

**COUNTY OF SACRAMENTO
CALIFORNIA**

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

To: Board of Supervisors
From: Department of Finance
Subject: Procurement Card Program’s Annual Compliance Review Of The Department Of Health And Human Services, For The Period Of November 1, 2015, To December 31, 2016

Supervisorial
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 Annual Compliance Review of the Department of Health and Human Services, for the Period of November 1, 2015, to December 31, 2016*

Respectively submitted,

Ben Lamera
Director of Finance

Attachments

ATT 1 - Procurement Card Program’s Annual Compliance Review of the Department of Health and Human Services, for the Period of November 1, 2015, to December 31, 2016

**COUNTY OF SACRAMENTO
INTERNAL SERVICES
DEPARTMENT OF FINANCE
AUDITOR-CONTROLLER**

Inter-Departmental Correspondence

March 24, 2017

To: Sherri Z. Heller Ed. D., Director
Department of Health and Human Services

From: Ben Lamera
Director of Finance

By: Alan A. Matré
Chief of Audits



Subject: **PROCUREMENT CARD REVIEW FOR THE PERIOD OF
NOVEMBER 1, 2015 TO DECEMBER 31, 2016**

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 Health and Human Services' (DHHS) participation in the program for the period of November 1, 2015 to December 31, 2016. DHHS' 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 DHHS' other operations, procedures, or compliance with laws and regulations.

The procedures we performed are summarized as follows:

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

Finding: We did not note any exceptions as a result of our procedures.

Sherri Z. Heller Ed. D., Director

March 24, 2017

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- We reviewed purchases for the period of November 1, 2015 to December 31, 2016 to identify any non-compliance with the above cited guidelines, policy, and procedures.

Finding: We noted several issues regarding the sales/use tax. See Attachment I, *Finding and Recommendation*.

We were not engaged to, and did not perform an audit or examination, the objectives of which would be the expression of opinions on DHHS' 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 DHHS' operations as a whole.

DHHS' response to the finding identified during our engagement is described in Attachment I, *Finding and Recommendation*. We did not perform procedures to validate DHHS' response to the finding and, accordingly, we do not express opinions on the response to the finding.

This report is intended solely for the information and use by the Sacramento County Board of Supervisors, Department of Finance, Department of General Services, and DHHS' 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, *Finding and Recommendation*

cc: Mulu Afework, Accounting Manager, DHHS

COUNTY OF SACRAMENTO
DEPARTMENT OF HEALTH AND HUMAN SERVICES
PROCUREMENT CARD PROGRAM REVIEW
FINDING AND RECOMMENDATION

PERIOD OF NOVEMBER 1, 2015 TO DECEMBER 31, 2016

1. Sales/Internet Use Tax

Comment

During our review of the Department of Health and Human Services (DHHS), we noted one transaction where sales/use tax was not accrued on the combined shipping and handling charge when shipping and handling was listed as a combined charge on the invoice/receipt. The combined shipping and handling charge is taxable when the merchant lists shipping and handling as a combined charge on the invoice/receipt and tax should be accrued in the County of Sacramento Financial System (a.k.a. COMPASS) for the charge to avoid an underpayment in sales/use tax. In addition, we noted six transactions where DHHS accrued tax on shipping/freight when the charge was listed as a separate line item on the invoice/receipt. Shipping/freight charges are not taxable and tax should not be accrued in COMPASS on shipping/freight charges to avoid an overpayment of sales/use 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 DHHS did not accrue the appropriate tax, DHHS is not in compliance with the County of Sacramento Procurement Guidelines and Procedures Manual.

Recommendation

We recommend DHHS to review the invoices/receipts and accrue sales/use tax on shipping and handling when the shipping and handling charge is listed as a combined charge on the invoice/receipt. Furthermore, we recommend DHHS to review the invoices/receipts and not accrue tax on shipping/freight charges when shipping/freight is listed as a separate line item on the invoice/receipt.

Management's Response

The following processes have been implemented to ensure the correct treatment of sales/use tax on shipping, handling, and freight charges:

- All DHHS Cardholders and Approving Officials were notified of the finding related to the treatment of sales tax on shipping, handling, and freight charges.
- An easy to follow reference table was created and distributed to DHHS Cardholders and Approving Officials identifying instances where the accrual or non-accrual of sales tax is appropriate.

In addition, with the new Procurement Card Summary Form required by the Departments of General Services and Finance, and DHHS Fiscal staff's monthly review of each cardholder's transactions, we expect the sales tax issues to be effectively addressed.