

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

108



FROM: Riverside County Auditor-Controller

SUBMITTAL DATE:
January 7, 2016

SUBJECT: Internal Audit Report 2014-010: County Procurement Cards, Riverside County Department of Public Social Services [All Districts] [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

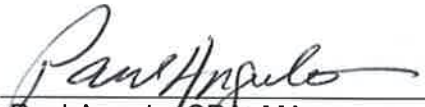
1. Receive and file Internal Audit Report 2014-010: County Procurement Cards, Riverside County Department of Public Social Services

BACKGROUND:

Summary

We have completed an audit of the County Procurement Card Program, which included the Riverside County Department of Public Social Services, to provide the Board of Supervisors and management with an independent, objective, and reliable assessment of internal controls over the usage of procurement cards. We conducted the audit from March 31, 2014 through August 15, 2015 for operations for the period July 1, 2011 through October 31, 2013. We subsequently expanded the period to include the period November 1, 2013 through May 31, 2015 and conducted our additional testing in July 2015.

(Continued on page 2)


Paul Angulo, CPA, MA
Riverside County Auditor-Controller

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 <input type="checkbox"/>
NET COUNTY COST	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	
SOURCE OF FUNDS: N/A				Budget Adjustment: No	
				For Fiscal Year: n/a	

C.E.O. RECOMMENDATION:

APPROVE

BY: 
Samuel Wong

County Executive Office Signature

MINUTES OF THE BOARD OF SUPERVISORS

- A-30
- Positions Added
- 4/5 Vote
- Change Order

Prev. Agn. Ref.:

District: ALL

Agenda Number:

2-4

JU Departmental Concurrence

SUBMITTAL TO THE BOARD OF SUPERVISORS, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA
FORM 11: Riverside County Auditor Controller's Office - Internal Audit Report 2014-010: County Procurement Cards, Riverside County Department of Public Social Services [District: All]; [\$0]

DATE: January 7, 2016

PAGE: Page 2 of 2

BACKGROUND:

Summary (continued)

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to procurement card usage and travel authorizations. We determined Riverside County Department of Public Social Services internal controls over these areas did not provide reasonable assurance that its objectives relating to these areas will be achieved. Reasonable assurance recognizes internal controls have inherent limitations, including costs, mistakes, and intentional efforts to bypass internal controls.

Impact on Citizens and Businesses

Provide an assessment of internal controls over the audited areas.

SUPPLEMENTAL:

Additional Fiscal Information

Not applicable

ATTACHMENTS:

A: Riverside County Auditor-Controller's Office – Internal Audit Report 2014-010: County Procurement Cards, Riverside County Department of Public Social Services

Internal Audit Report 2014-010

**County Procurement Card
Riverside County
Department of Public Social Services**

Report Date: January 7, 2016



**Office of Paul Angulo, CPA, MA
Riverside County Auditor-Controller
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(951) 955-3800**

www.auditorcontroller.org



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ACC | AUDITOR
CONTROLLER
COUNTY OF RIVERSIDE

Paul Angulo, CPA, MA
Auditor-Controller

Frankie Ezzat, MPA
Assistant Auditor-Controller

January 7, 2016

Susan von Zabern, Director
Department of Public Social Services
4060 County Circle Drive
Riverside, CA 9250

**Subject: Internal Audit Report 2014-010: County Procurement Card, Riverside County
Department of Public Social Services**

Dear Ms. von Zabern:

We have completed an audit of the County Procurement Card Program, which included the Riverside County Department of Public Social Services, to provide the Board of Supervisors and management with an independent, objective, and reliable assessment of internal controls over the usage of procurement cards. We conducted the audit from March 31, 2014 through August 15, 2015 for operations for the period July 1, 2011 through October 31, 2013. We subsequently expanded the period to include the period November 1, 2013 through May 31, 2015 and conducted our additional testing in July 2015.

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 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.

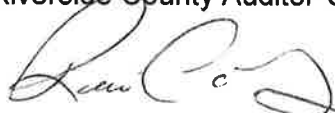
Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to procurement card usage and travel authorizations. We determined Riverside County Department of Public Social Services internal controls over these areas did not provide reasonable assurance that its objectives relating to these areas will be achieved. Reasonable assurance recognizes internal controls have inherent limitations, including costs, mistakes, and intentional efforts to bypass internal controls.

