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

FROM: County Auditor-Controller

SUBMITTAL DATE:
February 11, 2013

SUBJECT: Internal Audit Report 2012-010: Economic Development Agency, Project Management Office

RECOMMENDED MOTION: Receive and file Internal Audit Report 2012-010: Economic Development Agency, Project Management Office

BACKGROUND: We have completed an audit of the Economic Development Agency, Project Management Office to provide management and the Board of Supervisors with an independent assessment of internal controls over the project management process. The audit covered projects in progress or completed during the period July 1, 2010 through June 30, 2012.

Based upon the results of our audit, we determined the Economic Development Agency, Project Management Office's internal controls must be improved in the area of maintaining complete project files with relevant and pertinent supporting documentation and over the retroactive issuance of purchase orders.

Management concurs with our findings and partially concurs with two of the recommendations. We will follow-up within one year to verify management took corrective action.

Paul Angulo

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 L. Johnson*

County Executive Office Signature

MINUTES OF THE BOARD OF SUPERVISORS

On motion of Supervisor Stone, seconded by Supervisor Ashley and duly carried by unanimous vote, IT WAS ORDERED that the above matter is received and filed as recommended.

Ayes:	Jeffries, Tavaglione, Stone, Benoit and Ashley
Nays:	None
Absent:	None
Date:	March 12, 2013
xc:	Auditor, EDA

Kecia Harper-Ihem
Clerk of the Board
By: *[signature]*
Deputy

2-4

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

County of Riverside

INTERNAL AUDIT REPORT

2012-010

Economic Development Agency, Project Management Office

February 11, 2013

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

4080 Lemon Street
P.O. Box 1326
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OFFICE OF THE
AUDITOR-CONTROLLER

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AC | **AUDITOR**
| CONTROLLER
COUNTY OF RIVERSIDE

Paul Angulo, CPA, MA-Mgmt
AUDITOR-CONTROLLER

February 11, 2013

Robert Field
Economic Development Agency
3403 Tenth Street, Suite 500
Riverside, CA 92501

Subject: **Internal Audit Report 2012-010: Economic Development Agency, Project Management Office**

Dear Mr. Field:

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Economic Development Agency, Project Management Office. The audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over the project management process. We conducted the audit during the period March 7, 2011 through June 30, 2012, for projects in progress or completed July 1, 2010 through June 30, 2012.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require we plan and perform the audit to obtain sufficient, reliable, relevant and useful information to provide reasonable assurance 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 must be improved in the area of maintaining complete project files with relevant and pertinent supporting documentation and over the retroactive issuance of purchase orders.

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

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

By: Rachelle Román, CRMA, MPA
     Chief Internal Auditor

cc: Board of Supervisors
    Executive Office

Table of Contents

Executive Summary

Overview

The County of Riverside Economic Development Agency (EDA) comprises of 13 departments/divisions: Aviation, Community Services Division, Cultural Services, Economic Development, Edward-Dean Museum, Facilities Management, Fair & National Date Festival, Housing, Project Management Office, Riverside County Library System, Successor Agency, Workforce Development, and Office of Foreign Trade. The focus of this audit is the (PMO) Property Management Office. PMO provides comprehensive project management and technical services for the construction of County facilities. Typically, project managers oversee projects from the development of the initial concept through the final acceptance of the completed project. Services include, but are not limited, to the following: project development; project management; environmental compliance; facility enhancements and restorations; design and specification development; public works bidding process; construction management; and, plan check and construction inspection.

Audit Objective

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

Audit Highlights

- Construction Contracts: Information contained in project files at PMO are both incomplete and inconsistent.

- Purchase Orders Related to Construction Projects: Documentation, including invoices and pertinent necessary information concerning bids/quotes is incomplete, with no apparent systematic procedures for maintaining the information.

- Purchase Orders: Purchase orders are issued after the goods/services are received/rendered and after invoices being submitted to PMO.

Audit Conclusion

The department's internal controls must be improved in the area of maintaining complete project files with relevant and pertinent supporting documentation and over the retroactive issuance of purchase orders.

