

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

802



FROM: Auditor-Controller

SUBMITTAL DATE:
April 14, 2015

SUBJECT: Internal Audit Report 2015-001: Riverside County Purchasing & Fleet Services Department, Central Mail Division, [District: All]; [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2015-001: Riverside County Purchasing & Fleet Services Department, Central Mail Division

BACKGROUND:

Summary

We have completed an audit of Riverside County Purchasing & Fleet Services Department, Central Mail Division to provide management, and the Board of Supervisors with an independent assessment of internal controls over expenditures, information security, capital assets, and records management. We conducted the audit from July 15 through October 14, 2014 for operations for the period July 1, 2011 through June 30, 2013 for records management. For

(Continued on page 2)

Paul Angulo

Paul Angulo, CPA, CGMA, MA
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 5/4/15*
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:

2-5

SUBMITTAL TO THE BOARD OF SUPERVISORS, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA
FORM 11: Internal Audit Report 2015-001: Riverside County Purchasing & Fleet Services Department,
Central Mail Division, [District: All]; [\$0]

DATE: April 14, 2015

PAGE: Page 2 of 2

BACKGROUND:

Summary (continued)

expenditures, information security, and capital assets, the audit period included July 1, 2013 through September 22, 2014. Based upon the results of our audit, we identified opportunities for improvement in internal controls relating to the processes of expenditures and information security. We determined Central Mail Division's internal controls over capital assets and records management provide reasonable assurance that its objectives will be achieved. Reasonable assurance recognizes internal control has inherent limitations, including costs, mistakes, and intentional efforts to bypass internal controls. We will follow-up in one year to verify that management implemented the corrective actions.

Impact on Citizens and Businesses

Provide an assessment of internal controls over the audited areas.

SUPPLEMENTAL:

Additional Fiscal Information

Not applicable

ATTACHMENTS:

A: County of Riverside Auditor-Controller's Office - Internal Audit Report 2015-001: Riverside County Purchasing & Fleet Services Department, Central Mail Division

Internal Audit Report 2015-001

**Riverside County Purchasing & Fleet
Services Department, Central Mail Division**

Report Date: April 14, 2015



**Office of Paul Angulo, CPA, CGMA, MA
County of Riverside Auditor-Controller
4080 Lemon Street, 11th Floor
Riverside, CA 92509
(951) 955-3800**

www.auditorcontroller.org



COUNTY OF RIVERSIDE
OFFICE OF THE
AUDITOR-CONTROLLER

County Administrative Center
4080 Lemon Street, 11th Floor
P.O. Box 1326
Riverside, CA 92502-1326
(951) 955-3800
Fax (951) 955-3802

ACC | **AUDITOR**
CONTROLLER
COUNTY OF RIVERSIDE

Paul Angulo, CPA, CGMA, MA
AUDITOR-CONTROLLER

April 14, 2015

Lisa Brandl, Director
Purchasing & Fleet Services Department
2980 Washington Street
Riverside, CA 92504

Subject: Internal Audit Report 2015-001: Riverside County Purchasing & Fleet Services Department, Central Mail Division

Dear Ms. Brandl:

We have completed an audit of Riverside County Purchasing & Fleet Services Department, Central Mail Division (Central Mail Division) to provide management and the Board of Supervisors with an independent assessment of the department's internal controls over expenditures, information security, capital assets, and records management. The audit covered the period July 1, 2011 through June 30, 2013 for records management. For expenditures, information security, and capital assets, the audit period included July 1, 2013 through September 22, 2014.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain sufficient, reliable, relevant and useful information to provide reasonable assurance that our objective as described above is achieved. An internal audit includes the systematic analysis of information to evaluate and improve the effectiveness of internal controls. We believe this audit provides a reasonable basis for our conclusion.

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

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to the processes of expenditures and information security. We determined Central Mail Division's internal controls over capital assets and records management provide reasonable assurance that its objectives will be achieved. Reasonable assurance recognizes

**Internal Audit Report 2015-001: Riverside County Purchasing & Fleet Services Department,
Central Mail Division**

internal control has inherent limitations, including costs, mistakes, and intentional efforts to bypass internal controls.

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

We thank Purchasing & Fleet Services Department, Central Mail Division management and staff for their cooperation; their assistance contributed significantly to the successful completion of this audit.