As requested, in accordance with III.C of the Board of Supervisors Resolution 83-338, management responded to the reported conditions and recommendations contained in our

report. Management's responses are included in the report. We will follow-up to verify that management implemented corrective action.

We thank the Riverside County Department of Public Social Services 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

Riverside County's Procurement Card (Procurement Card) program was developed through collaboration with Purchasing & Fleet Services Department (Purchasing Services) and the Auditor-Controller's Office to improve efficiency and reduce the cost associated with making purchases and processing vendor payments. The procurement card eliminates the need for formal purchase requisitions and purchase orders that usually accompany small dollar purchases and further requires only one payment to the bank as opposed to multiple payments to several vendors. The program requires compliance with current statutes and county procurement procedures and is intended to improve the timely delivery of products and services.

Purchasing Services is responsible for managing and monitoring the overall program. Additionally, Purchasing Services facilitates training required for all program participants, establishes and communicates rules and guidelines, oversees participants' compliance with the county's procurement card policies and procedures, and coordinates the interface between U.S. Bank and Riverside County. Cardholders are required to comply with the *County of Riverside Procurement Card Program Procedure Handbook* as outlined by Purchasing Services.

The Procurement Card program has unique controls developed and implemented, which are different from the traditional credit card. The controls ensure the cards can be used only for the specific types of purchases with established dollar limits. Additionally, approving officials assigned to each cardholder are responsible for reviewing and approving cardholder transactions. The cardholder is responsible to verify all purchases upon receipt of the card statement.

The policies, procedures and board policies we reviewed during the course of the audit were as follows: *Riverside County Board Ordinance 459.4, County of Riverside Purchasing Policy Manual, County of Riverside Procurement Card Program, Procedure Handbook, Board Policy A-62, Credit Card Use, and Board Policy D-1, Reimbursement for General Travel and Other Actual and Necessary Expenses.*

As an integral part of a county departments internal control structure, management within each department is responsible for a system of internal controls that effectively and efficiently performs financial related activities and safeguards assets. The system should provide management with reasonable assurance that assets are properly safeguarded against loss from unauthorized use or theft, and transactions are executed in accordance with management's authorization.

As of May 31, 2015, the Riverside County Department of Public Social Services had 17 procurement cardholders. Each cardholder is granted a single transaction amount, number of transactions per day and a monthly spending limit. Limits are established for each cardholder at the single transaction amount, number of transactions per day, and monthly transaction amount.

Certain goods and services are excluded with the Merchant Category Code (MCC), which is a four-digit code assigned to a merchant by its merchant bank. This code identifies the type of business the merchant conducts.

For the period July 1, 2010 through May 31, 2013, Riverside County Department of Public Social Services had Procurement Card program expenditures totaling \$1,346,736. We selected the three highest monthly expenditures, October 2012, November 2012, and August 2013 with \$181,211 in expenditures reported to the Auditor-Controller's Office for review.

In order to ensure compliance with the revised *County of Riverside Procurement Card Program Procedure Handbook*, which was effective March 2015, we extended our testing to include expenditures for May 2015 totaling \$52,191. As of May 31, 2015, the Riverside County Department of Public Social Services had 17 procurement cardholders.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over the authorizations and use of the procurement cards.

Audit Conclusion

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to procurement card usage and travel authorizations. We determined Riverside County Department of Public Social Services internal controls over these areas did not provide reasonable assurance that its objectives relating to these areas will be achieved. Reasonable assurance recognizes internal controls have inherent limitations, including costs, mistakes, and intentional efforts to bypass internal controls.

Procurement Cards

Background

Riverside County Department of Public Social Services (DPSS) partners with community based organizations to meet the needs of the families and individuals in the community. The services provided are temporary financial assistance and employment service, programs and services to protect children and adults from abuse and/or neglect, and access to health care coverage to low income individuals and families. The five DPSS departments providing services throughout Riverside are Administration, Adult Services, Children's Services, Self-Sufficiency, and Public Authority.

DPSS has established a travel desk to manage the travel arrangements for its staff. The DPSS travel desk serves as a "primary point of contact for employees who conduct business-related travel." In addition to the County and Purchasing Department policies, DPSS has the following in-house policies to assist its staff with travel concerns as it relates to business travel: Department Policy 10-013, *Reimbursement for County Business Expenses*, Department Policy 10-013B, *DPSS Travel Desk*, and Department Policy 14-002, *Professional Conferences*.

