

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



**ITEM**  
2.2  
(ID # 3263)

**MEETING DATE:**

Tuesday, January 24, 2017

**FROM :** AUDITOR CONTROLLER:

**SUBJECT:** AUDITOR-CONTROLLER: Internal Audit Report 2016-004: Riverside County DEPARTMENT OF ENVIRONMENTAL HEALTH, Countywide Purchase Order Process [District: All]; [\$0]

**RECOMMENDED MOTION:** That the Board of Supervisors:

1. Receive and file Internal Audit Report 2016-004: Riverside County Department of Environmental Health, Countywide Purchase Order Process

**ACTION: Consent**

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

**BACKGROUND:**

**Summary**

We have completed an audit of the Riverside County Department of Environmental Health to provide management and the Board of Supervisors with an independent assessment of internal controls over the purchase order process. We conducted the audit from May 24, 2016, through June 22, 2016, for operations from July 1, 2013, through April 30, 2016.

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to the purchase order process. We determined that the internal controls over the purchase order process did not provide reasonable assurance that its objectives related to this area will be achieved. Reasonable assurance recognizes internal controls have inherent limitations, including cost, mistakes, and intentional efforts to bypass internal controls.

We will follow-up to determine if actions were taken to correct the findings noted.

<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> N/A			<b>Budget Adjustment:</b> No	

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

	<b>For Fiscal Year:</b> N/A
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**C.E.O. RECOMMENDATION:** [CEO use]

**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 Internal Audit Report 2016-004: Riverside County Department of Environmental Health, Countywide Purchase Order Process

**Internal Audit Report 2016-004**

**Riverside County Department of  
Environmental Health,  
Countywide Purchase Order Process**

**Report Date: November 10, 2016**



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**COUNTY OF RIVERSIDE**  
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**Paul Angulo, CPA, MA**  
Riverside County Auditor-Controller

**Frankie Ezzat, MPA**  
Assistant Auditor-Controller

November 10, 2016

Steve Van Stockum  
Director  
Riverside County Department of Environmental Health  
4065 County Circle Drive  
Riverside, CA 92503

**Subject: Internal Audit Report 2016-004: Riverside County Department of Environmental Health, Countywide Purchase Order Process**

Dear Mr. Van Stockum:

We have completed an audit of the Riverside County Department of Environmental Health to provide management and the Board of Supervisors with an independent assessment of internal controls over the purchase order process. We conducted the audit from May 24, 2016, through June 22, 2016, for operations from July 1, 2013, through April 30, 2016.

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 and non-financial information. Management is responsible for establishing and maintaining adequate internal controls. Our responsibility is to evaluate the internal controls.

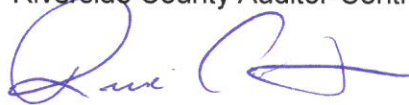
Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to the purchase order process. We determined that the internal controls over the purchase order process did not provide reasonable assurance that its objectives related to this area will be achieved. Reasonable assurance recognizes internal controls have inherent limitations, including cost, mistakes, and intentional efforts to bypass internal controls.

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

**Internal Audit Report 2016-004: Riverside County Department of Environmental Health,  
Countywide Purchase Order Process**

We thank the Riverside County Department of Environmental Health 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 Environmental Health (Department) is a full-service Environmental Health Department, dedicated to protecting the people and the environment of the County of Riverside.”<sup>1</sup> The Department provides services to the County of Riverside through inspections, investigations, and management of environmental health programs that protect public health and safety as well as the environment. These environmental health programs include overseeing hazardous materials programs, inspecting mobile food and retail food facilities, conducting routine inspections of pools and spas, managing the solid and liquid waste program, and providing vector control services.

The Department provides services through four divisions: Administrative Services, Business Operations and Finance, District Environmental Services and Environmental Protection and Oversight. The Fiscal Unit under the Business Operations and Finance Division is responsible for all aspects of the purchase order process. The Fiscal Unit typically prepares purchase orders for professional services and products such as, test tubes, pesticides, gas analyzers, staple sorters, telephones, copiers, and car wraps.

### Audit Objective

Our objective is to provide management and the Board of Supervisors with an independent assessment about the adequacy and effectiveness of internal controls over the purchase order process.