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



By: René Casillas, CPA, CRMA
Interim Chief Internal Auditor

cc: Board of Supervisors
Executive Office
Grand Jury
District Attorney's Office

Table of Contents

	Page
Executive Summary	4
 Audit Results:	
Expenditures	6
Information Security	8

Executive Summary

Overview

Riverside County Purchasing & Fleet Services Department, Central Mail Division (Central Mail Division) handles the County's incoming and outgoing mail, and provides daily interoffice courier services. Central Mail Division operations include the following:

- Picking up and delivering interoffice mail
- Contracting with pre-sort service providers
- Folding and inserting
- Metering outgoing USPS mail
- Next-day mail service
- Certified and Priority Mail
- Special deliveries
- Small quick print deliveries
- Riverside County Regional Medical Center prescription medication shipments
- Supply Services deliveries for small parcels

Central Mail Division operates as an Internal Service Fund (ISF) and as such, recoups its operating costs through charges to its customers. During the review period, Central Mail Division maintained their rates at a fixed level by offsetting operating expenditures utilizing unrestricted net assets.

The table below depicts actual revenues, expenditures, net operating income or loss, and the unrestricted net position for the past three fiscal years. Fiscal Years 2011-12 and 2012-13 were the periods under review.

Three-year Financial Reporting (Dollars)

Fiscal Year	Revenues	Expenditures	Net Operating Income/(Loss)	Unrestricted Net Position
2010-11	3,140,402	3,297,514	(157,111)	1,091,628
2011-12	4,246,098	3,511,366	(105,110)	930,528
2012-13	3,094,445	3,214,720	(120,275)	841,134

Source: *Simpler Financials*

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of Central Mail Division's internal controls over expenditures, information security,

**Internal Audit Report 2015-001: Riverside County Purchasing & Fleet Services Department,
Central Mail Division**

capital assets, and records management. The audit covered the period July 1, 2011 through June 30, 2013 for records management. For expenditures, information security, and capital assets, the audit period included July 1, 2013 through September 22, 2014.

Audit Conclusion

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to the processes of expenditures and information security. We determined Central Mail Division's internal controls over capital assets and records management provides reasonable assurance that its objectives will be achieved. Reasonable assurance recognizes internal control has inherent limitations, including costs, mistakes, and intentional efforts to bypass internal controls.

Expenditures

Background

Central Mail Division total expenditures in Fiscal Years 2011-12, 2012-13 and 2013-14 were \$3,406,255, \$3,094,445, and \$3,455,849, respectively, with more than 70% attributable to "Postage Mailing" supplies and "Administrative Support" services.

The Board of Supervisors delegated the authority to purchase or contract to the Purchasing Agent, via County Ordinance 459, as amended through 459.4, *Establishing Purchasing Policies and Procedures* (County Ordinance No. 459). The Purchasing Agent has delegated her authority to her staff with varying limitations.

The Riverside County Purchasing Policy Manual maintains uniform procedures relating to the purchase of commodities and services needed in the operation of departments and agencies of Riverside County. Section 3.2.2, *Quick Reference - Purchasing Limitations* indicates that all personal and professional service agreements over \$100,000, and sole or single source transactions with a cumulative annual amount of at least \$25,000 per vendor, per department, require approval by the Board of Supervisors. Annual renewals of personal and professional services contracts require an amended signature page indicating all changes made including rate, period of performance, change in service performance, or terms.

Audit Objective

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

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed policies, applicable laws, codes, regulations, and board ordinances.
- Conducted interviews and performed walk-throughs with Central Mail Division's personnel to obtain an understanding of their processes.
- Performed financial analytical review for three fiscal years starting with fiscal year 2010-11 through fiscal year 2012-13.
- Selected a random sample of 20 expenditure transactions valued at \$1,115,723 for review.
- Ran a query on "Administrative Support" (presorting mail) services expenditures for the period January 6, 2013 to June 30, 2014.

**Internal Audit Report 2015-001: Riverside County Purchasing & Fleet Services Department,
Central Mail Division**

Finding 1: Inadequate Contracting Procedures

Central Mail Division's procedures for contracting for professional services did not comply with County Purchasing Policy. Central Mail Division entered into a contract on January 6, 2013, with a vendor to provide presorting mail services, for the period January 6, 2013 through June 30, 2015, with a maximum contract amount of \$300,000 without the Board of Supervisors approval. These same expenditures for the period January 6, 2013 to June 30, 2014 amounted to \$712,596.

