

COUNTY OF SACRAMENTO

DEPARTMENT OF FINANCE - AUDITOR-CONTROLLER DIVISION - INTERNAL AUDIT UNIT

INTERNAL AUDIT REPORT
PROCUREMENT CARD COMPLIANCE
SHERIFF'S DEPARTMENT



Audit Committee Submittal Date: October 19, 2018

SUMMARY

Background

In order to assist with carrying out their core objectives, County of Sacramento Departments (Departments) participate in the County's Procurement Card Program (Program). Some of the objectives of the Program include streamlining small dollar purchases, improving departmental efficiency related to purchases, and assisting Departments with their core mission of delivering governmental services to County citizens. As part of their participation in the Program, Departments are subject to regular procurement card audits to ensure compliance with the Program's guidelines and procedures.

Audit Objective

To confirm Sheriff's Department's purchases and records are in compliance with the Program's guidelines and procedures.

Summary

We noted issues related to sales/internet use tax, unnecessary purchases, utilization of procurement card for the County established contracts, and internal controls over general ledger posting.



County of Sacramento

Inter-Departmental Memorandum

September 19, 2018

To: Scott Jones, Sheriff
Sheriff's Department

From: Ben Lamera
Director of Finance

By: Alan A. Matré
Chief of Audits

A handwritten signature in blue ink, appearing to read "A. Matré", is placed to the right of the typed name.

Subject: **PROCUREMENT CARD AGREED-UPON PROCEDURES FOR THE PERIOD OF AUGUST 1, 2016 TO APRIL 30, 2018**

In accordance with the County of Sacramento Procurement Card Program (program) Guidelines and Procedures Manual, County of Sacramento Procurement Card Program Policy, County of Sacramento Travel (travel) Policy, and County of Sacramento Travel Guidelines and Procedures, we have performed the procedures enumerated below to the County of Sacramento, Sheriff's Department's (Sheriff) participation in the program for the period of August 1, 2016 to April 30, 2018. Sheriff's management is responsible for establishing and maintaining effective internal controls, and compliance with the program and travel's guidelines, policy, and procedures, and all other applicable laws, regulations, and statutory requirements. The sufficiency of the procedures is solely the responsibility of Sheriff. 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 Sheriff's other operations, procedures, or compliance with laws and regulations.

The procedures and associate findings are as follows below and on the next page:

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

Finding: We noted exceptions related to the Sheriff's internal controls over general ledger posting. See Attachment II, *Current Findings and Recommendations*.

- We tested purchases for the period of August 1, 2016 to April 30, 2018 to identify any non-compliance with the above cited guidelines, policy, and procedures.

Finding: We noted exceptions regarding, sales/use tax, unnecessary costs, and a prohibited transaction. See Attachment II, *Current Findings and Recommendations*.

- We determined the current status of prior findings and recommendations reported on Sheriff's procurement card agreed-upon procedures report for the period of July 1, 2015 to July 31, 2016, dated December 6, 2016.

Finding: The current status of prior findings and recommendations for Sheriff is at Attachment I, *Current Status of Prior Findings and Recommendations*.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not perform an audit or examination, or review, the objectives of which would be the expression of an opinion or conclusion, respectively, on Sheriff's accounting records, compliance, or results of our procedures referred above. Accordingly, we do not express such an opinion or conclusion. 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 Sheriff's operations as a whole.

Sheriff's responses to the findings identified during our procedures are described in Attachment II, *Current Findings and Recommendations*. We did not perform procedures to validate Sheriff'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, Sacramento County Audit Committee, Department of Finance, Department of General Services, and Sheriff'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*

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**CURRENT STATUS OF PRIOR REVIEW FINDINGS FOR THE PERIOD JULY 1, 2015
TO JULY 31, 2016, DATED DECEMBER 6, 2016**

1. Prohibited Purchases

Prior Comment

During our review of the County of Sacramento (County), Sheriff's Department (Sheriff), we noted:

- Several vendors were used to pay for recurring cable, telephone, internet, and wireless services. We further noted these recurring purchases exceeded \$10,000 in one fiscal year and were not purchased from an established County contract. Per the County of Sacramento Procurement Card Program Guidelines and Procedures Manual, listed under section P.) Permitted Purchases, "*The PROCUREMENT CARD may be used for recurring purchases ONLY when those purchases are made on established county contracts.*"
- Veterinary service was paid on a procurement card. Per the County of Sacramento Procurement Card Program Guidelines and Procedures Manual, listed under section Q.) Prohibited Purchases, "*o) professional SERVICES*".

