

**COUNTY OF SACRAMENTO
CALIFORNIA**

For the Agenda of:
September 26, 2017
“*Communications Received and Filed*” Item

To: Board of Supervisors

From: Department of Finance

Subject: Department Of Technology Procurement Card Review, For The Period Of
July 1, 2015 To March 31, 2017

Supervisory
District(s): All

Contact: Joyce Renison, Assistant Auditor-Controller, 874-6454

DISCUSSION

The County implemented a Procurement Card (Pcard) Program that allows for an alternative resource to traditional purchasing methods. The Department of General Services oversees the day-to-day program management; while the Department of Finance (DOF) is charged with overseeing compliance of the program and payment procedures.

Departments may request to participate in the Pcard Program and thereby agree to audits/reviews of their program. As such, DOF staff performed a review of Department of Technology’s (DTech) Pcard Program for the period of July 1, 2015 to March 31, 2017. DOF staff randomly selected a sample of transactions from the period to perform the review as described in the attached report.

The results, ATT 1 - Department of Technology Procurement Card Review, for the Period of July 1, 2015 to March 31, 2017, provides DOF’s comments and recommendations and DTech Management’s responses.

Respectfully submitted,

Ben Lamera
Director of Finance

Attachment

ATT 1 - Department of Technology Procurement Card Review, For the Period of July 1, 2015 to
March 31, 2017

Department of Finance

Ben Lamera
Director



County of Sacramento

August 21, 2017

To: Rami Zakaria, Chief Information Officer
Department of Technology

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".

Subject: **PROCUREMENT CARD REVIEW FOR THE PERIOD OF JULY 1, 2015
TO MARCH 31, 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 Technology's (DTech) participation in the program for the period of July 1, 2015 to March 31, 2017. DTech's 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 on page 2 and is not intended to pertain to any of DTech's other operations, procedures, or compliance with laws and regulations.

The procedures we performed are summarized as follows:

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

Finding: We noted issues related to the security of the Procurement Card information and missing signatures from the Approving Official. See Attachment II, *Current Findings and Recommendations*.

Rami Zakaria, Chief Information Officer

August 21, 2017

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- We reviewed purchases for the period of July 1, 2015 to March 31, 2017 to identify any non-compliance with the above cited guidelines, policy, and procedures.

Finding: We noted several issues regarding the sales/use tax, US Bank payments made after the 45 day time period, 30-day spending limit, appropriate approval for food purchases, and approved County Travel requests. See Attachment II, *Current Findings and Recommendations*.

- We determine the current status or prior findings and recommendations reported on DTech's procurement card review report for the period July 1, 2012 to June 30, 2015, dated August 31, 2015.

Finding: The current status of prior findings and recommendations for DTech is at Attachment I, *Current Status of Prior 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 DTech's 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 the DTech's operations as a whole.

DTech's responses to the findings identified during our engagement are described in Attachment II, *Current Findings and Recommendations*. We did not perform procedures to validate DTech's 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, Department of General Services, and DTech's 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: Tricia Cosker, Senior Accounting Manager, DTech

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DEPARTMENT OF TECHNOLOGY
PROCUREMENT CARD PROGRAM REVIEW
CURRENT STATUS OF PRIOR FINDINGS AND RECOMMENDATIONS

PERIOD OF JULY 1, 2015 TO MARCH 31, 2017

**CURRENT STATUS OF PRIOR FINDINGS AND RECOMMENDATIONS (Report
Dated August 31, 2015 for the period July 1, 2012 to June 30, 2015)**

1. Purchasing Card Security

Comment

During our review of the Department of Technology (DTech), we noted DTech stored procurement card information on an online 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 DTech comply with County of Sacramento Procurement Card Program 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 DTech 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 Response

In order to help protect DTech’s account information and ensure compliance with County of Sacramento Procurement Card Program Guidelines, we have mandated our cardholders to ensure all information be removed after purchases are complete. In addition, we have further added that no recurring charges are ever to be allowed so that to the best of our ability, all account information is removed from the vendor in all purchases.

Current Status

During our review, we noted an issue regarding the security over the Purchasing Card. See finding #1, in Attachment II, *Current Findings and Recommendations*.

