

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



ITEM: 2.5
(ID # 14550)

MEETING DATE:
Tuesday, March 02, 2021

FROM : AUDITOR CONTROLLER:

SUBJECT: AUDITOR-CONTROLLER: Internal Audit Report 2021-002: Riverside County Children and Families Commission Audit, All District. [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2021-002: Riverside County Children and Families Commission Audit

ACTION:Consent

Tanya Harris

Tanya Harris, Assistant Auditor Controller 2/22/2021

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 Children and Families Commission. This audit is conducted to provide management and the Board of Supervisors with an independent assessment of internal controls over procurement cards, service contract monitoring and end user monitoring.

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost
COST	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
NET COUNTY COST	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
SOURCE OF FUNDS: N/A			Budget Adjustment: No	
			For Fiscal Year: n/a	

C.E.O. RECOMMENDATION: Approve

BACKGROUND:

Summary (continued)

Please see report for audit results.

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 2021-002:
Riverside County Children and Families Commission Audit


 Stephanie Pe..., Principal Management Analyst 2/22/2021

Internal Audit Report 2021-002

**Riverside County
Children and Families Commission
Audit**

Report Date: March 2, 2021



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**Paul Angulo, CPA, MA
Riverside County Auditor-Controller**

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

March 2, 2021

Tammi Graham
Executive Director
Riverside County Children and Families Commission
585 Technology Court
Riverside, CA 92501

**Subject: Internal Audit Report 2021-002: Riverside County Children and Families
Commission Audit**

Dear Ms. Graham:

In accordance with Board of Supervisors Resolution 83-338, we audited the Riverside County Children and Families Commission to provide management and the Board of Supervisors with an independent assessment of internal controls over the 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.

Our conclusions and details of our audit are documented in the body of this audit report.

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Audit**

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
Juan Perez, Interim County Executive Officer
Grand Jury

**Internal Audit Report 2021-002: Riverside County Children and Families Commission
Audit**

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**Internal Audit Report 2021-002: Riverside County Children and Families Commission
Audit**

Executive Summary

Overview

Riverside County Children and Families Commission (First 5 Riverside) provides support to children from prenatal through age five. First 5 Riverside receives funding from the California Children and Families Act (Proposition 10), which placed a statewide tax on cigarettes and other tobacco products to support and promote early childhood development programs.

First 5 Riverside has an adopted budget of \$33.3 million for FY 2020-21 and 63 authorized positions to execute its responsibilities. *County of Riverside, Fiscal Year 2020-21 Adopted Budget, 185.*

Audit Objective

Our 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 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 information.

Audit Scope and Methodology

We conducted the audit from July 29, 2020, through October 19, 2020, for operations from July 1, 2018, through October 19, 2020. Following a risk-based approach, our scope initially included the following:

- Procurement Cards
- Service Eligibility
- Subcontractor Monitoring

Through inquiry, observations, and examination of relevant documentation, related to service eligibility and subcontractor monitoring, we concluded that internal controls over these areas are sufficient to provide reasonable assurance that the objectives as described above are achieved. We focused our scope to internal controls over procurement cards.

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Audit Highlights

Summary of Existing Conditions

The current processes have not mitigated the following risk areas:

- Procurement Card transactions were not adequately approved by designated approving officials. When these transactions are not approved by approving officials it increases the potential of county resources being misused.
- Procurement Card usage for single purchase dollar limits are not in compliance with the Procurement Card Program. Expenditures were split between two or more cardholders and circumvented the procurement card single purchase dollar limit.
- Procurement Card purchases review and approval are not adequately separated. Allowing employees to approve their own expenditures increases the risk of inadequate use of county resources.

Summary of Improvement Opportunities

The improvement opportunities are in the following areas:

- Provide training for cardholders and approvers who are not in compliance with the Procurement Card Program to ensure compliance with policies and procedures.
- Ensure procurement cardholders are in compliance with the Riverside County Procurement Card Program Procedure Handbook to maintain the integrity of the program.
- Ensure proper segregation of duties between the review and approval of Procurement Card transactions to mitigate the risk of inappropriate transactions and adequately safeguard county resources.

