

# COUNTY OF SACRAMENTO

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

**INTERNAL AUDIT REPORT**

**PROCUREMENT CARD AGREED-UPON  
PROCEDURES**

**DEPARTMENT OF WATER RESOURCES**



Submitted to Audit Committee on 08/17/2018

## SUMMARY

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### 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 Department of Water Resources' purchases and records are in compliance with the Program's guidelines and procedures.

### Summary

We noted issues related to sales and use tax discrepancies, travel procurement card, and a personal purchase.



County of Sacramento

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*Inter-Departmental Memorandum*

July 9, 2018

To: Michael Peterson  
Director of Water Resources

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 name and title of the Chief of Audits.

Subject: **PROCUREMENT CARD AGREED-UPON PROCEDURES FOR THE PERIOD OF SEPTEMBER 1, 2015 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 Department of Water Resources' (DWR) participation in the program for the period of September 1, 2015 to April 30, 2018. DWR'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 DWR. 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 DWR'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 DWR's records to identify any non-compliance with the above cited guidelines, policy, and procedures.

Finding: We did not note any exceptions that require your attention as a result of our procedures.

- We tested purchases for the period of October 1, 2015 to January 31, 2018 to identify any non-compliance with the above cited guidelines, policy, and procedures.

Finding: We noted exceptions that require your attention as a result of our procedures. See Attachment II, *Current Findings and Recommendations*.

- We determined the current status of prior findings and recommendations reported on DWR's procurement card agreed-upon procedures report for the period of July 1, 2013 to August 31, 2015, dated October 19, 2015.

Finding: The current status of prior findings and recommendations for DWR is described 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 DWR's accounting records, compliance, or results of our procedures referred above and on the previous page. 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 DWR's operations as a whole.

DWR'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 DWR'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 DWR'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: Members, Board of Supervisors  
Sacramento County Audit Committee  
Nancy Newton, Assistant County Executive  
David Villanueva, Deputy County Executive, Administrative Services  
Britt Ferguson, Chief Fiscal Officer, Office of Budget and Debt Management  
Dianna Baird, Procurement Card Program Administrator, General Services  
Audra Harman-Payne, Administrative Services Officer III, DWR

COUNTY OF SACRAMENTO  
DEPARTMENT OF WATER RESOURCES  
PROCUREMENT CARD PROGRAM REVIEW  
CURRENT STATUS OF PRIOR FINDINGS AND RECOMMENDATIONS

PERIOD OF SEPTEMBER 1, 2015 TO APRIL 30, 2018

**CURRENT STATUS OF PRIOR REVIEW FINDINGS FOR THE PERIOD JULY 1, 2013  
TO AUGUST 31, 2015, REPORT DATED OCTOBER 19, 2015**

**1. Prohibited Purchases**

Prior Comment

During our review of the Department of Water Resources (DWR), we noted two prohibited purchases, one personal parking and one work related parking. Per County of Sacramento Procurement Card Program (program) Guidelines and Procedures Manual, "*the procurement card may not be used for any personal purchase*" and "*Q. Prohibited Purchases... travel or travel related expenses.*" Therefore, DWR was not in compliance with the County of Sacramento Procurement Card Program Guidelines and Procedures Manual.

Prior Recommendation

We recommend DWR prohibit the use of procurement cards for purchases that would violate the County of Sacramento Procurement Card Program Guidelines and Procedures Manual.

DWR Management's Prior Response

During the pre-audit phase of the Procurement Card (PCard) holder's statement, staff became aware the cardholder used his PCard for jury duty parking fees. The Unit Program Coordinator contacted the County's PCard Program Administrator for policy guidance. While waiting for policy guidance from the Administrator, the cardholder used his PCard to pay for work related parking. When it was determined the PCard holder was in violation for both transactions a letter covering both violations was sent to the PCard holder and his immediate supervisor. The cardholder reimbursed the department for the personal parking expense.

The Department of Water Resources will continue to comply with all aspects of the "County of Sacramento Procurement Card Program Guidelines and Procures Manual".

Current Status

It appears that our recommendation has not been implemented. We identified a personal purchase using the procurement card during our current review. See Attachment II, *Current Findings and Recommendations*.

**2. Sales/Use Tax**

Prior Comment

During our purchases' review DWR, we noted four internet purchases where the merchant did not charge DWR sales/use tax, and sales/use tax was not accrued by DWR in the

COUNTY OF SACRAMENTO  
DEPARTMENT OF WATER RESOURCES  
PROCUREMENT CARD PROGRAM REVIEW  
CURRENT STATUS OF PRIOR FINDINGS AND RECOMMENDATIONS

PERIOD OF SEPTEMBER 1, 2015 TO APRIL 30, 2018

Sacramento County Financial System (a.k.a. COMPASS). We also noted eight purchases where the internet merchant charged DWR the incorrect tax rate, seven resulting in an underpayment of sales/use tax, and one resulting in an overpayment of sales/use tax. We further noted twelve purchases where DWR did not accrue shipping and handling charges in COMPASS. We also noted one purchase where DWR 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/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.

