

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



ITEM: 2.17
(ID # 12920)

MEETING DATE:
Tuesday, June 30, 2020

FROM : AUDITOR CONTROLLER:

SUBJECT: AUDITOR-CONTROLLER: Internal Audit Report 2020-018: Riverside County Law Offices of the Public Defender, Countywide Procurement Card Audit, District: All. [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2020-018: Riverside County Law Offices of the Public Defender, Countywide Procurement Card Audit

ACTION: Consent


Paul A. Angulo, County Auditor-Controller 6/19/2020

MINUTES OF THE BOARD OF SUPERVISORS

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

BACKGROUND:

Summary

In accordance with Board of Supervisors Resolution 83-338, we completed an audit of the Riverside County Law Offices of the Public Defender. This audit is conducted to provide management and the Board of Supervisors with an independent assessment of internal controls over the usage of procurement cards.

Please refer to audit report for conclusion on the results of our audit.

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.

Riverside County Auditor-Controller – Internal Audit Report 2020-018: Riverside County Law Offices of the Public Defender, Countywide Procurement Card Audit



Stephanie Perez, Principal Management Analyst 6/23/2020

Internal Audit Report 2020-018

**Riverside County
Law Offices of the Public Defender
Countywide Procurement Card Audit**

Report Date: June 16, 2020



**Office of Paul Angulo, CPA, MA
Riverside County Auditor-Controller
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**Paul Angulo, CPA, MA
Riverside County Auditor-Controller**

**Oscar Valdez
Assistant Auditor-Controller**

June 16, 2020

Steven Harmon, Public Defender
Riverside County Law Offices of the Public Defender
4075 Main Street
Riverside, CA 92501

**Subject: Internal Audit Report 2020-018: Riverside County Law Offices of the Public
Defender, Countywide Procurement Card Audit**

Dear Mr. Harmon:

In accordance with Board of Supervisors Resolution 83-338, we completed an audit of the Riverside County Law Offices of the Public Defender to provide management and the Board of Supervisors with an independent assessment of internal controls over the usage 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 travel expenditures, non-approved county merchant commodities, and the approval process of procurement card expenditures.

**Internal Audit Report 2020-018: Riverside County Law Offices of the Public Defender,
Countywide Procurement Card Audit**

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
George Johnson, County Executive Officer
Grand Jury

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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.

The Riverside County Purchasing & Fleet Services Department (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.

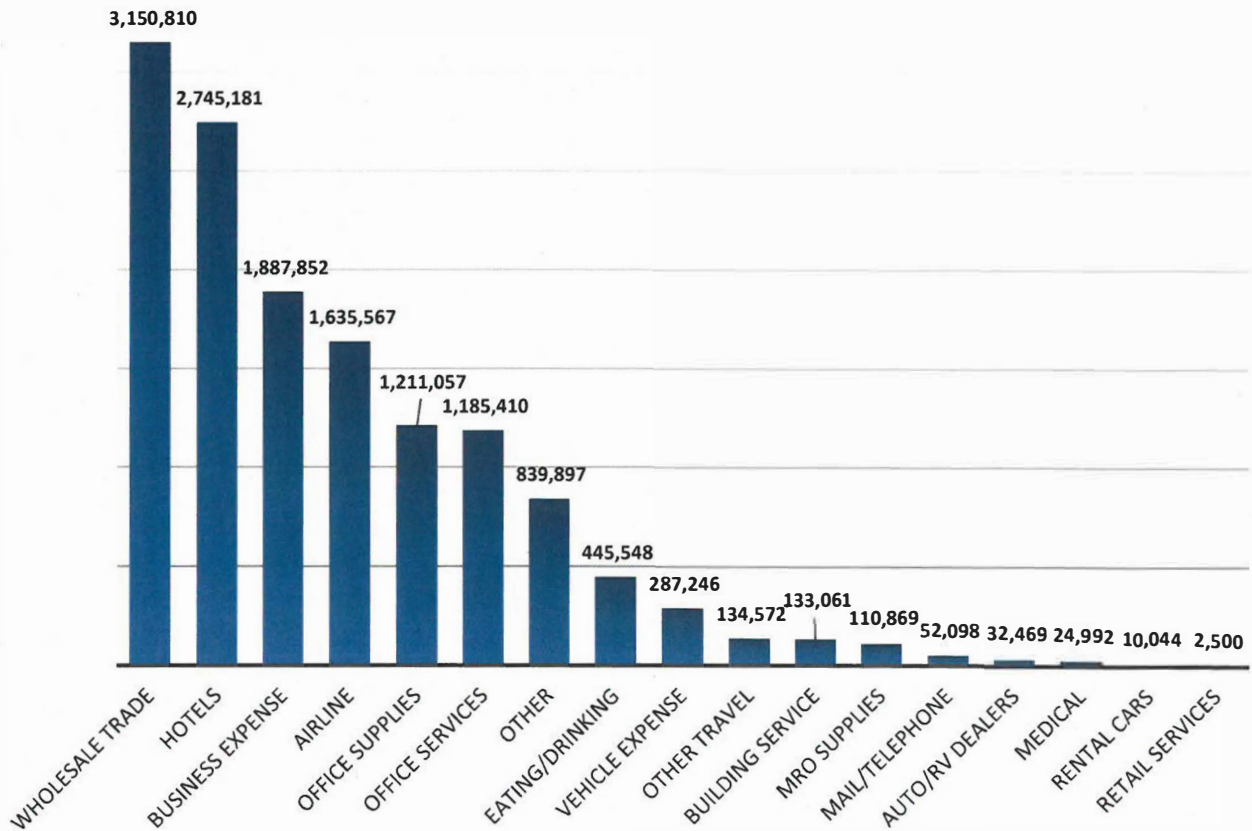
Purchasing authorized approximately 398 procurement cards to cardholders located in 33 departments, 276 of which were assigned to the 12 departments included in the countywide procurement card audit. Each card holder is granted a single transaction amount, number of transactions per day and a monthly 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 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.

