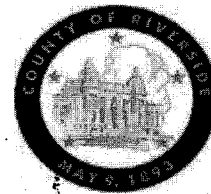


**SUBMITTAL TO THE BOARD OF SUPERVISORS  
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**



ITEM  
2.3  
(ID # 3264)

**MEETING DATE:**  
Tuesday, January 24, 2017

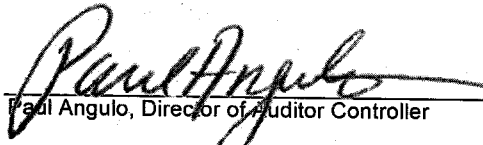
**FROM :** AUDITOR CONTROLLER:

**SUBJECT:** Internal Audit Report 2016-004: Riverside County EXECUTIVE OFFICE,  
Countywide Purchase Order Process [District: All]; [\$0]

**RECOMMENDED MOTION:** That the Board of Supervisors:

1. Receive and file Internal Audit Report 2016-004; Riverside County Executive Office,  
Countywide Purchase Order Process

**ACTION:** Consent

  
Paul Angulo, Director of Auditor Controller 12/16/2016

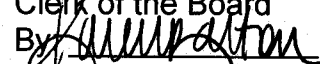
| FINANCIAL DATA       | Current Fiscal Year: | Next Fiscal Year: | Total Cost:           | Ongoing Cost |
|----------------------|----------------------|-------------------|-----------------------|--------------|
| COST                 | \$ 0                 | \$ 0              | \$ 0                  | \$ 0         |
| NET COUNTY COST      | \$ 0                 | \$ 0              | \$ 0                  | \$ 0         |
| SOURCE OF FUNDS: N/A |                      |                   | Budget Adjustment: No |              |
|                      |                      |                   | For Fiscal Year: N/A  |              |

**C.E.O. RECOMMENDATION:** [CEO use]

**MINUTES OF THE BOARD OF SUPERVISORS**

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

Ayes: Jeffries, Washington and Ashley  
Nays: None  
Absent: Tavaglione  
Date: January 24, 2017  
xc: Auditor

Kecia Harper-Ihem  
Clerk of the Board  
By   
Deputy

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

**BACKGROUND:**

**Summary**

We have completed an audit of the Riverside County Executive Office to provide management and the Board of Supervisors with an independent assessment of internal controls over the purchase order process. We conducted the audit from May 18, 2016, through June 23, 2016, for operations from July 1, 2013, through April 30, 2016.

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to timely processing and type coding of purchase orders. We determined that the 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 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 Residents and Businesses**

Provide an assessment of internal controls over the audited areas.

**SUPPLEMENTAL:**

**Additional Fiscal Information**

N/A

**ATTACHMENT A.**

Riverside County Auditor-Controller Internal Audit Report 2016-004: Riverside County Executive Office, Countywide Purchase Order Process

**Internal Audit Report 2016-004**

**Riverside County Executive Office,  
Countywide Purchase Order Process**

**Report Date: November 21, 2016**



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

**[www.auditorcontroller.org](http://www.auditorcontroller.org)**



**COUNTY OF RIVERSIDE**  
OFFICE OF THE  
AUDITOR-CONTROLLER

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4080 Lemon Street, 11<sup>th</sup> Floor  
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**ACC** | **AUDITOR**  
**CONTROLLER**  
COUNTY OF RIVERSIDE

Paul Angulo, CPA, MA  
Riverside County Auditor-Controller

Frankie Ezzat, MPA  
Assistant Auditor-Controller

November 21, 2016

Jay Orr  
County Executive Officer  
Riverside County Executive Office  
4080 Lemon Street, 4<sup>th</sup> Floor  
Riverside, CA 92501

**Subject: Internal Audit Report 2016-004: Riverside County Executive Office, Countywide Purchase Order Process**

Dear Mr. Orr:

We have completed an audit of the Riverside County Executive Office to provide management and the Board of Supervisors with an independent assessment of internal controls over the purchase order process. We conducted the audit from May 18, 2016, through June 23, 2016, for operations from July 1, 2013, through April 30, 2016.

