

COUNTY OF SACRAMENTO

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

INTERNAL AUDIT REPORT
PROCUREMENT CARD AGREED-UPON
PROCEDURES
PROBATION DEPARTMENT



Audit Committee Submittal Date: 09/28/2018

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 Probation Department's purchases and records are in compliance with the Program's guidelines and procedures.

Summary

We noted issues related to missing Deputy Auditor-Controller signatures, improper assignment of duties, sales and use tax discrepancies, missing reports, travel requests, and prohibited transactions.



County of Sacramento

Inter-Departmental Memorandum

August 1, 2018

To: Lee Seale
Chief Probation Officer, Department of Probation

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 placed to the right of the "By:" line.

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

Finding: We noted exceptions related to the Unit Billing Office Contact and County Travel Requests. See Attachment II, *Current Findings and Recommendations*.

- We tested purchases for the period of December 1, 2015 to April 30, 2018 to identify any non-compliance with the above cited guidelines, policy, and procedures.

Finding: We noted exceptions regarding missing signatures from the Deputy Auditor-Controller, sales/use tax, missing documentation, 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 Probation's procurement card agreed-upon procedures report for the period of April 1, 2014 to November 30, 2015, dated February 17, 2016.

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

Probation'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 Probation'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 Probation'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
Bruce Wagstaff, Interim Deputy County Executive, Social Services
Britt Ferguson, Chief Fiscal Officer, Office of Budget and Debt Management
Dianna Baird, Procurement Card Program Administrator, General Services
Kim Yang, Accounting Manager, Probation
Laetesia Ible, Administrative Services Officer III, Probation

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

PERIOD OF DECEMBER 1, 2015 TO APRIL 30, 2018

**CURRENT STATUS OF PRIOR FINDINGS AND RECOMMENDATIONS (Report Date
February 17, 2016 for the period April 1, 2014 to November 30, 2015)**

1. Missing Signed Deputy Auditor-Controller Certification Form

Comment

During our review of Probation's internal controls, we noted the months of April 2015 to November 2015 were missing the signed Deputy Auditor-Controller Certification Forms.

According to the County of Sacramento Procurement Card Program Guidelines and Procedures Manual, "*the Deputy Auditor-Controller performs the pre-audit of Cardholder transactions to verify that all purchases are legal and do not violate County purchasing policies and procedures or purchasing regulations... If the transactions appear to be in order, the Deputy Auditor-Controller will complete the Deputy Auditor-Certification Form and attach it and the Master Statement to the Cardholder Statements.*" Therefore, Probation is not in compliance with the County of Sacramento Procurement Card Program Guidelines and Procedures Manual.

Recommendation

We recommend Probation's Deputy Auditor-Controller complete and sign the Deputy Auditor-Controller Certification Form for each monthly statement to be in compliance with the County of Sacramento Procurement Card Program Guidelines and Procedures Manual.

Management Response

During fiscal year 2014/15, we had a change in our Deputy Auditor Controller (DAC) for our procurement card. Our prior DAC inadvertently forgot to mention that the DAC certificate form was required. Although the form was missing, the proper review and work was done. Probation will ensure this form will be present for all future monthly reviews.

Current Status

During our review, we noted issues regarding the Deputy Auditor-Controller's signature on appropriate documentation. See finding #1 in Attachment II, *Current Findings and Recommendations*.

2. Cardholder Information Security

Comment

During our internal controls review of Probation, we noted a cardholder had its procurement card account number, address and cardholder name stored on an online merchant platform.

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As a result, the procurement card information could be obtained by unauthorized users for fraudulent purchases. According to 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.”*

Recommendation

We recommend Probation remove all pre-stored cardholders’ information from any online merchant platform. We further recommend Probation have its cardholders safeguard their procurement card information at all times by not storing the procurement card information online.

Management Response

Probation staff has removed procurement card numbers from all merchant platforms. Procurement cardholders were notified of this finding and will no longer store procurement card online.

