

**Internal Audit Report 2016-002**

**Riverside County Economic Development  
Agency, Facilities Management Department,  
Countywide Vendor Discount Audit**

**Report Date: June 2, 2017**



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June 2, 2017

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**Subject: Internal Audit Report 2016-002: Riverside County Economic Development Agency, Facilities Management Department, Countywide Vendor Discount Audit**

Dear Mr. Field:

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 Economic Development Agency, Facilities Management Department's 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. The Riverside County Economic Development Agency, Facilities Management Department internal controls over vendor discount 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.

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We thank the management and staff of the Facilities Management Department of the Riverside County Economic Development Agency 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 Facilities Management Department of the Riverside County Economic Development Agency (Facilities Management) includes the Space Management Office, Parking Division, Maintenance Division and Custodial Division.

The Custodial Division provides all the labor, materials and supplies necessary to maintain all County Facilities in a clean and sanitary condition in accordance with the County and division standards, conditions, and methods. The division also handles all Pest Control issues for the County.

The Space Management Office is responsible for maintaining and providing space inventory, including architectural floor plans and related data. It also provides meaningful data analysis and modeling of existing and projected space needs. Conducts on-going facility audits with the objective of physically verifying all spaces annually.

The Parking Division operates, maintains, and improves four county-owned parking structures in downtown Riverside. It also provides security patrols in and around County of Riverside lots.

The Maintenance Division is a highly-skilled team of individuals committed to excellent and complete customer satisfaction. Even though Riverside County spans over 7,200 square miles, the maintenance division quality services in six million square feet of diverse facility environments such as detention centers, courthouses and law enforcement buildings.” *Riverside County Economic Development Agency, Facilities Management, Riverside County Economic Development Agency, accessed February 9, 2017, <http://rivcoeda.org/Departments/Facilities Management/tabid/1444/Default.aspx>.*

For the period of July 1, 2013, through December 31, 2015, Facilities Management paid 1,354 vouchers to vendors who could potentially offer a discount for prompt payment. Our analysis of queries obtained from the County of Riverside Financial System (PeopleSoft) indicated that Facilities Management took the discount for prompt payment in 58 vouchers. Of the remaining 1,296 vouchers, we selected a statistical sample of 308 payment vouchers for testing. Testing of those payment vouchers revealed that 229 offered a discount for prompt payment. The discount was not taken on any of those 229 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. The Riverside County Economic Development Agency, Facilities Management Department internal controls over vendor discount 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.

## 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 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 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 Vendor 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."

Facilities Management 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 fiscal staff.
- Utilized the County of Riverside Financial System (PeopleSoft) queries to identify vendors who have offered a discount for prompt payment.
- Selected a statistical sample of 308 vouchers for review.
- Reviewed the vouchers and verified that if a discount for prompt payment was offered that Facilities Management took advantage of that discount.

## **Finding 1: Missed Discounts**

Facilities Management is not consistently taking advantage of prompt payment discounts offered by vendors. Our review of 308 vouchers disclosed that 229 (74%) of those vouchers offered a discount for prompt payment and Facilities Management did not take advantage of the discount. Facilities Management is facing integration issues with their various financial systems and this is not allowing them to take advantage of vendor discounts as often as possible. Based on our statistical sample, we can project with a 95% confidence level, that as many as 1,018 of the 1,296 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:**

Facilities Management should review its procedures and make changes as necessary to ensure vendor discounts for prompt payment are taken.

## **Management Response: "Concur"**

"The Economic Development Agency (EDA) concurs with the recommendation to implement best practices that allow for every legitimate opportunity to optimize vendor discounts. To clarify the percentages and to provide perspective, the 229 voucher sampling reflects payments paid to vendors totaling \$101,022.96. The net loss in discounts of the sample tested by the ACO during this review period was \$2,243.82.

However, several vendors participate in the ACO's "e-payables" program, which charges vendors for the use of this program. Consequently, those vendors that participate in that program are unwilling to honor discount terms listed on submitted invoices



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and/or contracts. As a result, early payment discounts would not have been honored for 31 of the 229 invoices.

Of the remaining 198 invoices, 120 offer early payment discounts for payment within 10 days of receipt of the invoice or for payment received by the 10th of each month. The discounts offered on these invoices would have resulted in a savings of \$495.18. While a relatively small amount, taking full advantage of discounts has always been a goal of EDA. Unfortunately, the ability to capture these savings will continue to be a challenge. By way of context, invoices are mailed to our office, which necessarily delays the receipt of the invoice. The result is a contraction of the already limited time available to complete the payment process. After receipt, the invoices are routed for approval and for confirmation of delivery of services. Once approved internally, the request to pay the invoice goes to the ACO to process a check. Once completed, the check is mailed to the vendor. It is not unusual for this process to take 10 days.

Because of the delays inherent in the current process, we are working to streamline our efforts through the use of technology. To optimize vendor discount savings, we have developed a packer and receiver document upload feature in the Dynamics Purchase Requisition module. This allows staff from afar to upload proof of service or receipt of goods, where EDA can systematically detect new uploaded documents. This helps prepare the voucher, but until the AP Workflow is fully deployed, we are still required to submit originals to the ACO.

As it relates to our technological improvements, the audit letter states that EDA is "facing integration issues with their various financial systems and this is not allowing them to take advantage of vendor discounts as often as possible." That is not accurate. We recognize the importance of having a system record the discounts, whether realized or not, and our Accounts Payable (AP) staff have tried to process vouchers in a variety of ways that will leave a record of invoice terms, process dates, approval dates, and payment dates. We have done so by manipulating terms, due dates, etc. However, this caused an integration issue between the County's General Ledger (GL) and the Project Cost Ledger (PC). RCIT is aware of the issue, and is in the process of determining which module lead (AP or PC) will assist in delivering a solution. This integration issue, however, is not to blame for the delay in processing payments. It is, rather, a reconciliation and billing issue that must be properly researched and resolved with the assistance of RCIT and the ACO. Additionally, the GL to PC 'Discount Earned' and 'Discount Loss' integration issue impacts other County departments using the PC module, and does not just affect EDA."