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

FROM: County Auditor-Controller

SUBMITTAL DATE:
April 9, 2012

SUBJECT: Internal Audit Report 2011-011: County Purchasing and Fleet Services, Purchase Orders.

RECOMMENDED MOTION: Receive and file Internal Audit Report 2011-011: County Purchasing and Fleet Services, Purchase Orders.

BACKGROUND: We have completed an audit of the Riverside County Purchasing and Fleet Services to provide management and the Board of Supervisors with an independent assessment of internal controls over the department's purchase orders and to identify opportunities for improving efficiencies. This audit was performed during the period March 7, 2011 through July 31, 2011 and covers the period July 1, 2009 through June 30, 2011. The department's internal controls were adequate and effective for capital asset purchases, bid evaluations, and contract compliance; however, controls can be

Paul Angulo, CPA, MA-Mgmt.
County Auditor-Controller

FINANCIAL DATA					
	Current F.Y. Total Cost:	$ 0	In Current Year Budget:		N/A
	Current F.Y. Net County Cost:	$ 0	Budget Adjustment:		N/A
	Annual Net County Cost:	$ 0	For Fiscal Year:		N/A

SOURCE OF FUNDS: N/A

Positions To Be Deleted Per A-30 ☐

Requires 4/5 Vote ☐

C.E.O. RECOMMENDATION:

APPROVE

BY: _____
Karen E. Johnson

County Executive Office Signature

2.3

Prev. Agn. Ref.:	District: ALL	Agenda Number:

BACKROUNG continued:

improved over the process for obtaining Board approval of spending limits on purchases and training external buyers on maintaining bid documentation and setting up purchase orders. We will follow-up with the department in one year to determine if actions were taken to correct the findings noted.

County of Riverside

INTERNAL AUDIT REPORT

2011-011

County Purchasing and Fleet Services

Purchase Orders

April 9, 2012

Office of
Paul Angulo, CPA, MA-Mgmt
County Auditor-Controller

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P.O. Box 1326
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CONTROLLER
COUNTY OF RIVERSIDE

Paul Angulo, CPA, MA-Mgmt
AUDITOR-CONTROLLER

April 9, 2012

Robert Howdyshell
Purchasing and Fleet Services
2980 Washington Street
Riverside, CA 92504

Subject: **Internal Audit Report 2011-011: Purchasing Services, Purchase Orders**

Dear Mr. Howdyshell:

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of **Purchasing Services, Purchase Orders**. The audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over the purchase order process. We conducted the audit during the period March 7, 2011 through July 31, 2011, for operations of July 1, 2009, through June 30, 2011.

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 information. Management is responsible for establishing and maintaining adequate internal controls; our responsibility is to evaluate the internal controls.

The department's internal controls were adequate and effective for capital asset purchases, bid evaluations, and contract compliance; however, controls can be improved over the process for obtaining Board approval of spending limits on purchases and training external buyers on maintaining bid documentation and setting up purchase orders.

We thank the Purchasing Department management and staff for their cooperation; their assistance contributed significantly to the successful completion of this audit.

Paul Angulo, CPA, MA
County Auditor-Controller

By: Rachelle Román, MPA
Chief Internal Auditor

cc: Board of Supervisors
Executive Office
Grand Jury

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Executive Summary

Overview

Purchasing and Fleet Services' primary function is to provide materials and services to County Departments and agencies within the County of Riverside. Purchasing involves the acquisition of equipment, furnishings, supplies, maintenance, construction, and contractual services within pre-established budgetary constraints. Other services performed by the department include providing training to County departments' purchasing staff; preparing bid specifications; initiating formal quotations; proposals and bids; conducting public bid openings; evaluating bids; and awarding and administrating contracts until final completion or termination. Purchasing Services' powers and authority are defined in County Ordinance No. 459.4.

From July 1, 2009 to June, 30, 2011, a total of 145,213 purchase orders (PO) with a dollar amount of $1.17 billion were created through the County's PeopleSoft Financial system. Depending on the size and complexity of the department, Purchasing may assign staff to the department, or a department may hire their own staff to carryout purchasing duties. Purchasing has one Assistant Director and four staff dedicated to centralized purchasing roles. Authority to perform purchasing duties is delegated to specific individuals within other departments.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over the purchase order process.

Audit Highlights

- The County purchased software licenses over a three year period for an annual average of $3.3 million, even though the Board of Supervisors only authorized the annual purchase of $2.7 million.

- There were noted instances of bidding requirements not being followed by County departments' purchasing staff, such as maintaining adequate bidding documentation or obtaining bid quotes from vendors when required to do so.

- Several purchase orders issued had numerous errors or inconsistencies in specific data fields such as item identification numbers, unit costs, and purchase order types. This data is necessary in order to provide internal controls as well as allow user departments and County Purchasing a means of evaluating purchase volume and pricing.

Audit Conclusion

The department's internal controls were adequate and effective for capital asset purchases, bid evaluations, and contract compliance; however, controls can be improved over the process for obtaining Board approval of spending limits on purchases and training external buyers on maintaining bid documentation and setting up purchase orders.

