

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

138



FROM: Riverside County Auditor-Controller

SUBMITTAL DATE:
May 20, 2016

SUBJECT: Internal Audit Report 2016-001: Riverside County Regional Park and Open Space District, Countywide Contract Amendments and Competitive Bidding [District: All]; [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2016-001: Riverside County Regional Park and Open Space District, Countywide Contract Amendments and Competitive Bidding

BACKGROUND:

Summary

We have completed a countywide contract amendments and competitive bidding audit, which included the Riverside County Regional Park and Open Space District to provide the Board of Supervisors with an independent assessment of internal controls over contract amendments and competitive bidding process. We conducted the audit during the period October 7, 2015 through December 30, 2015 for operations of July 1, 2013 through August 31, 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*
Samuel Wong

County Executive Office Signature

MINUTES OF THE BOARD OF SUPERVISORS

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

Ayes: Jeffries, Washington, Benoit and Ashley
Nays: None
Absent: Tavaglione
Date: July 12, 2016
xc: Auditor

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

Prev. Agn. Ref.:

District: ALL

Agenda Number:

2-5

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: Internal Audit Report 2016-001: Riverside County Regional Park and Open Space District,
Countywide Contract Amendments and Competitive Bidding, [District: All]; [\$0]

DATE: May 20, 2016

PAGE: Page 2 of 2

BACKGROUND:

Summary (continued)

Based upon our audit, we identified opportunities for improvement of internal controls relating to contract amendments. We determined Riverside County Regional Park and Open Space District has adequate internal controls over competitive bidding. Reasonable assurance recognizes internal controls have inherent limitations, including cost, mistakes, and intentional efforts to bypass internal controls.

We will follow-up to determine if actions were taken to correct the findings noted.

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 2016-001: Riverside County Regional Park and Open Space District, Countywide Contract Amendments and Competitive Bidding.

Internal Audit Report 2016-001

**RIVERSIDE COUNTY REGIONAL PARK AND
OPEN SPACE DISTRICT,
COUNTYWIDE CONTRACT AMENDMENTS
AND COMPETITIVE BIDDING**

Report Date: May 20, 2016



**Office of Paul Angulo, CPA, MA
County of Riverside Auditor-Controller
4080 Lemon Street, 11th Floor
Riverside, CA 92509
(951) 955-3800**

www.auditorcontroller.org



COUNTY OF RIVERSIDE
OFFICE OF THE
AUDITOR-CONTROLLER

County Administrative Center
4080 Lemon Street, 11th Floor
P.O. Box 1326
Riverside, CA 92502-1326
(951) 955-3800
Fax (951) 955-3802

ACC | AUDITOR
CONTROLLER
COUNTY OF RIVERSIDE

Paul Angulo, CPA, MA
AUDITOR-CONTROLLER

Frankie Ezzat, MPA
ASSISTANT AUDITOR-CONTROLLER

May 20, 2016

Scott Bangle, General Manager/Park Director
Riverside County Regional Park and Open Space District
Riverside, CA 92509

Subject: Internal Audit Report 2016-001: Riverside County Regional Park and Open Space District, Countywide Contract Amendments and Competitive Bidding

Dear Mr. Bangle:

We have completed a countywide audit to provide management and the Board of Supervisors with an independent assessment of internal controls over contract amendments and competitive bidding process. This report assesses the Riverside County Regional Park and Open Space District internal controls over the contract amendments and competitive bidding process. We conducted the audit from October 7, 2015 through December 30, 2015 for active contracts during the period July 1, 2013 through August 31, 2015.

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 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 contract amendments. We determined the Riverside County Regional Park and Open Space District internal controls over competitive bidding provide reasonable assurance that its objectives relating to this area will be achieved. Reasonable assurance recognizes internal controls have inherent limitations, including cost, mistakes, and intentional efforts to bypass internal controls.