Construction Contracts

Background

Projects are initiated when PMO is contacted by a department with a project request. Approval from the Board of Supervisors is obtained prior to any design work being performed. For professional services less than $100,000, such as project design or engineering studies, contract amounts are negotiated using a pre-approved list of contractors. For construction contracts, the (COB) Clerk of the Board advertises the notice to bidders in local publications and on the COB website. Bids are later opened in public by the Clerk of the Board and then forwarded to County Counsel. County Counsel evaluates low bid for responsiveness and submission of all required bid documents. This information is then forwarded to PMO, along with a summary of bids received. Approval of the contract is then obtained from the Board of Supervisors, along with overall project budget approval.

EDA currently lists requests for proposals/qualifications (RFP/RFQ) for upcoming projects, along with bid results of projects recently advanced to bid on their website.

Audit Objective

Evaluate the internal controls over project approval, bidding procedures, contract change orders, progress payments, and records retention.

Audit Methodology

To accomplish our objectives, we:

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

- Identified and reviewed policies and procedures relating to the awarding of contracts through the bid process;

- Identified and reviewed policies and procedures relating to the management of contracts, including project completion procedures;

- Conducted management and staff interviews;

- Identified recently completed and currently-open projects; and

- Reviewed project files and performed applicable testing.

Results

EDA provided a listing of projects greater than $50,000 completed in fiscal years 2011 and 2012. EDA completed 48 projects in 2011 and 36 projects in 2012. From this listing, we selected

five projects from each fiscal year for review. The projects were selected to cover a range of project types and costs (i.e. new constructions, such as the $74 million dollar Smith Correction Facility expansion in Banning; renovations/remodels; and, deferred maintenance). EDA also provided a listing of 79 projects in progress during the fiscal year 2012. We selected three projects in progress for review, totaling 13 projects tested for the audit period.

We reviewed the project files for the following:

- Determine how contracts were awarded and if the contracts were properly authorized and conform to County policies;

- Verified Form 11's are retained indicating approval of project initiation and design;

- County policies are followed in regards to obtaining bids;

- Documentation of the bid process are retained in project files;

- Change orders are properly approved and do not exceed County limits;

- Copies of progress payments are documented;

- No payments are made to the prime contractor after (NOC) Notice of Completion has been issued; and

- Verified and traced contractor progress payment amounts per EDA records into the County's PeopleSoft Financial accounting system.

Finding 1

The information contained in project files at PMO is both incomplete and inconsistent. Per Board Policy B-11, I., "The project manager is responsible for making sure that all critical tasks related to the specific project have been identified and are tracked on the checklist throughout the duration of the project." While each project manager is required to maintain what are termed "essential" documents in the project files, there is no checklist in place to ensure all critical tasks are identified and tracked throughout the duration of the projects. PMO has developed a numbering system for filing project documents; however, each project manager is allowed to file documents in various locations at their own discretion. Our review of the project files disclosed the following:

- 7 of 13 (54%) project files did not contain evidence of compliance with County policy regarding bidding procedures;

- 4 of 13 (31%) project files did not contain all necessary Form 11 submittals to the Board of Supervisors; and

- 3 of 13 (23%) project files did not contain all the progress payment request documentation.

With no evidence of obtaining competitive bids/quotes on file, there is no assurance the County is obtaining the best rate to complete projects. At a minimum, project files should include (either in paper or electronic form):

- All Form 11's identifying approval by the Board of Supervisors, as applicable;

- All approved change orders;

- All progress payments;

- Notices of completion;

- Agreements with contractors

- Bid related documentation, including proof of publication of notices to bidders, bid summary sheets, pre-bid/job walk through attendance lists, copies of all submitted bids;

Adequate supporting documentation in project files provides evidence competitive bids/quotes were submitted, protects the County from legal exposure, and verifies Board authorization over the commitment of County funds--which can accumulate to significant amounts over a period of a few years.