Audit Conclusion

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

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Procurement Card

The County's Procurement Card program was developed to improve efficiencies associated with the procurement process and reduce the costs 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 and 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.

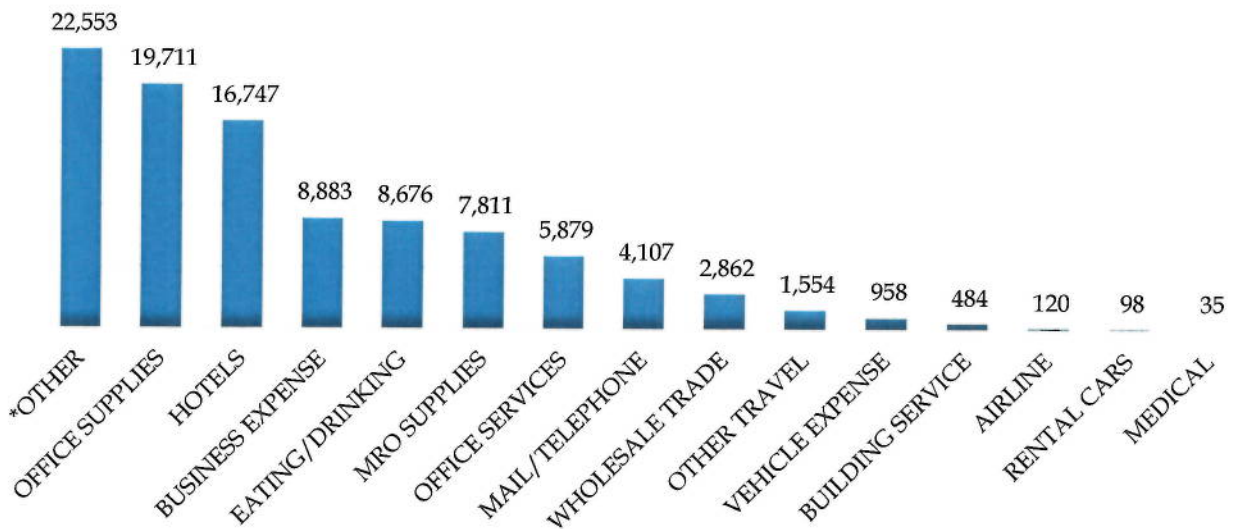
First 5 Riverside had nine procurement cardholders, as of July 31, 2020. Procurement card expenditures for the period July 1, 2019, through July 31, 2020, included 365 transactions totaling \$100,478.

The chart below illustrates First 5 Riverside expenditures for the period of July 1, 2019, through July 31, 2020, categorized in the following: airlines, hotels, business expense, office supplies, eating/drinking, office services, wholesale trade, other travel, other, and vehicle expense. The three largest expenditure categories for First 5 Riverside were made up of other program

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expenses at \$22,553, office supplies at \$19,711, and hotels at \$16,747 for a total of \$59,011. These categories make up 59% of the total procurement card transactions.

**First 5 Riverside Procurement Card Transactions
 (July 1, 2019, through July 31, 2020)**



* *Other* expenses category is used by US Bank for transactions that are not matched to any of their other categories.

Audit Methodology

To accomplish these objectives, we:

- 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 reviewed department policies and other documents to determine compliance with Riverside County’s procurement card policies and procedures.

- Obtained and reviewed a listing of all cardholder agreements.

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- 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.
- Verified for appropriate levels of management review and approval.
- Interviewed key personnel regarding procurement card internal controls and their processes.
- Reviewed supporting documentation for procurement card expenditures.