Purchase Authorization and Agreements

Background

The County's Purchasing Agent, the Director of Purchasing, has the authority and responsibility over the County's purchasing function as defined in California Government Code 25500 and County Ordinance No. 459.4. Authority to purchase/contract is with the exclusive right of the Board of Supervisors and the Purchasing Agent. This includes the ability to enter into purchasing agreements and establish purchasing limits. The Director of Purchasing may delegate authority to individuals the right to enter into agreements and make daily purchases up to a designated amount. There are 33 Buyers, 10 Procurement Contract Specialists, and approximately 400 Low Value Purchase Order (LVPO) Processors throughout the County. LVPO Processors and Buyers have daily purchasing limits by vendor ranging from $2,500 to $25,000. Procurement Contract Specialists have unlimited daily purchasing authority. Staff assigned to perform purchasing functions are required to go through training and receive a certificate of their appointment. Further policies and guidelines are established by the Director of Purchasing and communicated through the County Purchasing Manual.

To secure pricing for goods and services, County Purchasing will seek bids and establish agreements with awarded vendors. Contracts to procure goods or services must be approved by the Purchasing Agent or Board of Supervisors. Agreements between the County and the vendor usually contain the following elements: Terms and Conditions, Pricing, Scope of Work/Product Description, total dollar limit, and exercise period or expiration date.

The County also has the option of using cooperative purchasing agreements for procuring goods and services. One particular method, known as piggyback purchases, allows the County to use an agreement already established between another entity and a vendor to purchase specific goods or services. This arrangement allows the County to make purchases at favorable prices and saves time because another entity has completed the process of obtaining bids, selecting vendors, and negotiating agreement terms. Organizations usually use agreements established by other entities in the same industry.

Objective

Determine if purchase order purchases were properly authorized and in compliance with the vendor agreements.

Audit Methodology

To accomplish our objectives, we:

- obtained an understanding of state laws, board policies, the County Purchasing Manual, and other applicable purchasing standards;

- reviewed selected purchase orders and agreements made between vendors and the County; and

- analyzed vendor agreements for authorized spending limits, contract expiration dates, and reasonableness of items purchased.

Results

We selected and analyzed purchase orders from the top 25 County departments based on total FY 10/11 budgeted expenditures. We then selected specific vendors and purchase agreements based on the materiality of the purchase, the nature of the purchase, and department of origin. We found agreements were made with vendors using either a written contract or a Request for Proposal/Quotation (RFP/Q) in its place. Depending on the situation and complexity of the purchase, either the RFP/Q from the awarded vendor may serve as the agreement or a formal agreement may be drafted.

The County currently participates through cooperative purchasing groups, such as the Western States Contracting Alliance, which allows the County to piggyback off of other members' established agreements with vendors. Because of the time it takes to go through the formal bidding process (i.e. research, selection, contract creation), the County should continue to evaluate available cooperative purchasing agreements and potential savings in pricing.

For most of our selected purchase orders, purchases did not exceed thresholds established in the agreement. We noted a particular set of software license purchases were made from a specific vendor that exceeded the annual purchase amount that was authorized by the Board of Supervisors.

We compared what the County actually paid to the agreed upon pricing in the vendor contracts whenever applicable. However, a price compliance analysis was not practical, particularly for those vendors who offered a wide selection of products. Vendors usually agreed to provide a percentage discount based on the manufacturer's list price. Typically, the manufacturer's list price is difficult to research and compare to what was actually paid because item identifiers like the manufacturer's product code may not be available in PeopleSoft. Item identification is not consistently applied as explained under the Purchasing Order Creation section.

Finding 1: Purchase amount of software exceeded the Board of Supervisors' authorized amount.

The actual amount of software purchased under the Master Enterprise Agreement exceeded what was authorized by the Board of Supervisors. On June 17, 2008, the Board of Supervisors authorized the Purchasing Agent to enter into the Master Enterprise Agreement for the purchase of Microsoft core software products for three years for an estimated annual amount of $2,668,702. Over the course of three years, the County purchased the following in software licenses under this agreement:

Calendar Year	Actual Amount Purchased	Excess of Authorized Amount
2009	$3,334,703	$666,001
2010	$3,254,088	$585,386
2011	$3,256,411	$587,709
Total:	**$9,845,202**	**$1,839,096**

Although Riverside County Information Technology provided the estimate of annual costs, the actual costs for the software licenses were not monitored, which resulted in excess spending of $1,839,096 over the three year period. County Purchasing Policy Manual, Section 3.2.11, requires that any contract over one year, particularly non-cancelable contracts committing the County over one fiscal year must have Board approval. The Board of Supervisors' approval is sought by the Director of Purchasing for multiple year lease purchase contracts. Board authorization provides a means of control over the commitment of County funds, which can accumulate to significant amounts over a period of a few years.

Management's Response

"Concur. Purchasing acknowledges the finding as a training issue. The buying staff is not correctly tying the PeopleSoft purchase orders to the correct PeopleSoft contracts, which resulted in the contract being overspent."

Recommendation 1

Establish procedures for monitoring actual purchase expenditures to what was authorized by the Board of Supervisors on multi-year contracts. Obtain Board authorization and submit justification for purchase costs expected to exceed what was previously authorized by the Board.

Management's Response

"Concur. Purchasing has instituted a semi-annual PeopleSoft buyers training to reiterate the training aspects of purchase order and contract processes. In addition, Purchasing conducts a quarterly training session for low value purchase order processors."

Vendor Selection and Bidding

Background

Prior to a purchase being made, the PO processor will obtain quotes from vendors. For purchases exceeding $1,000, competitive quotes are required. For a purchase that exceeds $25,000, a formal bid will be obtained. For specific products or services, such as computer hardware, the County has pre-awarded vendors that have been competitively bid by County Purchasing. County departments are required to obtain quotes from pre-awarded vendors. This is communicated to departments via a memo from Riverside County Information Technology and County Purchasing. Additionally, for specific products, such as office supplies, departments are required to use County Supply and Printing Services.

