

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



ITEM: 2.15
(ID # 13306)

MEETING DATE:
Tuesday, August 25, 2020

FROM: AUDITOR CONTROLLER:

SUBJECT: AUDITOR-CONTROLLER: Internal Audit Report 2020-016: Riverside County Executive Office, Countywide Procurement Card Audit, District: All. [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2020-016: Riverside County Executive Office, Countywide Procurement Card Audit.

ACTION: Consent


Paul A. Angulo, County Auditor-Controller 8/14/2020

MINUTES OF THE BOARD OF SUPERVISORS

On motion of Supervisor Spiegel, seconded by Supervisor Hewitt and duly carried, IT WAS ORDERED that the above matter is approved as recommended.

Ayes: Spiegel, Washington, Perez and Hewitt
Nays: None
Absent: Jeffries
Date: August 25, 2020
xc: Auditor

Kecia R. Harper
Clerk of the Board

By: 
Deputy

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

BACKGROUND:

Summary

In accordance with Board of Supervisors Resolution 83-338, we audited the Riverside County Executive Office to provide an independent assessment of internal controls over the use of procurement cards.

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: Approve

Impact on Residents and Businesses

Provide an assessment of internal controls over the audited areas.

SUPPLEMENTAL:

Additional Fiscal Information

Not applicable

ATTACHMENT A.

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 Stephanie Perez, Principal Management Analyst 8/18/2020

Internal Audit Report 2020-016

**Riverside County Executive Office,
Countywide Procurement Card Audit**

Report Date: August 25, 2020



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CONTROLLER
COUNTY OF RIVERSIDE

Paul Angulo, CPA, MA
Riverside County Auditor-Controller

Tanya Harris, DPA, CPA
Assistant Auditor-Controller

August 25, 2020

George Johnson
County Executive Officer
Riverside County Executive Office
4080 Lemon Street, 4th Floor
Riverside, CA 92501

**Subject: Internal Audit Report 2020-016: Riverside County Executive Office,
Countywide Procurement Card Audit**

Dear Mr. Johnson:

In accordance with Board of Supervisors Resolution 83-338, we audited the Riverside County Executive Office to provide an independent assessment of internal controls over the use of procurement cards.

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 restricted use of procurement cards and supporting documentation requirements for expenditures.

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

Paul Angulo, CPA, MA
Riverside County Auditor-Controller



By: René Casillas, CPA, CRMA
Chief Internal Auditor

cc: Board of Supervisors
Grand Jury

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Procurement Card Audit**

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Executive Summary

Overview

The County of Riverside's Procurement Card program was developed to improve efficiencies associated with the procurement process and reduce the cost associated with making purchases and processing vendor payments. The program requires compliance with current statutes and county procurement procedures and is intended to improve the timely delivery of products and services.

Riverside County Purchasing & Fleet Services (Purchasing) is responsible for managing and monitoring the overall program. Additionally, Purchasing administers the training required for all program participants, establishes and communicates rules and guidelines, oversees participants' compliance with the county's procurement policies and procedures, and coordinates the interface between U. S. Bank and the county. Cardholders are required to comply with the Procurement Card Manual as written by Purchasing. Additionally, cardholders must complete the training prior to being provided with a procurement card.

The procurement card policy has controls developed and implemented that are different than traditional credit cards. The controls ensure the cards can be used only for specific types of purchases with established dollar limits. Additionally, approving officials assigned to each cardholder are required to provide prior approval on the purchases. The cardholder is responsible to verify all purchases once card statement is obtained.

As an integral part of a county department's internal control structure, management within each department is responsible for a system of internal controls that effectively and efficiently performs financial related activities and safeguards assets. The system should provide management with reasonable assurance that assets are properly safeguarded against loss from unauthorized use or theft, and transactions are executed in accordance with management's authorization.

Purchasing authorized approximately 398 procurement cards to cardholders located in 33 departments, 276 of which were assigned to the 12 departments included in the countywide procurement card audit. Each card holder is granted a single transaction amount, number of transactions per day and a monthly spending limit. Limits are established for each cardholder at the single transaction amount, number of transactions per day, and monthly transaction amount by department management requesting the procurement cards. Certain goods and services are excluded with the merchant category

