

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



ITEM
2.8
(ID # 3169)

MEETING DATE:

Tuesday, January 17, 2017

FROM : AUDITOR CONTROLLER:

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

RECOMMENDED MOTION: That the Board of Supervisors:

1. Internal Audit Report 2016-002: Riverside County Fire Department, Countywide Vendor Discount Audit

ACTION: Consent


Paul Angulo, Director of Auditor Controller 12/5/2016

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 Fire Department 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. The Riverside County Fire Department 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.

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

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

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

C.E.O. RECOMMENDATION: APPROVE

Impact on Residents and Businesses

Provide an assessment of internal controls over the audited areas.

SUPPLEMENTAL

Additional Fiscal Information

N/A

ATTACHMENT A.

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

Internal Audit Report 2016-002

**Riverside County Fire Department,
Countywide Vendor Discount Audit**

Report Date: November 9, 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 9, 2016

John R. Hawkins
Fire Chief
Riverside County Fire Department
210 W. San Jacinto Avenue
Perris, CA 92570

Subject: Internal Audit Report 2016-002: Riverside County Fire Department, Countywide Vendor Discount Audit

Dear Mr. Hawkins:

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 Fire Department 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 Fire Department 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 County Fire Department, Countywide Vendor Discount Audit

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

We thank the Riverside County Fire Department 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 Fire Department (Fire Department) contracts with the California Department of Forestry and Fire Protection for fire protection and emergency services. The Fire Department provides services in all County of Riverside incorporated areas, twenty-one cities, and a community services district. The Fire Department includes county, volunteer, city and state fire stations. This budget unit provides protection, fire prevention, rescue and medical emergency services, fire code inspection and enforcement, and the support functions associated with these services. It assists in facilitating county-wide emergency management responses, enforces fire ordinances within the County of Riverside, and administers hazard reduction.

For the period of July 1, 2013, through December 31, 2015, the Fire Department paid 4,329 vouchers to vendors who could potentially offer a discount for prompt payment. We selected a statistical sample of 367 payment vouchers. Testing of those payment vouchers revealed that 328 had a discount for prompt payment available. The discount was taken on 15 of those 328 payment vouchers.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of the Fire 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 Fire 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 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 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 Fire Department 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 PeopleSoft queries to identify vendors who have offered a discount for prompt payment.
- Selected a statistical sample of 367 vouchers valued at \$269,069 for review.
- Reviewed the vouchers and verified that if a discount for prompt payment was offered that the Fire Department took advantage of that discount.

Finding 1: Missed Discounts

The Fire Department is not consistently take advantage of prompt payment discounts offered by vendors. Our review of 367 vouchers disclosed that 313 (85%) of those vouchers, offered a discount for prompt payment and the Fire Department did not take advantage of the discount. The Fire Department cannot pay an invoice until receipt confirmation is received that the goods or services have been received. The department currently struggles to get fire personnel at the fire stations to submit receipt confirmation of goods or services as soon as they are received. Currently it may take up to several weeks for fire personnel to submit confirmation that goods or services have been received. This issue does not allow the Fire Department to pay vouchers in a timely manner, and therefore cannot pay them 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 3,835 of the 4,329 (88%) 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:

The Riverside County Fire Department should review its policies and procedures and make changes as necessary to ensure vendor discounts for prompt payment are taken. To help cut down on payment processing time, the department may pay invoices off the packing slip. A copy of the packing slip can be scanned and emailed to the Auditor-Controller's Office. The Fire Department should also work closely with purchasing staff to identify all vendors who offer a discount for prompt payment and communicate that information to all department buyers to ensure the timely processing of those payment vouchers.

Management Response:

“Concur. The Fire Department will review our Accounts Payable policies and procedures. In addition, we will look to improve our communication of available prompt payment discounts between our Purchasing and Accounts Payable sections.”

Actual/Estimated Date of Corrective Action: March 2017

“The Fire Department will review our Accounts Payable procedures and look to improve our communication of available prompt payment discounts between our Purchasing and Accounts Payable sections. This action should be minimal staff time and no additional cost to implement.”