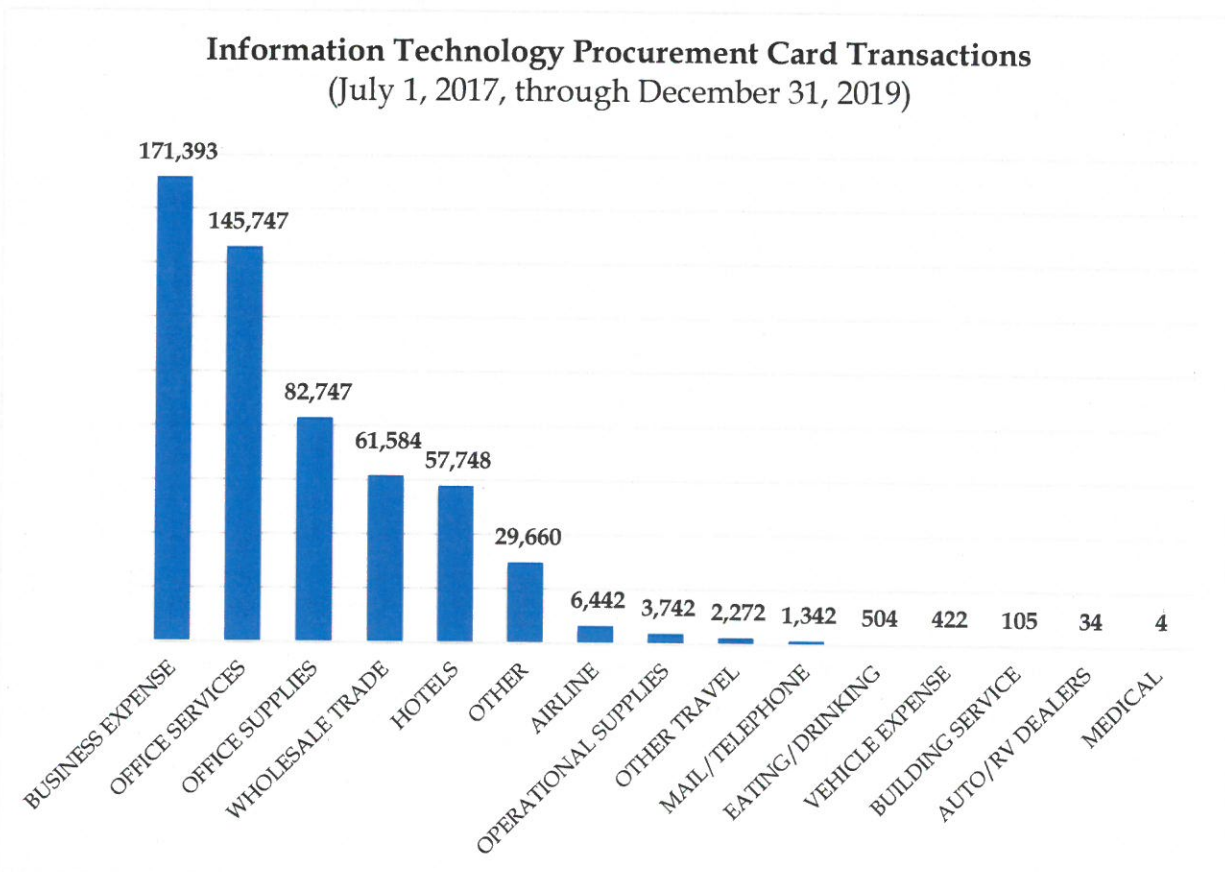
## Procurement Card

### Background

As of December 31, 2019, Riverside County Information Technology (Information Technology) had 14 active procurement cardholders. For the audit period of July 1, 2017, through December 31, 2019, Information Technology had 934 procurement card transactions totaling \$563,746.

The chart below illustrates procurement card expenditures for the audit period, categorized in the following categories: business expense, office services, office supplies, wholesale trade, hotels, airline, operational supplies, mail and telephone, eating/drinking, vehicle expense, building service, auto/RV dealers, medical and other. Expenditures for the top three merchant groups included business expense at \$171,393, office services at \$145,747, and office supplies at \$82,747.

**Table 2: Information Technology Procurement Card Transactions**



**Internal Audit Report 2020-010: Riverside County Information Technology, Countywide Procurement Card Audit**

**Audit Objective**

Our audit objective is to provide management and the Board of Supervisors with an independent assessment about the adequacy and effectiveness of internal controls over the use of the procurement cards. 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 nonfinancial information.