Occasionally the need arises for a department to procure goods from a single vendor or sole source without obtaining competitive bids. Usually the product purchased is proprietary in nature or difficult to obtain. Examples of products obtained through a sole source include medical instruments, specialized software, and capital equipment. Sole source requests are submitted by the user department to County Purchasing and approved by the Purchasing Manager. For sole source purchases over $25,000, the department will have to obtain approval from the Board of Supervisors.

Audit Objective

To evaluate controls over the bidding process and the selection of vendors.

Audit Methodology

To accomplish our objectives, we:

- reviewed request for proposals/quotations, vendor bids, and vendor selection documentation;

- evaluated the methodology and justification for selected vendors; and

- reviewed supporting documentation of specific types of purchases such as computer equipment for compliance with County purchasing guidelines regarding the selection of vendors.

Results

We reviewed 73 POs, including 16 blanket POs and their supporting bid documentation and noted that all were either competitively bid through a formal bid process, obtained quotes, or obtained authorization for sole source. Furthermore, we evaluated 31 of 198 selected vendors to determine if the department obtained bids for those vendors which were not a County pre-awarded vendor. In all cases, we found departments did obtain quotes for the purchases. Although the departments are encouraged to use the pre-awarded vendors, this was not always

practical; as some departments purchased specialized software and hardware specific to their operations that was not available from pre-awarded vendors.

Sole source procurements valued between $1,000 and $25,000 require approval from either the Purchasing Director or Assistant Director, and must be signed by the Department Head or his/her designee in the Department Head's absence. Board approval is required prior to the purchase of any item or service valued over $25,000 without obtaining competitive bids, regardless of whether a bid was issued or not. In early 2011, Purchasing began to compile a comprehensive list of approved sole source vendors, which will be used to verify the County's sole source purchases.

Finding 2: Bidding requirements were not consistently followed by PO processors.

During our review of purchases made by County departments (exclusive of County Purchasing) for office supplies and computer equipment, the following deficiencies were noted:

- Documentation was not adequate to verify bid quotes were acquired from vendors for $33,504 worth of purchases.

- Bid documentation for the $21,000 purchase of server maintenance was not retained.

- Bid quotes were not obtained in accordance with County Purchasing policy.

- Alternative bid quotes were not obtained when an internal service department could not perform the required work.

Departments are required to maintain bid documentation per Board Policy A-43 for a minimum of three years. In addition, County departments are required to obtain quotes for purchases over $1,000 from at least two sources per the County Purchasing Manual. The reasons cited for the inconsistency in complying with County policy were lack of knowledge of County policy and processors wanting to save time. By not obtaining competitive bids/quotes, there is no assurance that the County is getting the best pricing. Furthermore, documentation provides evidence that competitive bids/quotes were submitted and protects the County from legal exposure.

Management's Response

"Concur. As noted in the finding, these inconsistencies were found in work done by people with delegated purchasing authority outside the Purchasing and Fleet Services Department. Budget reductions over the last several years, resulting in staff reductions, has led to less time to monitor the work of outside buyers. The Purchasing Department strategic plan includes an annual buyers training class with recertification tests to be conducted annually."

Recommendation 2.1

Provide comprehensive annual refresher training concentrating on bidding procedures and record retention requirements to County purchasing staff.

Management's Response

"Concur. The Purchasing Department provides monthly meetings for all outside department buyers and will enhance the training at these meetings. Additionally, attendance by some outside departmental buyers has been sporadic. Purchasing is in the process of enacting a new policy to require outside department buyers to attend at least 60% of the monthly training sessions held at the Purchasing Department, in conjunction with attending other offered training sessions each calendar year and pass the annual buyer's test with a score of 70% or better to retain their buyer authority."

Actual/estimated Date of Corrective Action: July 1, 2012

"The department will begin tracking attendance and training of all personnel with delegated purchasing authority to maintain their purchasing authority. This may result in removal of authority from some individuals who fail to comply, thus returning the work to the Central Purchasing Department, which currently is under staffed."

Estimated cost to implement recommendation (If material): $12,000

Recommendation 2.2

Perform periodic reviews to identify departments that are not in compliance with County purchasing and record retention policy.

Management's Response

"Concur. The Contract Compliance Officer will conduct periodic reviews of external buying practices with recommendations for improvement or training needed. As noted in the budget presentations, reduced budget and lack of staffing results in fewer audits spread over more time. The Contract Compliance Officer position was vacant for six months, and prior and subsequent to that, this position has been utilized to do high level buying functions due to lack of staff to perform core functions."

Actual/estimated Date of Corrective Action: April 1, 2012

"The frequency and number of audits done annually will depend on availability of the Contract Compliance Officer to do the audits rather than work on procurements to augment the lack of regular purchasing staff."

Estimated cost to implement recommendation (If material): $90,000

Finding 3: Sole sources are not always tracked and referenced in PeopleSoft.

Although department PO processors indicate in the PO that the purchase is from a sole source, other details that may be relevant to the sole source agreement are not provided in the PO comments. A lack of details about the sole source agreement can make it difficult to justify whether the sole source was authorized by County Purchasing or validate the length of the sole source approval. Sole sources authorized by County Purchasing provide a control to ensure County departments have a legitimate reason for not obtaining bids from multiple vendors as required by the Purchasing Policy Manual.

