

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



ITEM
2.9
(ID # 3170)

MEETING DATE:

Tuesday, January 17, 2017

FROM : AUDITOR CONTROLLER:

SUBJECT: AUDITOR-CONTROLLER: Internal Audit Report 2016-002 – Riverside County HUMAN RESOURCE DEPARTMENT, 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 Human Resources 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 Human Resources 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. Riverside County Human Resources internal control over vendor discount 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: 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 Human Resources Department, Countywide Vendor Discount Audit


Stephanie F. Rossi 1/10/2017

Internal Audit Report 2016-002

**Riverside County Human Resources
Department, Countywide Vendor Discount
Audit**

Report Date: November 9, 2016



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Paul Angulo, CPA, MA
RIVERSIDE COUNTY AUDITOR-CONTROLLER

Frankie Ezzat, MPA
ASSISTANT AUDITOR-CONTROLLER

November 9, 2016

Michael Stock
Assistant CEO/HR Director
Riverside County Human Resources
4080 Lemon Street
Riverside, CA 92501

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

Dear Mr. Stock:

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 Human Resources 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. Riverside County Human Resources internal control over vendor discount 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.

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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 Human Resources 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 Human Resources Department (Human Resources) has a centralized staff that provides personnel related services, including recruitment, classification, employee relations, labor negotiations, payroll record support, benefits administration, employee and organizational development, educational support, and leave management for all County of Riverside departments and agencies.

The accounting division of the Riverside County Human Resources Department “is charged with ensuring all invoices issued to any of their many divisions are paid in a timely manner and that all journal entry revenue collections are processed in order to support the human resources services provided county-wide. Each month, rates approved by the Board of Supervisors are charged for various human resource services provided to each County of Riverside department. These services include general human resources functions such as recruiting, benefits, or labor relations, risk management operations, and administration of the Temporary Assistance Program.” *Riverside County Human Resources Department website, accessed October 11, 2016, <http://accounting.rc-hr.com/>*

For the period of July 1, 2013, through December 31, 2015, the Human Resources Department paid 92 vouchers, to vendors who could potentially offer a discount for prompt payment. PeopleSoft queries indicated that Human Resources took the discount for prompt payment on only one of those vouchers. We selected a statistical sample of 72 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 35 vouchers. Testing of those 35 vouchers revealed that 34 indeed offered a discount for prompt payment. The discount was not taken on any of those 34 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 Human Resources internal control over vendor discount does not provide reasonable assurance that its objectives relating to this area will be achieved. Reasonable

**Internal Audit Report 2016-002: Riverside County Human Resources Department, Countywide
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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 payment 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 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 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 percent discount is being offered if the payment is made within 10 days, two percent discount if the payment is made within 15 days and four percent if the payment is made with 20 days.

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.

Human Resources 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 Human Resources personnel.
- Utilized the County of Riverside Financial System to query and identify vendors who have offered a discount for prompt payment.
- Reviewed vouchers to determine if discounts for prompt payment were taken.

Finding 1: Missed Discounts

Human Resources did not take advantage of prompt payment discounts offered by vendors. Our review of 35 vouchers disclosed that 34 (97%) of those vouchers offered a discount for prompt payment of which Human Resources did not take the discount. To ensure prompt payments and to avoid late payments, the department was coding vouchers as "NOW," indicating paying the voucher as soon as possible. The department was not aware that coding the voucher with "NOW" would override any potential discounts. Continuously bypassing the discount could lead to significant loss of savings overtime. Best business practices encourage agencies to take discounts for prompt payment as often as possible to maximize the financial benefit.

Recommendation 1:

Human Resources should review its policies and procedures and make changes as necessary to ensure they take advantage of vendor discounts for prompt payment.

Management's Response:

"The Human Resources Department concurs with the recommendation to review and make changes to our policies and procedures to ensure we take advantage of vendor discounts for prompt payment. However, we only partially concur with the finding.