Recommendation 1.1

Develop a standardized checklist to ensure all required supporting documents are complete and conform to Department/County policies and procedures.

Management's Response

"Concur. The Project Management Office (PMO) will create a standardized checklist for Project Managers to utilize to ensure project files contain all required documents. PMO has an approved records retention schedule and is working with RMAP to implement all aspects of the plan."

Actual/estimated Date of Corrective Action: January 31, 2013

Recommendation 1.2

Management perform periodic reviews of project files to ensure compliance with policies and procedures.

Management's Response

"Concur. PMO Supervising Project Managers will perform periodic reviews of project files to ensure compliance with policies. This review will be incorporated into the normal project status review given to each project."

Actual/estimated Date of Corrective Action: January 31, 2013

Purchase Orders

Background

The acquisition of goods and services under the dollar limits established by the Board of Supervisors are accomplished through the purchase order process, rather than by contract. In many instances, purchase orders are utilized for certain professional services under $100,000 related to a construction project, such as design/engineering, soils testing, etc. Purchase orders related to construction projects are initiated at PMO. Requests for purchase orders are forwarded to the EDA Purchasing Division for review and processing. In most instances, bids, quotes, or estimates are obtained by the PMO project managers. This information, along with the request for purchase order, is then relayed to EDA Purchasing Division to determine if sufficient bids/quotes have been received and the low bidder is being utilized.

When invoices are received by the PMO project manager, they are approved for payment then forwarded to the EDA Accounting Division for entry into PeopleSoft. The original invoice is then forwarded to the Auditor-Controller's Office for final approval and processing of payment.

Audit Objective

Evaluate the internal controls over the purchase order process.

Audit Methodology

To accomplish our objectives, we:

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

- Conducted management and staff interviews; and

- Reviewed project files at PMO and purchase order files at EDA Purchasing, and performed applicable testing.

Results

We extracted a listing of purchase orders from PeopleSoft Financials issued by PMO. This listing was sorted by purchase order, vendor, and project. From this listing, we selected three purchase orders from each of the 13 construction projects previously selected for construction contract testing, for a total of 39 purchase orders.

For purchase orders tested, we verified purchase orders and related supporting documentation are:

- Retained in project files at EDA Purchasing;

- Purchase orders and vendor invoices were properly approved and did not exceed approver's dollar limits;

- Construction projects underwent a bidding process and bid documentation was retained;

- Purchase orders were not retroactively issued after receipt of invoices;

- Purchase orders were not split in order to circumvent County approval limits; and

- Pre-approved bidder's list is current.

Finding 2

Documentation, including invoices and necessary information concerning bids/quotes, is incomplete, with no apparent systematic procedures for maintaining the information or for determining which office obtains bid information. This weakness in procedures and lack of documentation can lead to a breakdown in internal controls and deviation from County policies. Our review of the 39 purchase orders disclosed the following:

- 6 of 39 (15%) purchase order files could not be located at EDA Purchasing;

- 33 of 39 (85%) of the files at EDA Purchasing did not contain copies of the actual purchase order;

- Documentation and support for 3 of 39 (8%) purchase orders were not found at either PMO or EDA Purchasing;

- 7 of 13 (54%) project files at PMO did not contain copies of the purchase order or invoices;

- 5 of 13 (38%) project files at PMO did not contain evidence of bids/quotes being obtained; and

- 3 of 13 (23%) project files at PMO, which included purchase order requests over $25,000, contained a summary of bids but did not contain evidence of written bids being advertised nor the actual bids themselves.

Recommendation 2.1

PMO retain documentation related to all purchase orders, including requests for purchase orders, copies of actual purchase orders, documentation of required bids/quotes from vendors/contractors, and copies of all invoices.

