COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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January 9, 2012

TO: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **DEPARTMENT OF PARKS AND RECREATION PURCHASING AND CONTRACTING REVIEW**

In 2007, based on issues noted in our review of procurement in one County department, the Board instructed the Auditor-Controller to develop a risk-based plan to audit procurement operations at all County departments. In accordance with the developed plan, and at the request of Department of Parks and Recreation (DPR or Department) management, we completed a review of DPR's compliance with County procurement and contracting policies and procedures. We evaluated DPR's controls over its purchasing process; reviewed a sample of purchases, contracts and revolving fund transactions; and interviewed procurement management, staff, and vendors.

Summary of Findings

We noted that DPR successfully obtains the goods and services necessary to operate the Department. However, DPR management needs to ensure the Department complies with County purchasing requirements. The following are examples of areas for improvement:

- DPR needs to ensure that they obtain approved requisitions before ordering goods and services. We reviewed 50 purchases, totaling $890,000, and noted that DPR placed nine orders (18%), totaling $170,000, without approved requisitions.

DPR's attached response indicates they implemented the County's new eProcurement System in July 2011. The System includes controls to ensure that purchases are approved as required, and electronically stores copies of approved requisitions.

- DPR needs to match requisitions/purchase orders, packing slips, and invoices before paying vendors to verify prices and quantities, and that departments received the goods/services before vendors are paid. For eight (16%) of 50 payments we reviewed, DPR did not match requisitions/purchase orders, packing slips, and invoices before paying vendors. For two payments, DPR paid vendors based on the quantity of goods invoiced, instead of the quantity actually received, resulting in paying for goods that had not been received at that time.

  DPR's attached response indicates they have taken action by ensuring staff more closely monitor the three-way match before processing payments. In addition, an electronic three-way match is performed in eProcurement before generating the payment document.

- DPR needs to ensure credit cardholders comply with the Department's Internal Control Plan (ICP). All ten CAL-Card purchases we reviewed, totaling $5,200, were for items that should not have been purchased with credit cards under the Department's ICP. In addition, one cardholder split a purchase into two transactions to circumvent the credit card limit.

  DPR's attached response indicates they have taken action by providing training to cardholders, and re-emphasizing the policies and procedures for card usage. In addition, DPR management counseled the cardholder who split a purchase into two transactions.

- DPR needs to re-evaluate their revolving fund needs. DPR has an $80,000 revolving fund, but only spends an average of $1,200 a month from the fund. The County Fiscal Manual states that revolving funds should be limited to one month's expenditures to avoid excessive cash balances.

  DPR's attached response indicates they have decreased their Special Recreation Revolving Fund Account by $30,000, and will continue to evaluate the Fund to determine the appropriate amount.

We also noted that DPR can improve internal controls over accounts payable, eCAPS security, contracting, and completion of their Internal Control Certification Program. The detailed results of our review and recommendations for corrective action are in Attachment 1.

Although this report is a review of DPR's procurement operations, we recommend that other County departments review the findings in this report, and ensure the necessary controls are in place.

Review of Report

We discussed the results of our review with DPR management. The Department generally agreed with our findings and recommendations. DPR's response (Attachment 2) describes the corrective action they have taken to address the recommendations in our report.

We thank DPR management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Robert Campbell at (213) 253-0101.

WLW:JLS:RGC:MP

Attachments

c: William T Fujioka, Chief Executive Officer
Rita Robinson, Deputy Chief Executive Officer
Russ Guiney, Director, Department of Parks and Recreation
Tom Tindall, Director, Internal Services Department
Public Information Office
Audit Committee

DEPARTMENT OF PARKS AND RECREATION
PURCHASING AND CONTRACTING REVIEW

Background and Scope

The Department of Parks and Recreation's (DPR or Department) Procurement Unit (Procurement) is responsible for the overall purchasing functions of the Department, and the Accounts Payable (A/P) Unit is responsible for verifying and processing payments. DPR's Fiscal Year (FY) 2011-12 services and supplies budget is approximately $41 million.