Therefore, the Sheriff was not in compliance with the County of Sacramento Procurement Card Program Guidelines and Procedures Manual as noted above.

Prior Recommendation

We recommend the Sheriff comply with County of Sacramento Procurement Card Program Guidelines and Procedures Manual and request Department of General Services establish a County contract for these recurring cable, telephone, internet, and wireless services for the Sheriff's Department or have these recurring services, veterinary service, metered parking be paid through the regular claims/parked invoice process.

Prior Management Response

The Sheriff's Department received conflicting information from the Department of General Services and the Department of Finance on the use of the procurement card for cable and other recurring services. During a conference call with General Services and Finance on November 3, 2016, the Sheriff's Department was told that it was allowable and appropriate to pay for recurring charges on the procurement card as long as the charges did not exceed \$10,000 (department wide) in a one-year period. All of the purchases were under this \$10,000 limit with the exception of DirecTV. The Sheriff's Department was told on several occasions by the Department of General Services that paying for cable services on a

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procurement card was allowable. For DirecTV purchases, the Sheriff's Department was told to request a contract through the Department of General Services, Contract and Purchasing Services Division. Requisition RC33674242 was created in the Sacramento County Financial System (a.k.a. COMPASS) on November 14, 2016. The County Purchasing Agent gave the Sheriff's Department direction via email on November 28, 2016, that it was allowable to pay for DirecTV services via a procurement card (even if the charges exceeded \$10,000) while General Services pursued a contract with DirecTV. The Sheriff's Department is in agreement that the procurement card should not be used for professional services (veterinary services). The use of the procurement card for veterinary services has been discussed with the Cardholder and appropriate personnel actions have been taken. Additionally, the procurement Cardholder and the Approving Official for these transactions will be required to attend supplemental procurement card training on December 1, 2016.

Current Status

Per inquiries to the Department of General Services (DGS) personnel and review of the County's accounting policies and procedures, cable/satellite TV, telephone, and internet services are considered to be utilities; therefore, can be paid either through claims or with procurement card and the \$10,000 limit would not apply if processing via claims is a payment option per the County's accounting policies and procedures. In addition, per DGS personnel, purchases of recurring services using procurement card are allowable as long as the total annual purchase amount from a same vendor does not exceed \$10,000. Therefore, the issue of recurring services purchases using procurement card is considered to be resolved. In addition, we noted the Sheriff obtained veterinary services (prohibited purchases); however, the Sheriff took corrective action by issuing violation letter to the cardholder.

2. Sales/Internet Use Tax

Prior Comment

During our purchases' review of the Sheriff, we noted:

- four purchases where the merchant charged the Sheriff the incorrect tax rate and the difference of tax was not accrued in COMPASS, resulting in an underpayment of tax.
- one purchase where shipping and handling was not accrued in COMPASS, resulting in an underpayment of tax.
- two purchases where the merchant charged the Sheriff the incorrect tax rate and the Cardholder did not request a refund for the overpayment, resulting in an overpayment of tax.

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- one purchase where the Sheriff incorrectly accrued tax in COMPASS on a non-taxable fee, resulting in an overpayment of tax.

Per California Law and County of Sacramento Procurement Card Program Guidelines and Procedures 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. This finding was also noted during our previous procurement card review. See finding #3 (Sales/Internet Use Tax) at Attachment I, *Current Status of Prior Findings and Recommendations*.