### Audit Conclusion

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to the purchase order process. We determined that the internal controls over the purchase order process did not provide reasonable assurance that its objectives related 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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<sup>1</sup> County of Riverside – Department of Environmental Health About Us website, assessed October 18, 2016, <http://www.rivcoeh.org/About-Us>

## Purchase Order Process

### Background

The purchase order process involves the acquisition of equipment, furnishings, supplies, maintenance, construction, and contractual services within pre-established budgetary constraints. Riverside County Purchasing Policy Manual provides uniform procedures for the purchasing of goods and services needed in operation by County of Riverside departments and agencies. Purchase orders perform a key role in the acquisition process. A well-detailed purchase order clearly defines the item or service being purchased, vendor information, specific terms of the purchase, and specifications of cost, quantities and delivery terms. The County of Riverside uses a variety of purchase orders to procure supplies and services. Following is a list of purchase orders used by the County of Riverside:

<u>Types</u>	<u>Description</u>
BL-G	Blanket non-rollover purchase order for goods.
BL-S	Blanket non-rollover purchase order for services.
RBLG	Roll over blanket purchase order for goods.
RBLS	Roll over blanket purchase order for services.
REGG	Regular purchase order for goods.
REGS	Regular purchase order for services.
LVPA	Low value purchase order for goods.
LV-S	Low value purchase order for services.
LEAS	Lease purchase payment purchase order.
FIN	Purchase order to vendor when goods are financed through third party.
ELVP	Extended low value purchase order for goods.
ELVS	Extended low value purchase order for services.
CONV	Conversion purchase order from PeopleSoft 7.5 to 8.8.
PRNT	Printing purchase order for inventory business unit only.
SPLY	Supply purchase order for inventory business unit only.

The Board of Supervisors delegated the authority to purchase and contract to the Purchasing Agent, via Riverside County Ordinance No. 459, as amended through 459.5, *Establishing Purchasing Policies and Procedures*. The Director of Purchasing is the Purchasing Agent for the County of Riverside. The Purchasing Agent has delegated her authority to her staff with varying limitations.

Depending on the size and complexity of the department, the Purchasing Agent may assign staff to the department, or a department may hire their own staff to carryout purchasing duties.

Riverside County Ordinance No. 459, Section (3), *Exceptions*, indicates no purchases shall be made by any county officer or employee without a purchase order or other written authority first obtained from the Purchasing Agent.



**Internal Audit Report 2016-004: Riverside County Department of Environmental Health,  
Countywide Purchase Order Process**

Purchasing Policy Manual, dated February 1, 2013, requires a purchase order for all purchases over \$400 and Purchasing Policy Manual dated August 1, 2015, requires a purchase order for all purchases unless the item or service was approved by the Board of Supervisors or exempted by Ordinance 459.

### **Objective**

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over the purchase order process.

### **Audit Methodology**

To accomplish our objectives, we:

- Identified and reviewed laws, codes, and regulations, ordinances, applicable policies and procedures.
- Conducted interviews and performed walk-throughs with Department personnel.
- Reviewed financial information from the County of Riverside's financial system (PeopleSoft) for the period of July 1, 2013 through April 30, 2016.
- Selected a sample of 36 purchase orders valued at \$1,146,135 for review.
- Reviewed purchase orders and verified they had been approved by the appropriate personnel.
- Verified there was no bid splitting of purchases.
- Verified expenditures were incurred after the purchase order was approved.

### **Finding 1: Rollover of Purchase Orders**

Purchase orders did not rollover into the new fiscal year even though purchases were still required. Our review of 36 purchase orders disclosed seven (19%) purchase orders, valued at \$238,552, were processed after invoices were received from vendors. This occurred because the Department reconciled and closed out original purchase orders at fiscal year-end and processed new purchase orders during the blanket purchase order renewal process, which was after invoices were received. If items are still required the following fiscal year, the purchase order should rollover to the next fiscal year and the Department should accomplish a budget check to ensure the items are within their budget. Per Riverside County Purchasing Manual, no goods or services over \$400 should be authorized for purchase until a valid purchase order has been issued. This noncompliance with purchasing requirements weakens the internal controls established through the purchasing manual to help prevent the payment of inaccurate or unauthorized supplies and services.

**Recommendation 1:**

Revise the purchase order process to have purchase orders automatically rollover to the following fiscal year for those items that are still required.

**Management's Response**

**"Concur.** As of August 18, 2016 all Blanket Purchase Orders (BPO) have been coded as Rollover. This will automatically rollover BPOs into the next fiscal year."

Estimated Date of Corrective Action: August 18, 2016.