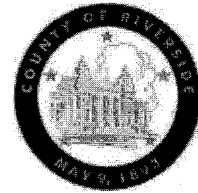


SUBMITTAL TO THE BOARD OF SUPERVISORS  
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA



ITEM  
2.13  
(ID # 4133)

MEETING DATE:  
Tuesday, May 2, 2017

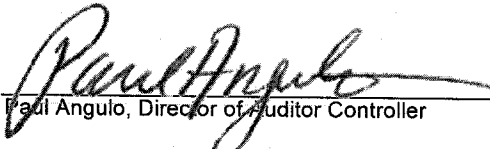
FROM : AUDITOR CONTROLLER:

SUBJECT: AUDITOR-CONTROLLER: Internal Audit Report 2016-002: Riverside County Sheriff  
Department, Countywide Vendor Discounts, District All. [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2016-002: Riverside County Sheriff Department,  
Countywide Vendor Discounts

ACTION: Consent

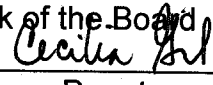
  
Paul Angulo, Director of Auditor Controller 4/18/2017

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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 and Ashley  
Nays: None  
Absent: None  
Date: May 2, 2017  
xc: Auditor

Kecia Harper-Ihem  
Clerk of the Board  
By:   
Deputy

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

<b>FINANCIAL DATA</b>	<b>Current Fiscal Year:</b>	<b>Next Fiscal Year:</b>	<b>Total Cost:</b>	<b>Ongoing Cost</b>
<b>COST</b>	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
<b>NET COUNTY COST</b>	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
<b>SOURCE OF FUNDS:</b> N/A			<b>Budget Adjustment:</b>	No
			<b>For Fiscal Year:</b>	n/a

**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 Sheriff Department 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. Riverside County Sheriff Department internal controls over vendor discount does not provide reasonable assurance that its objectives relating to this area will be achieved.

We recommend the Sheriff Department to review its policies and procedures and make the necessary changes to ensure vendor discounts for prompt payment are taken. This can be achieved by fully incorporating current technology to take advantage of vendor discounts as often as possible. The incorporation of current technology would effectively optimize opportunities and determine the best course of action in regards to vendor discounts.

**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 Sheriff Department, Countywide Vendor Discounts

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

  
Stephanie Pasi 4/25/2017



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

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

**AO** | AUDITOR  
CONTROLLER  
COUNTY OF RIVERSIDE

Paul Angulo, CPA, MA  
County Auditor-Controller

Frankie Ezzat, MPA  
Assistant Auditor-Controller

March 22, 2017

Stanley Sniff  
Sheriff-Coroner  
Riverside County Sheriff Department  
4095 Lemon Street  
Riverside, CA 92501

**Subject: Internal Audit Report 2016-002: Riverside County Sheriff Department,  
Countywide Vendor Discounts**

Dear Sheriff Sniff:

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 Sheriff Department 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.

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 specifically to vendor discounts. Riverside County Sheriff Department internal control over vendor discounts does not provide reasonable assurance that its objectives relating to this area will be achieved.

**Internal Audit Report 2016-002: Riverside County Sheriff Department, Countywide Vendor Discounts**

We thank the Riverside County Sheriff 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

The Riverside County Sheriff Department's (Sheriff Department) mission statement is: "In partnership with the public, we serve to protect the public by the suppression and prevention of crime, and the reduction of criminal recidivism, and perform all mandates of the Office of Sheriff as provided in the U.S. Constitution and laws of the State of California including the investigation and enforcement of violations of federal and state laws and local ordinances in a fair and reasonable manner; and serve the superior and municipal courts by providing court security, service of civil process, and execution of lawful orders of the court, and maintain the county jails and prisoners committed therein as prescribed by law in a fair and humane manner." *Riverside County Sheriff-Coroner, About Us, Riverside County Sheriff-Coroner, accessed February 8, 2017, <http://www.riversidesheriff.org/department/>*

For the period of July 1, 2013 through December 31, 2015, the Sheriff Department paid 932 vouchers, valued at \$3,254,447, to vendors who could potentially offer a discount for prompt payment. PeopleSoft queries indicated that the Sheriff Department took the discount for prompt payment in 166 of those vouchers. Of the remaining 766 vouchers we selected a statistical sample of 261 for testing. Testing of those 261 vouchers revealed that 142 indeed offered a discount for prompt payment. The discount was not taken on any of those 142 vouchers.

### 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 Sheriff Department internal control over vendor discounts does not provide reasonable assurance that its objectives relating to this area will be achieved.

## 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 Sheriff Department should strive to 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 PeopleSoft queries to identify vendors who have offered a discount for prompt payment.
- Selected a statistical sample of 261 vouchers valued at \$967,914 for review.
- Reviewed the vouchers and verified that if a discount for prompt payment was offered Sheriff Department took advantage of that discount.