2. Missing Cardholder and Approving Official’s Signatures on Monthly Statement

Comment

During our review, we noted missing signatures from the Cardholder and Approving Official on the Cardholder’s statement for the period ending April 22, 2015. Per the County of

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(Continued)**

Sacramento Procurement Card Program Guidelines and Procedures Manual, “*THE APPROVING OFFICIAL will sign and date each CARDHOLDER STATEMENT...in order to ensure that all purchases are appropriate, based on local ordinance and/or State and federal regulations*”. Therefore, DTech was not in compliance with the County of Sacramento Procurement Card Program Guidelines and Procedures Manual.

Recommendation

We recommend DTech comply with County of Sacramento Procurement Card Program Guidelines and Procedures Manual and have Cardholders and Approving Officials sign the Cardholders’ monthly statements attesting the charges are appropriate within the program.

Management Response

This was a single occurrence related to an employee that had been off on medical leave for almost a year and an annual recurring charge that had been set up came through. Statements are reviewed to ensure all signatures are present.

Current Status

During our review, we noted issues regarding missing signatures from the Approving Official. See finding #2, in Attachment II, *Current Findings and Recommendations*.

3. Sales/Internet Use Tax

Comment

During our purchases’ review of DTech, we noted twelve internet purchases where the internet merchant charged DTech the incorrect tax rate, resulting in an underpayment of sales tax. We further noted four internet purchases where the internet merchant charged DTech the incorrect tax rate, resulting in an overpayment of sales tax. We noted two internet purchases where the merchant did not charge sales tax, and DTech did not accrue the internet use tax in COMPASS. Also, we noted seven purchases where tax was not accrued on shipping and handling. Per California Law and the program’s guidelines and procedures, 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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(Continued)**

Recommendation

We recommend DTech 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, DTech needs to accrue the difference in COMPASS, or resolve the difference with the merchant, respectively. Also, DTech needs to accrue tax on shipping and handling when the merchant fails to do so.

Management Response

DTech has implemented monitoring system. This system will track all charges per cardholder as purchases are made and verifying the correct tax amount was paid and late payment fees are compliant. This also includes a checklist to ensure a compliant review process for our Approving Official and Deputy Auditor Controller functions.

Current Status

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

4. Prohibited Transactions

Comment

During our purchases' review of DTech, we noted one purchase was made at Budget.com for a car rental. Per the Sacramento County Procurement Card Program Guidelines and Procedures, "*Prohibited Purchases... q) travel or travel related expenses (airline tickets, hotel reservations,*" therefore, the car rental purchase would be considered a prohibited purchase and DTech was not in compliance with Sacramento County Procurement Card Program Guidelines and Procedures Manual.

In addition, we also noted DTech paid late fees with its procurement card. Per the California Government Code Section 926.10, late fees are to be assessed at .50 percent per month starting the 61st day an invoice is late. After review of the invoices, it appears that the invoices were not 61 days past due. Since DTech paid late fees when the invoices were not 61 days past due, DTech was not in compliance with Government Code Section 926.10.

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(Continued)**

Recommendation

We recommend DTech comply with Sacramento County Procurement Card Program Guidelines and Procedure Manual by not purchasing travel related expenses on the procurement card. We further recommend DTech comply with Government Code Section 926.10 by not paying late fees with the procurement card when the late fees assessed are not in compliance with Government Code Section 926.10.

Management Response

The incident involving a travel purchase was by a cardholder in possession of both a travel and basic use card. The issue was addressed as soon as it became apparent what occurred and the cardholder was counseled and the error has not been repeated. The situation will be closely monitored and if future incidents occur either the travel or basic card will be cancelled and another employee will replace that duty. Regarding the late fees, as mentioned earlier, checking that late fee payments will be monitored in our tracking system to be in accordance to the County of Sacramento Procurement Card Program Guidelines of .50 percent per month starting the 61st day past due.

Current Status

During our review, we did not note prohibited transactions.

5. Split Transactions

Comment

During our purchases' review of DTech, we noted one transaction that had an invoice total of \$1,087.00. The total of \$1,087.00 appeared to be split into two transactions in the amounts of \$898.35 and \$188.65. We also noted two transactions in the same amount of \$763.93 were purchased on two different Cardholders' procurement cards. According to the County of Sacramento Procurement Guidelines and Procedures Manual, "The CARDHOLDER cannot SPLIT the purchase into multiple charges to circumvent TRANSACTION LIMITS." Therefore, DTech was not in compliance with the County of Sacramento Procurement Card Program and Procedures Manual.

