

**COUNTY OF SACRAMENTO
CALIFORNIA**

For the Agenda of:
August 22, 2017
“*Communications Received and Filed*” Item

To: Board of Supervisors
From: Department of Finance
Subject: Procurement Card Program’s Compliance Review Of The Department Of Airports, For The Period Of February 1, 2015, To May 31, 2017
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 Compliance Review of the Department of Airports, for the Period of February 1, 2015, to May 31, 2017*

Respectively submitted,

Ben Lamera
Director of Finance

Attachments

ATT 1 - Procurement Card Program’s Compliance Review of the Department of Airports, for the Period of February 1, 2015, to May 31, 2017

Department of Finance

Ben Lamera,
Director

County of Sacramento

July 17, 2017

To: John Wheat, Director
Department of AirportsFrom: Ben Lamera
Director of FinanceBy: Alan A. Matré
Chief of Audits

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

Subject: **PROCUREMENT CARD PROGRAM REVIEW FOR THE DEPARTMENT
OF AIRPORTS FOR THE PERIOD OF FEBRUARY 1, 2015 TO
MAY 31, 2017**

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 Policy, and County of Sacramento Travel Guidelines and Procedures, we have performed the procedures enumerated below to the County of Sacramento, Department of Airports' (Airports) participation in the program for the period of February 1, 2015 to May 31, 2017. Airports' 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 Airports' other operations, procedures, or compliance with laws and regulations.

The procedures we performed are summarized as follows:

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

Finding: We noted issues regarding a Procurement Card Violation and a County Travel Request. See Attachment II, *Current Findings and Recommendations*.

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

Finding: We noted several issues regarding sales/use tax. See Attachment II, *Current Findings and Recommendations*.

- We determine the current status or prior findings and recommendations reported on Airports' Procurement Card review report for the period July 1, 2012 to January 31, 2015, Dated March 25, 2015.

Finding: The current status of prior findings and recommendations for Airports 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 Airports' 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 Airports' operations as a whole.

Airports' responses to the findings identified during our engagement are described in Attachment II, *Current Findings and Recommendations*. We did not perform procedures to validate Airports' 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 Airports' 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: Camelia Radulescu, Senior Airport Manager

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

PERIOD OF FEBRUARY 1, 2015 TO MAY 31, 2017

**CURRENT STATUS OF PRIOR FINDINGS AND RECOMMENDATIONS (Report
Dated March 25, 2015 for the period July 1, 2012 to January 31, 2015)**

1. Sales/Internet Use Tax

Comment

During our purchases' review of the County of Sacramento, Department of Airports (Airports), we noted 1 purchase had sales tax charged by the merchant and sales tax was also accrued in the Sacramento County Financial System (a.k.a. COMPASS), resulting in an overpayment of sales tax. We also noted 1 internet purchase where the internet merchant charged Airports the incorrect tax rate, resulting in an overpayment of sales tax. We further noted 3 internet purchases where the merchant did not charge sales tax, and Airports did not accrue the internet use tax in COMPASS. In addition, we noted 10 internet purchases where the internet use tax was accrued for the item amounts, but not the shipping and handling amounts. 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. In addition, if the merchant does not separate shipping and handling charges, but the shipping and handling charges are combined as one charge, the combined shipping and handling charge is subject to the internet use tax.

Recommendation

We recommend Airports 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, Airports needs to accrue the total amount including the combined shipping and handling charge and pay the difference in COMPASS, or resolve the difference with the merchant, respectively.

Management Response

Airports' staff will review and follow the Procurement Card Program Procedures and Guidelines related to internet use tax obligations. We will verify that the correct sales/use tax are paid or accrued, including the use tax related to combined shipping and handling charges and will work with the County Department of Finance to remit the under-accrued amounts to the California Board of Equalization. Airports' staff will contact the merchants who are over-charging the sales tax and request refunds.

Current Status

During our review, we noted several sales/use tax issues. See finding #2 in Attachment II, *Current Findings and Recommendations*.

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CURRENT STATUS OF PRIOR FINDINGS AND RECOMMENDATIONS

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**CURRENT STATUS OF PRIOR FINDINGS AND RECOMMENDATIONS (Report
Dated March 25, 2015 for the period July 1, 2012 to January 31, 2015)
(Continued)**

2. Purchasing Card Security

Comment

We noted 3 PayPal transactions were purchased through an individual's personal PayPal account. Based on the information provided, it appeared that a Cardholder's purchasing card was stored in an individual's personal PayPal account. Per the program's guidelines and procedures, "*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 a PayPal account, the purchasing card could be subject to theft or misuse by someone other than the Cardholder.

Recommendation

We recommend Airports has its Cardholders safeguard their purchasing cards account information at all times by not storing the account information online. We further recommend Airports has its Cardholders to not provide their account information to any merchants, where the account information is not encrypted and could be subject to theft.

