

THE BOARD OF SUPERVISORS OF THE COUNTY OF STANISLAUS
BOARD ACTION SUMMARY

DEPT: Auditor-Controller

BOARD AGENDA #: B-20

AGENDA DATE: June 27, 2017

SUBJECT:

Acceptance of Internal Audit Reports Prepared by the Internal Audit Division of the Auditor-Controller's Office

BOARD ACTION AS FOLLOWS:

No. 2017-366

On motion of Supervisor Withrow, Seconded by Supervisor Olsen
and approved by the following vote,

Ayes: Supervisors: Olsen, Withrow, Monteith, DeMartini, and Chairman Chiesa

Noes: Supervisors: None


Excused or Absent: Supervisors: None

Abstaining: Supervisor: None

- 1) Approved as recommended
- 2) Denied
- 3) Approved as amended
- 4) Other:

MOTION:

ATTEST:


ELIZABETH A. KING, Clerk of the Board of Supervisors

File No.

**THE BOARD OF SUPERVISORS OF THE COUNTY OF STANISLAUS
AGENDA ITEM**

DEPT: Auditor-Controller

BOARD AGENDA #: B-20

Urgent Routine

AGENDA DATE: June 27, 2017

CEO CONCURRENCE: 

4/5 Vote Required: Yes No

SUBJECT:

Acceptance of Internal Audit Reports Prepared by the Internal Audit Division of the Auditor-Controller's Office

STAFF RECOMMENDATIONS:

1. Accept Internal Audit Reports prepared by the Internal Audit Division of the Auditor-Controller's Office.

DISCUSSION:

The engagements presented in the agenda item include the Fiscal Year 2014-2015 Purchasing Card Compliance Audit Series and the Behavioral Health & Recovery Services ("BHRS") Incentive Gift Card Inventory and Handling Review performed by the Internal Audit Division in the Auditor-Controller's Office. The purchasing card audits determine if County departments are compliant with the County of Stanislaus Purchasing Card and Travel Policies. Per the Purchasing Card Policy, all County departments and related agencies which utilize the County purchasing card are subject to an audit. The incentive gift card handling review determined if gift card inventories held at two BHRS locations were adequately safeguarded and evaluated the appropriateness of gift card handling and issuance. In addition, the department's policies and procedures were evaluated for significant internal control weaknesses related to gift card inventories and handling.

Fiscal Year 2014-2015 Purchasing Card Compliance Audit Series

The Internal Audit Division performed a series of purchasing card engagements to determine if County departments and related agencies were compliant with the County of Stanislaus Purchasing Card and Travel Policies. Of the 32 departments and related agencies which use the County purchasing card, 18 departments and related agencies were selected for testing for Fiscal Year 2014-2015. We tested 100% of Department Head transactions and the remaining transactions were tested per department on a sample basis ranging from 15% to 100%, with an average sampling population of 29%. The sample population was chosen through a random selection process along with selections based on professional judgment, including an evaluation of past audit results, transaction dollar amounts and the appearance of high risk transactions.

During Fiscal Year 2014-2015, a total of 19,436 purchasing card transactions were processed in the amount of \$3,946,730 for all departments and related agencies. A total of 11,847 purchasing card transactions, in the amount of \$2,467,714, were incurred for the 18 departments and related agencies which were audited. Total transactions tested were

comprised of 2,756 purchasing card transactions totaling \$904,760, or 23% and 37% respectively.

Our audit procedures included, but were not limited to the following actions:

- Determination that the purchasing card transactions were for appropriate County business transactions;
- Verification that supporting documentation exists for the purchases;
- Examination of the department's monthly reconciliation of the purchasing card statement;
- Review purchasing card authorization for each card;
- In departments that have their own policy/policies, determine if the policy/policies are more stringent than the County policy/policies and if so, determine compliance with their policy/policies; and,
- Identification of any items that may be an abuse of County policy such as the purchase of personal items.

Significant Findings

Findings are determined to be significant based on the number of occurrences for a particular finding, the amount associated with the finding and the nature of the finding. A summary of the significant findings for the 18 departments and related agencies under audit for the July 1, 2014 to June 30, 2015 period is listed below:

- Each year the Department Head is required to review the need and limit of each purchasing card in the department. We noted the following related to this approval:
 - Three departments did not perform this annual review.
 - Two departments did not certify this annual review.
- Department Heads are required to assign a designee(s) in writing and maintain a record of such for five years. We noted two departments that did not identify a designee in writing effective for the period under review.
- Each month the Department Head is required to review and approve the WORKS Billing Statement. This report lists all of the purchasing card transactions for the period and allows the Department Head to review the purchases for appropriateness and authenticity. We noted the following related to this approval:
 - Eight monthly reports were not reviewed in a timely manner.
 - Four monthly reports were not certified properly.
 - One monthly report was missing.