Management's Response

"Concur. Purchasing has instituted a tracking mechanism for all sole sources processed through the Purchasing Department."

Recommendation 3

Assign a number to each sole source contract so that departments and County Purchasing have a method to track and reference purchases that use approved sole source vendors and require PO processors to reference this number when issuing applicable POs.

Management's Response

"Concur. In December, 2011, the Purchasing Department began assigning and tracking numbers for each sole source and has instructed buyers to document the tracking number in the comment field of the purchase order. This will be one of the items checked in departmental audits by the Contract Compliance Officer."

Actual/estimated Date of Corrective Action: December 1, 2011

Estimated cost to implement recommendation (If material): $5,000.00

Purchase Order Creation

Background

Purchase orders are created using the Purchasing Module in the PeopleSoft Financial system based on a requisition for goods or services, which may be created online or manually. Online purchase requisitions may be initiated by department employees through PeopleSoft, creating a system workflow allowing six levels of approvals to be obtained online. Approved purchase requisitions are then made available to the buyers to initiate and dispatch POs utilizing PeopleSoft's Purchase Order Business Process.

A PO can either be created manually or sourced from the requisition. When a PO is setup, the following information is either pulled from the requisition or selected/entered by the PO processor: vendor, business unit, PO description, Contract ID, Item ID, quantity, price, accounting string, tax/freight charges, and comments. Information is supplied from the requisition as well as the PO processor's familiarity with the requested goods and services.

During the PO creation process, the PO is either designated as Goods or Services. The PO for Goods requires a three-way match, while a PO for Services requires a two-way match. For each purchase item, an Item ID is created or selected from the system based on the commodity types established by the National Institute of Government Purchasing. The purpose of the Item ID is to provide a mechanism for users to track usage and expense per item. The Item IDs available in the system come from the County or department's item master. The item master is a catalog of all items the County has purchased. The Item ID selected is either a generic ID based on a commodity category or a specialty ID, which a user department creates for repeat purchases. An Item ID may be linked with an online vendor contract in PeopleSoft.

The online vendor contract allows a department to establish a hierarchy with vendors as well as provide a means of controlling spending limits. To establish a vendor contract and Contract ID, departments complete and submit an authorization form to County Purchasing. Once approved, the department's buyer or procurement specialist can setup a contract in PeopleSoft to include the commodity type to be purchased, the user department, dollar limit, and expiration date. The system can provide a warning message when the contract is near its dollar limit and expiration date.

After the entry of PO information is complete, the PO will then begin the workflow approval process and upon final approval, the PO is dispatched. The PO is then printed and sent to the vendor in accordance with the user department's policy. After the vendor has provided the goods or services to the user department, the user department is invoiced for payment. After an invoice is entered into PeopleSoft, a voucher is generated to pay the vendor and the system matching process begins. For POs designated for services, the system matches the voucher with a purchase order, which is called a two way match. If tangible goods are received, a receiver is created in PeopleSoft by a user department's receiving staff and the system matches the receiver with the purchase order and voucher in a three way match.

Objective

To evaluate controls over the setup of purchase orders in PeopleSoft.

Audit Methodology

To accomplish our objectives, we:

- reviewed the PeopleSoft's Financial Purchasing module features, commodity codes, and workflow process related to purchase order creation; and

- analyzed purchase orders from July 1, 2009 to February 28, 2011 to evaluate data entry accuracy and completeness.

Results

We analyzed 78,228 POs, including 2,981 blanket POs during the period of July 1, 2009 to February 28, 2011. There were 38,602 POs that were for goods and 39,626 for services. We selected two high dollar expenditure accounts, Medical and Dental Supplies and Professional Services in order to determine if purchases were made using the correct PO type. Our review of the two accounts indicated that purchase orders were misclassified based on the type of purchase. The table below highlights our results, with misclassified PO types in bold.

Purchases by PO Type				
	Goods Purchased		Services Purchased	
PO Type	# of POs	Total Purchased	# of POs	Total Purchased
PO for Goods	1,585	$ 3,674,457	**289**	**$ 2,047,287**
PO for Services	**225**	**$ 1,705,954**	5,693	$ 37,486,888
Total	1,810	$ 5,380,411	5,982	$ 39,534,175

We further analyzed the unit cost, Item ID, and Contract ID data fields on the purchase order for validity. When a line item is created, the system default for unit cost is $1.00. Based on this default number, we were able to identify instances of unit costs not entered on standard POs for goods purchased. We also observed Item IDs were not consistently used. In some cases, many types of products were listed under one Item ID, which eliminates the benefit of using Item IDs. Similar issues were noted with Contract IDs being allowed to expire. These anomalies are primarily attributed to PO Processor training issues. Furthermore, with over 77,000 Item IDs to be managed, the staffing requirement needed by County Purchasing to maintain an effective purchasing system is not adequate; however, the conditions noted may be minimized through periodic mandatory training provided by County Purchasing.

Finding 4: Purchases were misclassified as either goods or services.

The appropriate purchase order type based on goods or services purchased was not always selected when a purchase order was created. Because the system performs a two-way or three-way match based on if the department is receiving services or goods, the PO type should correspond to what is actually being purchased and the type of matching required for better controls. In addition, PO types can be used to monitor whether formal bids were obtained based on goods and services purchased.

