

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



ITEM
2.10
(ID # 3658)

MEETING DATE:

Tuesday, March 7, 2017

FROM : AUDITOR CONTROLLER:

SUBJECT: AUDITOR-CONTROLLER: Internal Audit Report 2016 - 002 Riverside
Transportation and Land Management Agency, Countywide vendor Discounts
[District: All]; [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2016-002: Riverside County Transportation and Land Management Agency, Countywide Vendor Discounts.


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:	2013-2015

C.E.O. RECOMMENDATION: APPROVE

BACKGROUND:

Summary

We have completed a countywide audit to provide management and the Board of Supervisors with an independent assessment of internal controls over vendor discounts. This report assesses the Riverside County Transportation and Land Management Agency internal controls over the accounts payable process as it relates specifically to vendor discounts. We conducted the audit from February 26, 2016, through June 9, 2016 for vouchers paid during the period of July 1, 2013, through December 31, 2015.

Based upon the results of our audit, we identified opportunities for improvement of internal controls over the accounts payable process as it relates to vendor discounts. The Agency's internal controls over vendor discount does not 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.

Impact on Residents and Businesses

Provide an assessment of internal controls over the audited areas.

SUPPLEMENTAL:

Additional Fiscal Information

Not applicable

ATTACHMENT A. Riverside County Auditor-Controller - Internal Audit Report 2016-002: Riverside County Transportation and Land Management Agency, Countywide Vendor Discounts

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



Stephanie P. Rossi 2/28/2017

Internal Audit Report 2016-002

**Riverside County Transportation and Land
Management Agency, Countywide Vendor
Discounts**

Report Date: December 30, 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
RIVERSIDE COUNTY AUDITOR-CONTROLLER

Frankie Ezzat, MPA
ASSISTANT AUDITOR-CONTROLLER

December 30, 2016

Juan C. Perez
Director
Riverside County Transportation and Land Management Agency
4080 Lemon Street, 14th Floor
Riverside, CA 92501

Subject: Internal Audit Report 2016-002: Riverside County Transportation and Land Management Agency, Countywide Vendor Discounts

Dear Mr. Perez:

We have completed a countywide audit to provide management and the Board of Supervisors with an independent assessment of internal controls over vendor discounts. This report assesses the Riverside County Transportation and Land Management Agency internal controls over the accounts payable process as it relates to vendor discounts. We conducted the audit from February 26, 2016, through June 9, 2016, for vouchers paid during the period of July 1, 2013, through December 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 over the accounts payable process as it relates to vendor discounts. The Agency's internal control over vendor discount does not 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 each reported condition and recommendation contained in our

**Internal Audit Report 2016-002: Riverside County Transportation and Land Management Agency,
Countywide Vendor Discounts**

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 Transportation and Land Management Agency 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 Transportation and Land Management Agency (Agency) is the umbrella agency for six County of Riverside departments. They are the Planning Department, Building and Safety Department, Transportation Department, Code Enforcement Department, Environmental Programs Department, and the Administrative Services Department." County of Riverside Transportation & Land Management Agency, Home, County of Riverside Transportation & Land Management Agency, accessed December 30, 2016, <http://rctlma.org>.

The Administrative Services Department provides services in support of Agency departments such as executive management, purchasing, facilities management, human resources, fee administration, accounting, and fiscal business services. In total, the Agency employs more than 600 staff.

For the period of July 1, 2013 through December 31, 2015, the Agency paid 1,538 vouchers, valued at \$899,713, to vendors who could potentially offer a discount for prompt payment. Our analysis of queries obtained from the County of Riverside financial system (PeopleSoft) indicated that the agency took the discount for prompt payment on 993 invoices valued at \$501,366. Of the remaining 545 vouchers, we selected a statistical sample of 233 payment vouchers. Testing of those payment vouchers revealed that 164 offered a discount for prompt payment, but only three were taken.

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 the accounts payable process as it relates specifically to vendor discounts.

Audit Conclusion

Based upon the results of our audit, we identified opportunities for improvement of internal controls over the accounts payable process as it relates specifically to vendor discounts. The Agency's internal control over vendor discount does not 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.

Vendor Discounts

Background

Prompt payment discounts are incentives offered by vendors to encourage faster payments. Discounts for early payment may be incorporated into the base of the contract or offered on individual invoices. The discount is available if payment is made within the specified prompt payment period.

The amount of the prompt payment discount is typically one or two percent if payment is made within 10 days. However, the amount of the discount and the time in which you have to take advantage of the prompt payment discount can vary from business to business. To a large extent, a vendor's prompt payment discount is based on what is common for the vendor's line of business. Some vendors offer generous trade discounts, while others offer no trade discounts at all.