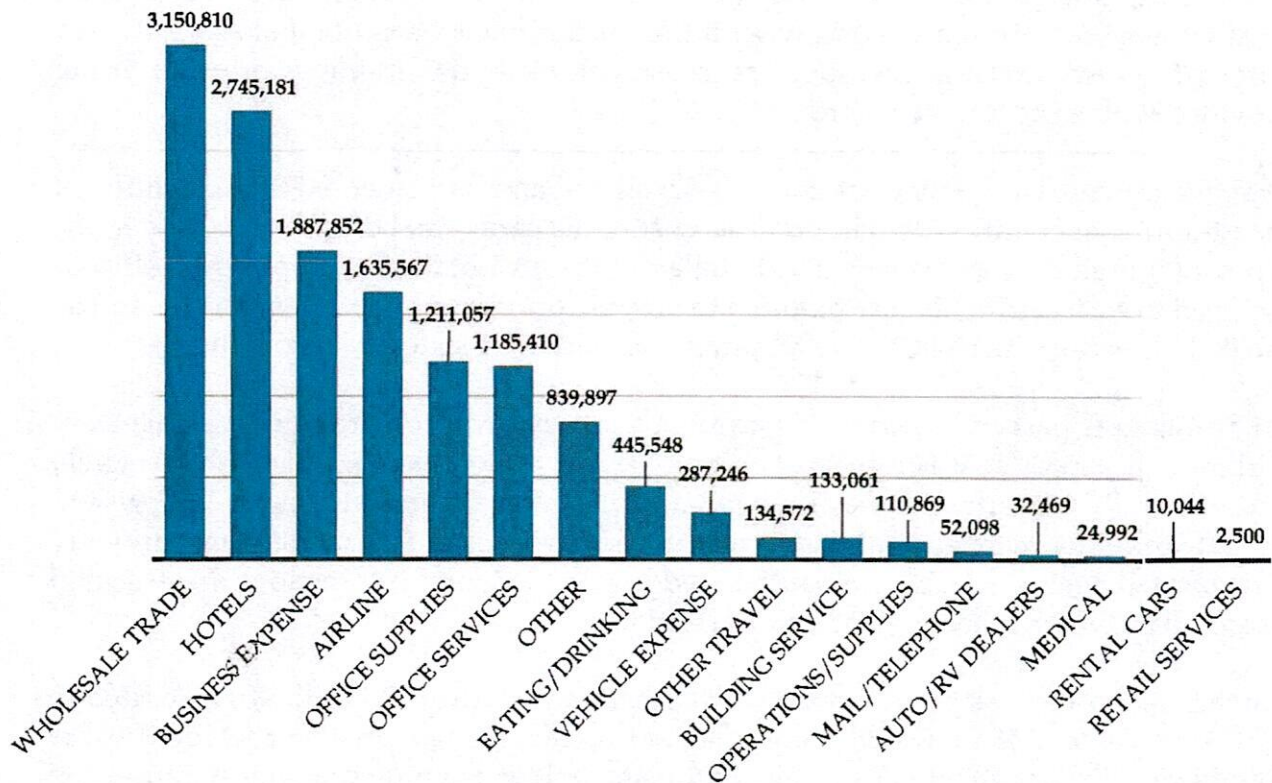
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code, which is a four digit code assigned to a merchant by its merchant bank. This code identifies the type of business the merchant conducts.

For the period July 1, 2017, through December 31, 2019, the procurement card program had expenditures totaling \$13,889,173 (See Table 1 for total expenditures by merchant category) for 33 departments. We selected 12 departments with expenditures in the audit period. These 12 departments represent \$9,720,423 of the \$13,889,173 expended through the county’s procurement card program during July 1, 2017, through December 31, 2019.

