

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



FROM : AUDITOR CONTROLLER

SUBMITTAL DATE:

October 6, 2016

SUBJECT: Internal Audit Report 2016-002: Riverside University Health System – Public Health, Countywide Vendor Discount Audit, [District: All]; [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2016-002: Riverside University Health System – Public Health, Countywide Vendor Discount Audit

Consent

Paul Angulo

Paul Angulo, Director of Auditor Controller 10/7/2016

BACKGROUND:

Summary

We have completed a countywide audit to provide management and the Board of Supervisors with an independent assessment of internal controls over vendor discounts. This report assesses the Riverside University Health System - Public Health internal controls over the accounts payable process as it relates specifically to vendor discounts. We conducted the audit from March 26, 2016 through June 21, 2016 for vouchers paid during the period of July 1, 2013 through December 31, 2015.

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost
COST	\$ 0	\$ 0	\$ 0	\$ 0
NET COUNTY COST	\$ 0	\$ 0	\$ 0	\$ 0
SOURCE OF FUNDS:			Budget Adjustment:	NO
			For Fiscal Year:	N/A

C.E.O. RECOMMENDATION:

BACKGROUND:

Summary (continued)

Based upon the results of our audit, we identified opportunities for improvement of internal controls over the accounts payable process as it relates specifically to vendor discounts. Public Health internal controls over vendor discounts do not provide reasonable assurance that its objectives relating to this area will be achieved. Reasonable assurance recognizes internal

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controls have inherent limitations, including cost, mistakes, and intentional efforts to bypass internal controls.

Impact on Residents and Businesses

Provide an assessment of internal controls over the audited areas.

Additional Fiscal Information

N/A

ATTACHMENT A.

Riverside County Auditor-Controller's Office Internal Audit Report 2016-002: Riverside University Health System – Public Health, Countywide Vendor Discount Audit

Internal Audit Report 2016-002

**Riverside University Health System—Public
Health, Countywide Vendor Discount Audit**

Report Date: September 9, 2016



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

Frankie Ezzat, MPA
Assistant Auditor-Controller

September 9, 2016

Sarah Mack
Director
Riverside University Health System – Public Health
4065 County Circle Drive
Riverside, CA 92503

Subject: Internal Audit Report 2016-002: Riverside University Health System - Public Health, Countywide Vendor Discount Audit

Dear Ms. Mack:

We have completed a countywide audit to provide management and the Board of Supervisors with an independent assessment of internal controls over vendor discounts. This report assesses the Riverside University Health System - Public Health internal controls over the accounts payable process as it relates specifically to vendor discounts. We conducted the audit from March 26, 2016 through June 21, 2016 for vouchers paid during the period of July 1, 2013 through December 31, 2015.

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.

Based upon the results of our audit, we identified opportunities for improvement of internal controls over the accounts payable process as it relates specifically to vendor discounts. Riverside University Health System - Public Health internal controls over vendor discounts do not provide reasonable assurance that its objectives relating to this area will be achieved. Reasonable assurance recognizes internal controls have inherent limitations, including cost, mistakes, and intentional efforts to bypass internal controls.

**Internal Audit Report 2016-002: Riverside University Health System – Public Health, Countywide
Vendor Discount Audit**

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

We thank the Riverside University Health System - Public Health 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

The Riverside University Health System – Public Health’s (Public Health) mission is “to promote and protect the health of all County residents and visitors in service of the well-being of the community.” *Riverside University Health System – Public Health website*, accessed September 9, 2016, <http://www.rivcoph.org/AboutUs>

According to the County of Riverside, State of California, Fiscal Year 2015/2016 Adopted Budget, Public Health, on behalf of the state and federal government, administers various programs funded through realignment revenue, county general funds and state and federal funding. Public Health also receives local and foundation funding to support programs and services. Public Health provides family planning services and reproductive health education, public health nursing, maternal and child health promotion, public health laboratory, nutrition services and health promotion, children’s medical services, tuberculosis HIV/AIDS and communicable disease prevention and control, immunizations and vaccine preventable disease education, epidemiology and program evaluation, vital records for births and deaths, public health emergency preparedness and response, and emergency medical services.