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Recommendation

We recommend DTech comply with the County of Sacramento Procurement Card Program Guidelines and Procedures Manual and prohibit its cardholders from splitting transactions.

Management Response

The first item mentioned was identified during the DTech's Deputy Auditor Controller (DAC) review. Immediately the DAC reached out to the cardholder to review the County of Sacramento Procurement Card Program Guidelines and the error has not been repeated. However, the second item mentioned for two purchases in the amount of \$763.93 in our opinion is not a split purchase, but two independent purchases. The first purchase was for an item ordered on 6/7/2013 and the second was for the exact same item ordered on 6/17/2013 but was purchased as a spare which is noted in the comments of the second purchase. We acknowledge the questionable appearance of this purchase and will work with staff to more appropriately acquire their spare items in the future.

Current Status

During our review, we did not note split transactions.

6. Oversight on Review Process

Comment

During our purchases review, we noted "Procurement Card Program Key Contact" form stated a Cardholder's 30-day spending limit was \$5,000 or \$10,000, and there were two instances the 30-day spending amounts on the Cardholders' statements exceeded its \$5,000 limit. It appeared that DTech's noncompliance of its procurement card program was due to the oversight of reviewing its Cardholders' 30-day spending limits along with the information on its "Procurement Card Program Key Contact" on a monthly basis.

Recommendation

We recommend DTech's management review the Cardholders' statements and their 30-day spending limits to ensure Cardholders do not go over their 30-day spending limits.

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(Continued)**

Management Response

This had never been a problem in the past and we have put a process in place to review the dollar amounts stay within the limits established.

Current Status

During our review, we noted an issue regarding the oversight on review process. See finding #5, in Attachment II, *Current Findings and Recommendations*.

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1. Security Over Procurement Card Information

Comment

During our review of the Department of Technology (DTech), we noted Procurement Card information packets (Procurement packets) are stored on FileNet and are available to multiple individuals that are not part of the Procurement Card program. Per the County of Sacramento Procurement Card Program Guidelines and Procedures Manual (Program Guidelines), “it is the Cardholder’s 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 Card packets are stored on FileNet where multiple individuals have access to them, Procurement Card information could be subject to theft or misused by an individual other than the Cardholder. Therefore, DTech is not in compliance with the Program Guidelines.

Recommendation

We recommend DTech comply with the Program Guidelines and safeguard the Procurement Card information at all times. We further recommend DTech to limit the Procurement Card information to individuals that are part of the Procurement Card program.

Management Response

All staff that supports the Pcard process in any manner will only be allowed to do so after completing the General Services Procurement Card training program. This will include any staff performing any administrative duties that could have access to the cardholder’s account information, ensuring compliance to the County of Sacramento Procurement Card Program Guidelines and Procedures Manual.

2. Missing Approving Official’s Signature

Comment

During our review, we noted the Approving Official did not sign three Cardholder’s statements for the monthly statement of August 22, 2016. We further noted the Approving Official did not sign a Cardholder’s monthly statement for the month of September 22, 2015. Per the Program Guidelines, “Approving Officials will review all Cardholders Statements to ensure that all purchases are valid, are approved, and have sufficient supporting documentation. If all is correct, the Approving Official will sign and date each Cardholder Statement.” Since the Approving Official did not sign the Cardholders’ statement, we cannot determine if the Approving Official reviewed the Cardholder’s transactions. Without proper

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review, unauthorized transactions could be missed. Therefore, DTech is not in compliance with Program Guidelines.

Recommendation

We recommend DTech comply with the Program Guidelines and have the Approving Official sign all Cardholder's statements after their review.

Management Response

The Department of Technology accepts its fiduciary obligations to adhere to the County of Sacramento Procurement Card Program Guidelines and Procedures Manual and acknowledges the 2 examples presented for the September 22, 2015 and the August 22, 106 statements which lacked the Approving Official's signature as failures to be compliant.

The Fiscal/Admin unit anticipates future findings will be avoided as the unit expects to be fully staffed which will help ensure the avoidance.

3. Sales/Internet Use Tax

Comment

During our review, we noted one transaction where the merchant did not assess tax on the transaction and DTech did not accrue tax in the County of Sacramento Financial System (a.k.a. COMPASS) resulting in a tax underpayment. We further noted one transaction where DTech accrued tax on a transaction that was not taxable resulting in a tax overpayment. We also noted DTech netted the transactions that got overcharged tax with the transactions that got undercharged tax to calculate the amount of additional tax DTech needed to accrue in COMPASS.