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

**Internal Audit Report 2016-001: Riverside County Regional Park and Open Space District,
Countywide Contract Amendments and Competitive Bidding**

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

We thank the Riverside County Regional Park and Open Space District'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

Table of Contents

	Page
Executive Summary	4
Results:	
Amendments.....	6

Executive Summary

Overview

Riverside County Regional Park and Open Space District (Park District) provides high-quality recreational opportunities for county residents while preserving important features of the county's natural, cultural, and historical heritage. The Park District operates under three bureaus, which include: Parks and Recreation Bureau, Resources Bureau, and Business Operations Bureau. The Business Operations Bureau (Operations) includes the Contracts Division. The Contracts Division is responsible for all aspects of contract management to include preparing amendments to the contracts and managing the competitive bidding process. The Contracts Division consists of three Park District employees and no Purchasing and Fleet Services Department (Central Purchasing) employees. The Contracts Division typically contracts for services such as, food purchases; pool supplies and services; landscaping and irrigation; security guard services; multi-function devices and maintenance; various equipment purchases; and public works services.

Pursuant to California Government Code Section 31000, the board of supervisors may contract for special services on behalf of the county, county officer, department, district, or court in the county. Riverside County Ordinance 459, indicates, the Board of Supervisors delegates contracting authority to the Purchasing Agent also known as Purchasing and Fleet Services Director. This ordinance authority includes the Purchasing Agents authority to approve contract amendments and the competitive bidding processes.

Purchasing Policy Manual dated, February 1, 2013, requires the Purchasing Agent obtain approval from Board of Supervisors for purchases exceeding \$25,000, made without securing competitive bids and for all purchases exceeding \$1,000. Subsequently, Central Purchasing revised the Purchasing Policy Manual on August 1, 2015 to increase the purchases exceeding amounts to \$50,000 and \$5,000, respectively.

Our sample population consists of all contracts that were active during our audit period of July 1, 2013 to August 31, 2015. Most contracts have a one-year period of performance with the option to extend the contract for four years; as such, some contracts selected could be as old as calendar year 2008 contracts.

The county does not maintain a system that records all contracts used by county departments. Each department utilizes their own computer systems for managing their contracts. As such, we utilized the County of Riverside's financial system known as PeopleSoft (PeopleSoft) database to select our sample of contracts for review of amendments and the competitive bidding process. The PeopleSoft database consists of contract records that were updated annually during our audit period. This update creates a new PeopleSoft contract that corresponds with the contract. Therefore, a one-year contract with an option to renew four times could have up to five PeopleSoft contracts that correspond to the contract. Fifteen PeopleSoft contracts used by the Park District were randomly selected to review. Eight were countywide

**Internal Audit Report 2016-001: Riverside County Regional Park and Open Space District,
 Countywide Contract Amendments and Competitive Bidding**

contracts and seven were Park District contracts. We determined that the eight countywide contracts would be reviewed during our review of Central Purchasing contract amendments and competitive bidding process since management of the countywide contracts is Central Purchasing's responsibility.

When a service or item is required, a bid number is established to begin the bidding process. A contract could be awarded to one or several vendors under one bid number. As such, several contracts could be established with one bid number. The PeopleSoft Contract corresponds to a specific contract within a bid number.

Following is a breakdown of contracts selected for the amendments and competitive bidding review:

<u>Bid No.</u>	<u>PeopleSoft Contract No.</u>	<u>Date</u>	<u>Amount</u>	<u>Charged</u>	<u>Contract Amount (Over)/Under</u>
PKARC-081	PKARC-94092-002-12/13	12/16/09	\$553,167	\$456,919	\$ 96,248
PKARC-108	PKARC-99046-01-09/14	01/15/13	488,400	272,863	215,537
PKARC-125	PKARC-98836-012-10/14	11/01/12	87,276	65,787	21,429
PKARC-125	PKARC-98836-013-10/14	11/01/12	72,204	62,577	6,417
PKARC-130	PKARC-94542-001-06/14	08/05/13	221,760	161,700	60,060
PKARC-135	PKARC-98836-014-10/15	01/15/13	393,484	267,290	126,194
PKARC-140	PKARC-90656-001-06/15	09/24/13	307,858	285,107	22,751
PKARC-161	PKARC-98888-006-06/15	06/25/14	76,310	74,690	1,620

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of the department's internal controls over contract amendments and the competitive bidding process.

