

**COUNTY OF SACRAMENTO
CALIFORNIA**

For the Agenda of:
July 25, 2017
“*Communications Received and Filed*” Item

To: Board of Supervisors
From: Department of Finance
Subject: Procurement Card Program’s Compliance Review For The Department Of
General Services, For The Period Of July 1, 2015, To February 28, 2017

Supervisory
District(s): All

Contact: Joyce Renison, Assistant Auditor-Controller, 874-7248

RECOMMENDATION

Receive and file the attached agreed upon procedures report, *Procurement Card Program’s Compliance Review for the Department of General Services, for the Period of July 1, 2015, to February 28, 2017*

Respectively submitted,

Ben Lamera
Director of Finance

Attachment

ATT 1 - Procurement Card Program’s Compliance Review for the Department of General
Services, for the Period of July 1, 2015, to February 28, 2017

Department of Finance

Ben Lamera,
Director



Agenda Date: July 25, 2017

ATT 1

Auditor-Controller Division

Joyce Renison,
Assistant Auditor-Controller

County of Sacramento

June 7, 2017

To: Michael Morse, Director
Department of General Services

From: Ben Lamera
Director of Finance

By: Alan A. Matré
Chief of Audits

A handwritten signature in blue ink, appearing to read "Alan A. Matré", is written over the printed name and title.

Subject: **PROCUREMENT CARD REVIEW FOR THE PERIOD OF JULY 1, 2015
TO FEBRUARY 28, 2017**

In accordance with the County of Sacramento Procurement Card Program (program) Guidelines and Procedures Manual, County of Sacramento Procurement Card Program Policy, and County of Sacramento Travel Policy, we have performed the procedures enumerated below to the County of Sacramento, Department of General Services' (General Services) participation in the program for the period of July 1, 2015 to February 28, 2017. General Services' management is responsible for establishing and maintaining effective internal controls, and compliance with the program's guidelines, policy, and procedures, and all other applicable laws, regulations, and statutory requirements.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. This report is applicable solely to procedures referred below and is not intended to pertain to any of General Services' other operations, procedures, or compliance with laws and regulations.

The procedures we performed are summarized as follows:

- We reviewed General Services' records to identify any non-compliance with the above cited guidelines, policy, and procedures.

Finding: We noted an issue regarding the security of the Procurement Card information. See Attachment II, *Current Findings and Recommendations*.

Michael Morse, Director

June 7, 2017

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- We reviewed purchases for the period of July 1, 2015 to February 28, 2017 to identify any non-compliance with the above cited guidelines, policy, and procedures.

Finding: We noted several issues regarding inter-departmental payments, sales/use tax, a prohibited transaction, missing Cardholders' signatures, missing supporting documentation, and the Deputy Auditor-Controller's pre-audit review. See Attachment II, *Current Findings and Recommendations*.

We were not engaged to, and did not perform an audit or examination, the objectives of which would be the expression of opinions on General Services' accounting records, compliance, or results of our procedures referred above. Accordingly, we do not express such opinions. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. This report relates only to the results of our procedures referred to above, and does not extend to General Services' operations as a whole.

General Services' responses to the findings identified during our engagement are described in Attachment II, *Current Findings and Recommendations*. We did not perform procedures to validate General Services' responses to the findings and, accordingly, we do not express opinions on the responses to the findings.

This report is intended solely for the information and use by the Sacramento County Board of Supervisors, Department of Finance, General Services, and General Services' management. It is not intended to be, and should not be, used by anyone other than those specified parties. However, this restriction is not intended to limit distribution of this report, which is a matter of public record.

Attachments

Attachment I, *Current Status of Prior Findings and Recommendations*

Attachment II, *Current Findings and Recommendations*

cc: Andrew Schmiedt, Senior Accounting Manager, General Services

COUNTY OF SACRAMENTO
DEPARTMENT OF GENERAL SERVICES
PROCUREMENT CARD PROGRAM REVIEW
CURRENT STATUS OF PRIOR FINDINGS AND RECOMMENDATIONS

PERIOD OF JULY 1, 2015 TO FEBRUARY 28, 2017

**CURRENT STATUS OF PRIOR FINDINGS AND RECOMMENDATIONS (Report
Dated September 28, 2015 for the period July 1, 2013 to June 30, 2015)**

1. Purchasing Card Security

Comment

During our review of the Department of General Services (General Services), we noted General Services stored procurement card information on an online merchant account. Per the County of Sacramento Procurement Card Program (program) Guidelines and Procedures Manual, *“It is the CARDHOLDER’S responsibility to safeguard the PURCHASING CARD records and PURCHASING CARD account number at all times.”* Since the Cardholder’s purchasing card information was stored on an online merchant’s account to be used for future purchases, the purchasing card could be subject to theft or misuse by someone other than the Cardholder.

