

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

426



FROM: County Auditor-Controller

SUBMITTAL DATE:

July 10, 2013

SUBJECT: Internal Audit Report 2013-302: Riverside County Purchasing and Fleet Services – Purchase Orders Follow-up Audit

RECOMMENDED MOTION: Receive and file Internal Audit Report 2013-302: Riverside County Purchasing and Fleet Services – Purchase Orders Follow-up Audit.

BACKGROUND: The Internal Audit Division of the Auditor-Controller's Office has completed a Follow-up Audit of the County Purchasing Department. Our audit was limited to reviewing actions taken as of May 29, 2013, to correct the findings noted in our original audit report 2011-011 dated April 9, 2012.

The results of the follow-up audit found that of the 9 recommendations:

- 6 recommendations were implemented
- 2 recommendations were partially implemented
- 1 recommendation was not implemented

We will conduct a desk review on the two partially implemented and the one not implemented recommendation within one year.

Paul Angulo

Paul Angulo, CPA, CIA
County Auditor-Controller

FINANCIAL DATA

Current F.Y. Total Cost:	\$ 0	In Current Year Budget:	N/A
Current F.Y. Net County Cost:	\$ 0	Budget Adjustment:	N/A
Annual Net County Cost:	\$ 0	For Fiscal Year:	N/A

SOURCE OF FUNDS: N/A

Positions To Be Deleted Per A-30

Requires 4/5 Vote

C.E.O. RECOMMENDATION:

APPROVE

BY:

Karen L. Johnson
Karen L. Johnson

County Executive Office Signature

Consent Consent

Dept Recomm.:
Per Exec. Ofc.:

5870 400 13 6M 5: 33
COUNTY OF RIVERSIDE
BOARD OF SUPERVISORS

Prev. Agn. Ref.:

District: All

Agenda Number:

2-10

ATTACHMENTS FILED
WITH THE CLERK OF THE BOARD



County of Riverside

INTERNAL AUDIT REPORT

2013-302

Riverside County Purchasing and Fleet Services - Purchase Orders Follow-up Audit

July 10, 2013

Office of
Paul Angulo, CPA, MA
County Auditor-Controller

4080 Lemon Street
P.O. Box 1326
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ACO | **AUDITOR**
CONTROLLER
COUNTY OF RIVERSIDE

Paul Angulo, CPA, MA
AUDITOR-CONTROLLER

July 10, 2013

Robert Howdyshell, Director
Purchasing and Fleet Services
2980 Washington Street
Riverside, CA 92504

Subject: Internal Audit Report 2013-302: Riverside County Purchasing and Fleet Services -
Purchase Orders Follow-up Audit

Dear Mr. Howdyshell:

We have completed a Follow-up Audit of Riverside County Purchasing and Fleet Services - Purchase Orders. Our audit was limited to reviewing actions taken as of May 29, 2013 to correct the findings noted in our original audit report 2011-011 dated April 9, 2012.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require we plan and perform the audit to obtain reasonable assurance our objective, as described in the preceding paragraph, is achieved. Additionally, the standards require we conduct the audit to provide sufficient, reliable, and relevant evidence to achieve the audit objectives. We believe the audit provides a reasonable basis for our opinion.

The original audit report contained 7 findings with 9 recommendations, all of which required corrective action and; therefore, were reviewed as part of this audit. For an in-depth understanding of the original audit, please refer to Internal Audit Report 2011-011 at www.auditorcontroller.org.

This follow-up audit found that of the 9 recommendations:

- 6 recommendations were implemented
- 2 recommendations were partially implemented
- 1 recommendation was not implemented

Detailed statuses of the findings identified in the original audit are provided in the body of this report. We will conduct a desk review on the 2 partially implemented and 1 not implemented recommendation within one year.

We appreciate the cooperation and assistance extended to us by staff of the Riverside County Purchasing Department during this follow-up audit. Their assistance contributed significantly to the successful completion of the audit.

Paul Angulo, CPA, MA
Auditor-Controller

A handwritten signature in black ink that reads "Rachelle Román". The signature is written in a cursive style with a large initial "R".

By: Rachelle Román, CRMA, MPA
Chief Internal Auditor

cc: Board of Supervisors
Executive Office

Purchase Authorization Agreements

Finding 1: Purchase amount of software exceeded the Board of Supervisors' authorized amount

The actual amount of software purchased under the Master Enterprise Agreement exceeded what was authorized by the Board of Supervisors. On June 17, 2008, the Board of Supervisors authorized the Purchasing Agent to enter into the Master Enterprise Agreement for the purchase of Microsoft core software products for three years for an estimated annual amount of \$2,668,702. Over the course of three years, the County purchased the following in software licenses under this agreement:

Calendar Year	Actual Amount Purchased	Excess of Authorized Amount
2009	\$3,334,703	\$666,001
2010	\$3,254,088	\$585,386
2011	\$3,256,411	\$587,709
Total:	\$9,845,202	\$1,839,096

Although Riverside County Information Technology provided the estimate of annual costs, the actual costs for the software licenses were not monitored, which resulted in excess spending of \$1,839,096 over the three year period. County Purchasing Policy Manual, Section 3.2.11, requires that any contract over one year, particularly non-cancelable contracts committing the County over one fiscal year must have Board approval. The Board of Supervisors' approval is sought by the Director of Purchasing for multiple year lease purchase contracts. Board authorization provides a means of control over the commitment of County funds, which can accumulate to significant amounts over a period of a few years.

