

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



ITEM: 2.8
(ID # 13292)

MEETING DATE:
Tuesday, August 25, 2020

FROM : AUDITOR CONTROLLER:

SUBJECT: AUDITOR-CONTROLLER: Internal Audit Report 2020-012: Riverside County Regional Park and Open-Space District, Countywide Procurement Card Audit, District: All. [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2020-012: Riverside County Regional Park and Open-Space District, Countywide Procurement Card Audit

ACTION: Consent


Paul A. Angulo, County Auditor-Controller 8/13/2020

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 Riverside County Regional Parks and Open-Space District. Our objective is to provide an independent assessment of internal controls over the use of procurement cards.

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.

Internal Audit Report 2020-012: Riverside County Regional Park and Open-Space District, Countywide Procurement Card Audit


Stephanie Perez, Principal Management Analyst 8/17/2020

Internal Audit Report 2020-012

Riverside County Regional Park and Open-Space District Countywide Procurement Card Audit

Report Date: August 25, 2020



**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

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

August 25, 2020

Kyla Brown, Director
Riverside County Regional Park and Open-Space District
4600 Crestmore Road
Riverside, CA 92509

Subject: Internal Audit Report 2020-012: Riverside County Regional Park and Open-Space District, Countywide Procurement Card Audit

Dear Ms. Brown,

In accordance with Board of Supervisors Resolution 83-338, we audited the Riverside County Regional Park and Open-Space District. Our objective is to provide the Board of Supervisors, management, and the taxpayers with an independent assessment of internal controls over use 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 deactivation and restricted use of procurement cards.

**Internal Audit Report 2020-012: Riverside County Regional Park and Open-Space District,
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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

**Internal Audit Report 2020-012: Riverside County Regional Park and Open-Space District,
Countywide Procurement Card Audit**

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**Internal Audit Report 2020-012: Riverside County Regional Park and Open-Space District,
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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 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, 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

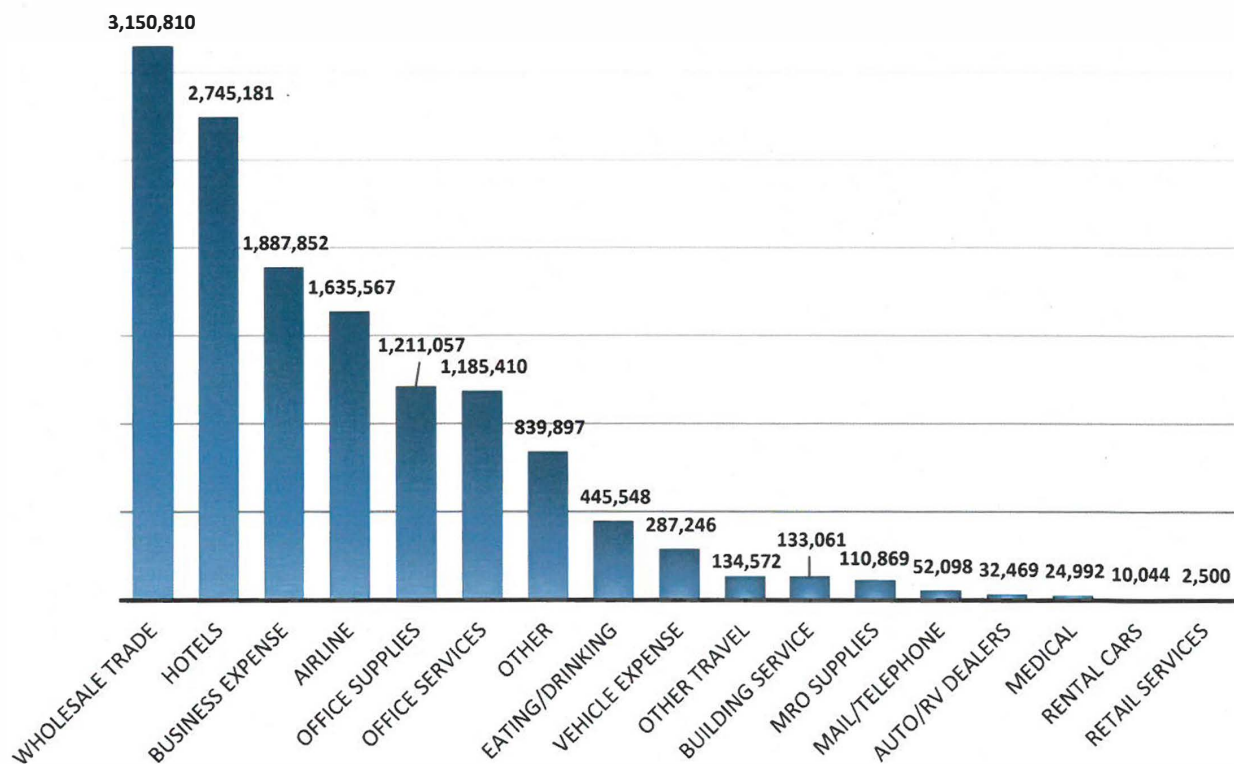
**Internal Audit Report 2020-012: Riverside County Regional Park and Open-Space District,
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procurement cards. Certain goods and services are excluded with the merchant category code, which is a four-digit code assigned to a merchant by its merchant bank. This code identifies the type of business the merchant conducts.

