

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

601



FROM: Auditor-Controller

SUBMITTAL DATE:
November 20, 2014

SUBJECT: Internal Audit Report: 2014-010 County Procurement Cards- District Attorney's Office [All Districts] [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report: 2014-010 County Procurement Cards – District Attorney's Office

BACKGROUND:

Summary

We have completed a County Procurement Cards which included the District Attorney's Office. The audit objective is to provide management, the Board of Supervisors, and Purchasing and Fleet Services with an independent assessment of internal controls over the usage of procurement cards. The audit covered the period July 1, 2011 through October 31, 2013.

(Continued on page 2)

Paul Angulo

Paul Angulo, CPA, CGMA, MA
County Auditor-Controller

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost:	POLICY/CONSENT (per Exec. Office)
COST	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	Consent <input checked="" type="checkbox"/> Policy <input type="checkbox"/>
NET COUNTY COST	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	

SOURCE OF FUNDS: N/A

Budget Adjustment: No

For Fiscal Year: n/a

C.E.O. RECOMMENDATION:

APPROVE

BY: *Samuel Wong*
Samuel Wong

County Executive Office Signature

MINUTES OF THE BOARD OF SUPERVISORS

- A-30
- 4/5 Vote
- Positions Added
- Change Order

Prev. Agn. Ref.:

District: ALL

Agenda Number:

2-15

JU Departmental Concurrence

SUBMITTAL TO THE BOARD OF SUPERVISORS, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA
FORM 11: Internal Audit Report: 2014-010: County Procurement Cards – District Attorney’s Office [District: All]; [\$0]

DATE: November 20, 2014

PAGE: Page 2 of 2

BACKGROUND:

Summary (continued)

Based upon the results of our audit, we identified opportunities for improvement in the department’s internal controls, especially the control environment, relating to monitoring compliance with procurement policies, maintenance of cardholder agreements and tracking assets. We will follow-up in one year to verify that management implemented the corrective actions.

Impact on Citizens and Businesses

Provide an assessment of internal controls over the audited areas.

SUPPLEMENTAL:

Additional Fiscal Information

Not applicable

ATTACHMENTS:

A: County of Riverside Auditor-Controller’s Office – Internal Audit Report 2014-010 County Procurement Cards – District Attorney’s Office



COUNTY OF RIVERSIDE
OFFICE OF THE
AUDITOR-CONTROLLER

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

ACC | AUDITOR
CONTROLLER
COUNTY OF RIVERSIDE

Paul Angulo, CPA, CGMA, MA
AUDITOR-CONTROLLER

November 20, 2014

Paul Zellerbach, District Attorney
Riverside County District Attorney's Office
3960 Orange Street
Riverside, CA 92501

Subject: Internal Audit Report 2014-010: County Procurement Cards – District Attorney's Office

Dear Mr. Zellerbach:

The Internal Audit Division of the Auditor-Controller's Office has completed a County Procurement Cards Audit which included the District Attorney's Office. The audit objective is to provide management, the Board of Supervisors, and Purchasing & Fleet Services with an independent assessment of internal controls over the usage of procurement cards. The audit covered the period July 1, 2011 through October 31, 2013.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require we plan and perform the audit to obtain reasonable assurance our objective as described in the preceding paragraph is achieved. The audit included examining, on a test basis, evidence about the department's compliance with the applicable government codes, regulations and resolutions, and performing such other procedures as we considered necessary in the circumstances. We believe the audit provides a reasonable basis for our conclusions.

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 assess the adequacy of internal controls based upon our audit.

Based upon the results of our audit, we identified opportunities for improvement in the department's internal controls, especially the control environment, relating to monitoring compliance with procurement policies, maintenance of cardholder agreements and tracking assets.

As requested, in accordance with paragraph IIC of the Board of Supervisors Resolution 83-338, management responded to each reported condition and recommendation contained in

Internal Audit Report 2014-010: County Procurement Cards – District Attorney’s Office

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

We thank the District Attorney’s Office management and staff for their cooperation; their assistance contributed significantly to the successful completion of this audit.