We reviewed DPR's purchasing, contracting, and revolving fund practices for compliance with County policies and procedures. Our review included interviewing DPR personnel and vendors, evaluating purchasing and payment controls, and reviewing a sample of purchases, contracts, and revolving fund transactions.

COMMENTS AND RECOMMENDATIONS
PURCHASING

DPR's Procurement Unit is responsible for reviewing requisitions, obtaining price quotes, reviewing invoices for accuracy, and comparing invoices to purchase orders and receiving reports before authorizing payments. The A/P Unit reviews all purchase documentation to ensure orders are received and appropriately invoiced, follows up on outstanding invoices, and processes payments.

We noted that DPR successfully obtains the goods and services necessary to operate the Department. However, as indicated below, DPR management needs to ensure the Department complies with County purchasing requirements.

General Purchasing and Payment Controls

County purchasing guidelines require departments to obtain approved requisitions before ordering goods and services, verify that goods/services were received before paying vendors, and ensure that vendors are paid in a timely manner. We reviewed 50 purchases made over a one-year period, totaling approximately $890,000, and noted the following:

- **Purchase Requisitions** – County Fiscal Manual (CFM) Section 5.1.2 requires appropriate supervisory approval before ordering services and supplies. We noted that DPR placed nine (18%) of the 50 purchases reviewed, totaling $170,000, without an approved requisition/purchase order. In addition, DPR could not provide a requisition for one $5,300 purchase. DPR management should ensure that Procurement staff prepare, and managers approve, requisitions before purchases are made.

- **Verifying Goods/Services Were Received** – CFM Sections 4.5.2 and 5.2.4 require staff to verify that all items on the vendor's packing slip are actually received before making payments. For services, staff must sign the invoice indicating that the services were actually received. DPR did not have documentation, such as signed invoices or packing slips, that goods/services were received for nine (18%) purchases. DPR should ensure staff document that they have received goods or services for each purchase before paying vendors.

- **Invoice Processing** – CFM Sections 4.5.2 and 5.2.4 require departments to match requisitions/purchase orders, packing slips, and invoices before paying vendors, and mark invoices "paid" to prevent duplicate payments. For eight (16%) purchases, totaling $118,100, A/P staff did not ensure that the invoices agreed with the requisition and/or receiving reports. For two of the purchases, DPR paid vendors based on the quantity of goods invoiced, instead of the quantity actually received, which resulted in paying $6,100 for goods that had not been received at that time. The goods were received after DPR paid for them. A/P staff also did not mark any of the 50 invoices "paid". DPR should ensure that staff match requisitions/purchase orders, packing slips, and invoices before paying vendors, and mark invoices "paid".

- **Timeliness of Payments** – CFM Section 4.5.13 requires departments to pay vendors within 30 days of receiving the invoice. DPR did not pay 29 (58%) of the 50 payments reviewed within 30 days, including eight that were paid more than 60 days late, and four that were paid more than 90 days late. The late payments were generally due to regional offices not sending requisitions/purchase orders and packing slips to Procurement on time, and because DPR only had one employee assigned to obtain the purchasing documents for all Departmental purchases. While the late payments did not result in any lost discounts, DPR should ensure that vendors are paid within 30 days of receiving the invoice, and assign additional staff to match purchasing documents before processing payments.

Recommendations

DPR management:

1. **Ensure staff prepare and managers approve requisitions before purchases are made, and Procurement keeps copies of approved requisitions.**

2. **Ensure staff document that they have received goods or services for each purchase before paying vendors.**

3. **Ensure staff match requisitions/purchase orders, packing slips, and invoices before paying vendors, and mark invoices "paid".**

4. **Ensure that regional offices send payment documentation to Accounts Payable timely, and that vendors are paid within 30 days of receiving the invoice.**

5. **Assign additional staff to obtain and match purchasing documents before processing payments.**

Controls Over County Credit Cards

DPR has 66 County credit cards issued under the State's "Voyager Card" and Visa "CAL-Card" programs. Employees assigned a Voyager Card may purchase fuel at designated gas stations. Employees assigned a CAL-Card may purchase maintenance and building supplies up to $200 per transaction, with a $1,000 monthly limit.