Management's Response

"Concur. PO types are explained in the Purchasing Manual and during the initial training each departmental buyer receives. Additionally, there are times when this is warranted because materials and services are purchased on the same PO, such as repair of a piece of equipment that requires both parts and labor. PeopleSoft only allows for a selection of one PO type, not both. Purchasing has instituted a monthly buyers training to reiterate the training aspects of purchase order and contract processes. In addition, Purchasing conducts a quarterly training session for low value purchase order processors and accounting technicians wishing to participate."

Recommendation 4

Update the County Purchasing Manual and incorporate into PO Processor training guidelines for assigning the appropriate PO types based on type of purchase.

Management's Response

"Concur. The Purchasing manual will be updated to better explain the types and reasons of the types of Purchase Orders. The Purchasing Department has a separate training course for PO and requisition processing, and this will be reiterated in that training."

> **Actual/estimated Date of Corrective Action: August 1, 2012**
>
> **Estimated cost to implement recommendation (If material):** Covered in other training costs.

Finding 5: Unit cost not entered on purchase orders.

Unit costs were not always entered in the unit cost field in PeopleSoft when purchase orders were created. Of the 38,602 POs reviewed for Goods, there were 815 POs where no unit cost was entered. Some of the PO lines reviewed showed the unit price only noted in the item's description field. In other cases, multiple types of goods were not broken down onto separate lines and were lumped together as a single line item. The incomplete data entry was a result of PO Processors trying to save time during the processing of a purchase order. While vendors are still paid the full amount owed, the absence of unit prices assigned to each line item limits

County Purchasing's and user departments' ability to perform pricing verification, analysis, and comparisons. Comparing prices allows the County to test for contract compliance and identify potential discounts from future vendors.

Management's Response

"Concur. There are occasions when the listing of one lump sum item is sometimes done due to the labor intensive effort needed to create line items in PeopleSoft. For instance, we have a lump sum price for a systems furniture purchase, although there are hundreds of line items, i.e. brackets, nuts, bolts screws, etc., that are outlined on the bill of materials or a personal computer with many options for one total price. Additionally, when procuring items that are financed through our third party line of credit, two purchase orders are created. One to the seller of the product, with no unit cost but with costs detailed in the body, and a second one to the third party finance company, with the unit cost shown as the annual payment amount shown so that the funds are not double encumbered in the PeopleSoft financial system. However, outside of these types of situations, the detailed line items should be listed."

Recommendation 5

Update the County Purchasing Manual and incorporate into PO Processor training guidelines how unit costs are to be entered for all goods purchased and how different products should have separate line items on a PO.

Management's Response

"Concur. The Purchasing Department acknowledges the need for additional PeopleSoft training and will modify existing training to emphasize this. Purchasing will also include refresher training in our annual training schedule."

       Actual/estimated Date of Corrective Action: July 1, 2012

       Estimated cost to implement recommendation (If material): $10,000

Finding 6: PeopleSoft Item IDs not used efficiently.

We analyzed the top 24 PeopleSoft Item IDs based on dollars purchased from one particular vendor that provides janitorial services. Our analysis identified 12 Item IDs, totaling $334,834 in which there were large price fluctuations on the same Item ID. Further analysis determined that item descriptions were not only inconsistent for the same products, but items purchased under the same Item ID were not related to each other.

In another analysis of Item IDs, we identified at least eight specialty Item IDs where the number of unique product descriptions per Item ID ranged from over 100 to over 4,200. Specialty Item IDs are designed to be used for a single item type that is generally ordered repetitively and/or stocked by that department. We also identified at least four generic Item IDs for the purchase of approximately $15.7 million in goods in which the number of unique product descriptions ranged

from over 100 to 4,400. Having multiple descriptions for the same item makes it difficult to compare similar items and is also an indication that many different items are using the same Item ID.

Item ID setup and usage guidelines are covered in County Purchasing's PO processor training course and the County Purchasing Manual. However, due to the complexity of Item ID usage, a more in depth training should be provided. When Item IDs are not used correctly, user departments and County Purchasing are limited in their ability to effectively compare and manage prices of similar items, in addition to providing assurance that vendors are charging based on agreed upon pricing terms.

Management's Response

"Concur. Maintaining a data base of approximately 100,000 items is labor intensive and no resources in the County exist to manage this, hence the generic item number was created. Generic item numbers are designed to represent a category of an item, i.e. personal computer, but not detailed descriptions. Users are supposed to use the generic item number closest to their item and change the description on the PO to include the details. Specialty item ID's are supposed to be specific and not changed. The Purchasing Department acknowledges the need for additional PeopleSoft training so that the users choose the right item numbers."

Recommendation 6.1

Develop specialized training for PO processors that would encourage more efficient use of Item IDs and provide guidance for assigning commodity codes, product classification, and Item ID setup.

Management's Response

"Concur. To manage the item ID properly, there should be dedicated staff to do so. Since this is not an option due to the budget cuts and lack of resources, semi-annual training on PeopleSoft will have to suffice."

> **Actual/estimated Date of Corrective Action: September 30, 2012**

> **Estimated cost to implement recommendation (If material):** $15,000.00

Recommendation 6.2

Conduct periodic reviews on Item ID usage and identify inefficiencies in usage for corrective action.

Management's Response

"Concur. Review of the selected item ID's will be part of the department audits performed by the Contract Compliance Officer during the periodic audits of the departments."

> **Actual/estimated Date of Corrective Action: March 30, 2012**

Estimated cost to implement recommendation (If material): covered in above costs.

Finding 7: Purchase made against expired PeopleSoft vendor contract.