Paul Angulo, CPA, CGMA, MA
County Auditor-Controller



By: Mark Cousineau, CPA, CIA, CFE
Chief Internal Auditor

Cc: Board of Supervisors
Executive Office
Grand Jury

Table of Contents

	Page
Executive Summary	4
 Audit Results:	
Procurement Cards.....	6

Executive Summary

Overview

The County's Procurement Card (P-Card) program was developed through collaboration with Purchasing Services and the Auditor-Controller's Office to improve efficiency and reduce the cost associated with making purchases and processing vendor payments. The P-Card eliminates the need for formal purchase requisitions and purchase orders that usually accompany small dollar purchases and further requires only one payment to the bank as opposed to multiple payments to several vendors. The program requires compliance with current statutes and County procurement procedures and is intended to improve the timely delivery of products and services.

County Purchasing is responsible for managing and monitoring the overall program. Additionally, Purchasing facilitates training required for all program participants, establishes and communicates rules and guidelines, oversees participants' compliance with the county's P-Card 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 outlined by County Purchasing.

The P-Card program has unique controls developed and implemented which 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 responsible for reviewing and approving cardholder transactions. The cardholder is responsible to verify all purchases upon receipt of the card statement.

The policies, procedures and board policies we reviewed during the course of the audit were as follows: *County of Riverside Procurement Card Program, Procedure Handbook, Board Policy A-62, Credit Card Use and Board Policy D-1, Reimbursement for General Travel and Other Actual and Necessary Expenses.*

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.

As of 30 November 2013 the District Attorney had 11 P-Card cardholders. 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. Certain goods and services are excluded with the Merchant Category Code (MCC), which is a four digit code assigned to a merchant by its merchant bank. This code identifies the type of business the merchant conducts.

Internal Audit Report 2014-010: County Procurement Cards – District Attorney's Office

For the period July 1, 2010 through May 31, 2013, the District Attorney had P-Card program expenditures totaling \$935,983. We selected the three highest monthly expenditures, September 2012, May 2013 and July 2013 with \$156,574 in expenditures reported to the Auditor-Controller's Office for review.

Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over the authorizations and use of the procurement cards.

Audit Conclusion

Based upon the results of our audit, we identified opportunities for improvement in the department's internal controls, especially the control environment, relating to monitoring compliance with procurement policies, maintenance of cardholder agreements and tracking assets.

Auditor's Comment

The District Attorney's Office was unresponsive to our requests to participate in a closing conference.

District Attorney

Background

The District Attorney's Office has more than 700 attorney's and support staff dedicated to serve more than 2 million residents in Riverside County. The department has allocated resources and staffing in three divisions located in six offices throughout the county to serve its residents. As one of the largest District Attorney's offices in the State of California, they file about 40,000 criminal cases annually. The types of cases prosecuted by the District Attorney's Office include homicide, drug enforcement, sexual assault crimes, domestic violence, robbery, and theft.

To ensure an orderly approach to the purchasing function the Board of Supervisors and the Department issued guidance to departments that include, but is not limited to:

Riverside County Purchasing Manual, states in the *Procedures for Obtaining a Procurement Card, under the Approval Process*, (6) The Procurement Card may be picked up after a completed Cardholder Agreement has been signed by the Cardholder and his/her Approver and submitted to the County Procurement Card Coordinator."

Board of Supervisors Policy A-62, *Credit Card Use (A-62)*, states "justification for assignment of a credit card to a County Employee shall be made and clearly documented prior to activation. Written documentation shall include the intended purposes for which the credit card will be used, the employee name, and signature of approving official."

Board of Supervisors Policy A-62, *Credit Card Use (A-62)*, states "All cardholders and/or users must complete the appropriate County Purchasing and buyer/purchasing training prior to card activation and use. County Purchasing will determine appropriate training and provide documentation of training completion to the employee. A copy of this documentation should be retained by the department/agency."

Riverside County Purchasing Manual, Program Information, *Restricted Uses* states "...the Procurement Card is intended to be used for small dollar purchases. However, the Procurement Card is not to be used for services. In addition, the Procurement Card must not be used to purchase the following: chemicals, & hazardous materials, gasoline, items available through Internal Service departments (Supply Services, Printing), membership dues, personal computers, peripheral equipment, and printers from other than County contracted vendors, splitting of purchases to circumvent the dollar limitation, telecommunications equipment systems or major components."

