

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



ITEM
2.1
(ID # 3262)

MEETING DATE:

Tuesday, January 24, 2017

FROM : AUDITOR CONTROLLER:

SUBJECT: AUDITOR-CONTROLLER: Internal Audit Report 2016-002: Riverside County DEPARTMENT OF WASTE RESOURCES, Countywide Vendor Discount Audit, [District: All]; [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2016-002: Riverside County Department of Waste Resources, Countywide Vendor Discount Audit

ACTION: Consent



Paul Angulo, Director of Auditor Controller 12/19/2016

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 County Department of Waste Resources internal controls over the accounts payable process as it relates specifically to vendor discounts. We conducted the audit from February 26, 2016, through June 9, 2016 for vouchers paid during the period of July 1, 2013, through December 31, 2015.

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 County Department of Waste Resources 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.

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost
COST	\$ 0	\$ 0	\$ 0	\$ 0
NET COUNTY COST	\$ 0	\$ 0	\$ 0	\$ 0

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STATE OF CALIFORNIA**

SOURCE OF FUNDS: N/A	Budget Adjustment: No
	For Fiscal Year: n/a

C.E.O. RECOMMENDATION:

Impact on Residents and Businesses

Provide an assessment of internal controls over the audited areas.

SUPPLEMENTAL:

Additional Fiscal Information

Not applicable

ATTACHMENT A.

Riverside County Auditor-Controller's Office Internal Audit Report 2016-002: Riverside County Department of Waste Resources, Countywide Vendor Discount Audit

Internal Audit Report 2016-002

**Riverside County Department of Waste
Resources, Countywide Vendor Discount Audit**

Report Date: November 10, 2016



**Office of Paul Angulo, CPA, MA
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Paul Angulo, CPA, MA
RIVERSIDE COUNTY AUDITOR-CONTROLLER

Frankie Ezzat, MPA
ASSISTANT AUDITOR-CONTROLLER

November 10, 2016

Hans Kernkamp
General Manager-Chief Engineer
Riverside County Department of Waste Resources
14310 Frederick Street
Moreno Valley, CA 92553

Subject: **Internal Audit Report 2016-002: Riverside County Department of Waste Resources, Countywide Vendor Discount Audit**

Dear Mr. Kernkamp:

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 County Department of Waste Resources internal controls over the accounts payable process as it relates specifically to vendor discounts. We conducted the audit from February 26, 2016, through June 9, 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 County Department of Waste Resources 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.

Internal Audit Report 2016-002: Riverside County Department of Waste Resources, 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 County Department of Waste Resources 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 County Department of Waste Resources (Waste Resources) “is responsible for the efficient and effective landfilling of non-hazardous county waste. In this effort the Department operates six landfills, has a contract agreement for waste disposal with an additional private landfill, and administers several transfer station leases. Every effort is made to recycle and reuse appropriate items with scrupulous attention to public health and safety. In addition to landfill management, the Department provides a variety of community services including Household Hazardous Waste Collection, Recycling, Composting, Illegal Dumping Clean Up, Community Clean-Ups, and Graffiti Abatement.” *County of Riverside – Department of Waste Resources website, accessed November 10, 2016, <http://www.rcwaste.org/about/department>.*

Waste Resources mission “is to provide for the protection of the general public health and welfare by efficient management of Riverside County’s solid waste system through: provision of facilities and programs which meet or exceed all applicable local, State, Federal and land use regulations; utilization of up-to-date technological improvements; development and maintenance of a system that is balanced economically, socially and politically; and economically feasible recovery of waste materials.” *County of Riverside – Department of Waste Resources website, accessed November 10, 2016, <http://www.rcwaste.org/about/department>.*

For the period of July 1, 2013, through December 31, 2015, the Riverside County Department of Waste Resources paid 2,520 vouchers, valued at \$5,371,694, to vendors who could potentially offer a discount for prompt payment. Our analysis from queried information obtained from the County of Riverside Financial System (PeopleSoft) indicated that the department took the discount for prompt payment on 1,811 of those vouchers and saved a total of \$36,560. Of the remaining 709 vouchers, we selected a statistical sample of 259 payment vouchers for testing. Testing of those payment vouchers revealed that 143 offered a discount for prompt payment. The discount was not taken on any of the 143 payment vouchers.

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. Riverside County Department of Waste Resources 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. 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 percent 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 vendor's 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 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."

Waste Resources should strive to take advantage of prompt payment discounts as provided by respective vendors.

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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 fiscal staff.
- Utilized the County of Riverside's financial system (PeopleSoft) to query and identify vendors who have offered a discount for prompt payment.
- Selected a statistical sample of 259 vouchers valued at \$177,557 for review.
- Reviewed the vouchers and verified that if a discount for prompt payment was offered Waste Resources took advantage of that discount.

Finding 1: Missing Discounts

Waste Resources is not consistently taking advantage of prompt payment discounts offered by vendors. Our review of 259 vouchers disclosed that 143 (55%) of those vouchers valued at \$25,499, offered a discount for prompt payment and Waste Resources did not take advantage of the discount. Waste Resources did not process the voucher in time to take advantage of the discount for prompt payment. Based on our statistical sample, we can project with a 95% confidence level, that as many as 426 of the 709 vouchers offered a discount for prompt payment and the discount was not taken. Best business practices encourage agencies to take discounts for prompt payment as often as possible to maximize the financial benefit.

Recommendation 1:

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

Management's Response:

“Concur: The Department agrees that discounts totaling \$548, based on the value of the vouchers reviewed by the Auditor-Controller's Office, were missed by the Department. The Department's existing invoice approval/payment process requires Accounts Payable (AP) staff to date stamp invoices upon receipt, maintain the original invoice in the vendor file, and attach an invoice routing form to a copy of the invoice which includes fields to denote account coding and dollar approval information which is then routed for dollar approval within 24 hours of

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receipt. Invoice routing is tracked via a spreadsheet so as to monitor the approval process timeline. Additional processes have been implemented that also require AP staff to review the invoice to determine if discount payment terms are available. If discount terms are available, AR staff is further responsible to highlight payment terms on invoice and to denote "Discount Payment Terms – Immediate Processing" on the invoice routing form prior to routing for expedited dollar approval. Upon dollar approval and return of the invoice to AP staff, the processing of the invoice is completed through the County's automated voucher/payment processing workflow process."

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

"New procedures to improve invoice processing timeline have already been implemented by the Department."