Prior Recommendation

We recommend the Sheriff 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, the Sheriff needs to accrue the difference in COMPASS, or resolve the difference with the merchant, respectively. We also recommend if the itemized receipt indicates "shipping and handling" as one line item, tax should be accrued on this amount. We further recommend tax should not be accrued on a non-taxable fee.

Prior Management Response

The Sheriff's Department is in agreement with this recommendation. The importance of accurate sales tax accruals has been discussed with the Sheriff's Procurement Card Billing Unit Coordinator. Additionally, the Sheriff's Department Billing Unit Coordinator will be required to attend supplemental procurement card training on December 1, 2016.

Current Status

Our recommendation has not been fully implemented. See Finding #1 on *Attachment II, Current Findings and Recommendations*.

3. Purchasing Card Security

Prior Comment

During our review, we noted the Sheriff did not properly safeguard procurement card information. We noted the Sheriff stored procurement card information with a merchant for an automatic renewal. Per the County of Sacramento Procurement Card 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 with a merchant's account

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to be used for future purchases, the purchasing card information could be subject to theft or misuse by someone other than the Cardholder. This finding was also noted on our previous procurement card review. See finding #4 (Purchasing Card Security) at Attachment I, *Current Status of Prior Findings and Recommendations*.

Prior Recommendation

We recommend the Sheriff comply with the County of Sacramento Procurement Card Program Guidelines and Procedures Manual and have its Cardholders safeguard their purchasing cards account at all times by not storing the account information with any merchant.

Prior Management Response

The Sheriff's Department is in agreement with the recommendation. The practice of allowing a vendor to store the procurement card number has been discussed with the Cardholder and appropriate personnel actions have been taken. Additionally, the procurement Cardholder and the Approving Official for this transaction will be required to attend supplemental procurement card training on December 1, 2016.

Current Status

It appeared that our recommendation has been implemented. We did not note any incidents of procurement card information being stored on with a merchant's account to be used for future purchases during our current review.

4. Unnecessary Purchases

Prior Comment

During our review, we noted the Sheriff purchased:

- protection plan for two different cable service locations
- one month Golf channel access for one cable service location
- training classes with two processing fees in the amount of \$16.62 each

Per the County of Sacramento Procurement Card Program Guidelines and Procedures Manual, Appendix J. County of Sacramento Procurement Code of Ethics, "*The employee: ... Obtains the maximum benefit for funds spent as agents for the County*". The protection plan and Golf channel purchases were not necessary purchases and should not have been purchased on a procurement card. The processing fee total of \$33.24 (\$16.62 + \$16.62) for

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the training classes should have been paid through the regular parked invoice claim process to avoid payment of the processing fee. As such, these purchases do not appear to benefit the County and were not in compliance with County of Sacramento Procurement Card Program Guidelines and Procedures Manual.

Prior Recommendation

We recommend the Sheriff comply with the County of Sacramento Procurement Card Program Guidelines and Procedures Manual and have its Cardholders only spend funds where maximum benefit will be obtained for the County of Sacramento.

Prior Management Response

The Sheriff's Department is not in agreement with the finding regarding payment of credit card processing fees via the procurement card. On February 4, 2016, one of the Sheriff's Department Cardholders contacted the County's Procurement card Program Administrator and inquired if it was allowable to pay credit card processing fees on the procurement card. The Procurement card Program Administrator replied via email on February 5, 2016, that this was allowable. The Sheriff's Department is in agreement with the other two items. Inappropriate purchases such as a protection plan for cable service or golf channel access has been discussed with the involved Cardholders, the purchases have been discontinued, and appropriate personnel actions have been taken. Additionally, the procurement Cardholders and the Approving Officials for these transactions will be required to attend supplemental procurement card training on December 1, 2016.

Current Status

Sheriff's cancelled the Golf channel on cable services and protection plan subsequent to our prior review. However, our recommendation has not been fully implemented. See Finding #2 on *Attachment II, Current Findings and Recommendations*.