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 of internal controls relating to timely processing and type coding of purchase orders. We determined that the 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 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 2016-004: Riverside County Executive Office, Countywide Purchase Order Process

We thank the Riverside County Executive Office 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 Executive Office (Executive Office) is the administrative arm of the County of Riverside. "The Executive Office is responsible to the Board of Supervisors for the administration of county departments, agencies, and special districts under the jurisdiction of the Board of Supervisors. The Executive Office ensures Board policies and priorities are followed, departmental spending is monitored, and budget recommendations are submitted to the Board. The Executive Office develops budget guidelines for the subsequent fiscal year based on economic indicators, revenue forecasts, and Board of Supervisors priorities. The Executive Office is involved in the development of internal service rates based on anticipated operating budgets for the subsequent fiscal year in accordance with Board policy." Additional responsibilities include analyzing and advocating legislation, coordinating capital projects, and debt management." *County of Riverside, Adopted Budget, Fiscal Year 2015-2016, County of Riverside website, accessed November 18, 2016, [www.countyofriverside.us/Portals/0/Government/Budget%20Information/2015-2016%20Recommended%20Budget/Riverside County FY15-16 Adopted Budget-FINAL-Electronic%20\(2\).pdf](http://www.countyofriverside.us/Portals/0/Government/Budget%20Information/2015-2016%20Recommended%20Budget/Riverside%20County%20FY15-16%20Adopted%20Budget-FINAL-Electronic%20(2).pdf)*

The Executive Office Fiscal Unit processes purchase orders. The Executive Office prepares purchase orders for professional services such as financial investment oversight, dispute resolution services, books purchased for county libraries, sales tax audits, lobbying firms, legal services, trolley service for jury duty, janitorial services for courts, and grants for recidivism.

### Audit Objective

Our objective is to provide management and the Board of Supervisors with an independent assessment about the adequacy and effectiveness of internal controls over the purchase order process.

### Audit Conclusion

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to timely processing and type coding of purchase orders. We determined that the 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 cost, mistakes, and intentional efforts to bypass internal controls.

## Purchase Order Process

### Background

The purchase order process 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 goods and services needed in operation by County of Riverside departments and agencies. Purchase orders perform a key role in the acquisition process. A well-detailed purchase order clearly defines the item or service being purchased, vendor information, specific terms of the purchase, and specifications of cost, quantities and delivery terms. The County of Riverside uses a variety of purchase orders to procure supplies and services. Following is a list of purchase orders used by the County of Riverside:

| <u>Types</u> | <u>Description</u>  |
|--------------|---|
| BL-G         | Blanket non-rollover purchase order for goods.                        |
| BL-S         | Blanket non-rollover purchase order for services.                     |
| RBLG         | Roll over blanket purchase order for goods.                           |
| RBLS         | Roll over blanket purchase order for services.                        |
| REGG         | Regular purchase order for goods.                                     |
| REGS         | Regular purchase order for services.                                  |
| LVPA         | Low value purchase order for goods.                                   |
| LV-S         | Low value purchase order for services.                                |
| LEAS         | Lease purchase payment purchase order.                                |
| FIN          | Purchase order to vendor when goods are financed through third party. |
| ELVP         | Extended low value purchase order for goods.                          |
| ELVS         | Extended low value purchase order for services.                       |
| CONV         | Conversion purchase order from PeopleSoft 7.5 to 8.8.                 |
| PRNT         | Printing purchase order for inventory business unit only.             |
| SPLY         | Supply purchase order for inventory business unit only.               |

The Board of Supervisors delegated the authority to purchase and contract to the Purchasing Agent, via Riverside County Ordinance No. 459, as amended through 459.5, *Establishing Purchasing Policies and Procedures*. The Director of Purchasing is the Purchasing Agent for the County of Riverside. 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 carryout purchasing duties.