Table 1: Countywide Procurement Card Transactions

**Countywide Procurement Card Transactions
 (July 1, 2017, through December 31, 2019)**



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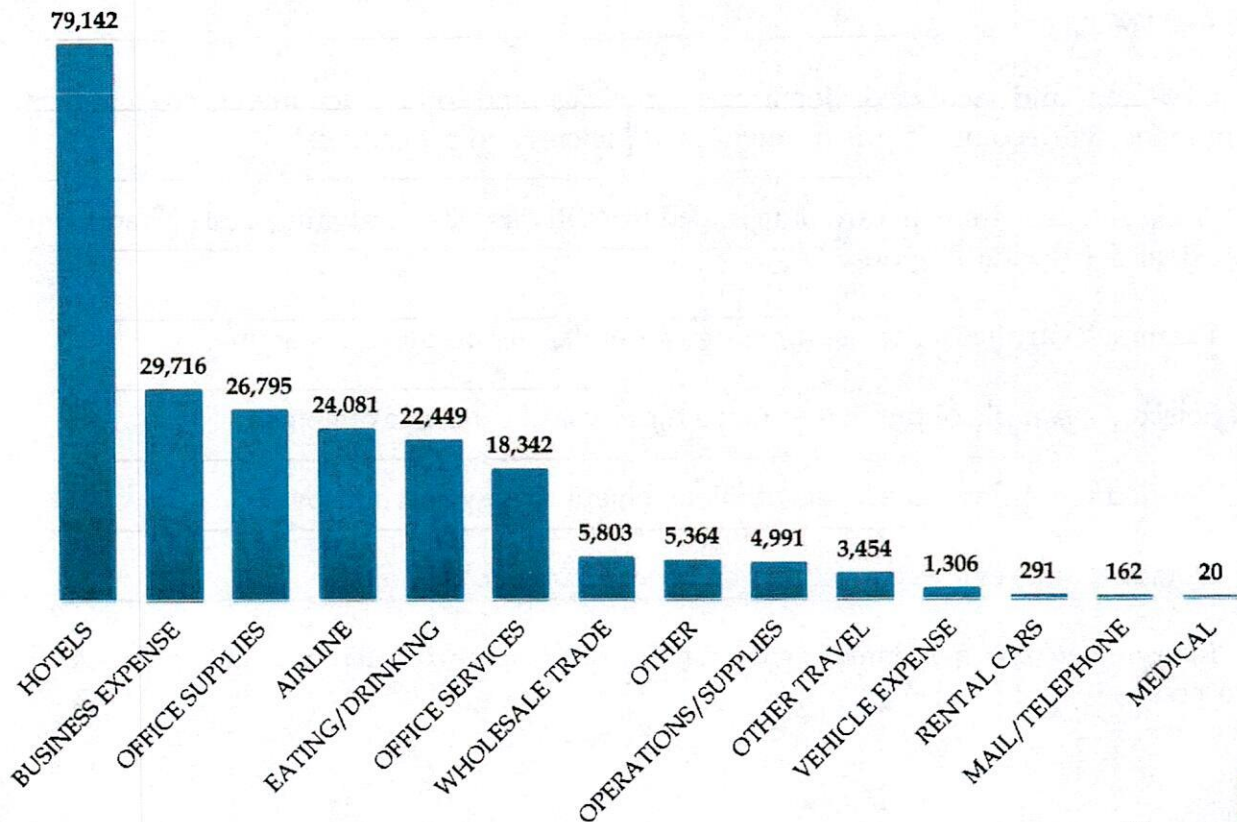
Procurement Cards

Background

As of December 31, 2019, the Riverside County Executive Office (Executive Office) had 3 active procurement cardholders. For the period July 1, 2017, through December 31, 2019, the Executive Office had 1,220 procurement card transactions totaling \$221,916.

The chart below illustrates procurement card expenditures by category for the audit period in the following categories: hotels, business expense, office supplies, airline, eating/drinking, office services, wholesale trade, other, operations/supplies, other travel, vehicle expense, rental cards, mail/telephone, medical. The five largest expenditure categories which make up 82% (or \$182,183) of the total procurement card transactions include hotels at \$79,192, business expense at \$29,716, and office supplies at \$26,795, airline at \$24,081, and eating/drinking at \$22,449.

**Executive Office Procurement Card Transactions
 (July 1, 2017, through December 31, 2019)**



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Audit Objective

Our audit objective is to provide an independent assessment about the adequacy and effectiveness of internal of internal controls over the use of the procurement cards. 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 nonfinancial information.

Audit Scope and Methodology

We conducted the audit from December 2, 2019, through March 31, 2020, for operations from July 1, 2017, through December 31, 2019. To accomplish our objectives, we performed the following:

- Reviewed county policies and procedures, specifically:
 - County of Riverside Procurement Card Program, Procedure Handbook (last revised 8/1/2016)
 - Board Policy A-62, *Credit Card Use*
 - Board Policy D-1, *Reimbursement for General Travel and Other Actual and Necessary Expenses*
- Obtained and analyzed department policies and other documents to confirm compliance with county's procurement card policies and procedures.
- Analyzed procurement card data pulled from Riverside County financial systems and U.S. Bank for the audit period.
- Examined cardholder transaction logs, receipts, and credit card statements.
- Selected a sample of purchased items for physical existence of items.
- Verified for appropriate levels of management review and approval.
- Obtained and reviewed a listing of all procurement card holders.
- Interviewed key personnel regarding procurement card internal controls and their processes.

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Audit Highlights

Existing Conditions

The current processes have not mitigated the following risk areas:

- Procurement card single purchase dollar limitation was circumvented by using two different procurement cards. This weakens internal controls designed to ensure procurement cardholders adhere to county regulations, policies and procedures, and procurement requirements.
- Required price quotes for procurement card expenditure exceeding \$5,000 was not obtained as specified in the Riverside County Procurement Card Program Procedure Manual.
- Multiple transactions considered unallowable under the Riverside County Procurement Card Program Procedure Manual were made with a procurement card.
- Adequate supporting documentation was not provided for procurement card expenditures. Supporting documentation is an essential element of internal control as it ensures transactions are reasonable and accurate.

Improvement Opportunities

The improvement opportunities are in the following areas:

- Ensure procurement cardholders are in compliance with the Riverside County Procurement Card Program Procedure Manual. Specifically, ensure purchases are not split to circumvent established single-transaction limits, competition is sought on all purchases where required, purchases are for allowable items, and adequate supporting documentation is provided for expenditures.