Purchases were made against PeopleSoft vendor contacts past the contract expiration date. We analyzed 30,967 Purchase Orders tied to 2,454 PeopleSoft contracts and identified 648 expired contracts in which a purchase was made against it. Purchases are made against an expired contract when a renewed contract has not been setup in the system. This may sometimes occur when the County has just renewed an agreement with a vendor. To prevent an expired contract from blocking purchases against it, County Purchasing, will manually extend the expiration date on a monthly basis. As a result of the contract IDs not maintained timely, a PO Processor will continue to use an expired contract ID or may use an already existing contract ID not directly related to the item. Using an expired contract ID or an unrelated ID limits user departments' and Purchasing's ability to control spending for particular items, analyze volume purchases and monitor contract term limits.

Management's Response

"Concur. As the department has pointed out in the budget impact statements over the last few years, budget reductions have limited the department's ability to renew contracts on time. The number of contracts not renewed on time continues to grow as resources were reduced."

Recommendation 7

Reevaluate existing procedures, considering current resources, for monitoring PeopleSoft contracts scheduled to expire and establish new contracts as necessary to minimize the manual extension of expired contracts.
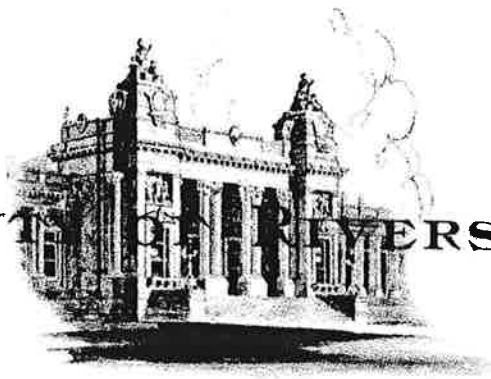
Management's Response

"Concur. Until such time as staffing levels are restored, this will be an ongoing issue. The department will work to renew the most crucial contracts first, and the balance will be done as resources are available."

Actual/estimated Date of Corrective Action: unknown

Estimated cost to implement recommendation (If material): $400,000.00

PURCHASING AND FLEET SERVICES

ROBERT J. HOWDYSHELL
DIRECTOR

PURCHASING
SUPPLY
CENTRAL MAIL
PRINTING
FLEET

COUN̶̶̶̶RSIDE

DATE: March 20, 2012

TO: Auditor-Controller's Office
            Audits and Specialized Accounting Division

FROM: **Robert Howdyshell, Director**
            Purchasing Department

SUBJECT: Reply to Draft Audit Report 2011-011

Finding 1: Purchase amount of software exceeded the Board of Supervisors' authorized amount.

The actual amount of software purchased under the Master Enterprise Agreement exceeded what was authorized by the Board of Supervisors. On June 17, 2008, the Board of Supervisors authorized the Purchasing Agent to enter into the Master Enterprise Agreement for the purchase of Microsoft core software products for three years for an estimated annual amount of $2,668,702. Over the course of three years, the County purchased the following in software licenses under this agreement:

Calendar Year	Actual Amount Purchased	Excess of Authorized Amount
2009	$3,334,703	$666,001
2010	$3,254,088	$585,386
2011	$3,256,411	$587,709
Total:	$9,845,202	$1,839,096

Although Riverside County Information Technology provided the estimate of annual costs, the actual costs for the software licenses were not monitored, which resulted in excess spending of $1,839,096 over the three year period. County purchasing policy requires that any contract over one year, particularly non-cancelable contracts committing the County over one fiscal year must have Board approval. The Board of Supervisors' approval is sought by the Director of Purchasing for multiple year lease purchase contracts. Board authorization provides a means of control over the commitment of County funds, which can accumulate to significant amounts over a period of a few years.

Management position concerning the finding: Concur

Comments:

Purchasing acknowledges the finding as a training issue. The buying staff is not correctly tying the PeopleSoft purchase orders to the correct PeopleSoft contracts, which resulted in the contract being overspent.

Recommendation 1

Establish procedures for monitoring actual purchase expenditures to what was authorized by the Board of Supervisors on multi-year contracts. Obtain Board authorization and submit justification for purchase costs expected to exceed what was previously authorized by the Board.

Management position concerning the recommendation: Concur

Comments:

Purchasing has instituted a semi-annual PeopleSoft buyers training to reiterate the training aspects of purchase order and contract processes. In addition, Purchasing conducts a quarterly training session for low value purchase order processors.

Actual/estimated Date of Corrective Action: April 1, 2012

The department will expand existing training of users on various audit finding issues.

Estimated cost to implement recommendation (If material): $12,000.00

Finding 2: Bidding requirements were not consistently followed by PO processors.

During our review of purchases made by County departments (exclusive of County Purchasing) for office supplies and computer equipment, the following deficiencies were noted:

- Documentation was not adequate to verify bid quotes were acquired from vendors for $33,504 worth of purchases.

- Bid documentation for the $21,000 purchase of server maintenance was not retained.

- Bid quotes were not obtained in accordance with County Purchasing policy.

- Alternative bid quotes were not obtained when an internal service department could not perform the required work.

Departments are required to maintain bid documentation per Board Policy A-43 for a minimum of three years. In addition, County departments are required to obtain quotes for purchases over $1,000 from at least two sources per the County Purchasing Manual. The reasons cited for the inconsistency in complying with County policy were lack of knowledge of County policy and processors wanting to save time. By not obtaining competitive bids/quotes, there is no assurance that the County is getting the best pricing. Furthermore, documentation provides

evidence that competitive bids/quotes were submitted and protects the County from legal exposure.