CAL-Card Purchasing Compliance

CFM Section 4.4.4 requires departments to submit an Internal Control Plan (ICP) to the Auditor-Controller for approval before they can participate in the CAL-Card program. Once approved, departments are responsible for complying with the ICP.

We reviewed ten CAL-Card transactions; totaling approximately $5,200, and noted:

- All ten transactions were for items that should not be purchased with credit cards under DPR's ICP. These purchases included training, job vacancy advertisements, and convention fees that should be purchased using normal County procurement procedures.

- One cardholder split a purchase into two transactions to circumvent his transaction limit.

Recommendation

6. **DPR management ensure that all credit card purchases comply with the Department's ICP, and that cardholders do not circumvent purchase limits by splitting transactions.**

Card Issuance Procedures

CFM Section 4.4.5 requires cardholders to sign an agreement acknowledging receipt and responsibility for the cards. We reviewed card issuance documents for all 66 cards, and noted 17 (26%) cardholders did not sign the agreements before they received their cards. In 15 instances, someone other than the cardholder (e.g., a supervisor, secretary, etc.) signed the agreement. In the other two instances, DPR did not have an agreement from the cardholder.

To ensure that cardholders acknowledge their responsibilities, DPR should require cardholders to sign credit card agreements before receiving their cards.

Recommendation

7. **DPR management require cardholders to sign credit card agreements before receiving their cards.**

Timeliness of Bill Payments

The CAL-Card program requires the County to pay its credit card bills within 45 days, and the Voyager program requires payment within 25 days. We noted that 14 (70%) of the 20 payments (ten CAL-Card and ten Voyager) reviewed were paid an average of 39 days late. We also noted that, for all ten Voyager payments reviewed, the Department did not pay the invoiced amount, because they had not reconciled the bills when they made the payments.

Late payments may result in late fees, interest charges, and possible credit card suspension. While DPR was not charged any late fees or interest, Department management should ensure that CAL-Card and Voyager credit card bills are paid within the required timeframes. The Department should also ensure that staff reconcile Voyager bills timely.

Recommendation

8. **DPR management ensure that CAL-Card and Voyager credit card bill payments are made within the required timeframes, and that staff reconcile Voyager bills timely.**

eCAPS Security Access

The County's accounting and purchasing system (eCAPS or System), allows authorized personnel to initiate and approve payment transactions online. To reduce the risk of abuse, departments should periodically review eCAPS users' access roles for appropriateness, and remove eCAPS capabilities for employees who leave the department.

We reviewed DPR's eCAPS user list and noted:

- Two employees continued to have eCAPS access even though they left the Department up to one month earlier.
- Two users had both payment approval and vendor creation/modification capabilities, which is prohibited by CFM Section 4.5.5.
- DPR has four more payment approvers than authorized by their internal control guidelines for both general and restricted payments.

DPR management should develop procedures to immediately remove eCAPS access for employees who leave the Department. DPR should also should periodically review the Department's eCAPS' users list to ensure compliance with County fiscal policy and the Department's internal control guidelines.

Recommendations

DPR management:

9. **Develop procedures to immediately remove eCAPS access for employees who leave the Department.**

10. **Periodically review the Department's eCAPS users list to ensure compliance with County fiscal policy and the Department's internal control guidelines.**

Monitoring Pending/Rejected eCAPS Payments

If eCAPS cannot process a payment request because of missing information, approvals, etc., the System moves the transactions to a pending/rejected file. Departments are required to review the pending/rejected transactions, and correct the errors so the payments can be processed. At the time of our review, DPR had 107 (27%) of 390 transactions in the pending/rejected file that were more than 14 days old, including 61 that were older than 30 days, and the Department had not investigated the reasons for the delays.

DPR management should periodically review the eCAPS pending/rejected files to identify, and resolve transactions that have been pending/rejected for extended periods of time.

Recommendation

11. **DPR management staff periodically review the eCAPS pending/rejected files to identify and resolve transactions that have been in these files for extended periods.**

CONTRACTING

DPR administers over 50 service contracts for landscaping, consulting, and other services, totaling more than $7.6 million annually.