Audit Conclusion

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to restricted use of procurement cards and supporting documentation requirements for expenditures.

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Finding 1: Compliance with Procurement Card Policies

There are instances of non-compliance with procurement card procedures. We identified the following in our review of procurement cardholder expenditures and supporting documentation:

- Identified an expenditure that was split between two cardholders to circumvent the procurement card single purchase dollar limit. Per the Procurement Card Program Procedure Handbook, "Purchases must not be split to circumvent dollar limitations."
- An expenditure in excess of \$5,000 was made by a procurement cardholder without obtaining the required competitive price quotes. The Procurement Card Program Procedure Handbook states, "For purchases over \$5,000 you must seek three (3) competitive quotes."
- Multiple personal expenditures determined unallowable under the Procurement Card Program Procedure Handbook were made with a procurement card. The cardholder reimbursed the department for the personal items purchased.
- We identified the following as it relates to the supporting documentation provided for expenditures:
 - An expenditure identified in a cardholders bank statement did not reflect the supporting documentation provided.
 - An expenditure was approved with no supporting documentation or receipt form completed by the procurement cardholder.
 - An airfare expenditure was cancelled, and no supporting documentation was provided to reflect a credit was received. The Procurement card Program Procedure Handbook requires that procurement cardholders provide "Original sales receipts and detailed invoices."

The Riverside County Auditor-Controller's Office Standard Practice Manual 1001, *Internal Controls*, states, "Well-documented policies and procedures are established and maintained to promote employee understanding." Additionally, the Riverside County Procurement Card Program "requires the cardholder to adhere to all County of Riverside acquisition regulations, policies, and procedures, including competitive procurement requirements." By not adhering to the Procurement Card Program Procedure Handbook,

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program efficiency decreases and the risk of theft or loss increases. Also, using the procurement card for personal use with the intent to pay the expenses later, is an inefficient use of county resources as it takes time and effort to obtain the payment from the procurement card holder, and then processing, recording, and tracking of the payment for these type of transactions.

Recommendation 1

Ensure procurement cardholders comply with restricted uses as they relate to the Riverside County Procurement Card Program Procedure Manual. Specifically, ensure purchases are not split to circumvent established single-transaction limits, competition is sought on all purchases where required, purchases are for allowable items, and adequate supporting documentation is provided for expenditures.

Management's Response:

"Do not concur. The Executive Office is currently operating in compliance with the Procurement Handbook. As anomalies arise, the Executive Office takes immediate corrective action to ensure compliance. The findings identified; we deem as observations as they have already been addressed prior to the audit and no further action is required to ensure compliance.

The referenced expenditure was related to a joint purchase of \$2,599 between Human Resources and the Executive Office for photo equipment. The dollar amount of the purchase was under \$5,000 which would not require bidding. This was a "rush" request that had Executive approval. The split purchase was necessary as the card holder available to make the purchase had a \$15,000 monthly limit with a \$2,500 single purchase limit. The department has since fixed the procurement card holders limitation to match those of the department standard.

This referenced expenditure in FY 18/19 was for the booking of the annual department retreat. This is a sole source request which would not require the department to seek (3) competitive quotes. The Executive Office in collaboration with Purchasing identified the need for a sole source and provided one to the County's Purchasing Agent for the FY 19/20 Department Heads Retreat. Documentation was provided to the ACO for reference which included the executed sole source.

The Executive Office is aware of the instance identified where unallowable purchases were made with the procurement card. When reconciling the receipts to the procurement

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card statement, the EO identified the unallowable purchases. As a result, the employee was required to reimburse the unallowable expenses and was counseled on utilizing the procurement card appropriately. As mentioned above, the ACO confirmed employee reimbursement.

The Executive Office provided the supporting documentation in question to support the procurement card expenditure during the audit process.

The Executive Office makes every effort to ensure that detailed receipts accompany charges posted on the procurement card holder statement(s). In events where receipts are not available, it is common practice that the department includes a missing receipt form. In this instance, the department was unable to recover the original submitted documents presented for payment. However, to ensure compliance, the department provided a missing receipt form for reference.

The Executive Office receives credit for cancelled flights against future flights and not as a monetary credit to our P-Card. This is the practice of the airline provider.

The Executive Office has provided responses for each instance noted above. In addition, the EO has established processes to ensure compliance which includes a reconciliation of charges, credits, refunds and audits. We have also built in re-training of the procurement card process and send out reminders as analogies are identified.”

Actual/estimate Date of Corrective Action: **No additional corrective action is required**

Auditor Comment:

Riverside County PeopleSoft Financial System can accommodate rush request and overnight payments. It is recommended for department to utilize this method of payment when reasonably possible for transparency and to not circumvent county purchasing policies and procedures.