Finding 1: Compliance with Procurement Card Policies

First 5 Riverside is not in compliance with the procurement card procedures. We identified the following in our review of procurement cardholder expenditures and supporting documentation:

- Observed 12 instances out of 16 (75%) cardholder monthly statements reviewed in which department approvers did not sign the cardholders' monthly statement of account. Additionally, 16 instances out of 16 cardholder monthly statements reviewed in which department approvers did not sign the cardholders' procurement payment package. 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."
- Identified five instances in which expenditures were split between two or more cardholders and as a result, circumvented the procurement card single purchase dollar limit. Per the Procurement Card Program Procedure Handbook, "Purchases must not be split to circumvent dollar limitations."
- Identified a cardholder agreement which listed the same individual as the cardholder and the approver. Per the Procurement Card Program Procedure Handbook, "the certification of all purchases is required by each Cardholder with verification performed by the Cardholders approver before payment is made." Adequate segregation of duties does not exist as the cardholder would be approving their own procurement card expenditures. Per Standard Practice Manual 1001, *Internal Control*, "duties are divided or segregated so that no one person has complete control over a key function or activity." Allowing employees to be their own approver for expenditures increases the risk of fraud and misappropriation of county funds.

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The procurement card program was developed to improve the efficiency of department daily operations 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 public resources.

Recommendation 1.1

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. From July 1, 2019 through February 13, 2020, previously designated P-Card Approvers did not consistently sign the appropriate documentation. Also, from February 2020 through August 12, 2020, due to limited staff capacity a replacement Approver was not designated until August 13, 2020. Since August, any non-compliance was addressed and resolved."

Actual/estimated Date of Corrective Action: "All P-Card holders will complete annual P-Card training required by the department. Additionally, as of 12/17/2020, designation of Approver and Billing Official was revised and submitted to Purchasing. If either designation changes, management will immediately notify Purchasing to request an adjustment of designated roles."

Recommendation 1.2

Ensure procurement cardholders are in compliance with all aspects of the Riverside County Procurement Card Program Procedure Handbook.

Management's Response

"Partially Concur. The instances identified as potential splits did not take place to circumvent the procurement process. Two of the instances in April and June of 2020 resulted from an immediate need to purchase PPEs for community stakeholders due to the COVID pandemic. As the pandemic unfolded and the immediate need arose, card limits on P-Card holders were not high enough to secure the items on one card. The purchase had Executive Approval. Additionally, during the pandemic, the Purchasing Department relaxed the quote requirements to allow departments to purchase PPE

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supplies without delays. Therefore, there was no circumvention of the procurement process to avoid the quote process.”

Actual/estimated Date of Corrective Action: “By the end of January 2021, all P-Card holders will review the P-Card Manual to ensure compliance with all rules that apply as the purchasing agent. Department will track and document annual review to include dated/signed acknowledgement for each P-Card holder.”

Auditor Comment:

We want to remind the department that the Riverside County PeopleSoft Financial System can accommodate rush request and overnight payments. It is recommended for department to utilize this method of payment when reasonably possible for transparency and to not circumvent county purchasing policies and procedures.

Recommendation 1.3

Ensure proper segregation of duties are in place for the authorization of expenditures, mitigate the risk of inappropriate transactions, and adequately safeguard county resources.

Management’s Response

“**Partially Concur.** Due to the limited number of staff available within the department and fiscal unit, mitigating controls are considered and applied when appropriate. For purchasing during this audit period, purchasing requests were approved by immediate supervisor and/or the executive team. Additionally, expenditures were reconciled by a separate fiscal team member and transactions identified for reimbursement from CARES Act funding. When designated Approver and/or Billing Official roles are vacant due to staffing issues, the department will immediately reassign roles to ensure separation of duties.”

Actual/estimated Date of Corrective Action: “Segregation of duties addressed in August 2020 with the designation of the Approver role. In December 2020, further segregation addressed with reassignment of Approver and Billing Official, both incumbents of these roles are not P-Card holders.”