Per California law and the Program Guidelines, if the merchant does not charge sales/use tax, sales/use tax must be paid by the purchaser when items are purchased on the internet our out of state with the intent to be used in California. In addition, training courses are not taxable. Since DTech did not accrue tax appropriately, DTech is not in compliance with California law and the Program Guidelines.

Recommendation

We recommend DTech comply with California law and the Program Guidelines and accrue tax on transactions where the merchant does not charge tax. We further recommend DTech to not accrue tax on nontaxable transactions. We also recommend DTech to not net

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transactions that are being overcharged and undercharged and treat each transaction individually to ensure the proper tax amount is being paid.

Management Response

The Department of Technology accepts its fiduciary obligations to adhere to California Law and the Program Guidelines and acknowledges the 2 examples presented in which DTech had a transaction with a Tax Overpayment and also had another transaction with a Tax Underpayment.

The Fiscal/Admin unit anticipates future findings will be avoided as the unit expects to be fully staffed which will help ensure the avoidance.

4. Payment Deadline

Comment

During our review, we noted DTech did not make US Bank Payment on time for 11 months. Per the Program Guidelines, “US Bank must receive payment of the departmental Procurement Card billings no later than 45 days from the date of billing statement” and “The County loses money when all statements are not paid within 45 days of the billing date. Departments must establish procedures and meet the 45 day deadline.” Since DTech did not make US bank Payment within 45 days of the billing date, DTech is not in compliance with the Program Guidelines.

Recommendation

We recommend DTech comply with the Program Guidelines and make US Bank payment within 45 days of the billing date.

Management Response

The Department of Technology accepts its fiduciary obligations to adhere to the County of Sacramento Procurement Card Program Guidelines and Procedures Manual and acknowledges the finding that DTech has made 11 consecutive payments which exceeded the 45 day limit set by US Bank.

The Fiscal/Admin unit anticipates future findings will be avoided as the unit expects to be fully staffed which will help ensure the avoidance.

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5. Oversight on Review Process

Comment

During our review, we noted one Cardholder exceed the 30-day spending limit of \$5,000 for 9 months. We further noted that no proper documentation was maintained indicating when the 30 day-spending limit increase of \$10,000 became effective. Per the Program Guidelines, Cardholders need to stay within the 30-day spending limit.

During the time of the review, DTech provided a “Procurement Card Program Key Contact” form that stated the 30 day spending of \$10,000 with an effective day of August 22, 2014. DTech also provided other “Procurement Card Program Contact” forms with effective dates after August 22, 2014 that stated the 30 day spending limit of \$5,000. It appears that DTech’s noncompliance of its Procurement Card program was due to the oversight of reviewing its Cardholder’s 30-day spending limits along with the information on its “Procurement Card Program Key Contact” form on a monthly basis.

Recommendation

We recommend DTech’s management review the Cardholder’s statements and their 30-day spending limits to ensure Cardholders do not go over their 30-day spending limits. We further recommend DTech to review “Procurement Card Program Key Contact” forms before sending them to the Program Administrator to ensure that all information on the form is accurate and up to date. We also recommend DTech to obtain and maintain documentation that is necessary to verify information stated on “Procurement Card Program Key Contact” forms.

Management Response

None of DTech’s cardholders exceeded their monthly limits with US Bank throughout the review’s timeline. Each cardholder reviews their bank statements and maintains their spending within their individual limits. However, DTech cannot provide an explanation as to why one cardholder had their limit reduced on the Key Contact form but acknowledges the limit was indeed reduced on the Key Contact Form submitted to the Pcard Administration and can only state the reduction was unintentional. The reduction on the Key Contact form was also not processed by Pcard Admin, meaning US Bank was not informed of the reduction and the cardholder’s account had no limit reduction.

To correct this finding in the future, in addition to actively monitoring the spending limits set by US Bank going forward the Unit Program Coordinator will reconcile US Bank statements to the Key Contact form in order to ensure monthly limits are not exceeded.

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6. Food Purchases and Missing Documentation

Comment

During our review, we noted three food purchases made in the monthly statement of July 22, 2016 where it cannot be determined if appropriate approval was obtained for the food purchase due to DTech not submitting appropriate documentation to the Department of Finance.

