

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

304



FROM: Auditor-Controller

SUBMITTAL DATE:
March 4, 2015

SUBJECT: Internal Audit Report 2014-004: Transportation and Land Management Agency: Transportation Department Purchase Order Compliance, [District: All]: [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2014-004: Transportation and Land Management Agency: Transportation Department Purchase Order Compliance

BACKGROUND:

Summary

We have completed an audit of the Transportation Department to provide the Board of Supervisors with an independent assessment of internal controls over the purchase order process. The audit covered the period July 1, 2011 through June 30, 2013.

Based upon the results of our audit, we identified opportunities for improvement in internal controls over the purchase order process.

(Continue on page 2)

Paul Angulo

Paul Angulo, CPA, CGMA, MA
County Auditor-Controller

Departmental Concurrence

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost:	POLICY/CONSENT (per Exec. Office)
COST	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	Consent <input checked="" type="checkbox"/> Policy
NET COUNTY COST	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	<input type="checkbox"/>

SOURCE OF FUNDS: N/A

Budget Adjustment: No

For Fiscal Year: n/a

C.E.O. RECOMMENDATION:

APPROVE

BY: *Samuel Wong 3/12/15*
Samuel Wong

County Executive Office Signature

MINUTES OF THE BOARD OF SUPERVISORS

- Positions Added
- Change Order

- A-30
- 4/5 Vote

Prev. Agn. Ref.:

District: ALL

Agenda Number:

2-3

BACKGROUND:

Impact on Residents and Businesses

Provide an assessment of internal controls over the audited areas.

SUPPLEMENTAL:

Additional Fiscal Information

Not applicable

Attachments:

- A: County Auditor-Controller Internal Audit Report 2014-004: Transportation and Land Management Agency:
Transportation Department Purchase Order Compliance

Internal Audit Report

Audit 2014-004

**Riverside County Transportation and Land
Management Agency: Transportation
Department**

Report Date: March 4, 2015



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CONTROLLER
COUNTY OF RIVERSIDE

Paul Angulo, CPA, CGMA, MA
AUDITOR-CONTROLLER

March 4, 2015

Juan C. Perez
Director of Transportation
Riverside County Transportation Department
4080 Lemon Street, 14th Floor
Riverside, CA 92502

Subject: Internal Audit Report 2014-004: Riverside County Transportation and Land Management Agency: Transportation Department Purchase Order Compliance

Dear Mr. Perez:

The Internal Audit Division of the Auditor-Controller's Office has completed a County Purchase Order Compliance Audit, which included the Riverside County Transportation and Land Management Agency: Transportation Department. The audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over the purchase order process. The audit covered the period of July 1, 2011 through June 30, 2013.

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 in internal controls over the purchase order process.

As requested, in accordance with paragraph IIC of the Board of Supervisors Resolution 83-338, management responded to the reported condition and recommendation contained in our report. Management's responses are included in the report. We will follow-up in one year to verify that management implemented the corrective action.

**Internal Audit Report 2014-004: Riverside County Transportation and Land Management Agency:
Transportation Department Purchase Order Compliance**

We thank the Riverside County Transportation and Land Management Agency: Transportation Department's management and staff for their cooperation; their assistance contributed significantly to the successful completion of this audit.

Paul Angulo, CPA, CGMA, MA
County Auditor-Controller



By: René Casillas, CPA, CRMA
Interim Chief Internal Auditor

cc: Board of Supervisors
Executive Office
District Attorney
Grand Jury

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Executive Summary

Overview

The Riverside County Transportation and Land Management Agency: Transportation Department (Transportation Department) is responsible for planning, designing, funding, building, and operating and maintaining all roads, bridges, and transportation facilities within the unincorporated Riverside County (County) territory.

The Transportation Department maintains over 2,100 system miles of county maintained roads in a land area of approximately 7,200 square miles. Priorities for the Transportation Department are improving safety, maintaining the existing roads and bridges, and enhancing the roadway capacity to keep up with County's population growth.