Management's Response

"**Partially Concur.** EDA purchase orders, requisitions, and informal bids/quotes will be retained by EDA Purchasing. Purchase orders are attainable through the PeopleSoft Financials system and paper copies are not required as confirmed with Central Purchasing and the County

Purchasing Policy Manual. During the exit interview, the Auditor-Controller's office requested keeping copies of purchase orders with signatures. However, the Central Purchasing Department and the County Purchasing Policy Manual do not require paper copies of purchase orders with a signature for inclusion into records at this time. Approvals of purchase orders use the county's PeopleSoft system, which is very controlled and carefully monitored. Central Purchasing is the only department that can provide authorization in PO processing using the county's PeopleSoft system. Therefore, the process ensures that the necessary controls are in place for PO authorization and paper copies of purchase orders have not been the standard."

Actual/estimated Date of Corrective Action: January 31, 2013

Auditor's Comment

Although it is best business practice to have complete supporting documentation relating to each project in one convenient location as the project file, we will accept the procedure of not printing the purchase order to include in the project file since it is securely located within the PeopleSoft Financial accounting system.

Recommendation 2.2

EDA Purchasing retain all bids/quotes for those purchase orders requiring formal written bids.

Management's Response

"**Partially Concur.** The Central Purchasing Department controls all formal bid documents and related processing for those bids that are conducted through their department. All formal bid documents are retained by Central Purchasing and are made available for viewing purposes only. Summaries are provided upon request. If bids are conducted by EDA, they will be retained by EDA purchasing."

Actual/estimated Date of Corrective Action: N/A

Auditor's Comment

Management's assertion that EDA Purchasing will retain bid documentation meets the intent of our recommendation.

Recommendation 2.3

Management perform periodic reviews to ensure compliance with County purchasing and record retention policies.

Management's Response

"**Concur.** PMO Supervising Project Managers will perform periodic reviews of project files to ensure compliance with county purchasing and record retention policies. PMO has an approved records retention schedule and is working with RMAP to implement all aspects of the plan."

Actual/estimated Date of Corrective Action: January 31, 2013

Finding 3

A review of the project files at PMO and EDA Purchasing indicates seven purchase orders were requested and issued after invoices were received from contractors. Per County Purchasing Policy Manual, 3.2.4, no goods or services over $600 should be authorized by PMO until such time as a valid purchase order has been issued. Lack of a purchase order may result in obligating the County for unauthorized work being performed and can also lead to increase project costs, if proper approval procedures are not followed.

Recommendation 3

Ensure purchase orders are issued and approved prior to the receipt of goods/services and invoices.

Management's Response

"**Concur**. PMO will comply with county purchasing guidelines as set forth in the Purchasing Policy Manual. A directive memorandum will be issued to all staff to serve as a reminder that all goods and services will be properly procured. This matter will also be discussed during staff meetings on a regular basis. Periodic reviews of this process will be conducted by EDA purchasing on a bi-annual basis."

Actual/estimated Date of Corrective Action: January 31, 2013
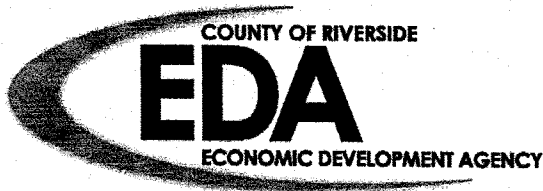
DATE: January 7, 2013

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

FROM: Lisa Brandl,
         EDA Managing Director

SUBJECT: Reply to Draft Audit Report 2012-010

We are submitting response to the internal Audit Report 2012-010: Economic Development Agency, Project Management Office (PMO).

EDA is committed to providing quality services and ensuring a high degree of effectiveness and efficiency within its operations. The department establishes procedures and adequate controls to ensure reliability of services provided, safeguarding of assets, and compliance with procurement laws and regulations. On a continuous basis, periodic reviews of established procedures and controls are made to ensure operational efficiency and department goals are met. EDA ensures that qualified personnel are assigned to specific work tasks. All personnel working in PMO have received formal and informal training on procurement requirements by supervisory personnel and when available by other county sponsored trainings.

Recommendation 1.1:

Develop a standardized checklist to ensure all required documents are complete and conform to Department policies and procedures.