Management Response

Airports agree with the finding that in one instance the credit card number was stored in a PayPal account, therefore the procurement card could have been subject to misuse or theft. Although we believe that providing the credit card information via phone, e-mail or facsimile represents a similar threat since there is nothing we can do to prevent vendors to withhold the credit card information and use it inappropriately, we will instruct the Cardholders to not store the procurement card numbers with the online merchants.

Information security is one of the most critical business issues in today's world full of rapid technological advances. We believe that a control of the end results through continuous monitoring and rigorous reviews of the monthly statements by Cardholders and subsequent reviewers along with the ability to dispute each unauthorized transaction provides the best tool to safeguard the County assets.

Section I of the Procurement Card Program Procedures and Guidelines, Disputed or Returned Merchandise and Reporting Fraud, provides a mechanism to Cardholders to dispute unauthorized transactions: "*If the Cardholder discovers an unrecognized charge on their*

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Dated March 25, 2015 for the period July 1, 2012 to January 31, 2015)
(Continued)**

monthly statement, they should first call US Bank, Customer Service to report the unrecognized charge. If it is just a processing error, the Cardholder would then initiate the dispute process. If the unrecognized charge turns out to be fraudulent activity, US Bank will provide instructions for recovery”.

Current Status

During our review, we did not note any issues related to the security of the Purchasing Card.

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PROCUREMENT CARD PROGRAM REVIEW
CURRENT FINDINGS AND RECOMMENDATIONS

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1. Procurement Card Violation

Comment

During our review of the Department of Airports (Airports), we noted one Procurement Card violation. The Procurement Card violation is related to an accidental personal transaction made by a Cardholder on May 9, 2015. The Cardholder requested the merchant to reverse the transaction and the transaction was credited to the Cardholders' Procurement Card on May 11, 2015. The Procurement Card violation was documented by the Deputy A-C and the Cardholder was counseled but a copy of the Procurement Card violation was not forwarded to the Assistant Auditor-Controller and the Chief of Audits in the Department of Finance.

Per the County of Sacramento Procurement Card Program Guidelines and Procedures Manual, the Deputy Auditor-Controller has the responsibility to "report, in writing, any program violations discovered during the pre-audits. Written documentation of their findings must be sent to the Cardholder with copies to the Department Head, Assistant Auditor-Controller (Department of Finance), the Program Administrator, and the Cardholder's Approving Official." In addition, a copy of all policy violations will be maintained with the Procurement Card records, and a copy will be forwarded to the Chief of Audits in the Department of Finance.

Since Airports did not forward a copy of the Procurement Card violation to the Assistant Auditor-Controller and the Chief of Audits in the Department of Finance, Airports is not in compliance with the County of Sacramento Procurement Card Program Guidelines and Procedures Manual.

Recommendation

We recommend Airports comply with the County of Sacramento Procurement Card Program Guidelines and Procedures Manual and forward all Procurement Card violations to appropriate individuals.

Management Response

The Department of Airports is not in agreement with this finding as the P-card Guidelines have been followed as stated in Section L.1. of the P-Card Program Guidelines: "*any misuse found by the Approving Official, Deputy Auditor-Controller or Unit Program Coordinator will be reported to the Department Head and the Contracts and Purchase Division for appropriate action*". Copies of the violation notification were sent to the Department Head, the County P-Card Program Administrator and the Approving Official. The Program violation was discussed with the P-card Program Administrator immediately after being discovered. She advised us to send a copy of the violation notice to her, hence it was

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assumed that the Program Administrator will consolidate the violation notices for the entire Program and collectively notify the Department of Finance.

The P-Card Deputy Auditor-Controller (DAC) discussed this finding with the Auditor during the P-card field audit. The Auditor agreed that the P-card Guidelines include conflicting requirements such as in this particular situation.

In the future the Department will include the County Assistant Auditor-Controller and the Chief of Audits in the notification distribution list for the P-Card Program violations. The Department of Transportation had the same audit finding recently and recommended that DGS add the requirement of notifying the Department of Finance to the “Misuse of the Procurement Card” section of the Program Guidelines. The Department of Airports adheres to the DOT recommendation to DGS to establish uniform procedures to address notification requirements.