To ensure an orderly approach to the purchasing function the Board of Supervisors and the Department issued guidance to departments that includes:

- County of Riverside Procurement Program Procedure Handbook, states in the *Procedures for Obtaining a Procurement Card, under the Approval Process*, Item 6, the procurement card may be picked up after a completed Cardholder Agreement has been signed by the Cardholder and his/her Approver and submitted to the County Procurement Card Coordinator."
- Board of Supervisors Policy A-62, *Credit Card Use (A-62)*, states, "Justification for assignment of a credit card to a County Employee shall be made, and clearly documented prior to activation. Written documentation shall include the intended purposes for which the credit card will be used, the employee name, and signature of approving official."
- Board of Supervisors Policy A-62, *Credit Card Use (A-62)*, states, "All cardholders and/or users must complete the appropriate County Purchasing and buyer/purchasing training prior to card activation and use. County Purchasing will determine appropriate training and provide documentation of training completion to the employee. A copy of this documentation should be retained by the department/agency."
- County of Riverside Procurement Card Procedure Manual, *Program Information, Restricted Uses* states "...the Procurement Card is intended to be used for small dollar purchases. However, the Procurement Card is not to be used for services. In addition, the Procurement Card must not be used to purchase the following: chemicals & hazardous materials, bulk fuel, items available through Internal Service departments

(Supply Services, Printing), membership dues, personal computers, peripheral equipment, and printers from other than County contracted vendors, splitting of purchases to circumvent the dollar limitation, telecommunications equipment systems, or major components."

- County of Riverside Purchasing Manual states, "all procurements' unless otherwise provided by law or County policy, are to be solicited on a competitive basis...For all Procurement Card purchases a minimum of three (3) solicitations are required on purchases over \$1,000." (effective August 1, 2015 required purchases increased to \$5,000)
- Riverside County Ordinance No. 459.4 *Establishing Purchasing Policies and Procedures*, Section 3 states, "No purchases 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..."

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed policies, applicable laws, codes, regulations, and board ordinances related specifically to the Procurement Card program.
- Conducted interviews and performed walkthroughs with appropriate DPSS personnel to obtain an understanding of procurement card procedures and internal controls.
- Obtained and analyzed department policies and other documents to verify compliance with procurement card policies and procedures.
- Analyzed procurement card data pulled from the county's financial systems, PeopleSoft and Simpler.
- Examined cardholder's transaction logs, receipts, and credit card statements.
- Selected a sample of purchased items for physical existence.
- Verified whether appropriate levels of management review and approval existed and were exercised.

Finding 1: Monitoring Compliance with Procurement Policies

The DPSS procedure to ensure procurement card usage is in compliance with purchasing policies was not operating as designed. Our review of three highest dollar value months of transactions, October 2012, November 2012, and August 2013 reported to the Auditor-

Controller's Office, disclosed that DPSS had 3 transactions totaling \$5,463 of the \$181,211 in purchases reviewed that were not in compliance with purchasing policies. Existing controls neither prevented nor detected the exceptions to established policy and procedures.

These exceptions occurred because DPSS was not following procurement procedures. The specific category of non-compliance is as follows:

- Competitive bid documentation was inadequate; for three transactions valued at \$5,463.

Oversight of purchases by the appropriate levels of management could ensure the lowest costs are considered prior to making purchases. The opportunity to receive negotiated vendor discounts, based on the procurement card usage with pre-existing county approved vendors, is reduced when all Riverside County departments do not participate as these discounts are based on the volume of goods and services purchased. Riverside County's reputation for transparent, open, and fair competitive procurement is also impaired. The procurement card policy states, "Use of Procurement Card is not intended to replace effective procurement planning which enables volume discounts."

As mentioned earlier, we performed additional testing for May 2015 to determine if the previously noted conditions have been corrected. As of May 31, 2015, DPSS had 17 procurement cardholders. We found the department had improved in the specific categories noted above. Further, of the 241 transactions we reviewed for May, all complied with the *County of Riverside Procurement Card Program Procedure Handbook*.

Recommendation 1

Continue the monitoring of procurement card usage to maintain compliance with the *County of Riverside Procurement Card Program Procedure Handbook*.

