

**COUNTY OF SACRAMENTO
CALIFORNIA**

For the Agenda of:
July 25, 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 Child Support Services, For The Period Of July 1, 2015, To March 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 Child Support Services, for the Period of July 1, 2015, to March 31, 2017*

Respectively submitted,

Ben Lamera
Director of Finance

Attachment

ATT 1 - Procurement Card Program’s Compliance Review of the Department of Child Support Services, for the Period of July 1, 2015, to March 31, 2017

Department of Finance

Ben Lamera,
Director



Agenda Date: July 25, 2017

ATT 1
Auditor-Controller Division

Joyce Renison,
Assistant Auditor-Controller

County of Sacramento

June 27, 2017

To: Terrie Porter, Director
Department of Child Support Services

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 printed name.

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 Child Support Services' (DCSS) participation in the program for the period of July 1, 2015 to March 31, 2017. DCSS' 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 DCSS' other operations, procedures, or compliance with laws and regulations.

The procedures we performed are summarized as follows:

- We reviewed DCSS' 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 a missing signature from the Approving Official. See Attachment II, *Current Findings and Recommendations*.

- 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 an incomplete itemized receipt, sales/use tax, and the US Bank payments. See Attachment II, *Current Findings and Recommendations*.

- We determine the current status or prior findings and recommendations reported on DCSS' Procurement Card review report for the period April 1, 2014 to June 30, 2015, Dated September 23, 2015.

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

DCSS' responses to the findings identified during our engagement are described in Attachment II, *Current Findings and Recommendations*. We did not perform procedures to validate DCSS' 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 DCSS' 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: Mary Lawrence-Jones, Assistant Director, DCSS
Dalen Fredrickson, Assistant Director, DCSS

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DEPARTMENT OF CHILD SUPPORT SERVICES
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 September 23, 2015 for the period April 1, 2014 to June 30, 2015)**

1. Procurement Cards' Reconciliation Packets Security

Comment

During our review of the Department of Child Support Services (DCSS), we noted DCSS stored the procurement cards' reconciliation packets (reconciliation packets) in an unsecured location. Per the County of Sacramento Procurement Card Program (program) Guidelines and Procedures Manual, "*The account payable clerk, or other designated employee, will file the completed PROCUREMENT CARD STATEMENTS with SUPPORTING DOCUMENTATION in a locked, fireproof container or other secure method.*" Since the reconciliation packets were not stored in a locked, fireproof container or other secure method, DCSS was not in compliance with the County of Sacramento Procurement Card Program Guidelines and Procedures Manual.

Recommendation

We recommend DCSS comply with County of Sacramento Procurement Card Program Guidelines and Procedures Manual and store the reconciliation packets in a locked, fireproof container or other secure method.

Management Response

We concur and have put measures in place to assure procurement card reconciliation packets are stored in a secured filing cabinet.

Current Status

During our review, we noted an issue with the security of the Procurement Card packets. See finding #1, Attachment II, *Current Findings and Recommendations*.

2. Sales/Internet Use Tax

Comment

During our purchases' review of DCSS, we noted two internet purchases where the internet merchant did not charge sales tax and DCSS did not accrue sales tax in the Sacramento County Financial Systems (a.k.a. COMPASS). We also noted one purchase where DCSS accrued tax in COMPASS for a transaction that was not taxable, resulting in an overpayment of tax. We further noted one internet purchase where the internet merchant charged the incorrect tax rate and DCSS accrued tax on the full amount, not just the difference, resulting in an overpayment of tax. Also, we noted one internet purchase where DCSS incorrectly

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(Continued)**

accrued tax on shipping in COMPASS. 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.

Recommendation

We recommend DCSS accrue tax in COMPASS when the internet merchant does not charge sales tax and not accrue sales tax when tax is not required. We further recommend DCSS 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, DCSS needs to accrue the difference in COMPASS, or resolve the difference with the merchant, respectively. In addition, if the itemized receipt indicates "shipping" or "freight" on a separate line item, tax should not be accrued on the shipping/freight charge.

Management Response

We concur and have put procedures in place to assure that sales tax is reviewed for the correct amount and that the difference due in sales tax is accrued in COMPASS.

Current Status

During our review, we noted several issues related to sales/internet use tax, see finding #4 in Attachment II, *Current Findings and Recommendations*.

3. Purchasing Card Security

Comment

During our review of DCSS, we noted DCSS stored procurement card information on an online merchant 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.

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(Continued)**

Recommendation

We recommend DCSS 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 DCSS 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

We concur and have directed all procurement card holders to safeguard their credit card information by not storing the account information online.

Current Status

During our review, we did not note any issues with the Procurement Card information stored on an online merchant account.

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1. Security Over Purchasing Card Information

Comment

During our review of the Department of Child Support Services (DCSS), we noted Purchasing Card information packets are stored in a locked room that is accessible by multiple individuals from DCSS and the Department of Personnel Services. Per the County of Sacramento Procurement Card Program Guidelines and Procedures Manual, “it is the Cardholders’ 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 packets are stored in a room that is accessible to multiple individuals, Procurement Card information could be subject to theft or misused by an individual other than the Cardholder. Therefore, DCSS is not in compliance with the County of Sacramento Procurement Card Program Guidelines and Procedures Manual.

Recommendation

We recommend DCSS comply with the County of Sacramento Procurement Card Program Guidelines and Procedures Manual and safeguard the Procurement Card information at all times. We further recommend DCSS to store the Procurement Card information packets in a locked cabinet that is only accessible to individuals that are part of Procurement Card program.