Management position concerning the recommendation: Concur

Comments: The Project Management Office (PMO) will create a standardized checklist for Project Managers to utilize to ensure project files contain all required documents. PMO has an approved records retention schedule and is working with RMAP to implement all aspects of the plan.

Actual/estimated Date of Corrective Action: January 31, 2013

Estimated cost to implement recommendation (If material): $ 0.00

P.O. Box 1180 • Riverside, California • 92502 • T: 951.955.8916 • F: 951.955.6686   www.rivcoeda.org

Administration	Housing	Economic Development	Parking
Aviation	Housing Authority	Edward-Dean Museum	Project Management
Business Intelligence	Information Technology	Environmental Planning	Purchasing Group
Cultural Services	Maintenance	Fair & National Date Festival	Real Property
Community Services	Marketing	Foreign Trade	Redevelopment Agency
Custodial		Graffiti Abatement	Workforce Development

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Recommendation 1.2:

Management performs periodic reviews of project files to ensure compliance with policy.

Management position concerning the recommendation: Concur

Comments: PMO Supervising Project Managers will perform periodic reviews of project files to ensure compliance with policies. This review will be incorporated into the normal project status review given to each project.

Actual/estimated Date of Corrective Action: January 31, 2013

Estimated cost to implement recommendation (If material): $ 0.00

Recommendation 2.1:

PMO retain documentation related to all purchase orders, including requests for purchase orders, copies of actual purchase orders, documentation of required bids/quotes from vendors/contractors, and copies of all invoices.

Management position concerning the recommendation: Partially Concur

Comments: EDA purchase orders, requisitions, and informal bids/quotes will be retained by EDA Purchasing. Purchase orders are attainable through the PeopleSoft Financials system and paper copies are not required as confirmed with Central Purchasing and the County Purchasing Policy Manual. During the exit interview, the Auditor-Controller's office requested keeping copies of purchase orders with signatures. However, the Central Purchasing Department and the County Purchasing Policy Manual do not require paper copies of purchase orders with a signature for inclusion into records at this time. Approvals of purchase orders use the county's PeopleSoft system, which is very controlled and carefully monitored. Central Purchasing is the only department that can provide authorization in PO processing using the county's PeopleSoft system. Therefore, the process ensures that the necessary controls are in place for PO authorization and paper copies of purchase orders have not been the standard.

Actual/estimated Date of Corrective Action: January 31, 2013

Estimated cost to implement recommendation (If material): $ 0.00

Recommendation 2.2:

EDA Purchasing retains all bids/quotes for those purchase orders requiring formal written bids.

Management position concerning the recommendation: Partially Concur

Comments: The Central Purchasing Department controls all formal bid documents and related processing for those bids that are conducted through their department. All formal bid documents are retained by Central Purchasing and are made available for viewing purposes only. Summaries are provided upon request. If bids are conducted by EDA, they will be retained by EDA purchasing.

Actual/estimated Date of Corrective Action: N/A

Estimated cost to implement recommendation (If material): $ 0.00

Recommendation 2.3:

Management performs periodic reviews to ensure compliance with county purchasing and record retention policies.

Management position concerning the recommendation: Concur

Comments: PMO Supervising Project Managers will perform periodic reviews of project files to ensure compliance with county purchasing and record retention policies. PMO has an approved records retention schedule and is working with RMAP to implement all aspects of the plan.

Actual/estimated Date of Corrective Action: January 31, 2013

Estimated cost to implement recommendation (If material): $ 0.00

Recommendation 3.0:

Ensure purchase orders are issued and approved prior to the receipt of goods/services and invoices.

Management position concerning the recommendation: Concur

Comments: PMO will comply with county purchasing guidelines as set forth in the Purchasing Policy Manual. A directive memorandum will be issued to all staff to serve as a reminder that all goods and services will be properly procured. This matter will also be discussed during staff meetings on a regular basis. Periodic reviews of this process will be conducted by EDA purchasing on a bi-annual basis.

Actual/estimated Date of Corrective Action: January 31, 2013

Estimated cost to implement recommendation (If material): $ 0.00