

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



ITEM
2.9
(ID # 3568)

MEETING DATE:

Tuesday, March 7, 2017

FROM : AUDITOR CONTROLLER:

SUBJECT: AUDITOR-CONTROLLER: Internal Audit Report 2016-004 Riverside County
Probation Department, 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 Probation Department, Countywide Purchase Order Process.

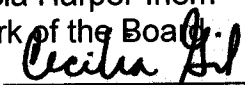
ACTION: Consent


Paul Angulo, Director of Auditor Controller 2/22/2017

MINUTES OF THE BOARD OF SUPERVISORS

On motion of Supervisor Jeffries, 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 and Ashley
Nays: None
Absent: None
Date: March 7, 2017
xc: Auditor

Kecia Harper-Ihem
Clerk of the Board
By: 
Deputy

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

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost
COST	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
NET COUNTY COST	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
SOURCE OF FUNDS: N/A			Budget Adjustment:	No
			For Fiscal Year:	2014-2016

C.E.O. RECOMMENDATION: APPROVE

BACKGROUND:

Summary

We have completed an audit of the Riverside County Probation Department 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 June 1, 2016, through July 26, 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 the purchase order process. We determined that the internal controls over the purchase order process did not provide reasonable assurance that its objectives related to this area 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 verify that management implemented the corrective actions.

Impact on Residents and Businesses

Provide an assessment of internal controls over the audited areas.

SUPPLEMENTAL:

Additional Fiscal Information

Not applicable

ATTACHMENT A. Internal Audit Report 2016-004: Riverside County Probation Department, Countywide Purchase Order Process.

Internal Audit Report 2016-004

**Riverside County Probation Department,
Countywide Purchase Order Process**

Report Date: January 6, 2017



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

Paul Angulo, CPA, MA
Riverside County Auditor-Controller

Frankie Ezzat, MPA
Assistant Auditor-Controller

January 6, 2017

Mark Hake
Chief Probation Officer
Riverside County Probation Department
3960 Orange Street, Suite 600
Riverside, CA 92501

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

Dear Mr. Hake:

We have completed an audit of the Riverside County Probation Department 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 June 1, 2016, through July 26, 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.

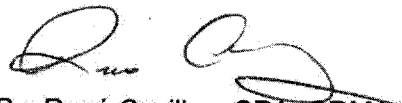
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In accordance with paragraph III.C of the Board of Supervisors Resolution 83-338, management responded to the reported conditions and recommendations contained in our report. Management's response is included in the report. We will follow-up to verify that management implemented the corrective actions.

Internal Audit Report 2016-004: Riverside County Probation Department, Countywide Purchase Order Process

We thank the Riverside County Probation Department 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 Probation Department (Department) supervises criminal offenders under court-order for probation. These criminal offenders include adult and juvenile criminal offenders who were released from confinement but are still under court supervision or were given probation instead of confinement in county institutions.

"In 2011, the Department assumed responsibility for supervising specified lower level parolees from the California Department of Corrections and Rehabilitation as a result of the Public Safety Realignment Act, Assembly Bill 109 (AB 109). AB 109 was signed into law on April 4, 2011, and transferred responsibility for supervising lower level parolees to counties in an effort to reduce the state prison population." *Riverside County Probation Department, Executive Team, About Us, County of Riverside website, accessed September 26, 2016, www.probation.co.riverside.ca.us/about/execteam.html*

The Community Corrections Partnership Executive Committee is responsible for directing the realignment of lower level parolees for the County of Riverside. The Community Corrections Partnership Executive Committee members include the Behavioral Health Department, District Attorney's Office, District Courts, Public Defender's Office, Police Department, Sheriff's Department, and the Chief Probation Officer serves as chairman.

The Department provides services through three divisions: Administrative and Business Services, Field Services, and Institutions. The Fiscal Services unit under Administration and Business Services division is responsible for all aspects of the purchase order process. The Fiscal Services unit has one buyers and a Procurement Contract Specialist contracted from the Riverside County Purchasing and Fleet Services Department, to manage the procurement process for the Department. The Department has four low value purchase order processors located throughout the County of Riverside to prepare purchase orders and manage the procurement process for field offices. The Department typically prepares purchase orders for office supplies, copiers, gift cards, field trips for minors, probationer clothing, bus passes, furniture, food, kitchen equipment, uniforms, professional services, and repairs.

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 the purchase order process. We determined that the internal controls over the purchase order process did not provide reasonable assurance that its objectives related to this area 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 (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 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 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 Probation Department, 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.

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 Department personnel.
- Reviewed financial information from County of Riverside Financial System for the period of July 1, 2013, through April 30, 2016.
- Selected a judgmental sample of 189 purchase orders valued at \$3,015,132 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 189 purchase orders disclosed that 16 (8%), totaling \$439,950 were processed after invoices were received from vendors. This occurred because either original purchase orders were closed out at fiscal year-end and new purchase orders were not processed until invoices arrived or there were delays in processing funding increases for purchase orders against countywide contracts with the Purchasing and Fleet Services Department. Per Riverside County Purchasing Manual, no goods or services over \$400 should be authorized for purchase until a valid purchase order has been issued. This noncompliance with purchasing requirements could result in purchasing unauthorized or inappropriate supplies and services.

Recommendation 1

Revise the purchase order process to include issuing a new purchase order immediately after a purchase order is closed at year-end if the service or commodity is still required and provide immediate notification of purchase order funding increases on countywide contracts to Riverside County Purchasing and Fleet Services Department.

Management's Response

"Concur. The Department maintained compliance with 92% of the purchase orders processed, while working within the confines of the purchasing and procurement systems in place for the time period under review.

The Department has updated its procedures to include processing rollover purchase orders at the end of each fiscal year to capture the anticipated year-end invoices that may not be processed until the system re-opens for payment processing in the new fiscal year. This process ensures the expenditures are accrued back to the prior fiscal year within the first two months of the new fiscal year. Please note: the year-end rollover purchase orders are created to replace any existing purchase orders that may contain partial receipts and payments, as these purchase orders do not meet the criteria of the "purchase order rollover requirements."

Estimated Date of Corrective Action: July 1, 2016.

Finding 2: Coding of Purchase Order

Purchase order type codes were inaccurately recorded. Our review of 189 purchase orders disclosed 39 (21%), totaling \$344,765 contained inaccurate purchase order type codes. The Department does not have procedures in place to verify the purchase order type code prior to approval. The Riverside County Purchasing Manual specifically states that different purchase order types require different approvals. 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.

Management's Response

"Partially Concur. The Department partially concurs with the finding. The Department was in compliance with the existing Purchasing Policy Manual posted on the County Intranet site and the recording of the types of purchase orders for the time period under review. In addition, the Department has an appropriate level of duty segregation and authorizations in place to ensure purchase requests are properly reviewed and approved by those responsible, with the managerial

Internal Audit Report 2016-004: Riverside County Probation Department, Countywide Purchase Order Process

oversight, for the budget; and in compliance with Riverside County Purchasing and Fleet Services Department requirements.

Since the posting of the latest Purchasing Policy Manual, the Department has modified its in-house procedures to ensure purchase order code validation against the Purchasing Policy Manual and drop down menu in PeopleSoft. By September 2016, the Department procedures for processing have been adjusted to include code type verification."

Estimated Date of Corrective Action: September 30, 2016.