Management Response

The Department understood the previous Pcard audit recommendation was to store the Pcard “reconciliation packets in a locked, fireproof container or other secure method”. After the previous audit, we complied with this finding. We did not fully understand the issue with staff accessibility. The records have been stored in a secure area with very limited access, however following the findings of this audit, we have strictly restricted access according to the audit recommendations.

2. Missing Approving Officials’ Signature

Comment

During our review, we noted the Approving Official did not sign a Cardholders’ statement. Per the County of Sacramento Procurement Card Program (program) Guidelines and Procedures Manual, the Approving Official will sign and date each Cardholders’ statement to attest that all charges on the monthly billing statements are allowable purchases based on County Policy. Since the Approving Official did not sign the Cardholders’ statement, it

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cannot be determined if the Approving Official reviewed the transactions. Therefore, DCSS is not in compliance with the County of Sacramento Procurement Card Program Guidelines and Procedures Manual.

Recommendation

We recommend DCSS comply with County of Sacramento Procurement Card Program Guidelines and Procedures Manual and have the Approving Official sign all Cardholders' statements to indicate they reviewed and to attest the charges are allowable purchases.

Management Response

The Department understands the requirement to have the Approving Official review and sign all the statements. In the case of this finding, the Approving Official at the time signed the statement, but not on the recommended line. The statement was reviewed by the official and then a signature was affixed, however we will take care to avoid similar inadvertent errors going forward.

3. Incomplete Itemized Receipt

Comment

During our purchases review of DCSS, we noted one purchases with an incomplete itemized receipt. The receipt had the total amount of the transaction but did not list the amount of the sales tax and shipping charge. According to the County of Sacramento Procurement Guidelines and Procedures Manual, Cardholders have to obtain and retain a copy of the original itemized sales draft (receipt) that includes the total amount of sales tax and total amount of shipping charges. Since the Cardholder did not obtain and retain a complete itemized receipt, the Cardholder cannot determine the amounts of the different charges and cannot determine if the appropriate tax was paid. One of the tax issues mentioned in finding #4 occurred due to DCSS not obtaining an itemized receipt. Since DCSS did not obtain a complete itemized receipt, DCSS is not in compliance with the County of Sacramento Procurement Card Program and Procedures Manual.

Recommendation

We recommend DCSS comply with the County of Sacramento Procurement Card Program Guidelines and Procedures Manual and obtain and retain itemized receipts with all necessary information. We further recommend DCSS to review the sections regarding itemized receipts on the County of Sacramento Procurement Card Program Guidelines and Procedures Manual.

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Management Response

The Department will require complete itemization from all vendors.

4. Sales/Internet Use Tax

Comment

During our purchases review of the DCSS, we noted the following tax issues:

- Three transactions where the merchant charged DCSS the incorrect tax rate and DCSS did not accrue the tax difference in the County of Sacramento Financial System (a.k.a. COMPASS)
- Ten transactions where DCSS staff accrued tax in COMPASS on the purchase price when it was not necessary, it had already been charged by the merchant
- One transaction where DCSS accrued tax on shipping when shipping was listed as a separate line item on the receipt/invoice

Per California law and the County of Sacramento Procurement Card Program Guidelines and Procedures Manual, if the merchant does not charge the correct tax, the correct sales/use tax must be paid by the purchaser when items are purchased on the internet or out of state with the intent to be used in California to avoid underpaying tax. Also, if shipping charges are listed as a separate line item on the receipt/invoice, tax should not be accrued on the charge. Therefore, DCSS is not in compliance with California law and the County of Sacramento Procurement Card Program Guidelines and Procedures Manual.

Recommendation

We recommend DCSS review the invoices/receipts and accrue the appropriate sales/use tax when the merchant does not charge the correct tax rate. We further recommend DCSS to not accrue sales/use tax on shipping charges when the shipping charge is listed as a separate line item on the invoice/receipt and to not accrue additional tax on purchases when it is not necessary.

Management Response

The Department now has a process in place to itemize all purchases on a Sales Tax Log and provide the spreadsheet to the Department of Finance. This process will effectively identify instances where full or partial adjustments need to be made for appropriate taxes.

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5. Payment Deadline

Comment

During our review, we noted DCSS did not make US Bank Payments on time for four months. Per the County of Sacramento Procurement Card Program Guidelines and Procedures Manual, “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 DCSS did not make US bank Payment within 45 days of the billing date, DCSS is not in compliance with the County of Sacramento Procurement Card Program Guidelines and Procedures Manual.

Recommendation

We recommend DCSS comply with the County of Sacramento Procurement Card Program Guidelines and Procedures Manual and make US Bank payment within 45 days of the billing date.

Management Response

There were some payment delays while the Department was implementing a new Sales Tax Log spreadsheet to reduce incorrect sales tax accrual. There are now procedures in place to make sure approvals happen promptly and the information is provided to the Department of Finance before payments are due.

6. Repeat Finding

Comment

During our review, we noted that findings #1 and 2 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 this finding be resolved in a timely manner.

Recommendation

We recommend DCSS to implement the recommendation on findings #1 and 2 of this attachment.

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Management Response

Both findings one and two (repeat findings) were a result of misunderstanding. The Department has been substantially complying with appropriate procedures and controls for handling of pcard transactions. The Department appreciates the feedback from the audit and has implemented steps to insure all findings are promptly and appropriately addressed.