

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

305



FROM: Auditor-Controller

SUBMITTAL DATE:
March 4, 2015

SUBJECT: Internal Audit Report 2014-004: Riverside County Regional Medical Center Purchase Order Compliance, [District: All]: [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2014-004: Riverside County Regional Medical Center Purchase Order Compliance

BACKGROUND:

Summary

We have completed an audit of the Riverside County Regional Medical Center 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

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	<input type="checkbox"/>

SOURCE OF FUNDS: N/A

Budget Adjustment: No

For Fiscal Year: n/a

C.E.O. RECOMMENDATION:

APPROVE

BY: *Samuel Wong*
Samuel Wong

County Executive Office Signature

MINUTES OF THE BOARD OF SUPERVISORS

On motion of Supervisor Ashley, seconded by Supervisor Tavaglione and duly carried by unanimous vote, IT WAS ORDERED that the above matter is received and filed as recommended.

Ayes: Jeffries, Tavaglione, Washington, Benoit and Ashley
Nays: None
Absent: None
Date: March 24, 2015
xc: Auditor

Kecia Harper-Ihem
Clerk of the Board
By: *Kecia Harper-Ihem*
Deputy

2-4

Prev. Agn. Ref.:

District: ALL

Agenda Number:

Departmental Concurrence

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

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: Riverside County Regional Medical Center Purchase Order Compliance

Internal Audit Report 2014-004

**Riverside County Regional Medical Center
Purchase Order Compliance**

Report Date: March 4, 2015



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ACC | **AUDITOR**
CONTROLLER
COUNTY OF RIVERSIDE

Paul Angulo, CPA, CGMA, MA
AUDITOR-CONTROLLER

March 4, 2015

Zareh Sarrafina
Chief Executive Officer
Riverside County Regional Medical Center
26520 Cactus Avenue
Moreno Valley, CA 92555

**Subject: Internal Audit Report 2014-004: Riverside County Regional Medical Center
Purchase Order Compliance**

Dear Mr. Sarrafina:

The Internal Audit Division of the Auditor-Controller's Office has completed a County Purchase Order Compliance Audit that included the Riverside County Regional Medical Center. 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.

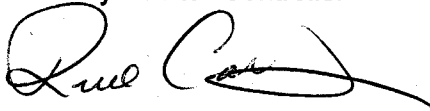
Based upon the results of our audit, we identified opportunities for improvement in internal controls over the purchase order process.

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 Regional Medical Center Purchase Order Compliance

We thank the Riverside County Regional Medical Center'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

Riverside County Regional Medical Center (Medical Center) is located in the City of Moreno Valley, centrally located and accessible for all areas of Riverside County. Although the institution is over 100 years old, a new modern, seismically compliant building opened in March 1998. The Medical Center is a 520,000 square foot state-of-the-art tertiary care and level II adult and pediatric facility, licensed for 439 beds. There are 362 licensed beds in the main acute-care hospital, and 77 licensed beds in a separate psychiatric facility. The Medical Center has 12 operating rooms, a helipad located directly adjacent to the Trauma Center, and state-of-the-art digital radiology services, including magnetic resonance imaging (MRI) and computerized tomography (CT). There are also adult, pediatric, and neonatal intensive care units, a birthing center, and complete pulmonary services including hyperbaric oxygen treatments.

The Medical Center is a teaching hospital offering training programs for nursing students, medical residents, and allied health professionals attending Riverside Community College, Loma Linda University, Western College of Health Services, and other facilities.

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. The Riverside County (County) Purchasing Manual provides uniform procedures for the purchasing of commodities and services needed in the operation of 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 or 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, the purchasing agent may assign staff to the department, or a department may hire their own staff to carry out 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, 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 896 purchase orders valued at \$43 million, not related to a contract, created through the County's PeopleSoft Financial System (PeopleSoft) for five selected 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 Regional Medical Center created 231 non-contract purchase orders valued at \$515,120 for the following expense accounts: 522890 (Pharmaceuticals), 524660 (Consultants), and 525440 (Professional Services). Our audit focused on testing 63 purchase orders valued at \$278,650 (54%), of total expenditures, to ensure compliance with purchasing policies and procedures.

Internal Audit Report 2014-004: Riverside County Regional Medical Center 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, regulations, and Board of Supervisors' ordinances, applicable policies and procedures.
- Conducted interviews and performed walk-throughs with Medical Center personnel.
- Reviewed financial information from PeopleSoft for the period of July 1, 2011 through June 30, 2013.
- Selected a statistical sample of 63 purchase orders valued at \$278,650 for review.
- Reviewed purchase orders and verified the appropriate personnel had approved them.
- 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

Seven of the sixty-three (11%) purchase orders reviewed were requested and issued after invoices were received from vendors. Based on our statistical sample, we can project with a 90% confidence level, that as many as 43 of the 231 (18.6%) purchase orders were requested and issued after invoices were received from the vendors. This occurred because Medical Center personnel requested the goods or services without first completing the purchase order. 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 obligate the County for unauthorized or inappropriate purchases of goods or services.

Recommendation

Review and modify the procurement practice, including training of personnel and dedicate resources to regular, ongoing monitoring to ensure compliance with County procurement policy.

Internal Audit Report 2014-004: Riverside County Regional Medical Center Purchase Order Compliance

Management Response

"Concur. Riverside County Regional Medical Center (RCRMC), Purchasing Department prepares purchase orders to pay vendors after services have been rendered satisfactory. Purchasing does not typically issue purchase orders for services beforehand, as our suppliers do not receive advance payments. Unforeseen circumstances occurred, and purchase orders were issued after invoices were received from vendors as stated in Finding 1. In each of the seven items noted, services were ordered by department prior to issuance of a purchase order."

Actual/Estimated Date of Corrective Action: 2/26/2015