For the period July 1, 2017, through December 31, 2019, the countywide 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 procurement card expenditures in the audit period. These 12 departments represent \$9,720,423 of the \$13,889,173 expended through the 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 2020-012: Riverside County Regional Park and Open-Space District,
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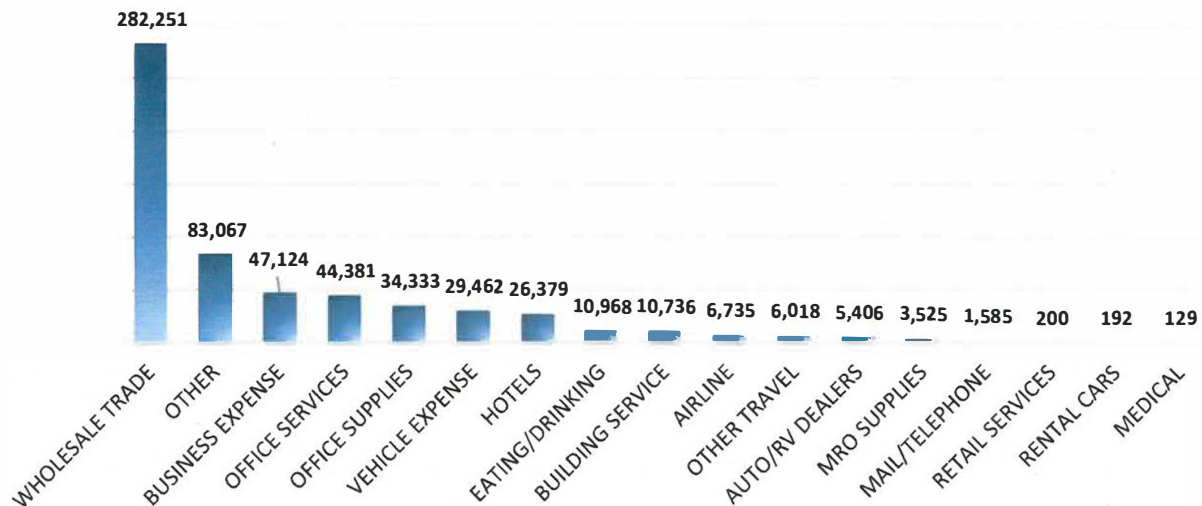
Procurement Cards

Background

Riverside County Regional Park and Open-Space District had 58 procurement cardholders, as of December 31, 2019. Procurement card expenditures for the audit period July 1, 2017, through December 31, 2019, included 3,870 transactions totaling \$592,491.

The chart below illustrates procurement card expenditures for the audit period, categorized in the following areas: airline, auto/RV dealers, building services, business expense, eating/drinking, hotels, mail/telephone, medical, repair, operations (MRO) supplies, office services, office supplies, other, other travel, rental cars, vehicle expense, and wholesale trade. Expenditures for the top three merchant groups include wholesale trade at \$282,251, other at \$83,067, and business expense at \$47,124 which make up 70% (or \$412,442) of the total procurement card transactions.

