

**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 County Library System, 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 Library System, Countywide Vendor Discount Audit

**Consent**

*Paul Angulo*

Paul Angulo, Director of Audit 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 County Library System 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.

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

**C.E.O. RECOMMENDATION:**

**BACKGROUND:**

**Summary (continued)**

Based upon the results of our audit, we determined the Riverside County Library System internal control over the accounts payable process as it relates specifically to vendor discount provide reasonable assurance that its objectives relating to this area will be achieved.

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

Reasonable assurance recognizes internal 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 County Library System, Countywide Vendor Discount Audit

**Internal Audit Report 2016-002**

**Riverside County Library System,  
Countywide Vendor Discount Audit**

**Report Date: September 8, 2016**



**Office of Paul Angulo, CPA, MA  
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OFFICE OF THE  
AUDITOR-CONTROLLER

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

**Frankie Ezzat, MPA**  
ASSISTANT AUDITOR-CONTROLLER

September 8, 2016

Robert Field  
Assistant County Executive Officer/EDA  
Riverside County Library System  
3403 Tenth Street, Suite 400  
Riverside, CA 92501

**Subject: Internal Audit Report 2016-002: Riverside County Library System, 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 Library System 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 determined the Riverside County Library System internal control over the accounts payable process as it relates specifically to vendor discount 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 Library System, Countywide Vendor Discount Audit**

We thank the Riverside County Library System 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

According to the annual report from the Riverside County Economic Development Agency for fiscal year 2014-2015, the Riverside County Library System (Library System) is a network of 35 libraries, two bookmobiles, and a city museum. The network provides services to over one million people across the county. During fiscal year 2014-2015, the Library System logged over 4.2 million visitors, including over 561,201 computer sessions and over 2.7 million items were borrowed from the collection. The Library System issued over 54,000 library cards to new customers. Over 14,000 volunteers donated over 48,000 dedicated hours of service. New programs and services were added to broaden and expand services to library customers.

For the period of July 1, 2013 through December 31, 2015, the Library System paid 296 vouchers, valued at \$57,261, 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 the agency took the discount for prompt payment on only one of those payment vouchers. Of the remaining 295 vouchers, we selected a statistical sample of 172 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 seven vouchers. Testing of those seven payment vouchers revealed that the Library System is taking advantage of payment discounts as often as possible.

### 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 determined the Riverside County Library System internal control over the accounts payable process as it relates specifically to vendor discount 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."

### 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 office 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 the Library System took advantage of that discount.

### **Results:**

Based upon the results of our audit, we determined the Riverside County Library System internal control over the accounts payable process as it relates specifically to vendor discount 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.