

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

518



FROM: Riverside County Auditor-Controller

SUBMITTAL DATE:
January 12, 2016

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

RECOMMENDED MOTION: That the Board of Supervisors:
1. Receive and file Internal Audit Report 2014-010: County Procurement Cards, Riverside County Fire Department

BACKGROUND:

Summary

We have completed an audit of the County Procurement Card Program, which included the Riverside County Fire Department, 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 August 2015.

(Continued on page 2)

Paul Angulo
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 1/25/16*
Samuel Wong

County Executive Office Signature

MINUTES OF THE BOARD OF SUPERVISORS

On motion of Supervisor Ashley, seconded by Supervisor Jeffries 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: February 2, 2016
xc: Auditor

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

Prev. Agn. Ref.: | **District:** ALL | **Agenda Number:**

JU Departmental Concurrence

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

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 Fire Department [District: All]; [\$0]

DATE: January 12, 2016

PAGE: Page 2 of 2

BACKGROUND:

Summary (continued)

Based upon the results of our audit, we identified opportunities for improvement in the internal controls relating to monitoring compliance with procurement policies and maintenance of cardholder agreements. We determined Riverside County Fire Department internal controls over these areas did not provide reasonable assurance that its objectives related 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 Fire Department

Internal Audit Report 2014-010

**County Procurement Cards
Riverside County Fire Department**

Report Date: January 12, 2016



**Office of Paul Angulo, CPA, MA
Riverside County Auditor-Controller
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ACC | **AUDITOR
CONTROLLER**
COUNTY OF RIVERSIDE

**Paul Angulo, CPA, MA
Auditor-Controller**

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

January 12, 2016

John R. Hawkins
County Fire Chief
Riverside County Fire Department
210 W. San Jacinto Avenue
Perris, CA 92570

Subject: Internal Audit Report 2014-010: County Procurement Card, Riverside County Fire Department

Dear Chief Hawkins:

We have completed an audit of the County Procurement Card Program, which included the Riverside County Fire Department, 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 August 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 conclusions.

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 the internal controls relating to monitoring compliance with procurement policies and maintenance of cardholder agreements. We determined Riverside County Fire Department internal controls over these areas did not provide reasonable assurance that its objectives related to these areas will be achieved. Reasonable assurance recognizes internal controls have inherent limitations, including costs, mistakes, and intentional efforts to bypass internal controls.

Internal Audit Report 2014-010: County Procurement Card, Riverside County Fire Department

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 Fire Department's 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 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 traditional credit cards. The controls ensure the cards can be used only for 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 once card statement is obtained.

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 Fire Department had 60 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

Internal Audit Report 2014-010: County Procurement Card, Riverside County Fire Department

services are excluded with the merchant category code, 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 Fire Department had Procurement Card program expenditures totaling \$1,108,308. We selected the three highest monthly expenditures, June 2012, April 2013 and July 2013 with \$198,883 in total 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 \$7,445.

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 in the internal controls relating to monitoring compliance with procurement policies and maintenance of cardholder agreements. We determined Riverside County Fire Department internal controls over these areas did not provide reasonable assurance that its objectives related 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

The Riverside County Fire Department (Fire Department) provides "full service, municipal and wild land fire protection, pre-hospital emergency medical response by paramedics and EMT's, technical rescue services and responds to hazardous materials discharges." With 97 fire stations serving the unincorporated communities and cities in Riverside County, fire protection and emergency services are provided to county residents as well as disaster preparedness and response, fire prevention, rescue, hazardous materials mitigation, technical rescue response, medical emergency, and public service assistance.

To ensure an orderly approach to the purchasing function, the Board of Supervisors and Purchasing Services issued guidance to departments that include:

- The County of Riverside Procurement Card 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 Program Procedure Handbook, *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 Policy 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 Board 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 walk-throughs with appropriate Riverside County Fire Department personnel to obtain an understanding of procurement card procedures and internal controls.
- Obtained and analyzed department policies and other documents to confirm compliance with county's procurement card policies and procedures.
- Analyzed procurement card data pulled from PeopleSoft and Simpler Financials.
- 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 Riverside County Fire Department's procedure to ensure procurement card usage complies with purchasing policies was not operating as designed. Our review of the three highest dollar value months of transactions, June 2012, April 2013 and July 2013 reported to the Auditor-Controller's Office, disclosed Riverside County Fire Department made 228 purchases totaling \$122,780 (62%) of the \$198,883 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 Riverside County Fire Department was not following procurement procedures. Specifically, the appropriate staff were not reviewing the items prior to the procurement card purchase nor engaging in corrective action with the cardholder. The specific categories of non-compliance follow:

- Communication related equipment; 13 transactions valued at \$4,369.