Acceptance of Internal Audit Reports Prepared by the Internal Audit Division of the Auditor-Controller's Office

- We noted the following related to the monthly reconciliation of the purchasing card statements:
 - Fourteen monthly purchasing card statement reconciliations were reconciled by the cardholder.
 - Thirteen monthly purchasing card statement reconciliations were not certified.
 - Three monthly purchasing card statement reconciliations were not performed timely.
- We noted twenty-three Travel Authorization Forms totaling \$10,769 were not approved prior to the expenditure of travel related charges.
- We noted the following related to meal purchases:
 - Four in-county meal transactions totaling \$262 where the Department Head's written approval was not obtained.
 - Five in-county meal transactions totaling \$1,077 where the Department Head's written approval was not obtained prior to the purchase.
- We noted nine transactions totaling \$86,241 that did not include evidence of three vendor quotes and a Justification for Sole Source/Sole Brand form was not on file. Although the purchases were valid County business expenses, the County Purchasing Card Policy requires cardholders to comply with the General Services Agency Purchasing Division procurement policy and procedures to ensure that the best price is obtained for the County. Per General Services Agency Purchasing Division Policies and Procedures, transactions of \$5,000 or more require three competitive quotes or completion and approval of a Justification for Sole Source/Sole Brand form.
- We noted two transactions totaling \$38,790 spent for employee trainings that exceeded \$5,000 per registration. Although the purchases were valid County business expenses, pursuant to the County Purchasing Card Policy a purchasing card is for the purchase of goods and services costing less than \$5,000 per item, including taxes, shipping, etc.
- We noted eight transactions totaling \$14,297 for the purchase of four items that were split between cardholders to avoid credit limits. Per the County Purchasing Card Policy, cardholders may not split purchases to avoid credit limits.
- We noted twelve transactions totaling \$6,075 that included personal charges totaling \$1,645 which are unallowable expenses per the County Purchasing Card and Travel Policies. The personal charges were reimbursed to the County.
- We noted three lodging charges totaling \$4,092 for three separate trips that all included weekend stays between consecutive weeks of training. Based upon the location of the trainings, it appears to be a reasonable driving distance to return home for the weekend and resulted in an additional cost to the County of \$796. In addition, we noted that written justification for the weekend stays did not accompany the supporting documentation as required by the Stanislaus County Travel Policy.

Acceptance of Internal Audit Reports Prepared by the Internal Audit Division of the Auditor-Controller's Office

- We noted one transaction totaling \$207 for a prepaid bank card used by an employee for the sole purpose of making purchases for a County program. While the business purpose appears appropriate, providing a County employee with a prepaid bank card to make County business purchases has no governing authority and appears to circumvent the County's procurement process.
- We noted ten transactions totaling \$13,982 for which sales tax was not paid. As a result of these transactions, approximately \$1,090 in sales tax was not reported to the California State Board of Equalization in a timely manner.
- We noted eighteen transactions totaling \$6,229 for eight separate trips greater than 100 miles one-way that did not have supporting travel cost comparisons on file as required by the Stanislaus County Travel Policy to determine the most cost effective method of travel.
- We noted one lodging transaction totaling \$1,671 for a 12-night lodging deposit that appears to not have been properly reconciled and resulted in an additional cost to the County of \$704.
- We noted two lodging transactions totaling \$631 for one employee's two night stay where the second night stay was \$180 more than the first night stay and is deemed excessive. The second night stay charge of \$404 should have been identified as excessive and alternative, cost-effective lodging arrangements made.
- We noted one transaction totaling \$499 for an erroneous charge that was not refunded by the bank and the department did not follow up to ensure the credit was received. Subsequent to the audit, the Bank of America was contacted and the credit was received.
- We noted one lodging transaction that was cancelled in an untimely manner resulting in a no show fee of \$159.

We would like to highlight the fact that 8 of the 18 departments and related agencies included in this audit series did not have audit findings reported on the Executive Summary Report. These departments and related agencies included Animal Services, Chief Executive Office, County Counsel, Environmental Resources, General Services Agency, Grand Jury, Law Library, and Parks and Recreation.

The significant findings primarily consisted of departments and agencies lacking sufficient procedures and controls, in some cases, to monitor the appropriateness of the purchasing card transactions. Overall, the transactions selected for testing were valid County purchases and, except for the findings noted above, the departments and related agencies chosen for testing were in compliance with the County Purchasing Card and Travel Policies.

Incentive Gift Card Inventory and Handling Review

The Internal Audit Division performed an incentive gift card review for Behavioral Health and Recovery Services to determine if gift card inventories were adequately safeguarded and additionally evaluated for appropriateness of gift card handling and issuance. This was the first time the Internal Audit Division performed a gift card engagement. The review was limited

to the Department's General Services/Facilities ("GSF") Division and the BHRS Family Partnership Center ("FPC") program. In addition, the Department's policies and procedures were evaluated for significant internal control weaknesses related to gift card inventories and handling.

