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



FROM: Auditor-Controller

SUBMITTAL DATE:
November 19, 2014

SUBJECT: Internal Audit Report: 2014-010 County Procurement Cards Purchasing & Fleet Services, Purchasing Services Division [All Districts] [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report: 2014-010 County Procurement Cards Purchasing & Fleet Services, Purchasing Services Division

BACKGROUND:

Summary

We have completed a County Procurement Cards which included the District Attorney's Office, Department of Public Social Services, Fire Department and Parks and Recreation District. 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.

(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

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

Prev. Agn. Ref.:

District: ALL

Agenda Number:

2-16

JUDepartmental Concurrence

SUBMITTAL TO THE BOARD OF SUPERVISORS, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA
FORM 11: Internal Audit Report: 2014-010: County Procurement Cards Purchasing & Fleet Services,
Purchasing Services Division [District: All]; [\$0]

DATE: November 19, 2014

PAGE: Page 2 of 2

BACKGROUND:

Summary (continued)

Based upon the results of our audit, we identified opportunities for improvement in the County's internal controls, especially the control environment relating to monitoring, enforcing compliance with procurement policies, card holder agreements and training records. 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 Purchasing & Fleet Services, Purchasing Services Division

Internal Audit Report 2014-010

**County Procurement Cards
Purchasing & Fleet Services, Purchasing
Services Division**

Report Date: November 19, 2014



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CONTROLLER
COUNTY OF RIVERSIDE

Paul Angulo, CPA, CGMA, MA
AUDITOR-CONTROLLER

November 19, 2014

Lisa Brandl, Director
Purchasing & Fleet Services
2980 Washington Street
Riverside, CA 92504

Subject: Internal Audit Report 2014-010: County Procurement Cards – Purchasing & Fleet Services, Purchasing Services Division

Dear Ms. Brandl:

The Internal Audit Division of the Auditor-Controller's Office has completed a County Procurement Cards Audit which included the District Attorney's Office, Department of Public Social Services, Fire Department and Parks and Recreation District. 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 County's internal controls, especially the control environment relating to monitoring, enforcing compliance with procurement policies, card holder agreements and training records.

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 – Purchasing & Fleet Services, Purchasing Services Division

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 Purchasing & Fleet Services 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
District Attorney's Office
Grand Jury

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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.

The Purchasing Services Division of Purchasing & Fleet 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 defined by County Purchasing.

The P-Card program has unique 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.

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.

County Purchasing authorized approximately 323 P-Cards to cardholders located in 31 departments, 132 (or 40%) of which were assigned to the four departments included in the 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. 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.

For the period July 1, 2010 through May 31, 2013, the P-Card program had expenditures totaling \$10,790,628 for 31 departments. We selected four departments with expenditures exceeding \$1 million within the period and selected the three highest monthly expenditures, per department, reported to the Auditor-Controller's Office for review. These four departments represent \$4,937,761 of the \$10,790,628 expended through the County's P-Card program during July 1, 2010 through May 31, 2013.

P-Card Program Expenditures Subject to Sampling July 1, 2010 through May 31, 2013		
Departments selected for testing	Expenditures	Percent of Total Program Expenditures
DA	\$ 1,017,256	9.4
DPSS	1,346,736	12.5
Fire	1,170,013	10.8
Regional Parks	1,403,756	13.0
Selected departments program expenditures	4,937,761	45.8
Departments excluded from testing	5,852,867	54.2
Countywide P-card program expenditures	\$ 10,790,628	100.0

P-Card Program Expenditures Selected for Sample July 1, 2010 through May 31, 2013				
Departments selected for testing	Count of Transactions	Value of Sample Transactions	Percent of Department Program Expenditures	Percent of Total Program Expenditures
DA	451	\$ 156,574	3.2	1.5
DPSS	698	181,211	3.7	1.7
Fire	588	200,026	4.1	1.9
Regional Parks	689	158,081	3.2	1.5
Total departments selected for testing	2,426	\$ 695,892	14.1	6.4

Internal Audit Report 2014-010: County Procurement Cards – Purchasing & Fleet Services, Purchasing Services Division

Audit 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 County's internal controls, especially the control environment relating to monitoring, enforcing compliance with procurement policies, card holder agreements and training records.