Management position concerning the finding: Concur

Comments:

As noted in the finding, these inconsistencies were found in work done by people with delegated purchasing authority outside the Purchasing and Fleet Services Department. Budget reductions over the last several years, resulting in staff reductions, has lead to less time to monitor the work of outside buyers. The Purchasing Department strategic plan includes an annual buyers training class with recertification tests to be conducted annually.

Recommendation 2.1

Provide comprehensive annual refresher training concentrating on bidding procedures and record retention requirements to County purchasing staff.

Management position concerning the recommendation: Concur

Comments:

The Purchasing Department provides monthly meetings for all outside department buyers and will enhance the training at these meetings. Additionally, attendance by some outside departmental buyers has been sporadic. Purchasing is in the process of enacting a new policy to require outside department buyers to attend at least 60% of the monthly training sessions held at the Purchasing Department, in conjunction with attending other offered training sessions each calendar year and pass the annual buyer's test with a score of 70% or better to retain their buyer authority.

Actual/estimated Date of Corrective Action: July 1, 2012

The department will begin tracking attendance and training of all personnel with delegated purchasing authority to maintain their purchasing authority. This may result in removal of authority from some individuals who fail to comply, thus returning the work to the Central Purchasing Department, which currently is under staffed.

Estimated cost to implement recommendation (If material): $12,000

Recommendation 2.2

Perform periodic reviews to identify departments that are not in compliance with County purchasing and record retention policy.

Management position concerning the recommendation: Concur

Comments:

The Contract Compliance Officer will conduct periodic reviews of external buying practices with recommendations for improvement or training needed. As noted in the budget presentations, reduced budget and lack of staffing results in fewer audits spread over more time. The Contract Compliance Officer position was vacant for six months, and prior and subsequent to that, this position has been utilized to do high level buying functions due to lack of staff to perform core functions.

Actual/estimated Date of Corrective Action: April 1, 2012

The frequency and number of audits done annually will depend on availability of the Contract Compliance Officer to do the audits rather than work on procurements to augment the lack of regular purchasing staff.

Estimated cost to implement recommendation (If material): $90,000

Finding 3: Sole sources are not always tracked and referenced in PeopleSoft.

Although department PO processors indicate in the PO that the purchase is from a sole source, other details that may be relevant to the sole source agreement are not provided in the PO comments. A lack of details about the sole source agreement can make it difficult to justify whether the sole source was authorized by County Purchasing or validate the length of the sole source approval. Sole sources authorized by County Purchasing provide a control to ensure County departments have a legitimate reason for not obtaining bids from multiple vendors as required by the Purchasing Policy Manual.

Management position concerning the finding: Concur

Comments:

Purchasing has instituted a tracking mechanism for all sole sources processed through the Purchasing Department.

Recommendation 3

Assign a number to each sole source contract so that departments and County Purchasing have a method to track and reference purchases that use approved sole source vendors and require PO processors to reference this number when issuing applicable POs.

Management position concerning the recommendation: Concur

Comments:

In December, 2011, the Purchasing Department began assigning and tracking numbers for each sole source and has instructed buyers to document the tracking number in the comment field of the purchase order. This will be one of the items checked in departmental audits by the Contract Compliance Officer.

Actual/estimated Date of Corrective Action: December 1, 2011

Estimated cost to implement recommendation (If material): $5,000.00

Finding 4: Purchases were misclassified as either goods or services.

The appropriate purchase order type based on goods or services purchased was not always selected when a purchase order was created. Because the system performs a two-way or three-way match based on if the department is receiving services or goods, the PO type should correspond to what is actually being purchased and the type of matching required for better controls. In addition, PO types can be used to monitor whether formal bids were obtained based on goods and services purchased.

> **Management position concerning the finding: Concur**
>
> **Comments:**
>
> > PO types are explained in the Purchasing Manual and during the initial training each departmental buyer receives. Additionally, there are times when this is warranted because materials and services are purchased on the same PO, such as repair of a piece of equipment that requires both parts and labor. PeopleSoft only allows for a selection of one PO type, not both. Purchasing has instituted a monthly buyers training to reiterate the training aspects of purchase order and contract processes. In addition, Purchasing conducts a quarterly training session for low value purchase order processors and accounting technicians wishing to participate.

Recommendation 4

Update the County Purchasing Manual and incorporate into PO Processor training guidelines for assigning the appropriate PO types based on type of purchase.

> **Management position concerning the recommendation: Concur**
>
> **Comments:**
>
> > The Purchasing manual will be updated to better explain the types and reasons of the types of Purchase Orders. The Purchasing Department has a separate training course for PO and requisition processing, and this will be reiterated in that training.
>
> **Actual/estimated Date of Corrective Action: August 1, 2012**
>
> **Estimated cost to implement recommendation (If material):** Covered in other training costs.

Finding 5: Unit cost not entered on purchase orders.

Unit costs were not always entered in the unit cost field in PeopleSoft when purchase orders were created. Of the 38,602 POs reviewed for Goods, there were 815 POs where no unit cost was entered. Some of the PO lines reviewed showed the unit price only noted in the item's description field. In other cases, multiple types of goods were not broken down onto separate lines and were lumped together as a single line item. The incomplete data entry was a result of PO Processors trying to save time during the processing of a purchase order. While vendors are

still paid the full amount owed, the absence of unit prices assigned to each line item limits County Purchasing's and user departments' ability to perform pricing verification, analysis, and comparisons. Comparing prices allows the County to test for contract compliance and identify potential discounts from future vendors.