**Internal Audit Report 2020-018: Riverside County Law Offices of the Public Defender,
 Countywide Procurement Card Audit**

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



**Internal Audit Report 2020-018: Riverside County Law Offices of the Public Defender,
 Countywide Procurement Card Audit**

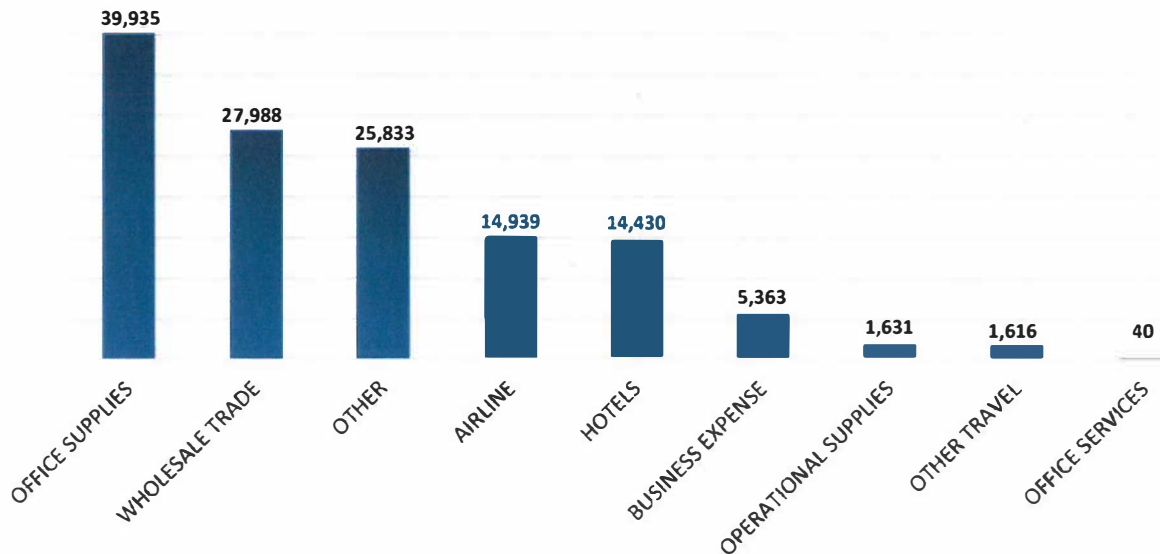
Procurement Cards

Background

Riverside County Law Offices of Public Defender (Public Defender) had four procurement cardholders as of December 31, 2019. Procurement card expenditures for the audit period July 1, 2017, through December 31, 2019, included 362 transactions totaling \$131,775.

The chart below illustrates procurement card expenditures for the audit period categorized in the following areas: office supplies, wholesale trade, airline, hotels, business expenses, operational supplies, other travel, and other. Expenditures for the top three merchant groups include office supplies (\$39,935), wholesale trade (\$27,988), and other (\$25,833).

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



**Internal Audit Report 2020-018: Riverside County Law Offices of the Public Defender,
Countywide Procurement Card Audit**

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment about the adequacy and effectiveness 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 4, 2019, through April 9, 2020, for operations from July 1, 2017, through December 31, 2019. To accomplish our objectives, we performed the following:

- Identified the policies, procedures, and board policies, specifically:
 - County of Riverside Procurement Card Program, Procedure Handbook (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.
- Obtained a listing of all procurement cardholders and reviewed transactions for compliance to cardholder agreements.
- Analyzed procurement card data pulled from Riverside County financial systems and U.S. Bank for audit period.
- Selected a sample of procurement card expenditures and reviewed supporting documentation.
- Examined cardholder transaction logs, receipts, and credit card statements.
- Verified whether appropriate levels of management review and approval existed and were exercised.