Prior Recommendation

We recommend DWR accrue tax when the merchant fails to charge DWR sales/use tax. We further recommend DWR 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, DWR needs to accrue the difference in COMPASS, or resolve the difference with the merchant, respectively. We also recommend DWR to accrue tax on "shipping & handling" or "handling" when "shipping & handling" or "handling" is listed as a separate line item. Also, DWR should not accrue tax in COMPASS when tax is not required.

DWR Management's Prior Response

Department of Water Resources was not aware of the rules for sales tax on handling and shipping charges when a vendor combines the charges into one total. We have put procedures in place to assure that sales tax rules for handling and shipping charges are followed. The Auditor recommended that we accrue corrections of under charges of California sales tax in COMPASS or contact the Payment Unit Desk. The PCard training differs from the Auditor's recommendation in that the training instructs the cardholder to complete a Sales and Use Tax Log and attached it to the cardholder's statement and do not attempt to calculate California Sales or Use Tax. The Department of Water Resources accepts the Auditor's recommendations and has directed its staff to follow them.

Current Status

It appears that our recommendation has been partially implemented. We identified sales tax issues in the months of November 2015 and June 2016. However, we did not identify any sales tax issues during the months of July 2016, December 2016, March 2017, and January 2018. See Attachment II, *Current Findings and Recommendations*.

COUNTY OF SACRAMENTO  
DEPARTMENT OF WATER RESOURCES  
PROCUREMENT CARD PROGRAM REVIEW  
CURRENT STATUS OF PRIOR FINDINGS AND RECOMMENDATIONS

PERIOD OF SEPTEMBER 1, 2015 TO APRIL 30, 2018

**3. Missing Cardholder Signature**

Prior Comment

During our purchases review, we noted one cardholder's statement was only signed by the approving official and not the cardholder. According to the program's guidelines and procedures manual, "*Cardholders must sign and date the monthly statement attesting to the accuracy and validity of charges incurred.*" Therefore, DWR was not in compliance with the programs' guidelines and procedures manual.

Prior Recommendation

We recommend DWR ensure that all procurement card statements are properly signed by their respective cardholders to remain in compliance with the program's guidelines and procedures manual.

DWR Management's Prior Response

The PCard holder was out of the office and unavailable due her spouse's serious health condition and passing. The Director of Water Resources is the PCard holder's approving official and he signed off on the card holder's statement. Water Resources will continue to comply with all aspects of the County of Sacramento Procurement Card Program Guidelines and Procedures Manual. Though this was an isolated and rare event, our follow up procedures will be improved to assure signature requirements are met in the future.

Current Status

It appears that our recommendation has been implemented.

**4. Inter-Departmental Payments**

Prior Comment

During our review, we noted that inter-departmental invoices from the County of Sacramento (County), Environmental Management Department (EMD) were paid by DWR on its procurement card. EMD assesses a credit card percentage fee per transaction based on the transaction amount. In addition, third party credit card merchants charge EMD monthly credit card merchant fees. As such, DWR is paying, and costing the County, more for these transactions than necessary.

Prior Recommendation

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

COUNTY OF SACRAMENTO  
DEPARTMENT OF WATER RESOURCES  
PROCUREMENT CARD PROGRAM REVIEW  
CURRENT STATUS OF PRIOR FINDINGS AND RECOMMENDATIONS

PERIOD OF SEPTEMBER 1, 2015 TO APRIL 30, 2018

DWR Management's Prior Response

When completing online permit applications, cross connection tag purchases, and backflow tester registration applications, payment by credit card appears to be the only online option allowed. We are in the process of working with EMD to determine the most cost beneficial method of payment for each type of transaction in the future.

Current Status

It appears that our recommendation has been implemented.



COUNTY OF SACRAMENTO  
DEPARTMENT OF WATER RESOURCES  
PROCUREMENT CARD PROGRAM REVIEW  
CURRENT FINDINGS AND RECOMMENDATIONS

PERIOD OF SEPTEMBER 1, 2015 TO APRIL 30, 2018

**1. Sales Tax Issues**

Comment

During our review of the Department of Water Resources' (DWR) procurement card purchases, we noted the following issues related to sales/use tax for the statement months of November 2015 and June 2016:

- I. Sales/use tax was not being accrued in the Sacramento County Financial System (a.k.a. COMPASS) for shipping and handling charges when the merchant failed to assess proper tax at the time of purchase.
- II. Differences in sales/use tax due were not accrued in COMPASS on purchases where the merchant assessed the incorrect tax rate.
- III. Taxes were accrued in COMPASS for shipping only charges.