BHRS programs use gift cards as motivational incentive tools to enhance treatment, facilitate recovery, and encourage community and peer participation. Gift cards are considered cash equivalents; therefore, internal controls and levels of risk regarding the handling of these cards are treated similarly to cash handling. Gift cards are purchased with a fixed amount and are not assigned to specific individuals as credit cards are and the person in possession of the gift cards has immediate access to the dollar amount loaded onto the cards thereby increasing exposure to risk. Security over the physical location of gift cards and adequate handling procedures are crucial in safeguarding these County assets.

Our review procedures included, but were not limited to the following actions:

- Reviewed the Department's Purchase and Use of Incentive/Gift Cards Policy and Procedure established on February 2, 2015 and revised on March 16, 2015.
- Discussions were held with Department staff.
- Conducted physical inventory counts of gift cards located at GSF and FPC and reconciled to the inventory control logs.
- Performed testing procedures to verify the program's compliance with Department policy and procedures in place at the time fieldwork was performed.

Significant Findings

Based upon our review, the Department should strengthen its internal controls over incentive gift cards and other cash equivalent items. The following are examples of opportunities for improvement:

- The Department's programs were not adequately monitored to ensure that all gift cards were accounted for, disbursements were adequately documented and that inventory levels did not become excessive.

BHRS' attached response indicates they have already assigned a GSF employee to monitor the Department program's gift cards and cash equivalents inventory, including but not limited to: maintaining a master inventory log of all gift cards and other cash equivalents issued to programs, monitoring inventory levels at programs, ensuring inventory levels do not become excessive, and ensuring disbursement documentation is complete.

- The Department's incentive gift card policy and procedure allows up to a two year supply of gift card inventory to be maintained at program sites. This inventory level appears excessive and increases the risk for loss and theft.

BHRS' attached response indicates they are in the process of revising their policy to limit inventory levels to a three month supply.

- The FPC gift card custodian performed the physical count and reconciliation of gift card inventories on a monthly basis as required by the Department's gift card policy. The Department's policy and procedures requires that the gift card custodian or program coordinator perform the physical count and reconciliation of gift card inventories on a monthly basis; however, allowing the gift card custodian to complete this process results in a lack of segregation of duties. The person responsible for maintaining custody of the gift cards should not also perform the monthly counts and reconciliation.

BHRS' attached response indicates that the findings of the audit were conveyed to each program to correct the custody, handling and control deficiencies. They also indicate that they are in the process of revising their policy to include that someone other than the gift card custodian perform the monthly count and reconciliation of gift cards.

- Excessive gift card inventory was located at FPC that included 1,832 gift cards valued at approximately \$10,142. Based upon the program's historical usage, this inventory level equates to an approximate four-and-a-half year supply.

BHRS' attached response indicates they have reduced their inventory level to a three month supply by returning surplus gift cards to GSF for safekeeping and redistribution to other Department programs until surplus supply is depleted.

- Two hundred and fifty-six missing gift cards totaling \$1,330 were not identified or reported to the Department's Risk Management Division in a timely manner. In addition, the Department did not notify the Auditor-Controller of the loss as required by Government Code Section 29390. The missing gift cards were originally issued to the FPC program in years 2010, 2012 and 2013. It is unknown at this time what happened to the missing cards and whether they were used as a County business purpose.

BHRS' attached response indicates that written policy has been implemented to improve safeguards and minimize the risk of loss. They also stated that a recent departmental review of gift card inventory at FPC reported that all gift cards were accounted for.

- FPC ordered similar quantities of gift cards for consecutive years without consideration of existing inventory levels and an analysis was not performed of the program's need which contributed significantly to excessive gift card inventories.

BHRS' attached response indicates that FPC will assess inventory levels before ordering additional gift card stock.

- GSF uses an Incentive Log Sheet Tracking Spreadsheet to document the location and status of gift cards issued to programs, including when the Incentive/Gift Card Distribution Log and respective gift cards were issued to a program, which program is in possession of the gift cards, and when a completed Incentive/Gift Card Distribution Log is returned to GSF following the disbursement of all cards on the log. We noted the following issues related to the Incentive Log Sheet Tracking Spreadsheet:

- The Incentive Log Sheet Tracking Spreadsheet was not updated to reflect the transfer of 3,045 gift cards valued at \$15,100 received by GSF from two programs.

- Bus passes were distributed to programs without Incentive/Gift Card Distribution Logs and not included on the Incentive Log Sheet Tracking Spreadsheet resulting in one program retaining 764 bus passes valued at \$1,041. Due to the lack of controls regarding the purchase of bus passes, the program possessed a high level of inventory that did not align with the program need during a reasonable period such as a three month time period. As a result of the audit, approximately half of the bus passes were returned to GSF for safekeeping and redistribution.