County of Sacramento Employee Recognition Policy, Procedures and Guidelines state that departments must submit their own policy regarding food purchase and department policies must delegate levels of approval for expenditure of these funds. To track delegated levels of approval, policies should state a list of authorized individuals with approval authority. Departments must provide list of individuals with approval authority to the Director of Finance, Auditor-Controller Division, annually on or before July 15th with updates as necessary.

DTech did not submit list of authorized individuals with the approved authority to appropriate individuals and it cannot be determined if the three food purchases made in the monthly statement of July 22, 2016 were approved appropriately.

Recommendation

We recommend DTech to submit list of authorized individuals with approval authority to appropriate individuals in the Department of Finance annually on or before July 15th.

Management Response

The Department of Technology accepts its fiduciary obligations to adhere to the County of Sacramento Procurement Card Program Guidelines and Procedures Manual and acknowledges DTech did not submit a list of authorized individuals with the approved authority to appropriate individuals.

The missing signature form has been submitted for fiscal year 2017-18 and will continue to be submitted annually going forward.

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7. County Travel Requests

Comment

During our review, we noted that the Travel Cardholder did not obtain and retain approved County Travel Requests for all travel transactions tested made with the Travel Procurement Card during the period reviewed. There were a total of 48 transactions tested. Per County of Sacramento Travel Guidelines and Procedures, Cardholders may not book airplane tickets and make hotel reservations without an approved County Travel Request. Since DTech did not obtain an approved County Travel Request for travel transactions, DTech is not in compliance with County of Sacramento Travel Guideline and Procedures.

Recommendation

We recommend DTech comply with County of Sacramento Travel Guideline and Procedures and obtain and retain approved County Travel Requests for all transactions made with the Travel Procurement Card.

Management Response

The Department of Technology accepts its fiduciary obligations to adhere to the County of Sacramento's Travel Policy and acknowledges DTech did not obtain and retain approved County Travel Requests for all transactions.

Sacramento County is implementing new travel software, Concur, which will aid in the travel request process. If Concur can satisfy all the travel needs of DTech, a more formalized process could be developed and a singular Travel Request form would be adopted.

8. Repeat Finding

Comment

During our review, we noted that findings #1, 2, 3, and 5 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 these findings be resolved in a timely manner.

Recommendation

We recommend DTech to implement the recommendation on findings #1, 2, 3, and 5 of this attachment.

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Management Response

It is DTech's opinion Finding #1 is not a repeat finding. Previously the finding was based on the storage of credit card information by cardholders on the vendor's end that could be used for unapproved recurring charges or other misconduct by external threats. Now, all vendors that DTech conducts business with through the Pcard process are instructed by the cardholders to remove any and all of the credit card information so that no unintended activities should occur by an external entity. DTech's updated process of removing the credit card information has completely resolved and satisfied the previous finding so that Sacramento County is better secured against external threats. The previous #1 finding made no mention of internal risks while the current finding is focused on internal controls and exposure to threats within DTech.

The Department of Technology accepts its fiduciary obligations to adhere to the County of Sacramento Procurement Card Program Guidelines and Procedures Manual and acknowledges Finding #2 has repeated. The 2 examples presented for the September 22, 2015 and the August 22, 106 statements which lacked the Approving Official's signature are evidence at failures to be compliant. The Fiscal/Admin unit anticipates future findings will be avoided as the unit expects to be fully staffed which will help ensure the avoidance.

The Department of Technology accepts its fiduciary obligations to adhere to California Law and the Program Guidelines and acknowledges Finding #3 has repeated. The 2 examples presented in which DTech had a transaction with a Tax Overpayment and also had another transaction with a Tax Underpayment are proof of the repetition. The Fiscal/Admin unit anticipates future findings will be avoided as the unit expects to be fully staffed which will help ensure the avoidance.

The Department of Technology accepts its fiduciary obligations to adhere to the County of Sacramento Procurement Card Program Guidelines and Procedures Manual and acknowledges Finding #5 has repeated. While DTech has maintained spending within US Bank's spending limits, the limit set for one cardholder on the Key Contact form was exceeded. The Fiscal/Admin unit anticipates future findings will be avoided as the unit expects to be fully staffed which will help ensure the avoidance.