Audit 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 Conclusion

Based upon the results of our audit, we identified opportunities for improvement in internal controls over the purchase order process.

Purchase Order Compliance

Background

Purchasing 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 commodities and services needed in operation by Riverside County departments and agencies. Riverside County uses a variety of methods to procure supplies and services, including: low value purchase orders (LVPO) and extended low value purchase orders (ELVPO), among others.

The Board of Supervisors delegated the authority to purchase and contract to the purchasing agent, via County Ordinance No. 459, as amended through 459.4, *Establishing Purchasing Policies and Procedures*. The purchasing agent has delegated her authority to her staff with varying limitations.

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

The purchase order process begins with an approved requisition that is submitted to the department purchasing staff. Upon the receipt of an approved requisition, the staff will create a purchase order. If the purchase order is above the authorized limits for the department staff, they will contact the purchasing department who will create and authorize the purchase order. Some purchase order types require no requisition if they are below a specified dollar threshold.

Riverside County Ordinance No. 459, Section (3) Central Purchasing; Exceptions, states "No purchase as described in Section 2 shall be made by any County officer or employee without a purchase order or other written authority first obtained from the purchasing agent..."

We performed a countywide audit that included five county departments and focused on purchase orders created for the following expense accounts: 522890 (Pharmaceuticals), 524660 (Consultants), 525440 (Professional Services), 527780 (Special Program Expense), and 527980 (Contracts). For the period of July 1, 2011 through June 30, 2013 there were a total of 896 purchase orders valued at \$43 million, not related to a contract, created through the County PeopleSoft Financials System for all five county departments.

We adjusted the audit scope for each department depending on the mission, operations, structure, and volume. A separate report was issued for each department. For the period of July 1, 2011 through June 30, 2013, the Riverside County Transportation and Land Management Agency created 301 non-contract purchase orders valued at \$3.4 million for expenditure accounts 524660 (Consultants), 525440 (Professional Services), 527780 (Special Program Expense), and 527980 (Contracts) during the audit period. We tested 35 purchase orders valued at \$305,941 or 9%, of the total expenditures to ensure compliance with purchasing policies and procedures.

**Internal Audit Report 2014-004: Riverside County Transportation and Land Management Agency:
Transportation Department Purchase Order Compliance**

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, Board of Supervisors' ordinances, applicable policies and procedures.
- Conducted interviews and performed walk-throughs with Transportation Department personnel.
- Reviewed financial information from PeopleSoft for the period of July 1, 2011 through June 30, 2013.
- Selected a statistical random sample of 35 purchase orders valued at \$305,941.
- Reviewed purchase orders and verified they had been approved by the appropriate personnel.
- Verified there was an approved requisition on file for the purchase order.
- Verified the expenditure was incurred after the purchase order was approved.

Finding 1: Timely Issuance of Purchase Orders

Four of thirty-five (11%) purchase orders reviewed were requested and issued after invoices were received from vendors. This occurred because Transportation Department personnel believed the department had a contract with the vendor, but no such contract existed. Per Riverside County Purchasing Policy Manual, a purchase order is required for goods or services over \$400 prior to their purchase. This intermittent compliance with purchasing requirements could result in Transportation Department purchasing unauthorized or inappropriate supplies and services.

Recommendation

We recommend the Transportation Department review its approval process for purchases to ensure staff issue a purchase order prior to purchasing supplies and services.

**Internal Audit Report 2014-004: Riverside County Transportation and Land Management Agency:
Transportation Department Purchase Order Compliance**

Management Response

“Concur. Of the four mentioned in the report, two were for BJ Used Tires and one was for Safety Kleen. One of these purchases was under \$1,000; and the other two were around \$2,000 each; the fourth purchase order for Reliable Ice Equipment was under \$1,000 which was for a replacement part needed for an emergency repair.”

Actual/Estimated Date of Corrective Action: Ongoing

“TLMA continues to monitor that all member departments are in compliance and that the staff is aware of the contracts they have in place to use.”