BHRS' attached response indicates that procedures have been implemented to update the Log Sheet Tracking Spreadsheet when gift cards are transferred. They also state that bus passes are now distributed with an Incentive/Gift Card Distribution Log and tracked on the Log Sheet Tracking Spreadsheet.

- We noted that gift cards were ordered for programs without requiring a completed Incentive/Gift Card Distribution Log. These logs are numerically sequenced and issued to programs with approximately 25 gift cards per log to track and document the disbursement of gift cards to clients. Per Department gift card policy, completed logs are required before additional gift cards may be ordered and issued to a program. As a result, gift cards were ordered without consideration of program's existing inventory levels.

BHRS' attached response indicates that completed Incentive/Gift Card Distribution Logs are now required before additional gift cards are ordered.

- We noted that the Department does not have established policies and procedures for the use of other cash equivalent items, such as bus passes. These are considered cash equivalents and written policy and procedures should be established to safeguard these assets.

BHRS' attached response indicates that the Department will form a work group to establish a written policy and internal procedures for the use of cash equivalent items.

Details of these and other findings, and recommendations for corrective action, are included in the attached Executive Summary Report.

As a result of the review, the Auditor-Controller's Office established new Accounting Guidelines over the handling of gift cards which is available to departments and related agencies via the County's intranet.

POLICY ISSUE:

Per Government Section Code 26883, the Board of Supervisors shall have the power to require that the County Auditor-Controller shall audit the accounts and records of any department, office, board or institute under its control.

On August 7, 2001, the Board of Supervisors approved Agenda Item 2001-593 directing the Chief Executive Office and the Auditor-Controller to provide an annual report, per County department, of the purchasing card transactions which will include findings and recommendations.

FISCAL IMPACT:

There is no fiscal impact related to the acceptance of the Internal Audit reports.

The cost to the County for services provided by the Internal Audit Division of the Auditor-Controller's Office for the work performed was approximately \$98,644 in salary related expenses, representing a total of 2,197 work hours at approximately \$45 an hour. Had the performance of audit work been contracted to a public accounting firm, costs to the County would have increased. Public accounting firms generally charge between \$100 and \$300 an hour dependent upon professional levels. The benefit of the services provided by the Auditor-Controller's Office to the County clearly outweighs the costs for these services.

BOARD OF SUPERVISORS' PRIORITY:

The audit work performed by the Auditor-Controller's Office provides accountability to the Board of Supervisors and the public and is in alignment with the Board priority of ensuring Efficient Delivery of Public Services.

STAFFING IMPACT:

There is no staffing impact associated with acceptance of the Internal Audit reports prepared by the Internal Audit Division of the Auditor-Controller's Office. Existing Internal Audit staff prepares the reports. The Auditor-Controller's Office will continue to perform audits for the purchasing card transactions on a one to three year cycle.

CONTACT PERSON:

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Manager III

(209) 525-6502

ATTACHMENT(S):

A. Executive Summary Reports

ATTACHMENT A

Executive Summary Report

**STANISLAUS COUNTY
EXECUTIVE SUMMARY
ANIMAL SERVICES
PURCHASING CARD AUDIT**

The Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program for fiscal year beginning July 1, 2014 through June 30, 2015. The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card Policy and Procedures along with the Travel Policy in effect at the time of the purchases. We also considered Department Policy, if applicable and other County policies as they related to the purchasing card transactions. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

All County departments and related agencies utilizing the County purchasing card system are subject to the audit process as required by policy. In consideration of several consecutive years of performance of purchasing card audits along with performance of an annual risk analysis, a determination was made to audit the departments and agencies over a two year time period. A total of 18 departments and related agencies were selected for audit covering fiscal year 2014-2015 transactions.

The audit period covered purchasing card activity for Animal Services during fiscal year 2014-2015. All, or 100%, of the Department Head's transactions were tested for this period. The Department Head transactions consisted of six transactions totaling \$331.41. The test transactions for Department personnel were selected randomly at approximately 15% of the total transactions. Additional transactions were also judgmentally considered for testing, based on dollar amount or transaction type. The purchasing card transactions for Department personnel consisted of 261 transactions totaling \$58,646.39. For our engagement, we selected 44 transactions (approximately 17%) in the amount of \$14,172.13 (approximately 24%) from the entire population for testing.

The engagement was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

The audit methodology used to assess each department selected included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from the authorized software application used by Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.

- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card Policies and Procedures along with the Travel Policy.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card, Travel, and other related policies and procedures.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County purchasing card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

It appears the Department's Purchasing Card procedures were materially compliant with the County Purchasing Card Policy and Procedures along with the Travel Policy. While the findings discussed below may not, individually or in the aggregate, impair compliance with the County Purchasing Card Program, they do present risks that can be more effectively controlled. We appreciate the courtesies and cooperation extended to the Auditor-Controller's Office during the audit process.

FINDINGS AND RECOMMENDATIONS

There were no significant findings and recommendations for the Department purchasing card transactions during fiscal year 2014-2015.

