Sonoma County

Auditor-Controller-Treasurer-Tax Collector

Internal Audit Report

**Follow-Up:
CAL-Card Program Countywide Audit**

For the Period: July 1, 2010 through June 30, 2012

Engagement No: 3108
Report Date: August 30, 2016

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Executive Summary

As part of the 2015/2016 Annual Audit Plan, the Internal Audit Division of the Sonoma County Auditor-Controller-Treasurer-Tax Collector's Office (ACTTC) conducted a follow-up audit of the CAL-Card Program Countywide Audit report dated December 2013. The original report contained 13 recommendations which were accepted by management. The following observations are noted as a result of this follow-up:

- Six recommendations were implemented.

- Two recommendations are in the process of being implemented.

- Five recommendations have not been implemented at this time.

The Department made significant progress in addressing a majority of the issues identified in our audit, improving the effectiveness of the CAL-Card program and reducing the risk of non-compliance with the program policies. Our procedures did not include sufficient testing to assess the degree to which the policies and procedures were complied with. We will, as part of our second follow up, perform additional tests to assess compliance with CAL-Card policies and procedures and, where possible, determine the impact of non-compliance.

Background, Objective, Scope and Methodology

Background

In February of 2013, the Sonoma County (County) Board of Supervisors adopted the CAL-Card review plan which required the County Administrator, the County Auditor-Controller Treasurer-Tax Collector (ACTTC), and the General Services Department (GS) to implement an action plan to ensure continued compliance with County policies and the effectiveness of the CAL-Card program.   Our initial audit report dated December 2013 was part of that plan and covered CAL-Card purchase transactions from July 1, 2010 – June 30, 2012.   Our primary objectives were to determine if:

- The CAL-Card policies, procedures, and controls are adequately designed and functioning effectively to prevent or detect fraudulent, improper, and abusive transactions.
- Purchases made on the CAL-Cards were in compliance with the CAL-Card procedures and relevant purchasing guidelines.

Objective

The objective of this follow-up audit was to determine the status of implementation of recommendations contained in the CAL-Card Program Countywide Audit report dated December 2013 and, where applicable, the impact of actions taken by management.

Scope

Our procedures were limited to reviewing evidence supporting the actions taken by the Purchasing Division of GS (Purchasing) and ACTTC, towards implementation of the report recommendations as of December 31, 2015. We reviewed Purchasing's and ACTTC's records and conducted interviews with their staff and management. Where available, we reviewed documentation supporting implementation of the recommendations.

Methodology

We conducted the follow-up audit in accordance with the International Standards for the Professional Practice of Internal Auditing (Standards). These Standards require that we identify, analyze, evaluate, and document sufficient information and evidence to achieve audit objectives. We believe that the evidence obtained provides a reasonable basis for the conclusions contained in our audit report. The Standards require that we establish a follow-up process to monitor and ensure that management has effectively implemented actions or that senior management has accepted the risk of not taking actions.

Prior Recommendations and Current Status

The following is a discussion of the status of implementation of the prior audit report recommendations. Each recommendation is referenced to the prior audit report.

Recommendation No. 1. Purchasing should implement a framework for misuse of cards and assure consistent and prompt application of disciplinary and administrative penalties countywide. A policy should be developed to include deactivating, suspending, or cancelling accounts of repeat violators.

Current Status: Implemented:

GS has drafted a proposed policy addressing the consequences for misusing CAL-Cards, which has been approved for implementation by the County Administrator's Office (CAO.) In April 2016, GS submitted a memo updating the County Board of Supervisors with the addition of consequences for misuse of card privileges pursuant to Board resolution 99-1550. GS made changes to the CAL-Card training video and CAL-Card User Manual (Manual) to include the new information.

Recommendation No. 2. Purchasing should set clear expectations and establish accountability for Approving Officials (AOs). AOs should be formally appointed through acknowledgment forms which outline their basic responsibilities and duties, and emphasize the critical function they will be responsible for.

Current Status: Implemented:

Purchasing has updated training materials clearly describing the expectations and accountability of AOs in the CAL-Card Training Program. AOs are now required to sign a form when approving purchases acknowledging that they understand and take the responsibilities assigned to them per the County's CAL-Card policies. AOs are also required to acknowledge that they have viewed the training video and understand their responsibilities.

Recommendation No. 3. Purchasing should provide resources and tools to AOs to identify and correct a variety of issues including unallowable purchases or other misuse of cards. A checklist for identifying violations of policies and procedures would be an example.

Current Status: Implemented:

Purchasing has created a list of "Dos and Don'ts" that provides AOs guidance in identifying unallowable purchases, misuse of cards and other policies and procedures. This list is a part of the material used for training the AOs and is available on the Intranet.

Recommendation No. 4. Purchasing and ACTTC should collaborate to execute periodic performance reviews of the CAL-Card program. The CAL-Card policy violations identified, relevant statistical data and other information should be summarized and reported to management.

Current Status: Implemented:

ACTTC's Accounting Division currently reviews 100 percent of CAL-Card transactions and produces a CAL-Card Report. This report includes expense by merchant and by department and past due transactions by month and by merchant. This report also identifies transactions that potentially violate CAL-Card policies. The report is reviewed by the GS Deputy Director and a Senior Purchasing Agent. GS contacts respective departments to address the violations and start the misuse of card process if warranted.

Prior Recommendations and Current Status

Recommendation No. 5. The County should re-assess its employee meal reimbursements policies and better define allowable practices and documentation standards (e.g. itemized receipts). A review should be performed periodically and reimbursement rates adjusted as necessary to better align with the actual cost. CAL-Card meal purchases that do not meet the County requirements should be considered unallowable after adequate training has been provided to the CAL-Card users and AOs.