Recommendation 1

Establish procedures for monitoring actual purchase expenditures to what was authorized by the Board of Supervisors on multi-year contracts. Obtain Board authorization and submit justification for purchase costs expected to exceed what was previously authorized by the Board.

Current Status Recommendation 1: Implemented.

The department has established procedures for the monitoring of actual purchase expenditures to what was authorized by the Board of Supervisor on multi-year contracts. In addition, justification for purchase costs expected to exceed what was previously authorized by the Board will be submitted for approval. In reference to this specific Master Enterprise Agreement for the purchase of Microsoft core software products, the department will initiate all purchase orders to allow for the monitoring and tracking of the annual spending. In addition, the department has dedicated a Procurement Contract Specialist to review, evaluate, and oversee the annual expenditures for all Microsoft license renewals to ensure compliance with approved and authorized contract amounts.

Vendor Selection and Bidding

Finding 2: Bidding requirements were not consistently followed by PO processors

During our review of purchases made by County departments (exclusive of County Purchasing) for office supplies and computer equipment, the following deficiencies were noted:

- Documentation was not adequate to verify bid quotes that were acquired from vendors for \$33,504 worth of purchases.
- Bid documentation for the \$21,000 purchase of server maintenance was not retained.
- Bid quotes were not obtained in accordance with County Purchasing policy.
- Alternative bid quotes were not obtained when an internal service department could not perform the required work.

Departments are required to maintain bid documentation per Board Policy A-43 for a minimum of three years. In addition, County departments are required to obtain quotes for purchases over \$1,000 from at least two sources per the County Purchasing Manual. The reasons cited for the inconsistency in complying with County policy were lack of knowledge of County policy and processors wanting to save time. By not obtaining competitive bids/quotes, there is no assurance that the County is getting the best pricing. Furthermore, documentation provides evidence that competitive bids/quotes were submitted which protects the County from legal exposure.

Recommendation 2.1

Provide comprehensive annual refresher training concentrating on bidding procedures and record retention requirements to County purchasing staff.

Current Status Recommendation 2.1: Implemented.

The department has established a training schedule that includes several training sessions related to bidding procedures. We reviewed supporting documentation for one of the training sessions to verify the content of the training and attendance by staff. In addition, the department is providing Records Retention Training to all staff members.

Recommendation 2.2

Perform periodic reviews to identify departments that are not in compliance with county purchasing and record retention policy.

Current Status Recommendation 2.2: Partially Implemented.

The department has filled the Contract Compliance Officer vacant position, which is responsible for department audits and reviews. The position was filled through an internal promotion and audits will begin as soon as the recruitment for the replacement has been completed.

We will verify the implementation of audits and reviews by the Contract Compliance Officer during our desk review within one year.

Finding 3: Sole sources are not always tracked and referenced in PeopleSoft

Although department PO processors indicate in the PO that the purchase is from a sole source, other details that may be relevant to the sole source agreement are not provided in the PO comments. A lack of details about the sole source agreement can make it difficult to justify whether the sole source was authorized by County Purchasing or validate the length of the sole source approval. Sole sources authorized by County Purchasing provide a control to ensure County departments have a legitimate reason for not obtaining bids from multiple vendors as required by the Purchasing Policy Manual.

Recommendation 3

Assign a number to each sole source contract so that departments and County Purchasing have a method to track and reference purchases that use approved sole source vendors and require PO processors to reference this number when issuing applicable POs.

Current Status Recommendation 3: Implemented.

The department maintains a sole source log and each approved sole source contract is assigned an approval number. Staff are required to reference this number in all sole source purchase orders. We reviewed a sample of sole source purchase orders to verify if the approval number assigned to the sole source contract was being referenced, without exception. We also reviewed the training presented to the purchasing staff related to proper documentation of sole source purchase orders and verified attendance by the purchasing staff.

Purchase Order Creation

Finding 4: Purchases were misclassified as either goods or services

The appropriate purchase order type based on goods or services purchased was not always selected when a purchase order was created. Because the system performs a two-way or three-way match based on if the department is receiving services or goods, the PO type should correspond to what is actually being purchased and the type of matching required for better controls. In addition, PO types can be used to monitor whether formal bids were obtained based on goods and services purchased.