Audit Conclusion

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to contract amendments. We determined the Riverside County Regional Park and Open Space District internal controls over competitive bidding provide reasonable assurance that its objectives relating to this area will be achieved. Reasonable assurance recognizes internal controls have inherent limitations, including cost, mistakes, and intentional efforts to bypass internal controls

Amendments

Background

Amendments are formal changes to the terms and conditions, scope of work, specifications, or provisions of a contract. Reasons for issuing an amendment include, but are not limited to: revising, deleting, or adding terms; extending the period of performance; and increasing or decreasing cost of the contract. The Park District used formal amendments and PeopleSoft Contracts as amendments to their contracts.

During our review of contract amendments we identified two out of seven contracts with one amendment. The other five contracts period of performance were extended but no amendment was processed. Although, there is no legal requirement for amendments, it is best practices to prepare an amendment, signed by both parties, when an option to extend the period of performance is accepted. This ensures the county and vendor fully understand when a contract ends and payments stop and strengthens legal binding to the contract. However, contracts with terms requiring a written amendment to extend the period of performance should have a formal written amendment signed by both parties.

We identified renewals to the period of performance where it can be beneficial to have prepared an amendment to document the agreement to extend the period of performance between both parties. Following is a list of contracts with a breakdown of possible renewal amendments:

<u>Bid No.</u>	<u>PeopleSoft Contract No.</u>	<u>Renewals</u>	<u>Renewals Amount*</u>	<u>Actual Amendments</u>	<u>Variance**</u>
PKARC-081	PKARC-94092-002-12/13	4	\$384,993	1	3
PKARC-108	PKARC-99046-01-09/14	2	195,360	-	2
PKARC-125	PKARC-98836-012-10/14	2	58,185	-	2
PKARC-125	PKARC-98836-013-10/14	3	28,879	-	3
PKARC-130	PKARC-94542-001-06/14	3	166,320	1	2
PKARC-135	PKARC-98836-014-10/15	3	295,113	-	3
PKARC-140	PKARC-90656-001-06/15	2***	-	-	2
PKARC-161	PKARC-98888-006-06/15	-	-	-	-

* Contracts run for one-year period of performance with the option to renew for four one-year periods. Renewals amount is the amount allowed for the additional period of performance beyond the original one-year period of performance of the contract.

** Variance is the difference between total possible renewals that could have been prepared and actual amendments signed by both parties.

*** Contract period was extended twice without an option in the contract to renew the period of performance. No additional cost was required.

**Internal Audit Report 2016-001: Riverside County Regional Park and Open Space District,
Countywide Contract Amendments and Competitive Bidding**

Objective

Our audit objective is to provide Management and the Board of Supervisors with an independent assessment of internal controls over contract amendments processing.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed policies, applicable laws, codes, regulations, and ordinances.
- Conducted interviews and performed walk-throughs with office personnel.
- Utilized PeopleSoft queries to identify cost charged to each contract.
- Selected samples of contracts to perform detailed testing of amendments.

Finding 1: Amendments for Renewals

Park District did not properly prepare contract amendments to extend the period of performance. Our review of seven contracts disclosed three (43%) contracts contained terms requiring written amendments to extend the period of performance. The period of performance was extended; however, no written amendments were prepared. The contracts specifically stated, "option to renew for a period of four additional years, renewable in one year increments by written amendment, unless terminated earlier." This resulted from a belief that a written amendment was not required because the contract dollar amount was below the threshold to report contracts to the Board of Supervisors. Not preparing required amendments may result in disputes when a contract ends and payments stop, which may require legal proceedings to resolve.

Recommendation 1

Prepare a formal amendment signed by both parties for all period of performance extensions when contract terms specifically require a written amendment to extend the period of performance.