County Purchasing Manual states, " 'All Procurements' unless otherwise provided by law or County policy, are to be solicited on a competitive basis...For all Procurement Card purchases a minimum of three (3) solicitations are required on purchases over \$1,000."

Riverside County Ordinance No. 459.4, Establishing Purchasing Policies and Procedures, Section 3 states “No purchases as described in Section 2 shall be made by any County officer or employee without a purchase order or other written authority first obtained from the Purchasing Agent.”

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed policies, applicable laws, codes, regulations, and board ordinances related specifically to the P-card program.
- Conducted interviews and performed walkthroughs with appropriate District Attorney personnel to obtain an understanding of P-Card procedures and internal controls.
- Obtained and analyzed department policies and other documents to confirm compliance with county’s P-card policies and procedures.
- Analyzed P-card data pulled from PeopleSoft and Simpler Financials for fiscal years 2011, 2012 and 2013.
- Examined cardholder’s transaction logs, receipts, and credit card statements.
- Selected sample items of purchased items for physical existence detailed testing.
- Verified appropriate levels of management review and approval.

Finding 1: Monitoring Compliance with Procurement Policies

Restricted Purchases

The District Attorney has not implemented a procedure to ensure P-Card usage is in compliance with purchasing policies. There were five (1.1%) out of 451 instances where the P-Card was utilized to make restricted purchases of computers and peripheral equipment. Our review of the three highest dollar value months of transactions reported to the Auditor-Controller’s Office disclosed that the District Attorney made restricted purchases totaling \$3,909 (2.5%) out of \$156,574 in expenditures reviewed. Although the amount is not significant in relation to the gross amount, when we consider the total expenditures for our review period, controls were not adequate to detect these types of purchases.

The purchases of restricted items occurred because the District Attorney was not following procurement procedures. Specifically, the appropriate officials were not reviewing the items prior to the P-Card purchase nor engaging in corrective action with the cardholder. As a result, P-Cards were utilized for purchasing restricted goods and services.

Recommendation 1.1

The District Attorney ensure all P-Card holders are aware of the County and department policies regarding P-Card usage.

Recommendation 1.2

The District Attorney require authorized approvers to document purchases that are out of compliance, notify the card holder and take appropriate corrective action.

Management's Response:

"Partially Concur. The mission of the District Attorney is to protect the public, prosecute civil and criminal offences and safeguard the rights of victims and witnesses. To accomplish our mission in an efficient and cost-effective manner, we have embraced the spirit of the county's procurement card program. At no time were County or Purchasing procurement procedures and policies circumvented.

At a recent county county-wide buyer meeting a procurement contract specialist (PCS) responded to the question of purchasing computers and peripherals with a procurement card. The verbal response was it is okay to use a p-card for computer purchases if goods are available only from the manufacturer and the manufacturer only accepts credit cards for payment.

From page 3 of the County of Riverside Procurement Card Program Procedure Handbook, revised February 2012

"In the constant pursuit of improving the way the County does business and in promoting vendor acceptance and operational efficiency, Purchasing Services and the Auditor/Controller's Office initiated the Procurement Card Program. The objective of the County's Procurement Card Program is to streamline the traditional paper and labor intensive procurement process for small- dollar purchases. The Procurement card will eliminate the requisitions and purchase orders associated with small dollar purchases and will require only one payment to the bank on a monthly basis instead of individual payments to a large number of vendors.

The CAL-Card (VISA Card), Purchasing Card Program, when used to purchase goods or services, promotes increased supplier/contractor acceptance, improves the timely delivery of products and services, and reduces the business-related costs of the using department. It is not intended to and will not be used to circumvent any existing statutes or laws, nor is it to be used to circumvent any County or Purchasing procurement procedures and policies."

Although the purchase of computers and peripherals were outside county policy, public funds were not misused or misappropriated. All other county purchasing acquisition regulations, policies, and procedures, including competitive procurement requirements were followed. In addition, we exceed county policy by obtaining 3 competitive bids for items, even for items less than the \$1000 limit required by the policy.