Current Status

During our review, we did not note any issues regarding the security over Cardholder information.

3. Sales/Use Tax

Comment

During our purchases review of Probation, we noted eleven transactions where the merchant charged the incorrect sales/use tax rate at the time of purchase, and the difference in tax owed to the Board of Equalization was not accrued in the County of Sacramento Financial System, (A.K.A. COMPASS) resulting in an underpayment of tax. We further noted two transactions where Probation accrued a “shipping only” line item charge as taxable in COMPASS when it was not required, resulting in an overpayment of tax.

Per California Law and the County of Sacramento Procurement Card Program Guidelines and Procedures 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; if the merchant assesses the incorrect sales/use tax rate at the time of purchase, the difference in tax owed is due.

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Recommendation

We recommend Probation accrue tax when the merchant fails to charge (or refund) Probation sales/use tax. We further recommend Probation 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, Probation needs to accrue the difference in COMPASS, or resolve the difference with the merchant, respectively. We also recommend Probation not accrue tax in COMPASS when tax is not required for “shipping only” line item charges.

Management Response

The Procurement Card training was not sufficient to make staff aware of this detail requirement. Probation will ensure our staff is aware and put additional steps in our internal procedure to catch any oversights. We would like to recommend that the Procurement Card Program training covers the “Sale/Use Tax” more in depth for clarification.

Current Status

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

4. Inter-Departmental Payments

Comment

During our review, we noted that inter-departmental invoices from the County of Sacramento Clerk-Recorder (CCR) were paid by Probation on its procurement card. While the CCR does not assess a credit card transaction fee to Probation, third party credit card merchants do charge the CCR monthly credit card merchant fees. As such, Probation is costing the County of Sacramento (County) more for these transactions than necessary.

Recommendation

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

Management Response

Probation used the procurement card to pay the Recorder’s office for juvenile clients’ birth certificates because the County Procurement Card allows “Government fees”. Probation will

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consider paying for birth certificate via a journal voucher instead of the procurement card within our County for the Placement unit.

Current Status

During our review, we did not note any issues regarding inter-departmental payments.

5. Inappropriate Purchases

Comment

During our purchases review, we noted two transactions in the amounts of \$16.52 and \$49.56 for tickets to a local organization fundraiser event attended by Probation's management. The event was not for training or for a business related seminar; therefore, it is considered to be an inappropriate purchase. The total amount of the two inappropriate purchases was reimbursed to the County.

Recommendation

We recommend Probation prohibit any future purchase of fundraiser events using the procurement card.

Management Response

This was an inadvertent oversight by Probation. We were under the impression that this was a seminar breakfast and not a fundraiser. As mentioned in the comment section above, Probation has reimbursed the County for these costs.

Current Status

During our review, we noted an inappropriate purchase, see finding #6 in Attachment II, *Current Findings and Recommendations*.

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1. Missing Signatures from Deputy Auditor-Controller

Comment

During our review of the Department of Probation (Probation), we noted the Deputy Auditor-Controller (A-C) did not sign Procurement Card Summaries for two Cardholders for the monthly statement of February 22, 2017. Per the County of Sacramento Procurement Card Program Guidelines and Procedures Manual (Program Guidelines and Procedures Manual), if the transactions appear to be appropriate, the Deputy A-C will complete appropriate documentation, Procurement Card Summaries, and attach it to the Master Statement. Since the Deputy A-C did not sign the Procurement Card Summaries for the two Cardholders, we are unable to determine if proper review was performed. Furthermore, Probation is not in compliance with Program Guidelines and Procedures Manual.

Recommendation

We recommend Probation comply with the Program Guidelines and Procedures Manual and have the Deputy A-C sign all appropriate documentation to indicate that a proper review was performed. We further recommend Probation to have their Deputy A-C review the responsibilities of the Deputy A-C listed on the Procurement Guidelines and Procedures Manual.