Recommendation

We recommend General Services comply with the program’s guidelines and procedures manual and have its Cardholders safeguard their purchasing cards account information at all times by not storing the account information online. We further recommend General Services have its Cardholders not provide their account information to any merchants, where the account information is not encrypted and could be subject to theft.

Management’s Response

General Services recognizes the importance of safeguarding credit card information, and will continue to address this practice in our training materials as a “best practice”. However, we do not agree that the program’s guidelines and procedures manual specifically address the practice of storing the account information online.

Current Status

During our review, we noted an issue regarding the security over the purchasing card, see finding #1 on Attachment II, *Current Findings and Recommendations*.

2. Deputy Auditor-Controller Certification Form

Comment

During our records’ review of General Services, we noted Deputy Auditor-Controller Certification Forms were not completed and signed for sixteen cardholders that were tested. Per the program’s guidelines and procedures manual, *“California law requires the Auditor-Controller for governmental agencies to complete a pre-audit of all invoices prior to*

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(Continued)**

payment” and “this step must be completed prior to inputting the “GOODS receipt” or notifying the Department of Finance that payment is ready to be sent to US BANK.” Since General Services’ Deputy Auditor-Controller is deputized by the Department of Finance to perform the pre-audit of the US Bank monthly statement invoices, the Deputy Auditor-Controller Certification Form must be completed and retained by General Services to support the pre-audit performed which authorizes payment to US Bank.

Recommendation

We recommend General Services have its Deputy Auditor-Controller complete and sign the Deputy Auditor-Controller Certification Forms certifying the pre-audit was performed and authorizes the payments for the US Bank monthly statement invoices.

Management’s Response

General Services concurs with this finding and will endeavor to complete and file 100% of the Deputy Auditor-Controller Certification Forms with the monthly packets.

Current Status

During our review, we did not note any issues related to the Deputy Auditor-Controller Certification form.

3. Sales/Internet Use Tax

Comment

During our purchases’ review of General Services, we noted one internet purchase where the merchant did not charge General Services sales/use tax, and sales/use tax was not accrued by General Services in COMPASS. We also noted five purchases where the internet merchant charged General Services the incorrect tax rate, resulting in an underpayment of sales/use tax. We further noted two purchases where General Services incorrectly accrued tax on shipping charges in COMPASS. We also noted one purchase where General Services incorrectly accrued tax when it was not required. Per California Law and the program’s guidelines and procedure manual, if the merchant does not charge sales tax, sales/internet use tax must be paid by the purchaser when items are purchased on the internet or out of state with the intent to be used in California.

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**CURRENT STATUS OF PRIOR FINDINGS AND RECOMMENDATIONS (Report
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(Continued)**

Recommendation

We recommend General Services accrue tax when the merchant fails to charge General Services sales/use tax. We further recommend General Services to confirm California sales tax charged by the merchant is for the correct amount. If California sales tax charged by the merchant is incorrect and the difference is due to an under charge or over charge of California sales tax, General Services needs to accrue the difference in COMPASS, or resolve the difference with the merchant, respectively. We also recommend General Services not accrue tax on “shipping” or “freight” when “shipping” or “freight” is listed as a separate line item. Also, General Services should not accrue tax in COMPASS when tax is not required.

Management’s Response

General Services concurs with this finding and will work diligently in the future to accrue sales/use tax as appropriate and reasonable.

Current Status

During our review, we noted issues related to sales/internet use tax. See finding #3 in Attachment II, *Current Findings and Recommendations*.

4. Inter-Departmental Payments

Comment

During our review, we noted that inter-departmental invoices from the County of Sacramento (County), Environmental Management Department (EMD) and the Sheriff’s Department (Sheriff) were paid by General Services on its procurement cards. General Services used its procurement cards to pay for thirteen invoices to EMD and one invoice to the Sheriff. EMD assesses a credit card percentage fee per transaction based on the transaction amount. The Sheriff did not assess a credit card percentage fee per transaction. In addition, third party credit card merchants charge EMD and the Sheriff monthly credit card merchant fees. As such, General Services is paying, and costing the County, more for these transactions than necessary.

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DEPARTMENT OF GENERAL SERVICES
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CURRENT STATUS OF PRIOR FINDINGS AND RECOMMENDATIONS

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**CURRENT STATUS OF PRIOR FINDINGS AND RECOMMENDATIONS (Report
Dated September 28, 2015 for the period July 1, 2013 to June 30, 2015)
(Continued)**

Recommendation

We recommend General Services not use its procurement cards to pay for inter-departmental invoices. For future inter-departmental invoices, General Services should contact the County's departments to record these payments through a journal voucher in COMPASS (Sacramento County Financial System).