**Audit Scope and Methodology**

We conducted the audit from December 3, 2019, through April 23, 2020, for operations from July 1, 2017, through December 31, 2019. To accomplish our objectives, we performed the following:

- Reviewed county and department policies and procedures, specifically:
  - County of Riverside Procurement Card Program, Procedure Handbook (8/1/2016)
  - Board Policy A-62, Credit Card Use
  - Board Policy D-1, Reimbursement for General Travel and Other Actual and Necessary Expenses
- Obtained and analyzed department policies and other documents to confirm compliance with county's procurement card policies and procedures.
- Obtained a listing of all procurement cardholders and reviewed transactions for compliance to cardholder agreements.
- Interviewed key personnel regarding procurement cards internal controls and their processes.
- Analyzed procurement card data pulled from Riverside County financial systems and U.S. Bank for audit period.
- Examined cardholder transaction logs, receipts, credit card statements, and cardholder agreements.
- Verified whether appropriate levels of management review and approval existed and were exercised.

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- Selected a sample of procurement card transactions from the audit period and reviewed supporting documentation.

**Audit Highlights**

*Existing Conditions*

The current processes have not mitigated the following areas:

- Deactivation of procurement cards for terminated employees is not done immediately.
- Adequate review and approval of procurement card transactions is not being performed in accordance to the procurement card manual.
- Procurement card usage for non-approved county merchant commodities and single purchases dollar limits are not in compliance with cardholder agreement.

*Improvement Opportunities*

The improvement opportunities are in the following areas:

- Ensure procurement cards are closed when employees terminate from the county or department.
- Designate procurement card responsibilities and ensure the review and approval of expenditures are completed by authorized personnel.
- Review cardholder agreements and update to reflect approved merchant commodities as necessary.

**Audit Conclusion**

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to procurement card closures, the approval process of procurement card activities, and expenditures exceeding approved spending limits or merchant category code.

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**Finding 1: Compliance with Procurement Card Policies**

We identified the following deficits in our review of procurement cardholder expenditures and supporting documentation:

- One procurement card was not closed upon employee's termination which resulted in an erroneous charge. The Board Policy A-62, *Credit Card Use*, states, "Each department/agency 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."
- Observed four instances out of thirteen cardholder monthly statements reviewed in which department approvers did not sign the cardholders' monthly statement of account. According to Procurement Card Program Procedure Handbook, "The Approver's signatures on the Cardholder's Statement of account and the Cardholder's Procurement Payment Package will be evidence of the Approvers acceptance."
- Observed one out of seven transactions reviewed that exceeded the single purchase dollar limit without written approval, and one instance a cardholder made purchase of an unauthorized merchant category. Department officials establish merchant classifications with signatures in the cardholder agreement when procurement cards are issued. According to the cardholder agreement, "Any purchase that is in excess of the card dollar limits, or outside of the approved commodity or merchant categories is unauthorized..." The Procurement Card Program Procedure Handbook also states, "When a purchase exceeds the limit established by the Agency/Department, the standard requisition and purchase order process must be followed" and, "Any exception granted from the Purchasing Agent or designee to the restricted use must be documented in writing."

The Procurement Card program was developed to improve the efficiency of department daily operation and requires compliance with current county policies and procurement procedures. When adequate controls are not in place to ensure compliance with county policies and procedures, there is the potential for misuse or misappropriation of county resources.

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**Recommendation 1.1**

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

**Management's Response:**

**"Concur.** RCIT has updated the Change in Employment Status Form that is provided to employees prior to leaving County employment. This form includes a checklist where we have incorporated a request for the employee's supervisor to retrieve the procurement card and to turn the card over to the department's approver."

Actual/estimated Date of Corrective Action: **June 2020**

**Recommendation 1.2**

Ensure cardholder agreements are revised as changes occur and update changes to cardholder agreement with the Purchasing and Fleet Services Department, to reflect the approved county merchant commodities, single purchase dollar limits and required approver's signatures.

**Management's Response:**

**"Concur.** RCIT has implemented the recommendation to ensure that department approvers sign the cardholder's monthly statement of account as of December 2019. RCIT will also ensure cardholder agreements are updated as changes occur. However, we have a different perspective of the observations made related to the one expenditure exceeding the single purchase dollar limit without approval and the one transaction where the cardholder made a purchase within an unauthorized merchant category. In the first case, the cardholder had permission from Purchasing to move ahead with the purchase as the vendor was not set up in Peoplesoft at the time as an approved vendor. In the second case, the cardholder made a membership purchase and the Educational Services box was checked on the Cardholder Agreement Form. RCIT believes this transaction also falls under this category and therefore, this transaction was appropriate."

Actual/estimated Date of Corrective Action: **December 2019 & June 2020**

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**Recommendation 1.3**

Provide training for cardholders and approvers who are not in compliance with the Procurement Card Program to ensure compliance with policies and procedures.

**Management's Response:**

"Concur. RCIT will ensure that cardholders and approvers are provided with training to ensure compliance with policies and procedures."

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