**STANISLAUS COUNTY
EXECUTIVE SUMMARY
CHIEF EXECUTIVE OFFICE
PURCHASING CARD AUDIT**

The Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program for fiscal year beginning July 1, 2014 through June 30, 2015. The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card Policy and Procedures along with the Travel Policy in effect at the time of the purchases. We also considered Department Policy, if applicable and other County policies as they related to the purchasing card transactions. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

All County departments and related agencies utilizing the County purchasing card system are subject to the audit process as required by policy. In consideration of several consecutive years of performance of purchasing card audits along with performance of an annual risk analysis, a determination was made to audit the departments and agencies over a two year time period. A total of 18 department and related agencies were selected for audit covering fiscal year 2014-2015 transactions.

The audit period covered purchasing card activity for Chief Executive Office during fiscal year 2014-2015. All, or 100%, of the Department Head's transactions were tested for this period. The Department Head transactions consisted of 46 transactions totaling \$10,340.18. The test transactions for department personnel were selected randomly at approximately 15% of the total transactions. Additional transactions were also judgmentally considered for testing, based on dollar amount or transaction type. The purchasing card transactions for department personnel consisted of 791 transactions totaling \$140,072.90. For our engagement, we selected 124 transactions (approximately 16%) in the amount of \$36,802.55 (approximately 26%) from the entire population for testing.

The engagement was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

The audit methodology used to assess each department selected included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from the authorized software application used by Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.

- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card Policies and Procedures along with the Travel Policy.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card, Travel, and other related policies and procedures.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County purchasing card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

It appears the Department's purchasing card procedures were materially compliant with the County Purchasing Card Policy and Procedures along with the Travel Policy. While the findings discussed below may not, individually or in the aggregate, impair compliance with the County Purchasing Card Program, they do present risks that can be more effectively controlled. We appreciate the courtesies and cooperation extended to the Auditor-Controller's Office during the audit process.

FINDINGS AND RECOMMENDATIONS

There were no significant findings and recommendations for the Department purchasing card transactions during fiscal year 2014-2015.

**STANISLAUS COUNTY
EXECUTIVE SUMMARY
CHILD SUPPORT SERVICES
PURCHASING CARD AUDIT**

The Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program for fiscal year beginning July 1, 2014 through June 30, 2015. The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card Policy and Procedures along with the Travel Policy in effect at the time of the purchases. We also considered Department Policy, if applicable and other County policies as they related to the purchasing card transactions. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

All County departments and related agencies utilizing the County purchasing card system are subject to the audit process as required by policy. In consideration of several consecutive years of performance of purchasing card audits along with performance of an annual risk analysis, a determination was made to audit the departments and agencies over a two year time period. A total of 18 department and related agencies were selected for audit covering fiscal year 2014-2015 transactions.

The audit period covered purchasing card activity for Child Support Services during fiscal year 2014-2015. All, or 100%, of the Department Head's transactions were tested for this period. The Department Head transactions consisted of 79 transactions totaling \$8,678.73. The test transactions for department personnel were selected randomly at approximately 20% of the total transactions. Additional transactions were also judgmentally considered for testing, based on dollar amount or transaction type. The purchasing card transactions for department personnel consisted of 723 transactions totaling \$190,339.74. For our engagement, we selected 147 transactions (approximately 20%) in the amount of \$74,183.16 (approximately 39%) from the entire population for testing.

The engagement was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

The audit methodology used to assess each department selected included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from the authorized software application used by Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.

- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card Policies and Procedures along with the Travel Policy.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card, Travel, and other related policies and procedures.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County purchasing card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

It appears the Department's purchasing card procedures were materially compliant with the County Purchasing Card Policy and Procedures along with the Travel Policy. While the findings discussed below may not, individually or in the aggregate, impair compliance with the County Purchasing Card Program, they do present risks that can be more effectively controlled. We appreciate the courtesies and cooperation extended to the Auditor-Controller's Office during the audit process.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT HEAD FINDINGS

A) Completion of Travel Cost Comparison

We noted four transactions (totaling \$404.66) for two separate trips greater than 100 miles one-way that did not have supporting travel cost comparisons on file. Although the lowest travel cost options were selected, completion of travel cost comparisons is required by Stanislaus County Travel Policy to determine the most cost effective method of travel.

Recommendation

We recommend the Department review and revise their procedures to ensure travel cost comparisons are performed to determine the most cost effective method of travel for any trips greater than 100 miles one-way as required by Stanislaus County Travel Policy.

Department Response

Although cost comparisons were being completed, to ensure completion and documentation of the comparison is done on a more consistent basis using a uniform method, the Department Child Support Services (DCSS) Fiscal staff created a travel cost comparison template to document cost comparisons obtained prior to travel arrangements when staff travel over 100 miles. The cost comparison will be retained by DCSS Fiscal staff as back-up documentation for audit purposes along with records for all expenses associated with travel. On October 20, 2016, all DCSS managers were advised of the requirement to complete the form and share it with Fiscal staff.