Management's Response

General Services appreciates this recommendation and will further explore payment by journal voucher with EMD and the Sheriff, although there are occasions when a procurement card transaction is far more expedient. As such, the staff hours we save can in fact outweigh the small amount of the cost of the service fees.

Current Status

During our review, we noted issues related to inter-departmental payments. See finding #2 in Attachment II, *Current Findings and Recommendations*.

COUNTY OF SACRAMENTO
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CURRENT FINDINGS AND RECOMMENDATIONS

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1. Security Over Procurement Card Information

Comment

During our review of the Department of General Services (General Services), we noted Procurement Card information (procurement packets) is stored in a locked room that requires a badge or code to access the room. Three individuals have access to the room but only one is part of the Procurement Card program. Per the County of Sacramento Procurement Card Program Guidelines and Procedures Manual, “it is the Cardholders’ responsibility to safeguard the Purchasing Card records and Purchasing Card account number at all times” and “Procurement Card statements with supporting documentation will be filed in a locked, fireproof container or other secured method.” Since the procurement packets are stored in a room where individuals who are not part of the Procurement Card program have access to them, Procurement Card information could be subject to theft or misuse by an individual other than the Cardholders. Therefore, General Services is not in compliance with the County of Sacramento Procurement Card Program Guidelines and Procedures Manual.

Recommendation

We recommend General Services comply with the County of Sacramento Procurement Card Program Guidelines and Procedures Manual and safeguard the Procurement Card information at all times. We further recommend General Services to store the procurement packets in locked cabinet that is only accessible to individuals that are part of Procurement Card program.

Management’s Response

General Services has identified existing locking cabinets that may be used to store the required documentation related to the program. Individual keys to the locked cabinets will be securely held by those employees directly involved with the Procurement Card program i.e. Deputy Auditor-Controller, Program Coordinator, and Billing Office Contact.

2. Inter-Departmental Payments

Comment

During our review of General Services, we noted that inter-departmental invoices from the County of Sacramento (County), Environmental Management Department (EMD) were paid by General Services on its Procurement Cards. General Services used its Procurement Cards to pay for seventeen invoices to EMD. EMD assesses a credit card percentage fee per transaction based on the transaction amount. In addition, third party credit card merchants

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charge EMD credit card merchant fees. As such, General Services is paying, and costing the County, more for these transactions than necessary.

Recommendation

We recommend General Services not use its Procurement Cards to pay for inter-departmental invoices. For future inter-departmental invoices, General Services should contact the County's departments to record these payments through a journal voucher in the County of Sacramento Financial System (a.k.a. COMPASS).

Management's Response

General Services disagrees with the basis of this finding. We do not believe we are violating any policy related to the Procurement Card Program, and generally speaking, using the procurement card is much more efficient and expedient, keeping with the overall objectives of the program. However, we will explore payment via journal vouchers for those payments made to EMD.

3. Sales/Internet Use Tax

Comment

During our review of General Services, we noted three transactions where the merchant did not assess the correct sales tax and the additional sales/use tax was not accrued in COMPASS resulting in an underpayment of tax. Per California law and the County of Sacramento Procurement Card Program Guidelines and Procedures Manual, if the merchant does not charge the correct tax, the correct sales/use tax must be paid by the purchaser when items are purchased on the internet or out of state with the intent to be used in California. Since General Services did not accrue the appropriate tax, General Services is not in compliance with California Law and the County of Sacramento Procurement Card Program Guidelines and Procedures Manual.

Recommendation

We recommend General Services comply with California Law and the County of Sacramento Procurement Card Program Guidelines and Procedures Manual and review the invoices/receipts and accrue sales/use tax on purchases where the merchant did not assess the correct tax rate.

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Management's Response

General Services concurs with this finding and will work diligently in the future to accrue sales/use tax as appropriate.

4. Prohibited Transaction

Comment

During our review of General Services, we noted General Services reserved a three night hotel in Sacramento without an approved County Travel Request. Based on the supporting documentation provided, the transaction does not appear to have a County business purpose. Per the County of Sacramento Travel Policy, "Cardholders may not book airline tickets or hotel reservations without having an approved County Travel Request," and "the Travel Procurement Card is to be used only for County business travel." Therefore, General Services is not in compliance with the County of Sacramento Travel Policy.

Recommendation

We recommend General Services to comply with the County of Sacramento Travel Policy and only use the travel Procurement Card for County business travel and when a County Travel Request has been approved. We further recommend General Services to review the County of Sacramento Travel Policy and implement procedures to ensure compliance.