5. Utilize Procurement Card for Established Contract

Prior Comment

During our review, we noted dog food and desks were available through established County vendor contracts. However, the Sheriff's Cardholders purchased these items through non-County vendors. Per the County of Sacramento Procurement Card Program Guidelines and Procedures Manual, "*If there is an established County contract for the needed GOODS or SERVICE, use of the PROCUREMENT CARD as a payment vehicle against the contract is encouraged and authorized*". As such, the Sheriff was not adhering to the County of Sacramento Procurement Card Program Guidelines and Procedures Manual.

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Prior Recommendation

We recommend the Sheriff comply with the County of Sacramento Procurement Card Program Guidelines and Procedures Manual and have its Cardholders purchase items on established County contracts when there is one.

Prior Management Response

The Sheriff's Department is in agreement with this recommendation. Purchasing items available on contract has been discussed with the involved Cardholders and appropriate personnel actions have been taken. Additionally, the procurement Cardholders and the Approving Officials for these transactions will be required to attend supplemental procurement card training on December 1, 2016.

Current Status

Our recommendation has not been fully implemented. See Finding #3 on *Attachment II, Current Findings and Recommendations*.

6. Late Fees

Prior Comment

During our purchases' review, we noted the Sheriff paid four late fees for its cable and internet purchases with the procurement cards. Per California Government Code Section 926.10, "*Any public entity as defined by Section 811.2 having a liquidated claim against any other public entity based on contract or statute of the State of California, or any person having such a claim against a public agency, shall be entitled to interest commencing the 61st day after such public entity or person files a liquidated claim known or agreed to be valid when filed pursuant to such statute or contract, and such claim is due and payable. Interest shall be 6 percent per annum.*" After review of the invoices, it appears that the invoices were not 61 days past due. Since the Sheriff paid late fees when the invoices were not 61 days past due, the Sheriff was not in compliance with Government Code Section 926.10.

Prior Recommendation

We recommend the Sheriff comply with California Government Code Section 926.10 by not paying late fees with the procurement cards when late fees assessed are not in compliance with Government Code Section 926.10.

Prior Management Response

The Sheriff's Department is in agreement with this recommendation. Paying late fees has been discussed with the involved Cardholders. Additionally, the procurement Cardholders

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and the Approving Officials for these transactions will be required to attend supplemental procurement card training on December 1, 2016. Additionally, a reminder email was sent to all procurement Cardholders regarding the payment of late fees. Finally, the payment of late fees will be discussed at the Sheriff's Department Annual Division Budget Coordinators' meeting on December 7, 2016.

Current Status

It appeared that our recommendation has been implemented.

7. Travel Card Approvals and Purchases

Prior Comment

During our purchases' review, we noted the Sheriff did not obtain a written travel advance request form for three travel card purchases for hotel reservations. Per the County of Sacramento Travel Policy, "*Cardholders may **not** book airline tickets or hotel reservations without having an approved County Travel Request.*" As such, the Sheriff was not in compliance with the County of Sacramento Travel Policy.

We further noted the first night's hotel reservation paid on the travel procurement card for two employees were also claimed and paid through the travel reimbursement claim process. Since the first night's hotel reservation was paid on the travel card, the first night's hotel reservation paid to the two employees' on their travel reimbursement claim was an overpayment of lodging expenses. We noted the two refunds for the first night's hotel reservation for these two employees were refunded to the travel card on October 25, 2016.

Prior Recommendation

We recommend the Sheriff reimburse employees only for expenses paid by the employees. We also recommend the Sheriff develop and implement proper procedures to detect any hotel reservations or airline tickets paid on travel cards are also not claimed and paid through employees' travel reimbursement claims.

Prior Management Response

The Sheriff's Department is in agreement with this recommendation. The Department asked all travel Cardholders to go back through their statements for the past two years to identify any situations where the employee was reimbursed even though the charge was placed on the travel card. This appears to have been an isolated incident with a single Cardholder as no other transactions of this type were identified as a result of our internal review. Nonetheless, the Sheriff's Department has asked the Department of Finance to provide a training session on travel specifically to Sheriff's Department travel coordinators. The Department of

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Finance has indicated they will do so once the revised travel policy has been approved by the Board of Supervisors.