Management's Response

"Concur. The District did obtain approval from County Purchasing to extend the period of performance, notified the contractor, and prepared and placed written contract amendments into the file for each extension. However, several of the written amendments were never signed. Going forward, the District will ensure all written amendments are fully executed with appropriate signatures, and that copies of the signed amendments are sent to the contractors."

Actual/estimated Date of Corrective Action: **May 11, 2016**

**Internal Audit Report 2016-001: Riverside County Regional Park and Open Space District,
Countywide Contract Amendments and Competitive Bidding**

Finding 2: Period of Performance

Park District extended the period of performance on a contract that did not contain the option for renewal. Our review of seven contracts identify one (14%) contract extended the period of performance without a provision in the contract allowing for extensions and no formal amendment was prepared to include the option to extend. It was extended twice to allow for project payments to be applied to the balance of the original contract. As such, a written amendment to the contract was thought not necessary. Extending the period of performance on a contract without an option to extend or preparing a formal amendment signed by both parties, may result in legal disputes.

Recommendation 2

Prepare a formal amendment signed by both parties to include the option to extend a contract when an extension is required and the contract does not have the option to extend. Also, prepare a formal amendment signed by both parties for all period of performance extensions.

Management's Response

“Concur. The District issued a stop work notice to the consultant on November 4, 2015 until a formal contract extension could be approved by the Board. The period of performance was extended for one year with three options to extend for an additional six months. The Board approved this amendment on January 26, 2016.”

Actual/estimated Date of Corrective Action: **January 26, 2016**

Finding 3: Increases in Annual Compensation

Park District did not properly prepare a contract amendment to increase the annual compensation of a contract. Our review of seven contracts disclosed one (14%) contract contained a term limiting cost to \$96,248 per year and the original Form 11 authorized the Purchasing Agent to approve amendments not exceeding the annual Consumer Price Index (CPI) increase. However, expenditures totaling \$120,310, a 25 percent increase, for year four, Calendar Year 2013 was charged to the contract. This increase resulted from a transfer of an unexpended balance from PeopleSoft Contract number PKARC-94092-002-12/11, which is the second year of this contract. The Los Angeles-Riverside-Orange County CPI, All Items, 1982-84=100 for All Urban Consumers annual average was two percent when the increase occurred. No amendment was prepared for the increase and no approval was obtained from the Board of Supervisors. Increasing the maximum dollar amount of a contract without a formal amendment or Board of Supervisors approval may result in legal disputes requiring legal proceedings to resolve.

**Internal Audit Report 2016-001: Riverside County Regional Park and Open Space District,
Countywide Contract Amendments and Competitive Bidding**

Recommendation 3

Prepare a formal amendment signed by both parties for all increases in the maximum compensation and obtain Board of Supervisors approval on all cost increases greater than the annual CPI increase.

Management's Response

"Do Not Concur. The additional expenditures incurred during 2013 was for work that had been completed during a previous contract year (December 2011 through December 2012) but not previously invoiced by the contractor until March 2013. The Peoplesoft contract had to be increased during 2013 to allow for payment of these late invoices. Therefore, the increase in actual expenditures during contract year four was neither related to CPI nor increased costs for that period of performance. The late invoices were paid by the District on 6/1/2013 for work performed in December 2010 and January 2011, bringing the total expenditures for work performed during each contract year to the allowed total of \$96,248."

Actual/estimated Date of Corrective Action: **June 1, 2013**

Auditor's Comments

The department prepared a PeopleSoft contract to increase allowable expenditures to \$120,310 for year four of the contract and cost remained within the "not to exceed amounts" if taken in the aggregate. However, neither the contract nor the Form 11 stipulated an allowable aggregate amount for the full term of the agreement. In fact, the contract stipulated that each renewal cost must not exceed \$96,248 annually and the Form 11 stipulated any renewals with cost increases above the CPI must be approved by the Board of Supervisors. Therefore, all cost, including previous year cost, charged in year four should "not have exceeded" \$96,248 unless an amendment to increase the not to exceed amount of the contract was approved by the Board of Supervisors.