DEPARTMENT FINDINGS

A) Completion of Travel Cost Comparison

We noted six transactions (totaling \$3,023.94) for two separate trips greater than 100 miles one-way that did not have supporting travel cost comparisons on file. Although the lowest travel cost options were selected, completion of travel cost comparisons is required by Stanislaus County Travel Policy to determine the most cost effective method of travel.

Recommendation

We recommend the Department review and revise their procedures to ensure travel cost comparisons are performed to determine the most cost effective method of travel for any trips greater than 100 miles one-way as required by Stanislaus County Travel Policy.

Department Response

Although cost comparisons were being completed, to ensure completion and documentation of the comparison is done on a more consistent basis using a uniform method, the Department Child Support Services (DCSS) Fiscal staff created a travel cost comparison template to document cost comparisons obtained prior to travel arrangements when staff travel over 100 miles. The cost comparison will be retained by DCSS Fiscal staff as back-up documentation for audit purposes along with records for all expenses associated with travel. On October 20, 2016, all DCSS managers were advised of the requirement to complete the form and share it with Fiscal staff.

**STANISLAUS COUNTY
EXECUTIVE SUMMARY
CLERK-RECORDER
PURCHASING CARD AUDIT**

The Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program for fiscal year beginning July 1, 2014 through June 30, 2015. The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card Policy and Procedures along with the Travel Policy in effect at the time of the purchases. We also considered Department Policy, if applicable and other County policies as they related to the purchasing card transactions. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

All County departments and related agencies utilizing the County purchasing card system are subject to the audit process as required by policy. In consideration of several consecutive years of performance of purchasing card audits along with performance of an annual risk analysis, a determination was made to audit the departments and agencies over a two year time period. A total of 18 department and related agencies were selected for audit covering fiscal year 2014-2015 transactions.

The audit period covered purchasing card activity for Clerk-Recorder during fiscal year 2014-2015. There were no Department Head transactions incurred during the period under review. The purchasing card transactions for department personnel consisted of 234 transactions totaling \$39,606.52. For our engagement, we selected 48 transactions (approximately 21%) in the amount of \$15,822.75 (approximately 40%) from the entire population for testing.

The engagement was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

The audit methodology used to assess each department selected included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from the authorized software application used by Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card Policies and Procedures along with the Travel Policy.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card, Travel, and other related policies and procedures.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County purchasing card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

It appears the Department's Purchasing Card procedures were materially compliant with the County Purchasing Card Policy and Procedures along with the Travel Policy. While the findings discussed below may not, individually or in the aggregate, impair compliance with the County Purchasing Card Program, they do present risks that can be more effectively controlled. We appreciate the courtesies and cooperation extended to the Auditor-Controller's Office during the audit process.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT HEAD FINDINGS

A) Annual Review of Need and Limit

The Department Head's annual review determining the need and limit of the department's purchasing cards was not performed for the period under review. Pursuant to the County Purchasing Card Policy, the Department Head shall annually determine the need and limits for department purchasing cards.

Recommendation

We recommend the Department review and revise their procedures to ensure the Department Head reviews the list of purchasing card holders to determine the need and limit of purchasing cards annually as required by the County Purchasing Card Policy. The review should be documented with a signature and a date and maintained with the purchasing card records for five years.

Department Response

The completed report has been submitted.

B) Department Head's Designee

The Department Head did not assign designees and document the assignments in writing as required by the County Purchasing Card Policy. Designees ensure the continuity of the department's business matters, in the event of a Department Head's planned or unexpected absence.

Recommendation

We recommend the Department Head identify and certify a designee(s) in writing and document what the designee is authorized to approve in the event of unexpected absence pursuant to the County Purchasing Card and Travel Policies.

Department Response

All Designees have been assigned and confirmed in writing.

DEPARTMENT FINDINGS

A) Monthly Bank Statement Reconciliation

We noted five of thirteen purchasing card reconciliations were not evidenced with a signature and date; therefore, we were unable to determine timeliness of the reconciliations or determine if cardholders reconciled their own purchasing cards.

Recommendation

We recommend the Department review and revise their procedures to ensure the monthly purchasing card reconciliations are complete, performed timely and certified with a signature and date in accordance with the County Purchasing Card Policy.

Department Response

Each page of the Payable Allocation Detail Reports for the dates in question were timely signed and dated by the Department Head. In the future, purchasing card reconciliations will be signed by the Accountant.

B) Disputed Item

We noted one fraudulent charge initiated by a non-employee (totaling \$498.84) that was not refunded by the bank and the department did not follow up to ensure the credit was received. Subsequent to the audit, the Bank of America was contacted and the credit was received.

Recommendation

We recommend the Department review and revise their procedures to ensure that transactions which are disputed, returned, or refused are researched and resolved in a timely manner.

Department Response

The credit was received from Bank of America. Procedures have been updated to ensure prompt resolution in the future.