Purchasing

Background

The Purchasing Services Division (Division) of the Purchasing & Fleet Services Department administers purchases for all County departments and agencies. Purchasing involves the acquisition of equipment, furnishings, supplies, maintenance, construction, and contractual services within pre-established budgetary constraints. Other services include providing training to County departments' purchasing staff; preparing bid specifications; initiating formal quotations; proposals and bids; conducting public bid openings; evaluating bids; and awarding and administering contracts until final completion or termination. The Division's powers and authority are defined in County Ordinance No. 459.4.

To ensure an orderly approach to the purchasing function the Board of Supervisors and the Department issued guidance to departments that include, but 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 to the P-card program.
- Conducted interviews and performed walkthroughs with appropriate personnel of the selected departments 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 transaction logs, receipts, and credit card statements.
- Selected a sample of purchased items for physical existence.
- Verified whether appropriate levels of management review and approval existed and were exercised.

Finding 1: Monitoring Compliance with Procurement Policies

Restricted Purchases

Purchasing has not implemented a procedure to ensure P-Card usage is in compliance with purchasing policies. Our review of 12 months of transactions (the highest dollar values reported to the Auditor-Controller's Office), three months for each department, disclosed that the departments made restricted purchases totaling \$44,783 (6.4%) out of the \$695,892 in expenditures reviewed. Although the amount is not significant in relation to the gross expenditures, when we consider the total expenditures for our review period, controls were not adequate to detect these types of purchases. There were 204 (8.4%) out of 2,426 instances where the P-Card was utilized to make restricted purchases.

The purchases of restricted items occurred because the departments were not following procurement procedures. Specifically, the appropriate department officials were neither reviewing the items prior to the P-Card purchase nor engaging in corrective action with the cardholder. Additionally, the Division was not performing the random monthly P-Card audits of expenditures or reviewing monthly management reports to ensure program compliance. As a result, departments were purchasing restricted goods and services.

The restricted purchases by department are as follows:

- County Fire had 172 transactions totaling \$29,492 in restricted purchases for \$4,369 in communication equipment, \$3,436 in computer and peripheral equipment, \$15,084 in hazardous materials, \$2,469 in maintenance equipment, \$439 for memberships, and \$3,590 in rentals.
- Parks had 25 transactions totaling \$10,938 in restricted purchases for \$93 in automotive, \$407 in computer and peripheral equipment, \$398 in hazardous materials, \$1,002 in maintenance contracts and services, \$3,399 in membership dues, \$5,159 in printing services and \$480 in rentals.
- District Attorney's Office had five transactions totaling \$3,909 in restricted purchases for computer & peripheral equipment.
- DPSS had one transaction totaling \$444 in restricted purchases for professional memberships.

Purchasing Limits

The County's internal controls were inadequate to ensure cardholder compliance with competitive procurement requirements that all purchases greater than \$1,000 must have a least three (3) documented solicitations. We reviewed 104 transactions greater than \$1,000. Combined, Fire, Regional Parks, and the District Attorney's Office, had 51 purchases greater than \$1,000 where either documentation of competitive pricing was unavailable or three solicitations were not obtained or both. Fire accounted for 38 of these transactions. These 51 transactions, out of 2,426 transactions tested, totaled \$56,446. These 51 instances are significant for three reasons.

First, the transactions were made outside of County policy and cardholder agreements. Second, each instance represents a potential unallowable cost because P-Card stakeholders did not follow established practices based on policies and laws. Finally, because the various internal controls over the P-Card program exercised by staff or management in the normal course of their assigned responsibilities failed to prevent, detect and correct the transactions.