Unbalanced Workflow

CFM Section 12.6.0 requires that departments plan ahead and solicit, develop, review and approve, contracts timely to avoid retroactive contracts and gaps in service.

We reviewed 25 contracts, and noted that the Department did not re-solicit seven (28%) contracts before they expired. DPR obtained Board approval to extend all seven contracts on a month-to-month basis while they completed new solicitations.

DPR management indicated that they could not re-solicit all these contracts timely because many of the contracts expired at the same time, resulting in a spike in DPR's contract workload. Department management should ensure contracts are re-solicited timely by staggering future contract expiration dates.

Recommendation

12. DPR management ensure contracts are re-solicited timely by staggering future contract expiration dates.

REVOLVING FUNDS

A revolving fund is a predetermined amount of money that is kept on hand to make change, for small purchases, and other uses.

DPR has an $80,000 revolving fund, comprised of 29 sub-accounts, and a separate $750 revolving fund originally established for the Arboreta and Botanic Gardens (Arboreta) when it was a separate County department.

Revolving Fund Balance

CFM Sections 1.6.4 and 1.6.6 require that each petty cash revolving fund be equal to approximately one month's expenses, and that departments replenish revolving funds at least once per month (or more often if the need arises). In addition, CFM Section 1.6.3 requires departments to keep each revolving fund assignment separately.

As noted earlier, DPR has an $80,000 revolving fund, but spends an average of less than $1,200 a month from the fund. We also noted that DPR inappropriately combined the Arboreta revolving fund with DPR's revolving fund. DPR should have closed the $750 revolving fund when the Arboreta and Department merged.

Maintaining excessive revolving fund balances increases the risk of loss. In addition, combining funds makes it difficult to properly account for each revolving fund. DPR management should close the Arboreta revolving fund, determine the appropriate amount for their Departmental revolving fund, and return any excess funds to the Auditor-Controller's Accounting Division.

Recommendation

13. DPR management close the Arboreta revolving fund, determine the appropriate amount for their Departmental revolving fund, and return any excess funds to the Auditor-Controller's Accounting Division.

Statement of Responsibility

CFM Section 1.6.3 states that all revolving fund custodians, including sub-assignments, must sign a Statement of Responsibility form, updated at least annually, or whenever fund custodians change.

We reviewed DPR's 29 revolving fund sub-assignments, and noted 17 (59%) instances where the Department did not have current Statement of Responsibility forms. Specifically, 16 forms were over a year old, and the Department did not have a form from one sub-assignment custodian.

Without current Statements of Responsibility, DPR cannot reliably identify the current revolving fund custodians, which reduces accountability in the event that funds are lost or misappropriated. Department management needs to ensure that all employees who have custody of revolving funds sign a Statement of Responsibility form annually.

Recommendation

14. DPR management ensure that all employees who have custody of revolving funds sign a Statement of Responsibility form annually.

INTERNAL CONTROL CERTIFICATION PROGRAM

The Auditor-Controller developed the Internal Control Certification Program (ICCP) to assist County departments in evaluating and improving internal controls over their fiscal operations. Departments must review and evaluate controls in key fiscal areas, and certify that proper controls are in place, or that action is being taken to correct any deficiencies or weaknesses noted.

Many of the issues we noted in DPR's procurement and contracting operations should have been identified when DPR completed their ICCP. While the Department did identify some of the procurement control weaknesses we noted during our review, DPR did not develop action plans to address and correct the weaknesses identified.

DPR management should ensure that future ICCP questionnaires are accurately completed, all internal control weaknesses are identified, and an improvement plan is developed to address each weakness.

Recommendation

15. DPR management ensure that the ICCP questionnaires are accurately completed, all internal control weaknesses are identified, and an improvement plan is developed to address each weakness.

Attachment 2

COUNTY OF LOS ANGELES
DEPARTMENT OF PARKS AND RECREATION
"Creating Community Through People, Parks and Programs"
Russ Guiney, Director

November 22, 2011

TO: Wendy L. Watanabe
Auditor-Controller

FROM: Russ Guiney
Director

SUBJECT: **DEPARTMENT OF PARKS AND RECREATION – PURCHASING AND CONTRACTING REVIEW**

Attached is the Department of Parks and Recreation's (DPR) response to the recommendations contained in the Auditor-Controller's (A-C) November XX, 2011, draft report of DPR's Purchasing and Contract Review. We concur with the findings and have initiated corrective actions (see attached report) to address each of the A-C's recommendations.