2. Sales/Internet Use Tax

Comment

During our purchases’ review, we noted the following sales/use tax issues:

- 1 transaction where the merchant did not assess tax on the transaction and Airports did not accrue tax in the County of Sacramento Financial System (a.k.a. COMPASS)
- 2 transactions where the merchant charged Airports the incorrect tax rate and Airports did not accrue the tax difference in COMPASS resulting in a tax underpayment
- 2 transactions where Airports did not accrue tax in COMPASS on shipping and handling when shipping and handling was listed as a combined charged on the invoice/receipt
- 3 transactions where Airports accrued tax in COMPASS on the freight/shipping charge when the freight/shipping charge was listed as a separate line item on the invoice/receipt
- 1 transactions where Airports accrued tax on a transaction that was not taxable

Per California law and the County of Sacramento Procurement Card Programs’ Guidelines and Procedures Manual, if the merchant does not charge sales tax/charges the incorrect tax rate, 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. In addition, if the merchant does not separate shipping and handling charges, but the shipping and handling charges are combined

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as one charge, the combined shipping and handling charge is subject to the sales/use tax. Furthermore freight/shipping charges are not taxable when freight/shipping charges are listed on the invoice/receipt as a separate line item and software is not taxable when an electronic copy is purchased.

Recommendation

We recommend Airports comply with California Law and County of Sacramento Procurement Card Program Guidelines and Procedures Manual and confirm California sales tax charged by the merchant is for the correct amount. If California sales tax charged by the merchant is incorrect, then Airports needs to accrue the correct tax amount in COMPASS. We further recommend Airports to accrue tax on shipping and handling charges when shipping and handling is listed as a combined charge on the invoice/receipt. Also, we recommend Airports to not accrue tax on freight/shipping charges when freight/shipping is listed as a separate line item on the invoice receipt and to not accrue tax on purchases that are nontaxable.

Management Response

The Department of Airports agrees with this recommendation and will continue to implement measures to accurately accrue sales tax. As the Department is using extensively the P-card Program to fulfill its procurement needs, every billing cycle we incur more than one hundred P-card transactions. In addition, because the Department is located in an unincorporated area of the Sacramento County, most of the out-of-state vendors are frequently applying incorrect sales tax rates to our transactions (either the California statewide rate of 7.25% or the City of Sacramento rate of 8.25%). Consequently, the P-card Unit Coordinator spends a significant amount of time on reviewing all the P-card transactions and recalculating the sales tax for accrual purpose. Some transactions have been overlooked during the review process and the sales tax findings listed in the audit report resulted in an approximate \$40 of over-accrued sales tax. As corrective measures, we transferred the P-card Unit Coordinator responsibilities to another staff who can dedicate additional time to review and recalculate the sales tax for each P-card transaction, we will deputize an alternate DAC to allow for timely pre-audit of the P-card transactions when the DAC is unavailable and we will provide additional training to the P-card holders and Approving Officials on how to complete the summary tax accrual form recently implemented by the P-Card Program in order to eliminate the sales tax errors.

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3. County Travel Request

Comment

During our review of Airports, we noted one transaction made with the Travel Procurement Card that was not supported by an approved County Travel Request. The transaction was made on May 24, 2016 for an airplane ticket in the amount of \$680.96. The airplane ticket was later cancelled on May 27, 2016.

Per the County of Sacramento Travel Guidelines and Procedures, “Cardholders may not book airline tickets or hotel reservations without having an approved County Travel Request.” The Cardholder processing the airplane ticket should have obtained an approved County Travel Request before making the purchase of the airplane ticket. The Cardholder canceling the airplane ticket three days after making the purchase does not exempt them from obtaining the proper documentation before making the transaction.

Since Airports did not obtain and retain an approved County Travel Request, Airports is not in compliance with the County of Sacramento Travel Guidelines and Procedures.

Recommendation

We recommend Airports comply with the County of Sacramento Procurement Card Program Guidelines and Procedures Manual and obtain and retain an approved County Travel Request for all transactions made with the Travel Procurement Card.

Management Response

The Department does not agree with this finding as the approved travel request form was provided to the Auditor. During the field P-card audit the Auditor requested documentation related to an airfare transaction. The receipt for the airfare and the refund documentation related to the airfare cancellation were provided to the Auditor along with a draft travel request located in the accounting files. At the time when this particular transaction occurred, the Travel Coordinator’s practice was to store the approved travel requests in her files and to not provide copies with the travel P-card statements in addition to the travel-related receipts. During past audits, she provided copies of the approved travel requests directly to the P-card Auditors. Although numerous additional items have been requested by the Auditor and clarified subsequent to the field audit, we were only made aware of the missing approved travel request upon receiving the draft audit report which included a finding related to this item. As the Travel Coordinator who performed that particular transaction left the County service in October 2016, we had difficulties in locating the travel request immediately, but eventually we were successful and provided a copy to the Auditor along with our assurance

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that no travel accommodations are being booked without an approved travel request. Consequently, we requested removal of this finding item from the audit draft, but our request has been declined.

To avoid a similar misunderstanding in the future, we now require that the current Travel Coordinator provides a copy of the approved travel request for each of the transactions included in the travel P-card statement.

4. Repeat Finding

Comment

During our review, we noted that finding #2 of this attachment is a repeat finding 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 Airports to implement the recommendation on finding #2 of this attachment.

Management Response

The corrective actions to correct this finding are listed in our response to finding no. 2.