Management's Response

General Services disagrees with the basis of this finding for the following reasons:

- a) Per the County travel policy, lodging may be pre-paid by the Department using the County Travel Card if pre-payment is required to ensure reservations.
- b) The lodging did have a legitimate County business nexus as Sacramento County was the host county for an annual statewide conference and it was in the best interest of the county to have the conference coordinator stay at the hotel where the conference was held.
- c) The transaction in question was refunded on the next month's statement, as the statewide association sponsoring the conference paid for the coordinator's lodging.

Additionally, General Services received conflicting guidance regarding reimbursements for expenses incurred connected to travel within Sacramento County. Therefore, we did not believe a County Travel Request was necessary. Should a situation such as this arise in the future, we will seek out definitive written guidance from the DOF.

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5. Missing Cardholders' Signatures

Comment

During our review of General Services, we noted nine Cardholders' statements were not signed and dated by the Cardholder. We further noted two Cardholders' statements that were signed by an individual that was not the Cardholder. According to the County of Sacramento Procurement Card Program Guidelines and Procedures Manual, "Cardholders must sign and date the monthly statement attesting to the accuracy and validity of charges incurred." Since Cardholders did not sign and date their statements attesting to the accuracy and validity of charges incurred, General Services is not in compliance with the County of Sacramento Procurement Card Program Guidelines and Procedures Manual.

Recommendation

We recommend General Services comply with the County of Sacramento Procurement Card Program Guidelines and Procedures Manual and have its Cardholders sign and date their monthly statements. We further recommend the Deputy Auditor-Controller (A-C) to perform the pre-audit review after the Cardholders and Approving Officials sign the statements to ensure that all the Cardholders' statements are being signed by the Cardholders.

Management's Response

General Services concurs with this finding and will endeavor to implement the recommendation in its entirety.

6. Missing Supporting Documentation

Comment

During our review, General Services did not retain supporting documentation for one transaction in the amount of \$130.14 (credit). Per the County of Sacramento Procurement Card Program Guidelines and Procedures Manual, "Cardholders must review all entries that appear on the monthly statement and ensure that they have an itemized receipt or credit slip for all entries appearing on their statement for all transactions" and "Approving Officials will review all Cardholder statements to ensure that all purchases are valid, are approved, and have sufficient supporting documentation." Since General Services did not retain supporting documentation for the transaction mentioned above, General Services is not in compliance with the County of Sacramento Procurement Card Program Guidelines and Procedures Manual.

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Recommendation

We recommend General Services to comply with the County of Sacramento Procurement Card Program Guidelines and Procedures Manual and obtain and retain supporting documentation for all transactions made with the Procurement Card.

Management's Response

General Services concurs with this finding and will ensure supporting documentation is obtained for all transactions.

7. Deputy A-C Pre-Audit Review of Cardholders' Statements

Comment

During our review of General Services, we noted the Deputy A-C performed the pre-audit review of the Cardholders' statements before the Cardholder and Approving Official signed the Cardholders' statement attesting the transactions were appropriate. Per the County of Sacramento Procurement Card Program Guidelines and Procedures Manual, Approving Officials will sign and date the Cardholders' statements, and forward all statements and supporting documentation to the Deputy Auditor-Controller for the pre-audit review. Since the Deputy A-C performed the pre-audit review of the Cardholders' statements before the Cardholder and Approving Official attested the accuracy and validity of the transactions, General Services is not in compliance with the County of Sacramento Procurement Card Program Guidelines and Procedures Manual.

Recommendation

As mentioned in finding # 5, we recommend General Services to comply with the County of Sacramento Procurement Card Program Guidelines and Procedures Manual and have its Deputy A-C perform the pre-audit review after the Cardholder and Approving Official attest the accuracy and validity of the Cardholders' transactions.

Management's Response

General Services concurs with this finding.

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8. Repeat Findings

Comment

During our review, we noted that Findings # 1, 2, and 3 of this attachment are repeat findings from the prior Procurement Card program review report, see Attachment I, *Current Status of Prior Findings and Recommendations*. Proper internal controls dictate that this finding be resolved in a timely manner.

Recommendation

We recommend General Services to implement the recommendation on Findings # 1, 2, and 3 of this attachment.

Management's Response

General Services disagrees with the premise that Finding #1 should be considered a repeat finding. The previous finding was in regard to cardholders storing card information in online merchant accounts. The current audit finding relates to access to the reconciliation packets once paid. These would seem to be two distinct findings.

As noted in the response above, General Services disagrees with Finding #2. Finally, Finding #3 is an inherent risk of using the program, and will probably be noted on each audit performed. General Services has a tremendously high volume of procurement card activity by the nature of our business. Our compliance has improved since the last audit and we will certainly strive to continue improving in this area.