## **Finding 1: Missed Vendor Discounts**

The Sheriff Department did not consistently take advantage of prompt payment discounts offered by vendors. Our review of 261 vouchers disclosed that 142 (54%) of those vouchers, offered a discount for prompt payment and the Sheriff Department did not take advantage of the discount. The Sheriff Department did not process vouchers in time to take advantage of the prompt payment discount, because of the requirement for a "wet signature" from the respective Commander or designees at outlying stations and facilities. Based on our statistical sample, we can project with a 95% confidence level, that as many as 455 of the 766 vouchers offered a discount for prompt payment and the discount was not taken. Leading Business practice encourages agencies to take discounts for prompt payment as often as possible to maximize the financial benefit.

## **Recommendation 1:**

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

## **Management Response: "Partially Concur"**

"We reviewed the 261 vouchers provided by the Internal Audit Division, 142 of those vouchers offered a discount. The invoices were paid by the due date, but not nearly enough to take advantage of the discount (typically 1% or 2% if paid within 10 or 20 days). 12 of the invoices were paid on time. 14 of the invoices reviewed were paid late by your office. 23 were processed late by Sheriff's accounting. Discounts were not taken for 83 invoices due to the Auditor Controllers requirement of a wet signature by the respective Commander or designee. The Sheriff's Department has up to 32 outlying stations and facilities that are spread out from Norco to Blythe. Vendors send invoices directly to the bureau/station for payment. To avoid paying duplicate or fraudulent charges and to ensure the goods or service have been received, all invoices are reviewed and approved by the bureau/station Administrative Lieutenant or

**Internal Audit Report 2016-002: Riverside County Sheriff Department, Countywide Vendor Discounts**

Commander. The approved invoice is then forwarded to central accounting for processing. Although we recognize the benefit of taking advantage of a 1-2% discount (and do so when possible), we place a greater emphasis on making sure the charges are legitimate. When digital signature is approved, via secured system, the processing time for the Sheriff's Department will be reduced significantly. We look forward to working with your office to find ways to improve the process."

**Actual/Estimated Date of Corrective Action:**

"No corrective action needed. Process will improve once the Auditor-Controller allows electronic signatures to authorize payment of invoices."

**Audits Response:**

The Sheriff Department is responsible for exercising due diligence in the review of their invoices. They should be aware of those vendors with whom they do business that offer a discount for prompt payment and fully incorporate current technology to take advantage of vendor discounts as often as possible. This would effectively optimize opportunities and determine the best course of action in regards to vendor discounts. The Sheriff Department should collaborate with the Purchasing Department and the Auditor-Controller's Office to emphasize the importance of taking vendor discounts by implementing the best process to realize the vendor discounts while maintaining proper internal controls.



## Sheriff's Administration

Riverside County Sheriff's Department – Stan Sniff, Sheriff  
4095 Lemon Street, 2nd Floor, Riverside, CA 92501 (951) 955-2400

### Memorandum

To: Clerk of the Board Date: May 2, 2017

CC: Board Chairman, John Tavaglione

From: Will Taylor, Director of Administration *WJ*

Reference: Agenda item 2.13 Countywide Vendor Discounts- July 1, 2013 thru December 31, 2015

The ACO report is misleading. It takes a broad brush to a complex process. RSO invoices are sent to the respective bureau/station. The office staff opens the mail and forwards the invoice to the bureau/station accounting staff for vetting. After vetting, the invoice is approved by the Captain or designee and then placed in a County mail envelope for delivery to Central Accounting & Finance for further processing. Delays occur if the goods or services have not been received or errors are discovered. Once vetted by RSO Central Accounting & Finance the invoice is forwarded to the ACO for final payment. This is a long and tedious process with several hands touching the same invoice.

The ACO was under the impression the invoices went directly to RSO Central Accounting & Finance for payment. They did not take the time to understand our vetting process. Although we recognize the benefit of taking advantage of a 1-2% discount (and do so when possible), we place a greater emphasis on making sure the goods/services are received and charges are valid.

We reviewed the 261 invoices (from July 1, 2013 thru December 31, 2015) mentioned in the ACO report and performed our own analysis. We found 119 had no discount terms, 79 invoices from Good Source Solutions had discount terms but could not be applied. The vendor was on the e-payables system during the audit period and discounts were not applicable. This reduced the total number of discount eligible invoices to 63.

63 offered a discount:

- 25 were sent late to RSO Central Accounting & Finance by our bureau or station
- 14 were processed late by RSO Central Accounting and Finance
- 10 were paid on time
- 10 had no discount terms on the invoice
- 4 were processed on time but paid late by the ACO

Per the ACO spreadsheet of invoices tested, \$10,560 in missed discounts were identified. Our analysis concluded the total needed to be reduced by \$7,678 because Good Source Solutions discounts were not applicable during the audit period. So, net discounts missed \$2,882. This amount is immaterial for a Department our size.

We are confident in the internal controls we have in place but this does highlight the need for a new Countywide automated system with e-signature. We have shared our analysis with the ACO and look forward to working with them in the future.

5/2/17  
2.13