

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

517



FROM: Riverside County Auditor-Controller

SUBMITTAL DATE:
January 7, 2016

SUBJECT: Internal Audit Report 2014-010: County Procurement Cards, Riverside County Regional Park and Open-Space District [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2014-010: County Procurement Cards, Riverside County Regional Park and Open-Space District

BACKGROUND:

Summary

We completed an audit of the County Procurement Card Program, which included the Riverside County Regional Park and Open-Space District, to provide the Board of Supervisors and management with an independent, objective, and reliable assessment of internal controls over the usage of procurement cards. We conducted the audit from March 31, 2014 through August 15, 2015 for operations for the period July 1, 2011 through October 31, 2013. We subsequently expanded the period to include the period November 1, 2013 through May 31, 2015 and conducted our additional testing in July 2015.

(Continued on page 2)

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

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost:	POLICY/CONSENT (per Exec. Office)
COST	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	Consent <input checked="" type="checkbox"/> Policy <input type="checkbox"/>
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

BY: *Samuel Wong 1/25/16*
Samuel Wong

County Executive Office Signature

MINUTES OF THE BOARD OF SUPERVISORS

- A-30
- Positions Added
- 4/5 Vote
- Change Order

Prev. Agn. Ref.:

District: ALL

Agenda Number:

2-4

JU Departmental Concurrence

SUBMITTAL TO THE BOARD OF SUPERVISORS, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA
FORM 11: Riverside Auditor-Controller's Office - Internal Audit Report 2014-010: County Procurement Cards, Riverside County Regional Park and Open-Space District [District: All]; [\$0]

DATE: January 7, 2016

PAGE: Page 2 of 2

BACKGROUND:

Summary (continued)

Based upon the results of our audit, we identified opportunities for improvement in the internal controls relating to the monitoring compliance with procurement policies and maintenance of cardholder agreements. We determined Riverside County Regional Park and Open-Space District internal controls over these areas did not provide reasonable assurance that its objectives relating to these areas will be achieved. Reasonable assurance recognizes internal controls have inherent limitations, including costs, mistakes, and intentional efforts to bypass internal controls.

Impact on Citizens and Businesses

Provide an assessment of internal controls over the audited areas.

SUPPLEMENTAL:

Additional Fiscal Information

Not applicable

ATTACHMENTS:

A: Riverside County Auditor-Controller's Office – Internal Audit Report 2014-010: County Procurement Cards, Riverside County Regional Park and Open-Space District

Internal Audit Report 2014-010

**County Procurement Cards
Riverside County
Regional Park and Open-Space District**

Report Date: January 7, 2016



**Office of Paul Angulo, CPA, MA
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ACC | **AUDITOR**
CONTROLLER
COUNTY OF RIVERSIDE

Paul Angulo, CPA, MA
Auditor-Controller

Frankie Ezzat, MPA
Assistant Auditor-Controller

January 7, 2016

Scott Bangle
Director/General Manager
Riverside County Regional Park and Open-Space District
4600 Crestmore Road
Jurupa Valley, CA 92509

Subject: Internal Audit Report 2014-010: County Procurement Cards, Riverside County Regional Park and Open-Space District

Dear Mr. Bangle:

We completed an audit of the County Procurement Card Program, which included the Riverside County Regional Park and Open-Space District, to provide the Board of Supervisors and management with an independent, objective, and reliable assessment of internal controls over the usage of procurement cards. We conducted the audit from March 31, 2014 through August 15, 2015 for operations for the period July 1, 2011 through October 31, 2013. We subsequently expanded the period to include the period November 1, 2013 through May 31, 2015 and conducted our additional testing in July 2015.

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 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 the audit provides a reasonable basis for our conclusion.

Internal controls are processes designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial and non-financial information. Management is responsible for establishing and maintaining adequate internal controls. Our responsibility is to evaluate the internal controls.

Based upon the results of our audit, we identified opportunities for improvement in the internal controls relating to the monitoring compliance with procurement policies and maintenance of cardholder agreements. We determined Riverside County Regional Park and Open-Space District internal controls over these areas did not provide reasonable assurance that its objectives relating to these areas will be achieved. Reasonable assurance recognizes internal controls have inherent limitations, including costs, mistakes, and intentional efforts to bypass internal controls.

Internal Audit Report 2014-010: County Procurement Card, Riverside County Regional Park and Open-Space District

As requested, in accordance with paragraph III.C of the Board of Supervisors Resolution 83-338, management responded to the reported conditions and recommendations contained in our report. Management's responses are included in the report. We will follow-up to verify that management implemented the corrective actions

We thank Riverside County Regional Park and Open-Space District management and staff for their cooperation. Their assistance contributed significantly to the successful completion of this audit.