Management's Response

- **"Do not concur.** The transactions in question were for catering department events, with the highest dollar transaction being \$2,073. Page 6 of the Procurement Card Procedure Manual (in effect at the time of the transactions) states "As with any of the quotes over \$1,000, at least two (2) competitive quotes should be obtained. A record of the quotes should be maintained by the using Cardholder." In all three instances, the Department of Public Social Services (DPSS) Purchasing Unit solicited quotes from three different vendors and selected the vendor with the lowest cost. This was document on the DPSS' internal "Bid Results" summary sheet, which is very similar to the County of Riverside Procurement Card Program Summary – Procurement Bid Sheet (included as Attachment R to the Procurement Card Procedure Manual).

Per conversations with the ACO's Interim Chief Internal Auditor, it appears as though the deficiency cited by the ACO is that the internal summary sheet implied, via check mark, that written quotes were obtained; however, these written quotes were not

provide to auditor. Per DPSS Purchasing Unit management, the checkbox noting that written quotes were obtained was inadvertently marked, as the quotes were obtained verbally which is also an option to the Buyer in order to obtain quotes.

DPSS believes that the documentation provided for these transactions is sufficient and meets the requirements of the Procurement Card Procurement Manual. As the Procurement Card Procedural Manual does not appear to require written quotations we do not concur with this finding.”

- Actual/estimated Date of Correction Action: None
- Estimated cost to implement recommendation (if material): \$0

Auditor’s Comment

The Procurement Card Program Procedure Handbook, states in *Use Policies section* “...a record of the quotes should be maintained by the using Cardholder.” Therefore, quotes, whether verbal or written, should be maintained.

Finding 2: Travel authorizations not approved in timely manner

There were four transactions where DPSS social workers and/or management staff did not obtain prior authorization for travel or used the procurement card for travel-related expenses after travel was completed. DPSS staff members are often required to travel to conduct business, such as transporting clients for visitations, and attending seminars. As such, all staff is required by DPSS Policy 10-013 *Reimbursement for County Business Expenses*, to complete a DPSS Form 3900, *Authorization for Travel*, which necessitates the approvals from appropriate levels of management. We observed travel purchases, such as airfares, hotel accommodations, meals, and rental cars that were not indicated on the Form 3900 or they occurred before or after the travel period. Though there are departmental travel policies, DPSS staff did not comply with requirements regarding the travel authorizations.

The potential for misappropriation of county funds or theft is present when prior approval does not occur for procurement card purchases.

Recommendation 2

The Department of Public Social Services ensure controls are in place to monitor the completion of DPSS Form 3900, including but not limited to appropriate level of approvals and indication that travel expenditures will be incurred.

Management’s Response

- **“Concur.** DPSS concurs with this finding and has taken the following measures to remediate it:

The Approving Officials sent an email to all Procurement Card Holders directing them to affirmatively confirm that they have read the County of Riverside Procurement Card Program Procedure Handbook. Additionally, the ACOs Audits and Specialized Accounting Division performed additional testing covering the month of May 2015 and no such exceptions were noted.

Overall, DPSS appreciates the review conducted by the ACO. In the audit conclusion, a statement is made that "...internal controls over these did not provide reasonable assurance that ... objectives relating to these areas will be achieved." Though we concur with certain aspects of the ACO's findings, we do not feel that the errors noted rise to the level of inadequate internal controls. The total sample reviewed by the ACO covered 940 transactions or \$233,402. The ACO's findings involved seven transactions, less than 1% of the total transactions reviewed. The total dollar amount questioned by the ACO is \$6,710, less than 3% of the total dollar value of the transactions reviewed. Based on such a low exception rate, we believed that the issues identified are isolated incidents that do not warrant inclusion in an audit report or justify noting the internal controls were inadequate."

- Actual/estimated Date of Correction Action: None
- Estimated cost to implement recommendation (if material): \$0

Auditor's Comment

The Auditor-Controller's Office considers the potential for misappropriation of county funds or theft a concern. DPSS did not comply with its own policy regarding prior approval of travel which is why this finding remained in the report subsequent to the additional review performed. Additionally, the untimely approval of travel authorizations identified may indicate weaknesses in internal controls.

Standard Practice Manual 104, *Internal Controls, Administration, Section 1, Procedure A*, states "...Internal control refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories: 1. Safeguarding assets, 2. Ensuring accuracy, reliability and timeliness of financial records and reports, 3. Promoting adherence to policies, procedures, regulations and laws and 4. Promoting effectiveness and efficiency in operations."

Our view is that since there were errors noted, it is evidence that DPSS has had a weakness in the management of procurement cards.