If you have any questions or require additional information, please let me know or you may have staff contact Bob Maycumber, Administrative Deputy at (213) 368-5823.

RG:JW:ram

Attachment

c: Bob Maycumber

Attachment 2

COUNTY OF LOS ANGELES – DEPARTMENT OF PARKS AND RECREATION

RESPONSE TO AUDITOR-CONTROLLER - PURCHASING AND CONTRACTING REVIEW

Audit Recommendation No. 1

Ensure staff prepare and managers approve requisitions before purchases are made and Procurement keeps copies of approved requisitions.

Department Response:

Department of Parks and Recreation (DPR or Department) management will ensure that staff prepares and managers approve requisitions before purchases are made and Procurement staff keeps copies of approved requisitions. Effective, July 1, 2011, DPR went "live" in eCAPS-Procurement (eProcurement) to process purchase requisitions. eProcurement requires different levels for data entry and approvals of the requisitions. Employees at staff levels currently prepare and managers approve requisitions. All approved requisitions are electronic and stored in the system. Prior to eProcurement, DPR used a purchasing system called "Maximo" since October, 2009. Maximo had similar functionality with eProcurement for electronic data entry, approval, and storage of requisitions.

Audit Recommendation No. 2

Ensure staff document that they have received goods and services for each purchase before paying vendors.

Department Response:

DPR management will ensure staff document that they have received goods and services for each purchase before paying vendors. DPR is now requiring field staff to document goods received through a stamp on all packing slips and all services rendered on invoices for services. Receiving information from packing slips is also required in eProcurement before vendor payment is processed.

Audit Recommendation No. 3

Ensure staff match requisitions/purchase orders, packing slips and invoices before paying vendors, and mark invoices "paid".

Department Response:

DPR management will ensure that Accounts Payable staff match requisitions/purchase orders, packing slips and invoices before paying vendors, and mark invoices "paid". Staff has been instructed to and is monitoring the three-way match more closely, before processing invoices. In addition, an electronic three-way match process is also performed in eProcurement before the payment document is generated.

Audit Recommendation No. 4

Ensure that regional offices send payment documentation to Accounts Payable timely and that vendors are paid within 30 days of receiving the invoice.

Department Response:

DPR management will ensure that field offices send payment documentation to Accounts Payable timely and that vendors are paid within 30 days of receiving the invoice from the vendor.

Audit Recommendation No. 5

Assign additional staff to obtain purchasing documents before processing payments.

Department Response:

DPR management will emphasize to Accounts Payable staff and Payment Voucher Approvers to match purchasing documents before processing payments. DPR currently has one staff person obtaining purchasing documents. We have assigned a group of well experienced staff to evaluate DPR's procurement/payment practices, including resources assigned to these functions. The group will be making recommendations to management within the next several weeks.

Audit Recommendation No. 6

DPR management ensure that all credit card purchases comply with the Department's ICP and that cardholders do not circumvent purchase limits by splitting transactions.

Department Response:

DPR management will ensure that all credit card purchases comply with the Department's ICP and that cardholders do not circumvent purchase limits by splitting transactions. The one cardholder that split a purchase into two transactions, to circumvent the limit, was counseled. In addition, Procurement management provided training and re-emphasized the policies and procedures for card usage.

Audit Recommendation No. 7

DPR management require cardholders to sign credit card agreements before receiving the card.

Department Response:

DPR management will require that cardholders to sign credit card agreements before receiving the card. DPR verified that all cards issued had a corresponding signed credit card agreement.

Audit Recommendation No. 8

DPR management ensure that CAL-Card and Voyager credit card bill payments are made within the required timeframes and that staff reconcile Voyager bills timely.