- Computer/IT related equipment; 14 transactions valued at \$3,436.
- Rental of real property; one transaction valued at \$2,600.
- Maintenance contract and service; four transactions valued at \$2,469.
- Equipment Rentals; one transaction valued at \$990.
- Bid splitting occurred and competitive bid documentation was not found; 23 transactions valued at \$16,210.
- Prior approval of purchase; 172 transactions valued at \$92,706.

Oversight of purchases by the appropriate levels of management would 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 not all Riverside County departments 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, the Riverside County Fire Department had 60 procurement cardholders. We found the department had significantly reduced procurement card transactions in the month selected. Further, of the 16 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

- "Concur. The Department has corrected all issues related to this finding as observed by the Auditors and notated in this report. It was accomplished through internal trainings and the update of the *County of Riverside Procurement Card Procedure Handbook*. We will continue to ensure compliance with all Procurement Card Procedures."
- Actual/estimated Date of Correction Action: March 2015

"The recommendation was corrected prior to the completion of the audit report in March 2015. This was confirmed by the internal auditors in May 2015; as stated in

“The recommendation was corrected prior to the completion of the audit report in March 2015. This was confirmed by the internal auditors in May 2015; as stated in the report. The Fire Department held several training sessions with all Procurement Cardholders between January 2015 to March 2015, to ensure compliance and understanding of all responsibilities.”

- Estimated cost to implement recommendation (if material): \$0

Finding 2: Cardholder Agreements

The Fire Department could not provide completed cardholder agreements for 9 of the 47 (19%) cardholders which had purchases during the months reviewed. Cardholder agreements document that issued cards were properly authorized and are used to verify cardholder signature. The cardholder agreement indicates the following: cardholder and their approving official acknowledges the use of the card is for official Riverside County business only, the disciplinary actions that result for unauthorized charges, which includes a deduction from their paycheck, safekeeping of the card at all times, and the county has the right to cancel at any time. Once the agreements are signed, the documents should be submitted and retained by the Division to document compliance with procurement card policies. Missing or unavailable cardholder agreements impair the Fire Department’s ability to monitor and enforce its policies.

We reviewed the cardholder agreements during our additional testing. We found two of the nine incomplete agreements previously identified had been signed by the cardholders. Additionally, all new cardholders for the Fire Department have completed the cardholder agreements.

Recommendation 2

Ensure all procurement cardholders have completed cardholder agreements on file as required by the *County of Riverside Procurement Card Program Procedure Handbook*.

Management’s Response

- **“Concur.** Every cardholder is required to sign a cardholder agreement prior to receiving their actual card from Central Purchasing. The Department will request duplicate copies of these agreements from Central Purchasing to ensure we have complete files.”
- Actual/estimated Date of Correction Action: January/February 2016
- Estimated cost to implement recommendation (if material): \$0

Finding 3: Approvers

The list of approvers designated by the department to authorize procurement cardholder transactions has not been revised. Specifically, the list of current procurement cardholders and

their assigned approvers obtained during our additional testing in August 2015, shows an approver listed who is no longer with the department. One of the unique controls developed for the Procurement Card Program is the certification of cardholder purchases by an Approver. Though there is no policy requiring Purchasing Services to be notified, this control is negated if the information is not communicated to the county procurement card coordinator. Inaccurate information on who is responsible for the verification of cardholder charges could lead to improper purchases going undetected.

Recommendation 3

Ensure changes in personnel assigned approver responsibilities are reported and all cardholder agreements are revised to reflect the changes.

Management's Response

- **“Concur.** When the Department receives copies of all the Cardholder Agreements from Central Purchasing, we will reconcile every agreement to ensure we have the proper approver assigned. All other changes in the approvers will include a notification to Central Purchasing to request an updated Card holder Agreement.”
- Actual/estimated Date of Correction Action: January/February 2016
“The corrective action completion is dependent on the receipt of all the cardholder agreements and any possible necessary updates.”
- Estimated cost to implement recommendation (if material): \$0