**STANISLAUS COUNTY
EXECUTIVE SUMMARY
COUNTY COUNSEL
PURCHASING CARD AUDIT**

The Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program for fiscal year beginning July 1, 2014 through June 30, 2015. The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card Policy and Procedures along with the Travel Policy in effect at the time of the purchases. We also considered Department Policy, if applicable and other County policies as they related to the purchasing card transactions. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

All County departments and related agencies utilizing the County purchasing card system are subject to the audit process as required by policy. In consideration of several consecutive years of performance of purchasing card audits along with performance of an annual risk analysis, a determination was made to audit the departments and agencies over a two year time period. A total of 18 department and related agencies were selected for audit covering fiscal year 2014-2015 transactions.

The audit period covered purchasing card activity for County Counsel during fiscal year 2014-2015. All, or 100%, of the Department Head's transactions were tested for this period. The Department Head transactions consisted of four transactions totaling \$1,149.28. The test transactions for department personnel were selected randomly at approximately 20% of the total transactions. Additional transactions were also judgmentally considered for testing, based on dollar amount or transaction type. The purchasing card transactions for department personnel consisted of 149 transactions totaling \$40,170.33. For our engagement, we selected 36 transactions (approximately 24%) in the amount of \$17,538.19 (approximately 44%) from the entire population for testing.

The engagement was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

The audit methodology used to assess each department selected included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from the authorized software application used by Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card Policies and Procedures along with the Travel Policy.

- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card, Travel, and other related policies and procedures.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County purchasing card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

It appears the Department's Purchasing Card procedures were materially compliant with the County Purchasing Card Policy and Procedures along with the Travel Policy. While the findings discussed below may not, individually or in the aggregate, impair compliance with the County Purchasing Card Program, they do present risks that can be more effectively controlled. We appreciate the courtesies and cooperation extended to the Auditor-Controller's Office during the audit process.

FINDINGS AND RECOMMENDATIONS

There were no significant findings or recommendations for the Department purchasing card transactions during fiscal year 2014-2015.

**STANISLAUS COUNTY
EXECUTIVE SUMMARY
DISTRICT ATTORNEY'S OFFICE
PURCHASING CARD AUDIT**

The Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program for fiscal year beginning July 1, 2014 through June 30, 2015. The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card Policy and Procedures along with the Travel Policy in effect at the time of the purchases. We also considered Department Policy, if applicable and other County policies as they related to the purchasing card transactions. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

All County departments and related agencies utilizing the County purchasing card system are subject to the audit process as required by policy. In consideration of several consecutive years of performance of purchasing card audits along with performance of an annual risk analysis, a determination was made to audit the departments and agencies over a two year time period. A total of 18 department and related agencies were selected for audit covering fiscal year 2014-2015 transactions.

The audit period covered purchasing card activity for the District Attorney's Office during fiscal year 2014-2015. All, or 100%, of the Department Head's transactions were tested for this period. The Department Head transactions consisted of 10 transactions totaling \$3,073.85. The test transactions for Department personnel were selected randomly at approximately 25% of the total transactions. Additional transactions were also judgmentally considered for testing, based on dollar amount or transaction type. The purchasing card transactions for Department personnel consisted of 803 transactions totaling \$243,551.52. For our engagement, we selected 208 transactions (approximately 26%) in the amount of \$115,108.05 (approximately 47%) from the entire population for testing.

The engagement was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

The audit methodology used to assess each department selected included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from the authorized software application used by Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card Policies and Procedures along with the Travel Policy.

- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card, Travel, and other related policies and procedures.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County purchasing card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

It appears the Department's purchasing card procedures were materially compliant, except for the findings noted, with the County Purchasing Card Policy and Procedures along with the Travel Policy. While the findings discussed below may not, individually or in the aggregate, impair compliance with the County Purchasing Card Program, they do present risks that can be more effectively controlled. We appreciate the courtesies and cooperation extended to the Auditor-Controller's Office during the audit process.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT HEAD FINDINGS

A) Annual Review of Need and Limit

The Department Head's annual review determining the need and limit of the Department's purchasing cards was not certified and dated by the Department Head. Per the Stanislaus County Purchasing Card Policy, the Department Head shall determine the need and limit for department purchasing cards on an annual basis, evidence review with signature and date, and maintain on file for a minimum of five years.

Recommendation

We recommend the Department review and revise their procedures to ensure the Department Head reviews the list of purchasing cardholders to determine the need and limit of purchasing cards annually as required by the Stanislaus County Purchasing Card Policy. The review should be documented with a signature and date and maintained with the purchasing card records for five years.

Department Response

The Department's internal process is to have the review signed by the Department Head on an annual basis.

DEPARTMENT FINDINGS

A) Purchases Split Between Cardholders to Avoid Credit Limits

We noted eight transactions (totaling \$14,296.95) for the purchase of four items that were split between cardholders to avoid credit limits. Per the Stanislaus County Purchasing Card Policy, cardholders may not split purchases to avoid credit limits.