Central Mail Division did not follow the requirement that all contracts with an estimated cost in excess of \$100,000 be submitted to the Board of Supervisors for approval. Failure to follow County Purchasing Policy denies the Board of Supervisors the required oversight and transparency to the residents of Riverside County.

Recommendation 1

Ensure anticipated contracts in excess of \$100,000 be submitted to the Board of Supervisors for approval.

Management's Response:

"Concur. The Purchasing department will conduct a bid process immediately."

Actual/estimated Date of Corrective Action: **3/31/2016**

Information Security

Background

Central Mail Division's information technology and security is administered by Riverside County Information Technology.

Central Mail Division utilizes the following systems:

- PeopleSoft Financials: The County systems that allows users to update data in modules such as Accounts Payable, Accounts Receivable, General Ledger, Purchasing.
- Digital Mailing System (DMS): This is an easy-to-use digital mailing system that: (a) automatically feeds a stack of mixed envelopes, (b) weighs envelopes, flats and packages, (c) moistens and seals the envelopes with flaps open or closed, (d) imprints the correct postage amount, and (e) stacks the finished mail. It is equipped with a Postal Security Device (PSD) that incorporates the latest technology approved by the United States Postal Service to secure funds.
- Pitney Bowes Business Manager System: This is a third-party PC-based information management and accounting system that tracks postal and shipping costs in real-time. It captures postal transactions from Central Mail Division's DMS equipment located at its multiple sites.
- Mail Central System (Mail Central): Mail Central is an in-house system developed by the department's fiscal manager and his team. It interfaces with the Pitney Bowes Business Manager System by exporting postal and shipping data, and generating accounting reports, including customers' invoices.

Riverside County Information Security Standard v1.0, Section 4.1, *Account and Access Management* states that:

- Accounts shall only be created following documented, signed approval by the authorized individual or parties within the organization.
- Accounts shall be named and granted restricted access in accordance with the designated and documented roles within the organization, and based on least privilege and need-to-know.
- Administrative access shall be restricted to only those individuals who are responsible for the administration of the system and have a documented owner.

**Internal Audit Report 2015-001: Riverside County Purchasing & Fleet Services Department,
Central Mail Division**

- Administrators shall be assigned and use separate, named, privileged accounts for performing administrative functions, and named, restricted accounts for performing other functions not requiring privileged access.
- New accounts and changes to account permissions shall be reviewed and approved prior to activation or implementation.

Further, Riverside County Information Security Standard v1.0, Section 4.1.2, *Account Review* states: "User accounts shall be reviewed, at minimum, semi-annually. Accounts no longer necessary for business shall be disabled or removed in a timely fashion."

Audit Objective

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

Audit Methodology

To accomplish our objectives, we:

- Obtained an understanding of board policies regarding information security and other applicable standards.
- Conducted interviews and observed operating procedures performed by Central Mail Division personnel.
- Determined the information stored by Central Mail Division in their information technology systems.
- Obtained a copy of Central Mail Division's report (Operator Settings) that lists all users defined in the information technology systems as of September 5 and September 22, 2014, and reviewed employee access.

Finding 2: Timely Termination of Unnecessary Accounts

Central Mail Division did not terminate, in a timely manner, access to the digital mailing systems for four employees who no longer required access. Our review of the list of personnel with access to the Digital Mailing System against the "Operator Settings" report as of September 5, 2014, disclosed that these four employees were still designated as operators. Central Mail Division indicated this occurred due to an oversight on their part, and that access should have been terminated when processing of payroll advices was transferred to the Auditor-Controller's Office in June 2014. There is a potential for misuse of County information when unnecessary accounts are active.

**Internal Audit Report 2015-001: Riverside County Purchasing & Fleet Services Department,
Central Mail Division**

As of September 22, 2014, we verified Central Mail Division disabled the system access of the four employees.

Recommendation 2

Review user accounts at a minimum semi-annually and immediately disable accounts of individuals who no longer require access to information technology systems.

Management's Response:

"Concur. A procedure has been written and mail system access will be reviewed on a regular basis."

Actual/estimated Date of Corrective Action: A procedure to review mail system access was put in place in 2014.