**Regional Park and Open-Space District
Procurement Card Transactions
(July 1, 2017, through December 31, 2019)**



Internal Audit Report 2020-012: Riverside County Regional Park and Open-Space District, 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 non-financial information.

Audit Scope and Methodology

We conducted the audit from December 3, 2019, through June 25, 2020, for operations from July 1, 2017, through December 31, 2019. To accomplish our objectives, 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*
 - 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.
- Analyzed procurement card data pulled from 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 for appropriate levels of management review and approval.
- Interviewed key personnel regarding procurement card internal controls and their processes.

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Audit Highlights

Existing Conditions

The current processes have not mitigated the following risks areas:

- Two procurement cards were not deactivated timely for employees no longer with the department.
- Two transactions out of a sample of 27 were non-compliant with procurement card restricted uses as written in the Riverside County Procurement Card Program Procedure Handbook. These transactions included one expenditure exceeding the cardholder's daily purchase limit and splitting the purchase in two transactions, and another was an expenditure for peripheral equipment from a non-county vendor without a documented approval form the Purchasing Agent.

Improvement Opportunities

The improvement opportunities are in the following areas:

- Ensure procurement cards are terminated immediately upon employee termination in accordance with Board Policy A-62, *Credit Card Use*.
- Ensure procurement cardholders comply with restricted uses as they relate to the Riverside County Procurement Card Program Procedure Manual. Specifically, ensure purchases are not split to circumvent established single-transaction limits and competition is sought on all purchases where required.

Audit Conclusion

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to deactivation and restricted use of procurement cards.

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Finding 1: Compliance with Procurement Card Policies

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

- Two procurement cards were not deactivated in a timely manner for employees no longer working for the department. The department's request to close these procurement cards ranged from 515 to 562 days after the employee's termination date. The Riverside County Procurement Card Program Manual requires departments to "contact the Procurement Card Program Coordinator to request that the current card be cancelled," and 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, have transferred to another department/agency, or no longer require the use of the credit card."
- Identified procurement card transactions did not comply with the procurement card manual for the following:
 - One expenditure exceeding the cardholder's single purchase limit of \$1,000 was split in two transactions.
 - Peripheral equipment was purchased from a non-county contracted vendor and without documented approval from the Purchasing Agent.

The Riverside County Procurement Card Program Manual restricts splitting purchases to circumvent the dollar limitations and purchasing personal computers, peripheral equipment and printers from non-county contracted vendors without prior approval from the Purchasing Agent. Non-compliance in procurement card deactivations and restricted use occurred due to department oversight. When controls are not adequate to ensure compliance with county policies and procedures, there is the potential for misuse and misappropriation of county resources.

Recommendation 1.1

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. The two cards that were not cancelled timely were missed during separation process with staff."

Actual/estimated Date of Corrective Action: **June 1, 2020**

"The two cards in question were cancelled immediately upon notification from auditor. Prior to those procurement cards being cancelled, District separation procedures were improved to include steps for reclaiming and cancelling procurement cards of former employees. In the two years since the two cards in question were missed, there have been no other instances of this violation. New procedures appear to be working."

Recommendation 1.2

Ensure procurement cardholders comply with restricted uses as they relate to the Riverside County Procurement Card Program Procedure Manual. Specifically, ensure purchases are not split to circumvent established single-transaction limits and competition is sought on all purchases where required.

Management's Response:

"Concur. The District concurs that both findings in this section do not technically meet the procurement card policies and are thus violations, however, neither of these findings indicate malice or intent to misuse county resources.

The split transaction finding resulted from two transactions which totaled less than \$50 more than the users transaction limit of \$1,000. The purchased goods were approved and within the budget for the location the items were purchased for.

The peripheral device finding resulted from the purchase of highly specialized GIS mapping equipment available through a single vendor in the southwest region of the US."

Actual/estimated Date of Corrective Action: **June 1, 2020**

"District staff who have been issued procurement cards will be re-trained to remain in compliance with restricted uses.