Management position concerning the finding: Concur

Comments:

> There are occasions when the listing of one lump sum item is sometimes done due to the labor intensive effort needed to create line items in PeopleSoft. For instance, we have a lump sum price for a systems furniture purchase, although there are hundreds of line items, i.e. brackets, nuts, bolts screws, etc., that are outlined on the bill of materials or a personal computer with many options for one total price. Additionally, when procuring items that are financed through our third party line of credit, two purchase orders are created. One to the seller of the product, with no unit cost but with costs detailed in the body, and a second one to the third party finance company, with the unit cost shown as the annual payment amount shown so that the funds are not double encumbered in the PeopleSoft financial system. However, outside of these types of situations, the detailed line items should be listed.

Recommendation 5

Update the County Purchasing Manual and incorporate into PO Processor training guidelines how unit costs are to be entered for all goods purchased and how different products should have separate line items on a PO.

Management position concerning the recommendation: Concur

Comments:

> The Purchasing Department acknowledges the need for additional PeopleSoft training and will modify existing training to emphasize this. Purchasing will also include refresher training in our annual training schedule.

Actual/estimated Date of Corrective Action: July 1, 2012

Estimated cost to implement recommendation (If material): $10,000

Finding 6: PeopleSoft Item IDs not used efficiently.

We analyzed the top 24 PeopleSoft Item IDs based on dollars purchased from one particular vendor that provides janitorial services. Our analysis identified 12 Item IDs, totaling $334,834 in which there were large price fluctuations on the same Item ID. Further analysis determined that item descriptions were not only inconsistent for the same products, but items purchased under the same Item ID were not related to each other.

In another analysis of Item IDs, we identified at least eight specialty Item IDs where the number of unique product descriptions per Item ID ranged from over 100 to over 4,200. Specialty Item IDs are designed to be used for a single item type that is generally ordered repetitively and/or

stocked by that department. We also identified at least four generic Item IDs for the purchase of approximately $15.7 million in goods in which the number of unique product descriptions ranged from over 100 to 4,400. Having multiple descriptions for the same item makes it difficult to compare similar items and is also an indication that many different items are using the same Item ID.

Item ID setup and usage guidelines are covered in County Purchasing's PO processor training course and the County Purchasing Manual. However, due to the complexity of Item ID usage, a more in depth training should be provided. When Item IDs are not used correctly, user departments and County Purchasing are limited in their ability to effectively compare and manage prices of similar items, in addition to providing assurance that vendors are charging based on agreed upon pricing terms.

Management position concerning the finding: Concur

Comments:

> Maintaining a data base of approximately 100,000 items is labor intensive and no resources in the County exist to manage this, hence the generic item number was created. Generic item numbers are designed to represent a category of an item, i.e. personal computer, but not detailed descriptions. Users are supposed to use the generic item number closest to their item and change the description on the PO to include the details. Specialty item ID's are supposed to be specific and not changed. The Purchasing Department acknowledges the need for additional PeopleSoft training so that the users choose the right item numbers.

Recommendation 6.1

Develop specialized training for PO processors that would encourage more efficient use of Item IDs and provide guidance for assigning commodity codes, product classification, and Item ID setup.

Management position concerning the recommendation: Concur

Comments:

> To manage the item ID properly, there should be dedicated staff to do so. Since this is not an option due to the budget cuts and lack of resources, semi-annual training on PeopleSoft will have to suffice.

Actual/estimated Date of Corrective Action: September 30, 2012

Estimated cost to implement recommendation (If material): $15,000.00

Recommendation 6.2

Conduct periodic reviews on Item ID usage and identify inefficiencies in usage for corrective action.

Management position concerning the recommendation: Concur

Comments:

Review of the selected item ID's will be part of the department audits performed by the Contract Compliance Officer during the periodic audits of the departments.

Actual/estimated Date of Corrective Action: March 30, 2012

Estimated cost to implement recommendation (If material): covered in above costs.

Finding 7: Purchase made against expired PeopleSoft vendor contract.

Purchases were made against PeopleSoft vendor contacts past the contract expiration date. We analyzed 30,967 Purchase Orders tied to 2,454 PeopleSoft contracts and identified 648 expired contracts in which a purchase was made against it. Purchases are made against an expired contract when a renewed contract has not been setup in the system. This may sometimes occur when the County has just renewed an agreement with a vendor. To prevent an expired contract from blocking purchases against it, County Purchasing, will manually extend the expiration date on a monthly basis. As a result of the contract IDs not maintained timely, a PO Processor will continue to use an expired contract ID or may use an already existing contract ID not directly related to the item. Using an expired contract ID or an unrelated ID limits user departments' and Purchasing's ability to control spending for particular items, analyze volume purchases and monitor contract term limits.

Management position concerning the finding: Concur

Comments:

As the department has pointed out in the budget impact statements over the last few years, budget reductions have limited the department's ability to renew contracts on time. The number of contracts not renewed on time continues to grow as resources were reduced.

Recommendation 7

Reevaluate existing procedures, considering current resources, for monitoring PeopleSoft contracts scheduled to expire and establish new contracts as necessary to minimize the manual extension of expired contracts.

Management position concerning the recommendation: Concur

Comments:

Until such time as staffing levels are restored, this will be an ongoing issue. The department will work to renew the most crucial contracts first, and the balance will be done as resources are available.

Actual/estimated Date of Corrective Action: unknown

Estimated cost to implement recommendation (If material): $400,000.00