Detection and corrective action by the departments and the Division could have mitigated the excursions from P-Card procurement practices. Corrective actions are found both in section 3.2.1 Unauthorized Purchase of the Purchase Policy Manual (February 1, 2013) and the

February 2012 Procurement Card Program Procedure Handbook under Disciplinary Actions of the Program Information section. A 50% failure rate in preventing inappropriate P-Card purchases coupled with a near 100% detection and correction failure rate represents an unacceptable risk to the County. It is important to remember that best price solicitation and quote documentation was not tested for transaction amounts less than \$1,000, indicating that a similar rate of compliance could be found in P-Card transactions less than \$1,000.

Oversight of purchases by the appropriate levels of management could ensure the lowest costs are considered prior to making purchases. The opportunity to receive negotiated vendor discounts, based on the P-Card usage with county approved vendors, is reduced when all County departments do not participate, as these discounts are based on the volume of goods and services purchased. The County's reputation for transparent, open and fair competitive procurement is also impaired. The P-Card policy states "Use of Procurement Card is not intended to replace effective procurement planning which enables volume discounts."

Recommendation 1.1

The Purchasing Services Division revise the P-Card training to specifically address the categories of items to be excluded from purchases with P-Cards.

Management position concerning the recommendation: Concur

Comments:

The original training and list of exempt items were developed during the development of this P-Card program several years ago. A lot has changed since the development and there are a lot of categories and/or items that were listed as exclusions which are no longer practical or may not be well-defined. Therefore, the department is in the process of revising the training manual and exemption list to better suit the needs of the County.

Actual/estimated Date of Corrective Action: March 1, 2015

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

Recommendation 1.2

The Purchasing Services Division establish reviews of monthly management reports and conduct random monthly audits of P-Card expenditures to ensure P-Card purchases are in compliance with program requirements.

Management position concerning the recommendation: Concur

Comments:

The department will conduct random audits based on the County monthly statement. Additionally, the Department will include P-Card reviews when the Contract Compliance Officer conducts routine audits on the purchasing practices of user departments.

Actual/estimated Date of Corrective Action: December 1, 2014

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

Recommendation 1.3

The Purchasing Services Division conduct reviews of P-Card purchases over \$1,000 to ensure compliance with county procurement policies.

Management position concerning the recommendation: Concur

Comments:

Proactively, in 2013, the Purchasing Department began requiring new P-Card holders to take the Purchasing Department Low Value Purchasing Authorization (LVPA) training class to become familiar with procurement regulations. A log of attendance at this training has been maintained by the Department since July, 2004. Additionally, the department's Contract Compliance Office will include reviews of the P-Card activities when doing random Purchasing audits of user departments to be sure proper procedures were followed.

Actual/estimated Date of Corrective Action: December 1, 2014

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

Recommendation 1.4

The Purchasing Services Division enforce the system of progressive discipline to help enforce cardholders' compliance with Purchasing and P-Card Manuals regarding bid splitting. Establish escalating restrictions for individual and department offenders including suspension and termination of P-Card access.

Management position concerning the recommendation: Concur

Comments:

The department will revise the training manual to include an escalating process for violation of the P-Card policies, including bid splitting. Discipline process will include notification of the employee's supervisor and/or department head, as well as removal of authority for reoccurring violations as well as disciplinary actions, up to and including termination or prosecution for willful violations or illegal activity according to Human Relations (HR) recommendations and employee MOU's.

Actual/estimated Date of Corrective Action: March 1, 2015

This will require review and assistance of the HR department to implement.

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

Recommendation 1.5

Purchasing monitor and document the Divisions performance of Recommendation 1.2.

Management position concerning the recommendation: Concur

Comments:

The department will develop a log to record the monthly statement review, including number of transactions, number reviewed, any negative findings, and action taken. The P-Card administrator shall submit a report the Director, or designee, a summary report of the review activity. Additionally, the department will maintain a file of all purchasing audits done by the Contract Compliance Officer.