Paul Angulo, CPA, MA
Riverside County Auditor-Controller



By: René Casillas CPA, CRMA
Interim Chief Internal Auditor

cc: Board of Supervisors
Executive Office
Grand Jury

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Executive Summary

Overview

Riverside County's Procurement Card (Procurement Card) program was developed through collaboration with Purchasing & Fleet Services Department (Purchasing Services) and the Auditor-Controller's Office to improve efficiency and reduce the cost associated with making purchases and processing vendor payments. The procurement card eliminates the need for formal purchase requisitions and purchase orders that usually accompany small dollar purchases and further requires only one payment to the bank as opposed to multiple payments to several vendors. The program requires compliance with current statutes and county procurement procedures and is intended to improve the timely delivery of products and services.

Purchasing Services is responsible for managing and monitoring the overall program. Additionally, Purchasing Services facilitates training required for all program participants, establishes and communicates rules and guidelines, oversees participants' compliance with the county's procurement card policies and procedures, and coordinates the interface between U.S. Bank and Riverside County. Cardholders are required to comply with the *County of Riverside Procurement Card Program Procedure Handbook* as outlined by Purchasing Services.

The Procurement Card program has unique controls developed and implemented which are different than the traditional credit card. The controls ensure the cards can be used only for the specific types of purchases with established dollar limits. Additionally, approving officials assigned to each cardholder are responsible for reviewing and approving cardholder transactions. The cardholder is responsible to verify all purchases once card statement is obtained.

The policies, procedures and board policies we reviewed during the course of the audit were as follow: *Riverside County Board Ordinance 459.4, County of Riverside Purchasing Policy Manual, County of Riverside Procurement Card Program, Procedure Handbook, Board Policy A-62, Credit Card Use and Board Policy D-1, Reimbursement for General Travel and Other Actual and Necessary Expenses.*

As an integral part of a Riverside County 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.

As of May 31, 2015, the Regional Park and Open-Space District had 70 procurement cardholders. Each cardholder is granted a single transaction amount, number of transactions per day, and a monthly spending limit. Limits are established for each cardholder at the single transaction amount, number of transactions per day, and monthly transaction amount. Certain

Internal Audit Report 2014-010: County Procurement Card, Riverside County Regional Park and Open-Space District

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

For the period July 1, 2010 through May 31, 2013, Riverside County Regional Park and Open-Space District had Procurement Card program expenditures totaling \$1,080,619. We selected the three highest monthly expenditures, July 2011, February 2013, and July 2013 with \$158,772 in total expenditures reported to the Auditor-Controller's Office for review.

In order to ensure compliance with the revised *County of Riverside Procurement Card Program Procedure Handbook* which was effective March 2015, we extended our testing to include expenditures for May 2015 totaling \$63,093. As of May 31, 2015, the Riverside County Regional Park and Open-Space District had 70 procurement cardholders.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over the authorizations and use of the procurement cards.

Audit Conclusion

Based upon the results of our audit, we identified opportunities for improvement in the internal controls relating to the monitoring compliance with procurement policies and maintenance of cardholder agreements. We determined Riverside County Regional Park and Open-Space District internal controls over these areas did not provide reasonable assurance that its objectives relating to these areas will be achieved. Reasonable assurance recognizes internal controls have inherent limitations, including costs, mistakes, and intentional efforts to bypass internal controls.

Procurement Cards

Background

Riverside County Regional Park and Open-Space District (Park District) provides recreational opportunities and preserves the county's historical heritage. The department has programs organized through the following bureaus: Parks and Recreation, Resources, and the Business Operations. The mission of the Park District is "to acquire, protect, develop, manage, and interpret for the inspiration, use and enjoyment of all people, a well-balanced system of areas of outstanding scenic, recreational, and historic importance."

To ensure an orderly approach to the purchasing function, the Board of Supervisors and Riverside County Purchasing Department issued guidance to departments that include:

- The County of Riverside Procurement Program Procedure Handbook, states in the *Procedures for Obtaining a Procurement Card*, under the *Approval Process*, Item 6, the procurement card may be picked up after a completed Cardholder Agreement has been signed by the Cardholder and his/her Approver and submitted to the County Procurement Card Coordinator."
- Board of Supervisors Policy A-62, *Credit Card Use (A-62)*, states "justification for assignment of a credit card to a County Employee shall be made and clearly documented prior to activation. Written documentation shall include the intended purposes for which the credit card will be used, the employee name, and signature of approving official."
- Board of Supervisors Policy A-62, *Credit Card Use (A-62)*, states "All cardholders and/or users must complete the appropriate County Purchasing and buyer/purchasing training prior to card activation and use. County Purchasing will determine appropriate training and provide documentation of training completion to the employee. A copy of this documentation should be retained by the department/agency."
- The County of Riverside Procurement Card Procedure Manual, *Program Information, Restricted Uses* states, "...the Procurement Card is intended to be used for small dollar purchases. However, the Procurement Card is not to be used for services. In addition, the Procurement Card must not be used to purchase the following: chemicals & hazardous materials, bulk fuel, items available through Internal Service departments (Supply Services, Printing), membership dues, personal computers, peripheral equipment, and printers from other than County contracted vendors, splitting of purchases to circumvent the dollar limitation, telecommunications equipment systems or major components."
- The Riverside County Purchasing Manual states, "All Procurements unless otherwise provided by law or County policy, are to be solicited on a competitive basis...For all Procurement Card purchases a minimum of three (3) solicitations are required on