The inability to use the procurement card to buy computers and peripheral equipment will result in increased costs. As our responses to the draft audit report explained, small dollar printers

(\$300) are not of business caliber, but the county's contracted vendors only offer business caliber equipment. Business caliber equipment is designed to hold up to vigorous use (as in an office setting) vs. items for private consumer use. Since these non-business caliber items will not see a lot of usage, it is not fiscally prudent to purchase through the county's contracted vendors, who are unable to provide quotes for such items. Laptops are often purchased with grant funds and the grantor prohibits the purchase of high cost business caliber equipment, which is the only type the County's contracted vendors can quote. Contracted county vendor quotes are considerably higher than open market prices on small dollar items such as printers. Finally, our Computer Forensic Labs and Audio Visual Labs require specialized computer equipment that county contracted vendors do not offer.

The Auditor-Controller's Office and County Purchasing should work together on updating the county's procurement card procedure manual. The current manual, last revised February 2012, have not kept up with the changing needs and reality of purchasing goods for county departments.”

Actual/estimated Date of Corrective Action: Not provided

Estimated cost to implement recommendation (if material): \$ 0.00

Auditor’s Comments:

While the District Attorney’s response affirms that purchases were made in violation of county purchasing policy it does not specifically address the recommendations. Additionally, it should be noted that the Auditor-Controller’s Office has no authoritative role in establishing or revising county purchasing policy.

Finding 2: Cardholder Agreements

Three out of eleven (27%) cardholder agreements could not be located for the cardholders which had purchases during the months reviewed. Cardholder agreements document that issued cards were properly authorized and are used to verify the cardholder signature. The cardholder agreement indicates the following: cardholder and their approving official acknowledges the use of the card is for Official County Business only, the disciplinary actions that result for unauthorized charges, which includes a deduction from their paycheck, safekeeping of the card at all times, and the County has the right to cancel at any time. Once the agreements are signed, the document should be submitted and retained by the approving official to document compliance with P-Card policies. Missing or unavailable cardholder agreements impair the District Attorney’s ability to monitor and enforce its policies.

Recommendation 2

The District Attorney ensure all P-Card holders have completed cardholder agreements and maintain them immediately.

Management’s Response:

“Concur. The department worked with County Purchasing and now has agreements for all p-card holders.”

Actual/estimated Date of Corrective Action: Not provided

Estimated cost to implement recommendation (if material): \$ 0.00

Finding 3: Physical Inventory of P-Card Assets

The District Attorney purchased 24 Law books valued at \$1,085 with a P-Card but could not account for 18 of the purchased books. We conducted a physical existence test of items purchased and were not able to clearly identify the books on the invoice. Department management does not track (maintain an inventory) of these books or maintain purchase related documentation showing that the books were received by a party independent of the purchaser since they are disbursed throughout the District Attorney’s four offices. As a result, the items purchased are vulnerable to loss, misplacement or theft.

Recommendation 3

The District Attorney establish procedures to ensure that purchases have been received and that the receipt of goods and supplies is documented.

Management’s Response:

“Do not concur. The 24 books were purchased in October 2012 and the physical inventory was done in April 2014.

6 book titles were purchased; 10 copies of 2 separate titles were purchased and a single copy of 4 additional titles was purchased. The multiple copies were purchased for attorney staff and the department had no expectation of getting these books returned. Of the other remaining 4 titles, 3 of the 4 were readily located.

Law books are disposable items with a limited useful life. Updates occur, often on an annual basis. For example, the Search Warrant Law and Practice Manual of which 10 copies were ordered, has been updated since 2012. Given that the law books are purchased for and distributed to prosecutors throughout the county and the fact they have a limited useful life the District Attorney’s Office will continue to follow its current procedures of ordering and receiving law books.”

Actual/estimated Date of Corrective Action: Not provided

Estimated cost to implement recommendation (if material): \$ 0.00

Auditor’s Comments:

While we understand the “limited useful life” of the law books purchased, the books were purchased with county funds and are county property. As such the department should perform due diligence to ensure the books are received, distributed and disposed of properly. The District Attorney’s Office did not provide documentation showing either the planned distribution or acknowledgement of receipt of these county resources by individual, position, or location.