Probation's Management Response

Probation agrees with the recommendation. Probation's Deputy A-C reviews all summaries, however, to ensure they are not submitted without a signature, we have added additional internal controls to our guidelines. The Deputy A-C is now the final reviewer and handler of the summaries prior to their submission to the Department of Finance (DOF). Going forward, only the Deputy A-C can authorize the Unit Billing Office Contact to submit the documents to the DOF. If the Deputy A-C is out of the office for a prolonged period of time, he/she will ensure the documents are reviewed and approved prior to the absence. In extreme situations regarding prolonged or unexpected absences, the DOF will be contacted for guidance on how to handle summary approvals.

2. Unit Billing Office Contact

Comment

During our review, we noted that another individual, who is also a Cardholder, is performing the duties of the Unit Billing Office Contact. Per the Program Guidelines and Procedures Manual, "*the Unit Billing Office Contact is responsible for making sure that the final posting to the County financial and accounting system is paid on time*" and "*a Cardholder may not be appointed to this position.*" Since the Cardholder is emailing DOF that US Bank payment

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is ready for processing, Probation is not in compliance with Program Guidelines and Procedures Manual.

Recommendation

We recommend Probation comply with the Program Guidelines and Procedures Manual and have another individual, who is not a Cardholder, perform the duties of Unit Billing Office Contact. We further recommend Probation to review the Program Guidelines and Procedures Manual.

Management Response

Probation agrees with the recommendation. The Cardholder is not the Acting Unit Billing Office Contact (UBOC) nor has the Cardholder been responsible for creating CSOs. As the UBOC's supervisor, the Cardholder did review the UBOC's work and informed DOF via email the work had been completed. However, only after the documentation had been fully routed through the entire approval process, including through to the Deputy Auditor-Controller, did the Cardholder scan and email the information to the DOF. In reviewing the UBOC's duties, we understand this responsibility belongs solely to the UBOC. As a result of the exit interview, we further understand how the requirement of the UBOC to carry out this specific duty reinforces important checks and balances. Going forward, we have expressed to program participants only the UBOC is authorized to perform this duty.

3. Sales/Use Tax

Comment

During our review, we noted several sales/use tax issues. We noted 15 transactions where tax was not accrued in the County of Sacramento Financial System (a.k.a. COMPASS) resulting in an underpayment of tax. We further noted two transactions where Probation accrued tax on non-taxable items resulting in an overpayment of tax. In addition, we noted one transaction where Probation accrued tax on a shipping charge when the shipping charge was listed as a separate line item on the invoice/receipt.

Per California Law and the County of Sacramento Procurement Card Program Guidelines and Procedures 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; if the merchant assesses the incorrect sales/use tax rate at the time of purchase, the difference in tax owed is due. In addition, tax should not be accrued on

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shipping/freight charges when the merchant lists shipping/freight charges as a separate line item on the invoice/receipt. Furthermore, tax should not be accrued on an electronic software/license.

Recommendation

We recommend Probation comply with Program Guideline and Procedures Manual and California law and accrue appropriate tax when the merchant fails to charge Probation sales/use tax. 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, Probation needs to accrue the difference in COMPASS, or resolve the difference with the merchant, respectively. We also recommend Probation not accrue tax in COMPASS when tax is not required for “shipping only” line item charges. Furthermore, we recommend Probation to not accrue tax when it is not necessary.

Management Response

Probation agrees with the recommendation. Program participants work hard to ensure tax is accrued correctly for each purchase. It was brought to our attention there were 15 inaccurate calculations over the three year period audited. Our goal is to accrue tax accurately on every single purchase, including when merchants fail to do so. We will work diligently to eliminate tax accrual findings in future audits.

4. Missing Activity and Quarterly Reports for FasTrak Purchases

Comment

In September 3, 2015, a Countywide FasTrak passes exemption was approved to authorize Cardholders to use the County Procurement Card to purchase FasTrak toll/passes and devices. The exemption lists various responsibilities for Departments that make FasTrak purchases under this exemption. These responsibilities include tracking account activity (inc. driver, passengers, destination, toll tag numbers and license plates) and provide quarterly usage report of activity matching the FasTrak statements to DOF.