For the period of July 1, 2013 through December 31, 2015, Public Health paid 660 vouchers, valued at \$936,433, to vendors who could potentially offer a discount for prompt payment. We selected a statistical sample of 79 vouchers for testing. As we began testing we discovered that several of the vendors have never offered a discount for prompt payment. As a result, we removed those vendors and associated vouchers and tested 100% of the remaining population of 56 vouchers. Testing of those 56 vouchers revealed that 34 indeed offered a discount for prompt payment and the discount was not taken on any of those 34 vouchers. As a result, Public Health missed a total of \$15,888 in savings.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of the department’s internal controls over the accounts payable process as it relates specifically to vendor discounts.

Audit Conclusion

Based upon the results of our audit, we identified opportunities for improvement of internal controls over the accounts payable process as it relates specifically to vendor discounts. Public Health internal control over vendor discounts does not provide reasonable assurance that its objectives relating to this area will be achieved. Reasonable assurance recognizes internal controls have inherent limitations, including cost, mistakes, and intentional efforts to bypass internal controls.

Vendor Discounts

Background

Prompt payment discounts are incentives offered by vendors to encourage faster payments of invoices. Discounts for early payment may be incorporated into the base of the contract or offered on individual invoices. The discount is available if payment is made within the specified prompt payment period.

The amount of the prompt payment discount is typically one or two percent if payment is made within 10 days. However, the amount of the discount and the time in which you have to take advantage of the prompt payment discount can vary from business to business. To a large extent, a vendor's prompt payment discount is based on what is common for the vendor's line of business. Some vendors offer generous trade discounts, while others offer no trade discounts at all.

Full payment is normally due within 30 days if the department does not take advantage of the prompt payment discount. The vendor's prompt payment discount may be shown as the credit terms on the invoice or the purchase order. Prompt payment discounts are generally listed in the following format: "1/10, 2/15" or "4/20, all indicating the amount of the discount offered and the number of days the department has to take advantage of the discount. In these examples a one, two or four percent discount is being offered if the payment is made within 10, 15, or 20 days respectively.

The Riverside County Purchasing & Fleet Services Handbook states County of Riverside default payment terms as follows:

"For calculating due dates for payment terms, the County will use either the date an acceptable invoice is received by the County or the date the goods/services are received and accepted, whichever is later. Unless negotiated differently, the County default payment terms are Net 30."

The Public Health should strive to take advantage of prompt payment discounts as provided by respective vendors.

Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over the accounts payable process as it relates specifically to vendor discounts.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed applicable policies and procedures.
- Conducted interviews and performed walk-throughs with Public Health personnel.
- Utilized the County of Riverside's financial system (PeopleSoft) to query and identify vendors who have offered a discount for prompt payment.
- Reviewed the vouchers and verified that if a discount for prompt payment was offered Public Health took advantage of that discount.

Finding 1: Missed Discounts

Public Health did not take advantage of prompt payment discounts offered by vendors. Our review of 56 vouchers that could potentially offer a discount for prompt payment disclosed that 34 (61%) indeed offered a discount for prompt payment. Public Health did not take the discount for prompt payment on any of the 34 vouchers. Public Health was not aware of vendors who offered a discount for prompt payment. As a result, Public Health missed \$15,888 in savings. Best business practices encourage agencies to take discounts for prompt payment as often as possible to maximize the financial benefit.

Recommendation 1:

Public Health should review its policies and procedures and make changes as necessary to ensure vendor discounts for prompt payment are taken.

Management's Response:

"Concur: RUHS-Public Health has revised the Accounts Payable Manual to refine the process and procedures for vendor discounts. Accounts Payable personnel have received the revised Accounts Payable Manual along with training on the revised procedures. Further each user signs an acknowledging receipt of the manual and agreeing to abide by the terms of the RUHS-PH Accounts Payable Processing Procedures."

Actual/estimated Date of Corrective Action: August 1, 2016