purchases over \$1,000." (effective August 1, 2015 required purchases increased to \$5,000)

- Riverside County Ordinance No. 459.4 *Establishing Purchasing Policies and Procedures*, Section 3 states, "No purchases as described in Section 2 shall be made by any County officer or employee without a purchase order or other written authority first obtained from the Purchasing Agent..."

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed policies, applicable laws, codes, regulations, and board ordinances related specifically to the Procurement Card program.
- Conducted interviews and performed walk-throughs with appropriate Park District personnel to obtain an understanding of procurement card procedures and internal controls.
- Obtained and analyzed department policies and other documents to confirm compliance with procurement card policies and procedures.
- Analyzed procurement card data pulled from PeopleSoft and Simpler Financials.
- Examined cardholder's transaction logs, receipts, and credit card statements.
- Selected a sample of purchased items for physical existence.
- Verified whether appropriate levels of management review and approval existed and were exercised.

Finding 1: Monitoring Compliance with Procurement Policies

The Park District's procedures to ensure procurement card usage is in compliance with purchasing policies were not operating as designed. Our review of the three highest dollar value months of transactions, July 2011, February 2013, and July 2013 reported to the Auditor-Controller's Office, disclosed the Park District had 14 transactions totaling \$4,226 (3%) of the \$158,772 in purchases reviewed that were not in compliance with purchasing policies as the purchases were considered restricted purchases. Existing controls neither prevented nor detected the exceptions to established policy and procedures.

These exceptions occurred because the Park District was not following procurement procedures. Specifically, the appropriate officials were neither reviewing and approving the items prior to the procurement card purchase nor engaging in corrective action with the

cardholder. The specific non-compliance were for restricted purchases made on county procurement card; 14 transactions valued at \$4,226.

Oversight of purchases by the appropriate levels of management would ensure that lowest costs are considered prior to making purchases. The opportunity to receive negotiated vendor discounts, based on the procurement card usage with pre-existing county approved vendors, is reduced when all Riverside County departments do not participate as these discounts are based on the volume of goods and services purchased. Riverside County's reputation for transparent, open and fair competitive procurement is also impaired. The procurement card policy states, "Use of Procurement Card is not intended to replace effective procurement planning which enables volume discounts."

As mentioned early, we performed additional testing for May 2015 to determine if the previously noted conditions have been corrected. As of May 31, 2015, the department had 70 procurement cardholders. We found the department had no incidents to report regarding restricted purchases. However, we noted the following additional exceptions: five expenditures were made without prior approval, justification for purchase was not provided for 26 items and supporting documentation was not attached for six purchases.

Recommendation 1

Monitor procurement card usage to ensure compliance with the *County of Riverside Procurement Card Program Procedure Handbook*.

Management's Response

- **"Concur.** The District will continue to monitor procurement card usage to ensure compliance with County policies and procedures."
- Actual/estimated Date of Correction Action: Ongoing

Finding 2: Cardholder Agreements

The Park District could not provide completed cardholder agreements for 18 of the 62 cardholders (29%) who had purchases during the months reviewed. Cardholder agreements document issued cards were properly authorized and are used to verify the cardholder signature. The cardholder agreement indicates the following: cardholder and their approving official acknowledges the use of the card is for official Riverside County business only, the disciplinary actions that result for unauthorized charges, safekeeping of the card at all times, and the county has the right to cancel at any time. Once the agreements are signed, the document should be submitted and retained by the division to document compliance with procurement card policies. Missing or unavailable cardholder agreements impair Park District's ability to monitor and enforce its policies.

Internal Audit Report 2014-010: County Procurement Card, Riverside County Regional Park and Open-Space District

We reviewed the cardholder agreements during our additional testing. We found six of the eighteen incomplete agreements previously identified had been signed by the cardholders. Additionally, only one of the twenty-six new cardholders for Parks has not completed the cardholder agreement.

Recommendation 2

Ensure all procurement cardholders have completed cardholder agreements on file.

Management's Response

- **“Concur.** The District has copies of completed cardholder agreements for all District P-Card holders on file.”
- Actual/estimated Date of Correction Action: Ongoing