Current Status

It appeared that our recommendation has been implemented.

8. Residential Shipment

Prior Comment

During our purchases' review of the Sheriff, we noted Cardholder A utilized Cardholder B's online merchant account to take advantage of the shipping benefit provided to the merchant's members. The items purchased on Cardholder A's procurement card in the amount of \$934.80 was mistakenly shipped to Cardholder B's residential address. Per the County of Sacramento Procurement Card Program Guidelines and Procedures Manual, Appendix J. County of Sacramento Procurement Code of Ethics, "*Avoids activities that would compromise or give the perception of compromising the best interest of the County.*" Items mistakenly delivered to a Cardholder's residential address can be perceived by the public as unethical and should be avoided.

Prior Recommendation

We recommend the Sheriff's Cardholders to not have any items delivered to their residential address to avoid a public misperception of compromising the best interest of the County.

Prior Management Response

The Sheriff's Department is in agreement with this finding. Shipping items to an employee's home address has been discussed with the Cardholder. Additionally, the procurement Cardholder and the Approving Official for this transaction will be required to attend supplemental procurement card training on December 1, 2016.

Current Status

It appeared that our recommendation has been implemented. We did not note any incident of items ordered for the County business delivered to the cardholder's home address during our current review.

9. Deputy Auditor-Controller

Prior Comment

According to the County of Sacramento Procurement Card Program Guidelines and Procedures Manual, "*California law requires the Auditor-Controller for governmental*

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agencies to complete a pre-audit of all invoices prior to payment.” During our review, we noted the individual that performed the pre-audit of its Cardholders procurement card statements for September 2015, October 2015, and November 2015 was not sworn in as Deputy Auditor-Controller for this period. Therefore, the Sheriff was not in compliance with the California Law and the County of Sacramento Procurement Card Program Procedures and Guidelines Manual.

Prior Recommendation

We recommend the Sheriff comply with the California Law and the County of Sacramento Procurement Card Program Procedures and Guidelines Manual and have a sworn Deputy Auditor-Controller perform the pre-audit of Cardholders' charges on the procurement card statements for appropriateness prior to payment.

Prior Management Response

The Deputy Auditor-Controller for the months of September, October, and November, 2015, had previously been sworn in by the Department of Finance. Unbeknownst to the Sheriff's Department, and without notice to this particular Deputy Auditor-Controller, this authority had been cancelled by the Department of Finance. The Sheriff's Department had intended for this person to be kept on as a backup Deputy Auditor-Controller, but this authority was removed by the Department of Finance without notice. This person has since been sworn in for a second time as a backup Deputy Auditor-Controller.

Current Status

It appeared that our recommendation has been implemented.

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CURRENT FINDINGS

1. Sales/Internet Use Tax

Comment

Per California Law and County of Sacramento Procurement Card Program Guidelines and Procedures 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.

During our review of the Sheriff's Department (Sheriff) purchases, we noted:

- One purchase where the merchant incorrectly charged higher tax rate but no refund was requested by the Sheriff.
- One purchase where the merchant incorrectly charged lower tax rate. Although the Sheriff included the difference in use tax amount in the use tax accrual form submitted to Department of Finance (DOF), Payment Services for it to enter and post the accrual amount to the County general ledger system (COMPASS), the amount was not entered or posted to COMPASS by DOF Payment Services staff. It appeared that the Sheriff did not perform the reconciliation between COMPASS posting and its use tax accrual form submitted to DOF payment services. Also, see Finding #4 of this attachment.
- One purchase where even though the invoice from the merchant indicated that the sales tax was included in the invoiced amount, the Sheriff accrued use tax again.

This finding was also noted during our previous procurement card review. See finding #2 at Attachment I, *Current Status of Prior Findings and Recommendations*.

Recommendation

We recommend the Sheriff 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, the Sheriff needs to accrue the difference in COMPASS, or resolve the difference with the merchant. Also, see recommendation for Finding #4 of this attachment.