Riverside County Ordinance No. 459, Section (3), *Exceptions*, indicates no purchases shall be made by any county officer or employee without a purchase order or other written authority first obtained from the Purchasing Agent.



Internal Audit Report 2016-004: Riverside County Executive Office, Countywide Purchase Order Process

Purchasing Policy Manual, dated February 1, 2013, requires a purchase order for all purchases over \$400 and Purchasing Policy Manual dated August 1, 2015, requires a purchase order for all purchases unless the item or service was approved by the Board of Supervisors or exempted by Ordinance 459. The Board of Supervisors approves purchases by Form 11s. Although, the Form 11 can be used to approve purchases over \$400, it is best practices to use a purchase order because a Form 11 in most cases has general terms of the requested purchase while the purchase order has more detailed information that can assist the individual processing payment for the service or product. When evaluating internal controls for the purchasing process, the purchase order provides more safeguards than the Form 11 in ensuring the requester receives the correct item, in the correct quantity, and at the correct cost. We identified 97 of 110 (88%) purchase orders reviewed that were processed after invoices were received. The purchases were approved by the Board of Supervisors; as such, no finding was identified. However, it would have been beneficial to all individuals involved in the purchasing process to have the purchase orders processed prior to the purchase as an internal control mechanism that could ensure the correct item was received in the correct amount at the correct cost.

### **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, ordinances, applicable policies and procedures.
- Conducted interviews and performed walk-throughs with Executive Office personnel.
- Reviewed financial information using the County of Riverside financial system (PeopleSoft) for the period of July 1, 2013, through April 30, 2016.
- Selected a sample of 110 purchase orders valued at \$2,334,608 for review.
- Reviewed purchase orders and verified they had been approved by the appropriate personnel.
- Verified there was no bid splitting of purchases.
- Verified expenditures were incurred after the purchase order was approved.

### **Finding 1: Timely Issuance of Purchase Orders**

Purchase orders were not processed in a timely manner. Our review of 110 purchase orders disclosed that seven (6%) totaling \$28,035 were processed after invoices were received from vendors. Purchase orders were for the county portion of janitorial services performed for the Riverside County Superior Court (Courts). This occurred because procedures were not in place to establish the purchase orders prior to receipt of the invoices. The Executive Office maintains a copy of the Court's janitorial agreement that can be used to prepare purchase orders prior to receiving the service. Per Riverside County Purchasing Manual, goods or services over \$400 require a purchase order. This noncompliance with purchasing requirements could result in paying for unauthorized or inappropriate products and services.

#### **Recommendation 1**

Revise the purchase order process to include using the Courts janitorial agreement to process purchase orders prior to receiving the service.

#### **Management's Response**

**"Partially Concur.** The Courts perform the RFP and selection of the vendor for janitorial services in the Courts. Since the County has facilities within the Court, the same vendor performs the services and invoices the County. Since this was not of a countywide contract negotiated by County Purchasing, the invoices were paid individually.

Executive Office will work with the Courts to predetermine the costs for the year and issue the Purchase Order accordingly."

**Estimated Date of Corrective Action:** November 15, 2016.

### **Finding 2: Coding of Purchase Order**

Purchase order type codes were inaccurately recorded. Our review of 110 purchase orders disclosed 83 (75%) contained inaccurate purchase order type codes. Procedures are currently not in place to verify the purchase order type code prior to approval. The Riverside County Purchasing Manual requires a different purchase order types for different dollar thresholds. This noncompliance with purchasing requirements could result in purchase requests improperly approved which, may result in purchasing unauthorized or inappropriate products and services.

#### **Recommendation 2**

Revise the purchase order process to include verification of purchase order type codes prior to approval of a purchase order.

Internal Audit Report 2016-004: Riverside County Executive Office, Countywide Purchase Order Process

**Management's Response**

"Concur. Executive Office agrees with the recommendation and steps have been taken to retrain the staff and make sure the right codes are being entered."

**Estimated Date of Corrective Action:** February 17, 2017.