Actual/estimated Date of Corrective Action: December 1, 2014

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

Finding 2: Cardholder Agreements

Thirty-three percent (43 out of 132) cardholder agreements could not be located. 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 Division to document compliance with P-Card policies. Additionally, we identified a cardholder who exceeded their 30 day spending limit and daily limit by \$5,039 and \$1,566 respectively. This occurred because the cardholder was not required to sign an updated cardholder agreement when the monthly and daily limits were increased in 2011. Prudent management of the P-Card program would require an up-dated agreement and reconciliation of the agreements with the system on an annual basis. Missing or unavailable cardholder agreements impair the County's ability to monitor and enforce its policies.

Recommendation 2.1

The Purchasing Services Division verify the existence and completion of all current P-Card holders and implement a system to track the receipt of cardholder agreements by department.

Management position concerning the recommendation: Concur

Comments:

The department will develop a spreadsheet to track the card holder agreements. It has been the Purchasing Department's policy not to distribute P-Card's to any individual until a signed card holder agreement is on file and the individual has taken the P-

Card training class. However, since some attendees appear to be missing from Purchasing's files, a tracking spreadsheet will be implemented to ensure a backup of attendees.

Actual/estimated Date of Corrective Action: December 31, 2014

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

Recommendation 2.2

The Purchasing Services Division complete missing cardholder agreements immediately.

Management position concerning the recommendation: Concur

Comments:

The department has actively been reviewing the list of cards issued by the bank and matching them to our cardholder agreements on file. When no agreement has been found, the department is requesting a copy from the individual card holder or having them sign a new agreement. This process is almost completed.

Actual/estimated Date of Corrective Action: December 1, 2014

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

Recommendation 2.3

The Purchasing Services Division conduct a comparison of cardholder agreement daily limits, monthly limits and number of transaction with system settings.

Management position concerning the recommendation: Concur

Comments:

The card system will not allow transactions to exceed the limits set for each individual P-Card. Occasionally; there are specific times when the limits need to be altered to conduct needed County business. The Purchasing Department has the ability to adjust these increase requests online, and has done so on a case by case basis. The implementation of a monitoring system needs to be done to be sure that limits are returned to the original limits once the needed purchase has been completed, or that new cardholder agreements are submitted if the change is to be permanent.

Actual/estimated Date of Corrective Action: December 1, 2014

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

Finding 3: Mandatory P-Card Training

Mandatory P-Card training could not be verified for 83 (62%) of 132 P-Card cardholders because the cardholders were either issued P-Cards without attending the mandatory training or

Division training record retention practices were inadequate. Omitted P-Card training increases the chances of P-Card misuse or abuse by County personnel because they are unaware of P-Card program requirements. Inadequate record keeping of mandatory P-Card training could lead to inefficiencies and delays in corrective actions arising from P-Card abuse and misuse.

Recommendation 3.1

The Purchasing Services Division Identify cardholders with missing training documents and require those individuals to attend P-Card training.

Management position concerning the recommendation: Concur

Comments:

The Purchasing Department will develop a new training program and require all card holders to take a refresher course on a scheduled basis to maintain their authorization. A log will be developed to document the attendance. The Department will investigate the feasibility of an on line refresher training course to make it more convenient to users, and will implement if cost effective. A refresher course is planned to be a subject at the Department heads meeting early in 2015.

Actual/estimated Date of Corrective Action: June 1, 2015

The log, procedure manual and training will need to be developed and it will take several refresher sessions to reach all card holders.

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

Recommendation 3.2

The Purchasing Services Division review monthly management reports to ensure copies of mandatory training sessions are on file for new P-Card cardholders.

Management position concerning the recommendation: Concur

Comments:

The tracking reports will be reviewed monthly to ensure copies of training are maintained.

Actual/estimated Date of Corrective Action: March 1, 2015

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