Management Response

The Sheriff's Department partially agrees with this finding. One card holder did overpay sales tax in the amount of 0.77, and one card holder accrued an additional 1% sales tax that was unnecessary. All cardholders will be reminded of the proper procedures to follow

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regarding sales tax under/over payments and accruals. However, the Sheriff's Department is not in agreement with the finding regarding the Department of Finance sales tax accrual posting. See response to Finding #4 for additional information.

2. Unnecessary Purchases

Comment

During our review of the Sheriff's purchases, we noted the Sheriff paid unnecessary credit card processing fee to California Training Institute for training class registration.

Per the County of Sacramento Procurement Card Program Guidelines and Procedures Manual, Appendix J. County of Sacramento Procurement Code of Ethics, "The employee: ... Obtains the maximum benefit for funds spent as agents for the County". The credit card processing fee was avoidable had the registration fee was paid through the regular parked invoice claim process. As such, this purchase does not appear to benefit the County and was not in compliance with County of Sacramento Procurement Card Program Guidelines and Procedures Manual.

This finding was also noted during our previous procurement card review. See finding #4 at Attachment I, *Current Status of Prior Findings and Recommendations*.

Recommendation

We recommend the Sheriff comply with the County of Sacramento Procurement Card Program Guidelines and Procedures Manual and have its Cardholders only spend funds where maximum benefit will be obtained for the County of Sacramento.

Management Response

The Sheriff's Department agrees with this finding. Cardholders will be reminded that credit card processing fees will only be allowable when there is no other form of payment available.

3. Utilize Procurement Card for Established Contract

Comment

During our review of the Sheriff's purchases, we noted computer peripherals and print supplies were available through established County vendor contracts. However, the Sheriff's Cardholders purchased these items through non-County vendors.

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Per the County of Sacramento Procurement Card Program Guidelines and Procedures Manual, "If there is an established County contract for the needed GOODS or SERVICE, use of the PROCUREMENT CARD as a payment vehicle against the contract is encouraged and authorized". As such, the Sheriff was not adhering to the County of Sacramento Procurement Card Program Guidelines and Procedures Manual.

This finding was also noted during our previous procurement card review. See finding #5 at Attachment I, *Current Status of Prior Findings and Recommendations*.

Recommendation

We recommend the Sheriff comply with the County of Sacramento Procurement Card Program Guidelines and Procedures Manual and have its Cardholders purchase items on established County contracts when there is one.

Management Response

The Sheriff's Department agrees with this finding. Cardholders will be reminded of the necessity to make purchases on established County contracts when such a contract is available.

4. Internal Controls over General Ledger Posting

Comment

During our review, as described at Finding #1 of this attachment, the Sheriff did not perform the reconciliation between the County general ledger system (COMPASS) posting and its use tax accrual form submitted to DOF payment services. As a result, the Sheriff was not able to detect one of the use tax accruals on the use tax accrual form that was submitted to DOF Payment Services by the Sheriff but was not entered or posted to COMPASS by DOF Payment Services staff.

Recommendation

We recommend the Sheriff perform the reconciliation between COMPASS posting and its use tax accrual form submitted to DOF payment services to ensure that all accrual entries by DOF Payment Services staff are complete and accurate. We also recommend the Sheriff to establish adequate internal control policies and procedures to ensure the accurate recording of its use tax accruals in COMPASS.

Management Response

The Sheriff's Department does not agree with this finding. It has never been the role of the Sheriff's Department to review accrual entries completed by Department of Finance (DOF)

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staff to ensure that DOF work is complete and accurate. Additionally, the Sheriff's Department has reviewed the County of Sacramento Procurement Card Program Policy (adopted 7/22/14) and the County of Sacramento Procurement Card Program Guidelines and Procedures Manual (rewritten 2014). Under the duties for the Level 4 Unit Program Coordinator, Level 4 Billing Office Contact, and Level 4 Deputy Auditor Controller, it does not state anywhere that their duties include ensuring that the accrual entries by DOF Payment Services staff are complete and accurate.