Current Status: Not Implemented:

GS management had discussions with Human Resources and ACTTC management. GS management will continue discussions with the County management and recommend full implementation of this recommendation.

Pages 19 and 20 of the audit report dated December 2013 outline the deficiencies noted in the current meal policy, weaknesses in internal controls, and their impact. The three primary areas for improvements were 1) meal allowance rates, 2) justification for business meals and 3) proper support for claims submitted. The impact of these deficiencies and potential savings resulting from the full implementation of this recommendations were also described.

We continue to recommend management implement the changes identified in the original report.

Recommendation No. 6. ACTTC should develop a risk-based audit approach for the CAL-Card review process to effectively target potential problem areas. Examples of audit sample criteria are listed below but not limited to:

Target Group	The Nature of Risk
Department Head	The Approving Official is under his/her supervision
First-Time User	The Cardholder may not fully understand the procedures
Top Spender	The Cardholder may potentially be misusing the card
Repeat Violators	The Cardholder may have the tendency to violate the procedures
High Risk Items	Items easily convertible to private use such as in town meals

Auditing a sample of transactions selected based on risk and coupled with a policy to deactivate, suspend or cancel accounts of repeat violators would be a more cost effective alternative to the current practice.

Current Status: Not Implemented:

The ACTTC – Accounting Division has not implemented a risk-based approach to reviewing CAL- Card transactions. It continues to review 100% of the transactions which provides a higher level of assurance than the risk-based approach.

A risk-based approach has been implemented for other accounts payable transactions. ACTTC plans to fully implement this recommendation when comprehensive risk-based audit guidelines are developed for CAL-Card transactions.

Recommendation No. 7. Purchasing should monitor card usage and, in consultation with the user departments, deactivate infrequently used cards that no longer have a business purpose. Individual and monthly spend limits should also be reviewed and adjusted based on need.

Prior Recommendations and Current Status

Current Status: Implemented: Not Implemented:

GS management stated procedures were put in place to review CAL-Card usage bi-annually with all Departments to identify and deactivate infrequently used cards and to verify that card limits are adequate and reasonable. However, due to the departure of the Senior Account Clerk, the bi-annual review has not been reinstated as of July 2016.

GS management intends to reinstate this process once the staffing issue is resolved.

Recommendation No. 8. Purchasing should re-evaluate the CAL-Card parameters to better address the County's current needs in consultation with the user departments. The user departments should be encouraged to use the CAL-Card for purchases that meet the CAL-Card requirements.

Current Status: Implemented:

As discussed in the status for recommendation number 7 above, GS has implemented procedure to verify that card limits are adequate and reasonable. The current single-transaction limit is set at $2,500 per transaction for CAL-Card purchases. The Buyers in Purchasing have higher transaction limits and, where appropriate, use CAL-Card instead of the Purchase Order process to finalize payments. When necessary, other CAL-Card holders' limits are increased temporarily to allow using CAL-Cards instead of the Purchase Order process.

Recommendation No. 9. Purchasing should utilize CAL-Card purchase data to identify areas where the County could potentially negotiate discounts resulting from routine and/or large volume of acquisition.

Current Status: Implemented:

Purchasing has modified its monthly report to identify vendors with highest dollar value transactions and use it to negotiate discounts.

Recommendation No. 10. Purchasing should identify items covered under Blanket Purchase Orders (BPO) and Western State Contracting Alliance (WSCA) agreements to provide the user departments with such information. BPO and WSCA eligible transactions charged to the CAL-Card program should be monitored and reported to department management.

Current Status: In Process:

Purchasing is in the planning stages of development of new training specifically for AOs to include information regarding restrictions on transactions made when existing BPO and/or WSCA agreements are already in place. Purchasing plans to have the new training implemented by end of FY 2016.

Recommendation No. 11. Purchasing should explore means for obtaining discounts for CAL-Card purchases covered under BPO and WSCA agreements. Arrangements could be made with respective vendors to allow users to identify appropriate agreements at the time of the purchases to receive discounts. An easy to use method for identifying items covered under these agreements should be provided to the users. An ongoing monitoring of BPO and WSCA eligible transactions will ensure continued effectiveness of the procedures listed above.

Prior Recommendations, Current Status and Staff Acknowledgement

Current Status: Not Implemented:

This recommendation was not implemented due to a lack of resources. GS will consider implementation once resources become available.

Recommendation No. 12. Purchasing should periodically identify CAL-Card eligible transactions processed through Accounts Payable (AP) and work with the user departments to expand the CAL-Card use where appropriate. Opportunities for process efficiencies such as "ghost" card usage for the payment of monthly or periodic charges should be investigated.

Current Status: In Process:

The Buyers in Purchasing currently review AP payment transactions in the County's Enterprise Financial System (EFS) and process those using CAL-Cards that are eligible per the County's CAL-Card policies. However, due to the transaction limits on user department cards, departments have not been recommended to process these transactions via CAL-Card on an ongoing basis.

Purchasing management has found that setting up "ghost" cards would be difficult and does not have resources to further investigate the strategy.

We continue to recommend that management implement this recommendation to fully benefit from the CAL-Card program.

Recommendation No. 13. Purchasing should explore features such as automated accounts payable and general ledger interface that purchasing card vendors currently provide. Purchasing should establish standards of evaluating and selecting a provider who is able to combine compliance, discounts and strategic buying that balance efficiency with control to optimize operations.

Current Status: Not Implemented:

GS is currently exploring the feasibility of issuing a Request for Proposal for the CAL-Card program with an emphasis on automating AP and a general ledger interface.

Staff Acknowledgement

We would like to thank GS and ACTTC staff for their helpfulness and cooperation in conducting this follow-up audit. If you have any further questions regarding this report, please contact the auditor-in-charge, Ryan Burns at (707) 565-8304.