The County of Sacramento Procurement Card Guidelines and Procedures Manual (a.k.a. Procurement Card Guidelines) state that proper sales/use taxes be paid on all taxable goods and purchases made. Handling charges that are charged as a separate line item or included with shipping charges are subject to sales/use tax. If a merchant fails to assess the correct sales tax percentage at the time of purchase, the difference in tax is due. Shipping only charges are not subject to sales/use tax.

As such, DWR has underpaid and overpaid the respective sales/use tax.

Recommendation

We recommend DWR comply with the Procurement Card Guidelines by ensuring the proper sales/use taxes are paid; difference in taxes due and shipping and handling charges should have the proper sales/use tax accrued in COMPASS. In addition, we recommend DWR ensure taxes are not accrued for non-taxable items such as shipping only charges.

DWR Management's Response

DWR accepts these recommendations and has directed Cardholders to utilize the updated Procurement Summary Form provided by the Department of Finance when calculating the proper amount of sales taxes for all purchases. DWR has also implemented an additional review process for internal purposes.

COUNTY OF SACRAMENTO  
DEPARTMENT OF WATER RESOURCES  
PROCUREMENT CARD PROGRAM REVIEW  
CURRENT FINDINGS AND RECOMMENDATIONS

PERIOD OF SEPTEMBER 1, 2015 TO APRIL 30, 2018

**2. Travel Procurement Card Issues**

Comment

During our review of DWR's travel procurement card purchases, we noted three hotel reservations were booked in the March 2017 statement in the amounts of \$73.45 each. Of the three reservations booked, only two had an approved County Travel Request (CTR) form. In addition, the two CTR forms were signed and approved after the reservations were booked.

The County of Sacramento Travel Guidelines and Procedures (a.k.a. Travel Guidelines) states that "*Cardholders may **not** book airline tickets or hotel reservations without having an approved County Travel Request.*" Accordingly, by completing and approving CTR forms after the hotel reservations were booked with the travel procurement card, DWR was not in compliance with the Travel Guidelines.

Recommendation

We recommend DWR ensure all travelers have an approved CTR form prior to booking any hotel or airline reservations with the travel card to be in compliance with the Travel Guidelines.

DWR Management's Response

DWR accepts these recommendations and will remain diligent in our review process of Procurement Card transactions. We will also continue to train DWR travelers on the importance of being in compliance with all aspects of the County Travel Policy revised December 2016. DWR also believes that utilizing the County's Concur Travel system will alleviate this issue going forward.

**3. Personal Purchase**

Comment

During our review of DWR's procurement card purchases, we noted a personal purchase was made using the procurement card in the January 2018 statement. Upon further investigation, we noted that appropriate and corrective action was taken by DWR and the Deputy Auditor-Controller in accordance with the Procurement Card Guidelines. In addition, we confirmed the amount of the purchase was returned to the County Treasury.

The Procurement Card Guidelines prohibit the use of the procurement card to make personal purchases. As such, DWR was not in compliance.

COUNTY OF SACRAMENTO  
DEPARTMENT OF WATER RESOURCES  
PROCUREMENT CARD PROGRAM REVIEW  
CURRENT FINDINGS AND RECOMMENDATIONS

PERIOD OF SEPTEMBER 1, 2015 TO APRIL 30, 2018

Recommendation

We recommend DWR prohibit its procurement cardholders from making personal purchases using the procurement card.

DWR Management's Response

DWR accepts these recommendations and will continue to train our Cardholders on the importance of complying with all aspects of the County of Sacramento Procurement Card Program Guidelines and Procedures Manual, as well as meet the Program training requirements issued by the County.

**4. Repeat Findings**

Comment

We noted that Finding Numbers 1 and 3 of this attachment are repeat findings from DWR's prior procurement card review for the period July 1, 2013 to August 31, 2015, report dated October 19, 2015. See Attachment I, *Current Status of Prior Findings and Recommendations*.

Proper internal controls indicate that the findings be resolved in a timely manner.

Recommendation

We recommend DWR implement the recommendations described at Finding Numbers 1, 2, and 3 of this attachment in a timely manner.

DWR Management's Response

DWR accepts these recommendations and will continue to train our Cardholders on the importance of complying with all aspects of the County of Sacramento Procurement Card Program Guidelines and Procedures Manual, and the County Travel Policy.