Full payment is normally due within 30 days if the department does not take advantage of the prompt payment discount. The vendor's prompt payment discount may be shown as the credit terms on the invoice or purchase order. Prompt payment discounts are generally listed in the following format: "1/10", "2/15", or "4/20" all indicating the amount of the discount offered and the number of days the department has to take advantage of the discount. In these examples a one, two or four percent discount is being offered if the payment is made within 10, 15, or 20 days respectively.

The Riverside County Purchasing & Fleet Services Handbook states County of Riverside default payment terms as follows:

"For calculating due dates for payment terms, the County will use either the date an acceptable invoice is received by the County or the date the goods/services are received and accepted, whichever is later. Unless negotiated differently, the County default payment terms are Net 30."

The Agency should take advantage of prompt payment discounts as provided by respective vendors.

Objective

Our audit objective is to provide Management and the Board of Supervisors with an independent assessment of internal controls over the accounts payable process as it relates specifically to vendor discounts.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed applicable policies and procedures.
- Conducted interviews and performed walk-throughs with fiscal staff.
- Utilized the County of Riverside Financial System (PeopleSoft) queries to identify vendors who have offered a discount for prompt payment.
- Selected a statistical sample of 233 vouchers valued at \$110,131 for review.
- Reviewed the vouchers and verified that if a discount for prompt payment was offered the Agency took advantage of that discount.

Finding 1: Missed Vendor Discounts

The Agency is not consistently taking advantage of prompt payment discounts offered by vendors. Our review of 233 vouchers disclosed that 161 (69%) of those vouchers offered a discount for prompt payment and the Agency did not take advantage of the discount. The Agency did not have a process to ensure vendor invoices offering a discount for prompt payment were processed in a timely manner. Based on our statistical sample, we can project with a 95% confidence level, that as many as 401 of the 545 vouchers offered a discount for prompt payment and the discount was not taken. Leading business practices encourage agencies to take discounts for prompt payment as often as possible to maximize the financial benefit.

Recommendation 1:

The Agency should review its policies and procedures and make changes as necessary to ensure vendor discounts for prompt payment are taken.

Management's Response:

Concur: TLMA processed 47,199 vouchers that contained 95,137 voucher lines, for everything from small parts to major Transportation construction contracts, during the 2 ½ years of the audit period. Prompt payment discounts were missed on 153 vouchers out of the 233 reviewed for a total discount value of \$1,264.08. Eight other vouchers were found to not be eligible for a discount based on the vendor contract.

Forty five invoices that missed the 2% discounts had 10 or 15 day pay terms. Ninety four of the invoices offered a discount if paid by 10th of the following month and eight invoices offered discount if paid by the 15th of the following month, which may also result in a short 15 day or less window to pay depending on when they are mailed.

**Internal Audit Report 2016-002: Riverside County Transportation and Land Management Agency,
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Terms of discount are based on the date of invoice. Ten to fifteen days is not sufficient time to process an invoice and utilize the discount, based on the checks and balances that we have in the current system requiring multiple parties to review and approve invoices and produce payment. Upon receipt of an invoice, it is sent out to the field offices, the garage or other locations where the inventories are maintained. It is then reviewed, verified, approved and delivered to Purchasing or TLMA Accounts Payable for processing. Once the invoice is vouchered and approved, it is then sent to the Auditor's office for their approval and warrant to be mailed out. In order to fully utilize the prompt discounts, we will need to work with the ACO and Purchasing to devise a more streamlined review and approval procedure.

Vendor profiles are created and discounted payment terms also need to be entered in People Soft. In the past two years the ACO has been updating, deleting and cleaning up the vendor codes. In order to have them processed appropriately. TLMA has been working and coordinating with the ACO to ensure People Soft reflects correct information."

Actual/estimated Date of Corrective Action:

"Discounts are mostly offered on Transportation department's numerous parts and material invoices. Professional Service and rental invoices are not offered discounts. Transportation is a "Project Costing" based environment with hundreds of funding sources; all invoices have to be appropriately coded at both a cost accounting and general ledger level, in order to receive reimbursement of State, Federal, or other grant funds. Under our current internal controls protocols, it is very challenging to accomplish all this in 10 to 15 days. However, TLMA will continue to make every effort to expedite the payment processing on discount invoices, and explore more streamlined invoice processing with the ACO and Purchasing."

Audits Response:

The Agency is responsible for exercising due diligence in the review of their invoices. They should strive to be aware of those vendors whom they do business with that offer a discount for prompt payment. To effectively optimize opportunities and determine the best course of action in regards to vendor discounts, the Agency must take a more strategic approach to accounts payable to cut down on processing time. Based on the sample of invoices that we reviewed, it takes the Agency an average of 27 days to approve a voucher for payment from the date that it's received. The accounts payable team, along with management must collaborate with the Purchasing Department and the Auditor-Controller's Office to emphasize the importance of taking advantage of vendor discounts for prompt payment and to seize potential savings for the County as often as possible.