As a result of the audit, Human Resources staff members reviewed the results of the audit. Our findings show the following:

1. Of the 34 invoices audited, 15 did not state the discount terms and PeopleSoft Financials did not populate the vouchers with discount terms; the terms were populated as "N30." As the discounts were not located on the invoices or in PeopleSoft Financials, Human Resources staff members were unaware of available discounts totaling \$344.89 on the 15 invoices. Also, due to delays in internal processing, only 3 of the 15 invoices would have been eligible for the prompt payment discount had the system recognized the vendor as having a discount

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available. The actual available discounts on these 3 invoices would have only been \$121.64.

2. Five of the invoices again did not have stated discount terms, but the discount did populate with the correct terms in PeopleSoft Financials. Of these five invoices, only two would have been paid in time to take the discount due to delays in internal processes. The actual available discounts on these 2 invoices would have only been \$40.03.
3. Of the 14 remaining invoices all had stated discount terms, however, the invoices populated with Net 30 terms on the voucher and PeopleSoft Financials would not have calculated or taken the discount without manual intervention. Had Human Resources staff manually intervened, the available discounts on invoices that were paid in time for the discounts would have been \$362.11 on those 9 invoices. It should be noted that one invoice was allowed to go through the system with the invoice terms as stated in PeopleSoft Financials, and although the invoice was processed properly the terms in the system forced the payment to be processed and printed after the deadline resulting in a loss of \$66.82 in discounts.

In the past, the Human Resources Department has experienced lengthy ACO approval processing times on vouchers which resulted in numerous late payments. To ensure prompt payments to its vendors, the Human Resources Department began overriding the payment terms to "NOW." This practice resulted in the loss of \$40.03 (see number 2 above) of eligible discounts where PeopleSoft would have calculated and taken the discounts. However, this practice of overriding the terms to "NOW" had no impact on the discount of 29 vouchers because the system defaulted to Net 30 terms which would not have calculated a discount. This reduces the missed discounts to 2 of 34 (6%) vouchers where PeopleSoft Financials populated the discount terms on the vouchers and the vouchers were paid in time to be eligible for the discount.

Future updates to PeopleSoft Financials will include an improved process for processing vouchers which will eliminate lengthy internal processing of vouchers. This new process will have all invoices be delivered to accounting offices in the departments where the invoice will be scanned into PeopleSoft Financials and electronically sent to the approving managers for electronic signature. This new process will take days to weeks off the current process where invoices are delivered to approving managers and must be approved for payment before being delivered to the accounting staff members for payment. When this new process is in place, the accounting staff will be able to monitor invoices to ensure voucher is approved in time to ensure prompt payment is achieved and discounts are realized.

It should be noted that the Human Resources Department took advantage of trade discounts where available as additional cost savings which is not readily apparent by this audit. These discounts resulted in much larger savings than the early payment discounts noted in the audit.

Actual/estimated Date of Corrective Action: 04/11/2016

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As a result of fact finding for this audit, Human Resources staff members have gained more knowledge about the available discounts. Procedures have been revised to ensure invoices are reviewed for early payment discounts and the discounts are taken when available. Staff members have noted several vendors which fail to state discount terms on their invoices and of the many vendors for which discounts have not been properly programmed into PeopleSoft Financials. Discounts will be manually calculated when necessary.

A listing of countywide contracted vendors offering discounts should be added to Purchasing's intranet site to ensure all departments are aware of the discounts. Discount terms should also be programmed into the PeopleSoft Financial system to remove the need for departments to manually add the discount term to the voucher."

Estimated cost to implement recommendation (if material): \$0.00

Audits Response:

Human Resource is responsible for exercising due diligence in the review of their invoices. They should strive to be aware of those vendors whom they do business with that offer a discount for prompt payment. Human Resources does not have the internal controls in place to identify vendors who offer a discount for prompt payment nor do they have an internal control in place to take advantage of those discounts as often as possible. To effectively optimize opportunities and determine the best course of action in regards to vendor discounts, the department must take a more strategic approach to accounts payable. The accounts payable team, along with management must collaborate with the Purchasing Department and the Auditor-Controller's Office to emphasize the importance of taking advantage of vendor discounts for prompt payment and to seize potential savings for the County as often as possible.