Department Response:

DPR management will ensure that CAL-Card and Voyager credit card bill payments are made within the required timeframes and that staff reconcile Voyager bills timely. DPR reassigned the Voyager credit card bill payment responsibilities to another Procurement staff person to avoid delays in sending bills out to field agencies and processing payments. This has been effective.

Audit Recommendation No. 9

Develop procedures to immediately remove eCAPS access for employees who leave the Department.

Department Response:

DPR management will develop procedures to immediately remove eCAPS access for employees who leave DPR. Also, DPR has modified its P&R 28 (Employee Termination Form) to add a question which asks whether the departing staff has access to eCAPS. If the answer is yes, the DPR's eCAPS Security Coordinator (Coordinator) will be notified to remove the user, in eCAPS, immediately. The Coordinator will forward a listing of eCAPS users to DPR's Human Resources Division (HR), on a quarterly basis. HR will cross-reference the listing with DPR's Item Control and report any discrepancies to the Coordinator. Discrepancies will immediately be resolved.

There will be times when the Coordinator will happen to become aware of an employee leaving DPR before a P&R 28 is completed and forwarded to the Coordinator. In those situations, the Coordinator will ensure that the employee is, in fact, leaving DPR, then will immediately remove the departing employee from eCAPS access.

Audit Recommendation No. 10

Periodically review the Department's eCAPS users list to ensure compliance with County fiscal policy and the Department's internal control guidelines.

Department Response:

The Coordinator reviews DPR's eCAPS user listing on a quarterly basis. During this review, the Coordinator reconciles DPR's listing to security reports from Cognos. The County Fiscal Manual and DPR's Internal Control Plan (ICP) are used to guide the review.

Audit Recommendation No. 11

DPR management staff periodically review the eCAPS pending/rejected files to identify and resolve transactions that have been in these files for extended periods.

Department Response:

DPR management staff will periodically review the eCAPS pending/rejected files to identify and resolve transactions that have been in these files for extended periods. Designated staff are now printing the eCAPS Documents Status report for all pending/rejected/draft documents, on a weekly basis. Each section (Accounting and Procurement) is responsible for monitoring the status report and clearing any outstanding documents pertaining to the section as soon as possible. An overall Status Report is sent to management for review.

Audit Recommendation No. 12

DPR management ensure contracts are re-solicited timely by staggering future contract expiration dates.

Department Response:

DPR management will ensure contracts are re-solicited timely by staggering future contract expiration dates. In September 2009, the Board of Supervisors (Board) approved DPR to amend 26 Prop A contracts to extend the contract two additional years in exchange for a cost reduction. The Board's approval allowed DPR to "stagger" 26 (approximately 63 percent) of their Prop A contracts, as recommended by the Auditor-Controller's (A-C) report.

Audit Recommendation No. 13

DPR management close the Arboreta revolving fund, determine the appropriate amount for their Departmental revolving fund and return any excess funds to theA-C's Accounting Division.

Department Response:

DPR management will close the Arboreta revolving fund, determine the appropriate amount for their Departmental revolving fund and return any excess funds to the Auditor-Controller's Accounting Division. DPR attempted to close Arboreta revolving fund account, in the amount of $750, in 2008. However, due to lack of supporting documentation, our request was not processed by A-C. Therefore, the closure of the Arboreta revolving fund is now pending the final audit report.

In addition, DPR requested a decrease of $30,000 for the Special Recreation Revolving Fund Account. The request was approved by the A-C.

Audit Recommendation No. 14

DPR management ensure that all employees who have custody of revolving funds sign a Statement of Responsibility form annually.

Department Response:

DPR management will ensure that all employees who have custody of revolving funds sign a Statement of Responsibility form, annually. DPR has implemented the procedure to require all Petty Cash/Change Fund custodians to sign a Statement of Responsibility, annually and submit the completed form to DPR's Accounting Section.

Audit Recommendation No. 15

DPR management ensure that the ICCP questionnaires are accurately completed, all internal control weaknesses are identified and an improvement plan is developed to address each weakness.

Department Response:

DPR management will ensure that the ICCP questionnaires are accurately completed, all internal control weaknesses are identified and an improvement plan is developed to address each weakness.