Recommendation 4

Update the County Purchasing Manual and incorporate into PO Processor training guidelines for assigning the appropriate PO types based on type of purchase.

Current Status Recommendation 4: Implemented.

The department has updated the County Purchasing Manual with the inclusion of Section 3.16, which incorporates guidelines for assigning the appropriate PO types based on the type of purchase. The purchasing manual was updated effective February 2013.

Finding 5: Unit cost not entered on purchase orders

Unit costs were not always entered in the unit cost field in PeopleSoft when purchase orders were created. Of the 38,602 POs reviewed for Goods, there were 815 POs where no unit cost was entered. Some of the PO lines reviewed showed the unit price only noted in the item's description field. In other cases, multiple types of goods were not broken down onto separate lines and were lumped together as a single line item. The incomplete data entry was a result of PO Processors trying to save time during the processing of a purchase order. While vendors are still paid the full amount owed, the absence of unit prices assigned to each line item limits County Purchasing's and user departments' ability to perform pricing verification, analysis, and comparisons. Comparing prices allows the County to test for contract compliance and identify potential discounts from future vendors.

Recommendation 5

Update the County Purchasing Manual and incorporate into PO Processor training guidelines how unit costs are to be entered for all goods purchased and how different products should have separate line items on a PO.

Current Status Recommendation 5: Implemented.

The department has updated the County Purchasing Manual Section 3.16 regarding purchase order types. In addition, the department has provided training to staff regarding the setup of separate line items and unit costs. We reviewed supporting documentation for the training session to verify the content of the training and the attendance by staff members.

Finding 6: PeopleSoft Item IDs not used efficiently

We analyzed the top 24 PeopleSoft Item IDs based on dollars purchased from one particular vendor that provides janitorial services. Our analysis identified 12 Item IDs, totaling \$334,834 in which there were large price fluctuations on the same Item ID. Further analysis determined that item descriptions were not only inconsistent for the same products, but items purchased under the same Item ID were not related to each other.

In another analysis of Item IDs, we identified at least eight specialty Item IDs where the number of unique product descriptions per Item ID ranged from over 100 to over 4,200. Specialty Item IDs are designed to be used for a single item type that is generally ordered repetitively and/or stocked by that department. We also identified at least four generic Item IDs for the purchase of approximately \$15.7 million in goods in which the number of unique product descriptions ranged from over 100 to 4,400. Having multiple descriptions for the same item makes it difficult to compare similar items and is also an indication that many different items are using the same Item ID.

Item ID setup and usage guidelines are covered in County Purchasing's PO processor training course and the County Purchasing Manual. However, due to the complexity of Item ID usage, a more in depth training should be provided. When Item IDs are not used correctly, user departments and County Purchasing are limited in their ability to effectively compare and manage prices of similar items, in addition to providing assurance that vendors are charging based on agreed upon pricing terms.

Recommendation 6.1

Develop specialized training for PO processors that would encourage more efficient use of Item IDs and provide guidance for assigning commodity codes, product classification, and Item ID setup.

Current Status Recommendation 6.1: Implemented.

The department has provided training to staff that provides guidance for assigning commodity codes, product classification, and Item ID setup. We reviewed supporting documentation for the training session to verify the content of the training and the attendance by staff members.

Recommendation 6.2

Conduct periodic reviews on Item ID usage and identify inefficiencies in usage for corrective action.

Current Status Recommendation 6.2: Partially Implemented.

The department has provided training to staff regarding Item IDs and how to better utilize them; however, they are not in a position to conduct periodic reviews to ensure accuracy of Item ID usage. The department has indicated they will be in a better position to implement this review when a full time item master staff member is available. In the interim, continuous training will be their only avenue to address this issue at this time.

Finding 7: Purchase made against expired PeopleSoft vendor contract

Purchases were made against PeopleSoft vendor contracts past the contract expiration date. We analyzed 30,967 Purchase Orders tied to 2,454 PeopleSoft contracts and identified 648 expired contracts in which a purchase was made against it. Purchases are made against an expired contract when a renewed contract has not been setup in the system. This may sometimes occur when the County has just renewed an agreement with a vendor. To prevent an expired contract from blocking purchases against it, County Purchasing, will manually extend the expiration date on a monthly basis. As a result of the contract IDs not maintained timely, a PO Processor will continue to use an expired contract ID or may use an already existing contract ID not directly related to the item. Using an expired contract ID or an unrelated ID limits user departments' and Purchasing's ability to control spending for particular items, analyze volume purchases and monitor contract term limits.

Recommendation 7

Reevaluate existing procedures, considering current resources, for monitoring PeopleSoft contracts scheduled to expire and establish new contracts as necessary to minimize the manual extension of expired contracts.

Current Status Recommendation 7: Not Implemented.

The department has indicated the implementation of this recommendation is not possible with current staffing levels.

We will reevaluate the department's position regarding this recommendation during our desk review within one year.