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- Interviewed key personnel regarding procurement card internal controls and their processes.

Audit Highlights

Existing Conditions

The current processes have not mitigated the following areas:

- Non-compliance with Board Policy D-1. Specifically, the use of procurement card for lodging expenses that exceed the daily commute for travel distance.
- Procurement card usage for non-approved county merchant commodities is not in compliance with the cardholder agreement.
- Procurement card transaction review and approval responsibilities are not adequately designated.

Improvement Opportunities

The improvement opportunities are in the following areas:

- Ensure travel expenditures are in compliance with Board of Supervisors Policy D-1.
- Review cardholder agreements and update to reflect approved merchant commodities as necessary.
- Designate procurement card responsibilities and ensure the review and approval of expenditures are completed by authorized personnel.

Audit Conclusion

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to travel expenditures, non-approved county merchant commodities, and the approval process of procurement card expenditures.

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Finding 1: Compliance with Procurement Card Policies

We identified the following in our review of procurement cardholder expenditures and supporting documentation:

- Identified six procurement card transactions for lodging, where travel occurred between Public Defender offices, but the charges exceeded the daily commute for travel distance. Board of Supervisors Policy D-1, Reimbursement for General Travel and Other Actual and Necessary Expenses, and as referenced in the Riverside County Procurement Card Program Procedure Handbook states, "Approval of extended lodging for any location in Riverside, Orange, San Diego, Imperial, Los Angeles and San Bernardino counties is required prior to the travel occurrence and must be less costly than a daily commute."
- Thirty-six procurement card purchases did not comply with the established county approved merchant commodities in the cardholder agreements for the Public Defender. These purchases included electronics, printer parts, office supplies, and court record requests where the county approved merchant commodities for the cardholders were not identified in the cardholder agreement. Riverside County Procurement Card Program Procedure Handbook, Controls, states, "In addition to dollar limits, a separate spending control, based on merchant classification is established at the Cardholder level."
- Identified procurement card approvals did not comply with the procurement card manual for the following:
 - The department does not have a designated billing official that differs from the approving official.
 - Four vouchers were approved by a staff member other than the designated approving official or billing official.
 - One approved voucher included a monthly procurement card purchase report and statement of account that was not signed by the cardholder.

Standard Practice Manual 1001, *Internal Controls*, states, "Duties are divided or segregated so that no one person has complete control over a key function or activity." It also states, "Well-documented policies and procedures are established and maintained to promote employee understanding." Riverside County Procurement Card Program Procedure Handbook states, "The Cardholders' signatures on the Statement of Account and the

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Cardholder's Procurement Card Payment Package will be evidence of the Cardholders completion of the required reconciliation process."

Procurement card noncompliance in travel expenditures, county approved merchant commodities, and proper approvals occurred due to department oversight. When internal controls are not in place, procurement card usage results in non-compliance with county policies and procedures and may result in excess expenditures over appropriations and misuse of county resources.

Recommendation 1.1

Ensure procurement card holders comply with travel purchases as they relate to Board of Supervisors Policy D-1.

Management's Response:

"Partially Concur. The Public Defender's Office allows attorneys sent out to trials in outlying courtrooms (a courtroom that is not the attorney's assigned location) the option to stay in a hotel for the duration of their trial. This is a necessary expenditure and is included in our budget each year. Allowing an attorney to stay close to the courtroom is essential and therefore permitted to allow the attorney to prepare for the next day's court proceedings, converse with the client and witnesses. However, we welcome any suggestions as to how we might accomplish this within County guidelines."

Auditor's Comment:

We recommend the department obtain an exception to Board of Supervisors Policy D-1 for attorney travel to outlying courtrooms.

Actual/estimated Date of Corrective Action: **"No actual date, but can revise our Department's policy ASAP to act on suggestions."**

Recommendation 1.2

Ensure cardholder agreements are revised, as changes occur, to reflect the approved county merchant commodities.

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Management's Response:

"Concur. The Public Defender's Office believed they, at the time each of these purchases were made, were purchasing within the cardholder's authority. After reviewing transactions with the Auditor, we understand and agree with the recommendation and we immediately made the corrective steps to update cardholder's spending classifications to include these transactions moving forward."

Actual/estimated Date of Corrective Action: **"Contacted Central Purchasing to update cardholder's spending classifications."**

Recommendation 1.3

Ensure procurement card approval responsibilities are designated, approvals are completed by authorized individuals, and signatures are obtained by cardholders prior to approval.

Management's Response:

"Concur. The Public Defender's Office has limited Administrative staff so having a person in a dual role is necessary to provide needed coverage. After reviewing with the Auditors, we immediately added additional Management staff to both the Approving Official and Billing Official roles. These will also be dual roles but allows the Department to maintain the required division of duties while utilizing the small number of staff that is available."

Actual/estimated Date of Corrective Action: **"In order to add new approvers, they must take an online class. We are currently working on that process."**