During our review, we noted Probation did not track account activity and did not provide quarterly usage reports to DOF for FasTrak purchases. Since Probation did not track account activity and did not provide quarterly usage report of activity matching FasTrak statements to DOF, Probation is not fulfilling their responsibilities.

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Recommendation

We recommend Probation comply with Program Guidelines and Procedures Manual and exemption responsibilities and track account activity and provide quarterly usage reports of activity matching FasTrak statement to DOF. We further recommend Probation to review all current exemptions that apply to them and ensure they have a complete understanding of additional documentation that needs to be documented and provided to other departments.

Management Response

Effective June 2018, Probation no longer purchases FasTrak toll payment devices with the procurement card.

5. County Travel Requests

Comment

Probation requested for a specific division in their department to make travel transactions without an approved County Travel Request. The exemption request was sent and approved by an individual who is not a Director in the Departments of Finance and General Services. All exemption requests have to be approved by the Directors in the Departments of Finance and General Services. Since the exemption request was sent and approved by an individual who is not a Director in the Departments of Finance and General Services, the exemption request is not valid.

During our review, we noted that all transactions made on the months selected for testing were made without obtaining an approved County Travel Request. 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.*" Since Probation did not obtain and retain an approved County Travel Requests, Probation is not in compliance with County of Sacramento Travel Guidelines and Procedures.

Recommendation

We recommend Probation comply with Program Guidelines and Procedures Manual and send all exemption requests to the Program Administrator and ensure that the exemption requests are approved by the Directors of DOF and General Services. In addition, if Probation identifies specific individuals in the exemption requests, Probation should ensure that individuals who do not fall under the exemptions are following all applicable policies and procedures. We further recommend Probation comply with County of Sacramento Travel

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Guidelines and Procedures and obtain and retain an approved County Travel Request for all transactions made with the Travel Procurement Card.

Management Response

Probation acknowledges we did not receive the appropriate exemption request approval in accordance with the Procurement Card Program policy. Probation further acknowledges the approval from the County Executive does not preclude Probation from obtaining approvals from the DOF as required by program policy. Going forward, Probation will not make purchases without acquiring the approval signature of the Director of Finance on submitted exemption requests.

6. Prohibited Transaction and Unnecessary Costs to the County

Comment

During our review, we noted Probation used the Procurement Card to pay for registration to the Special Olympics Torch Run. It appears that the Special Olympics Torch Run is a fundraiser.

We further noted several transactions that appear to ultimately cost the County of Sacramento more money than necessary. We noted four transactions where it appears that Probation paid late fees.

In addition, we noted five travel transactions where Probation paid EarlyBird Check-In fees. EarlyBird Check-In fees are an option and give the convenience of automatic check-in before the traditional 24-hour check in. Ultimately, EarlyBird Check-In fees cost the County of Sacramento more than necessary and appear to have no County business purpose.

Recommendation

We recommend Probation to implement a process that will allow them to pay invoices on time to avoid paying late fees. In addition, we recommend Probation to discontinue using the County of Sacramento Procurement Card to pay for EarlyBird Check-In fees and transactions related to fundraising.

Management Response

Probation agrees with the recommendation. Probation no longer pays for registration to participate in the Special Olympics Torch Run. Additionally, we will avoid paying late fees

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on purchases. Further, effective July 2018, we have reviewed our travel procedures and have informed program participants the EarlyBird Check-in without a County business purpose may not be purchased with the procurement card.

7. Repeat Finding

Comment

During our review, we noted that findings #1, 3, and 6 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 Probation to implement the recommendations on findings #1, 3, and 6 of this attachment in a timely manner.

Management Response

Probation agrees with the recommendation. Probation has provided Management Responses to findings 1, 3, and 6 of this attachment detailing plans of implementation for the recommendations.