Recommendation

We recommend the Department review and revise their procedures to ensure that purchases are not split between cardholders. An analysis of purchasing activity may need to be performed to determine if increasing one cardholder's limit is required.

Department Response

Necessary computer equipment orders exceeded credit card limits for employees. The cardholder with a \$10,000 limit was on medical leave. The Department has since increased credit limits for more upper management to help elevate this situation.

B) Transactions of \$5,000 or More

We noted two transactions (totaling \$14,648.28) that did not include evidence of three vendor quotes and a Justification for Sole Source/Sole Brand form was not on file. The Stanislaus County Purchasing Card Policy requires that cardholders comply with the General Services Agency Purchasing Division procurement policies and procedures to ensure that the best price is obtained for the County. Per General Services Agency Purchasing Division Policies and Procedures, transactions of \$5,000 or more require three competitive quotes or completion and approval of a Justification for Sole Source/Sole Brand form.

Recommendation

We recommend the Department review and revise their procedures to ensure that three competitive quotes are obtained or a Justification for Sole Source/Sole Brand form is completed and approved for transactions of \$5,000 or more in accordance with General Services Agency Purchasing Division procurement policies and procedures.

Department Response

Employees will be reminded of the policy for transactions over \$5,000 requiring three competitive quotes or justification for sole source/sole brand before the order is processed by the Department.

C) Sales/Use Tax

We noted sales tax for seven transactions (totaling \$8,853.39) was not paid at the time of purchase and the Department did not report the transactions on the appropriate tax log to the Auditor-Controller's Office. This resulted in a shortage of \$675.07 of sales tax which was not forwarded to the California State Board of Equalization.

Recommendation

We recommend the Department review and revise their procedures to ensure credit card purchases for which sales tax or district tax was not paid are logged on the Use Tax or District Tax Log and submitted to the Auditor-Controller's Office per the Stanislaus County Purchasing Card Procedures. In addition, we recommend the Department record the noted transactions onto the Use Tax Log and forward to the Auditor-Controller's Office.

Department Response

The accounting staff responsible for maintaining the sales tax or district tax log has been made aware of the findings of not reporting the transactions.

D) Before and After Event Expenses

We noted two lodging charges (totaling \$2,968.06) for two separate trips that both included weekend stays between consecutive weeks of training in Monterey and Roseville. Based upon the location of the trainings, it appears to be a reasonable driving distance to return home for the weekend and resulted in an additional cost to the County of \$515.41. In addition, we noted that written justification for the weekend stays did not accompany the supporting documentation as required by the Stanislaus County Travel Policy.

Recommendation

We recommend the Department review and revise their procedures to ensure the business purpose for travel expenses incurred before and after an event are reasonable and documented in accordance with the Stanislaus County Travel Policy.

Department Response

The two lodging charges were approved on the travel authorization form by the Investigation Department's Supervisor. Written justification will be provided with the supporting documentation if a weekend stay is authorized by the Department. Both trainings received reimbursements from POST. The reimbursement information was provided to the Auditor Controller's staff.

E) Unallowed Expense

We noted two transactions (totaling \$584.88) that included personal charges totaling \$189.99 which are unallowable expenses per the Stanislaus County Purchasing Card and Travel Policies. The personal charges were reimbursed timely to the County; however, County purchasing cards are not to be used for personal or unallowable expenses.

Recommendation

We recommend the Department remind employees that purchasing cards are not to be used for personal or unallowable expenses.

Department Response

The Department's staff are aware that personal charges are not allowed. These transactions were done in error. The Department ensured the transactions were reimbursed to the County.

**STANISLAUS COUNTY
EXECUTIVE SUMMARY
ENVIRONMENTAL RESOURCES
PURCHASING CARD AUDIT**

The Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program for fiscal year beginning July 1, 2014 through June 30, 2015. The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card Policy and Procedures along with the Travel Policy in effect at the time of the purchases. We also considered Department Policy, if applicable and other County policies as they related to the purchasing card transactions. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

All County departments and related agencies utilizing the County purchasing card system are subject to the audit process as required by policy. In consideration of several consecutive years of performance of purchasing card audits along with performance of an annual risk analysis, a determination was made to audit the departments and agencies over a two year time period. A total of 18 department and related agencies were selected for audit covering fiscal year 2014-2015 transactions.

The audit period covered purchasing card activity for Environmental Resources during fiscal year 2014-2015. All, or 100%, of the Department Head's transactions were tested for this period. The Department Head transactions consisted of 12 transactions totaling \$1,642.01. The test transactions for department personnel were selected randomly at approximately 25% of the total transactions. Additional transactions were also judgmentally considered for testing, based on dollar amount or transaction type. The purchasing card transactions for department personnel consisted of 421 transactions totaling \$76,455.19. For our engagement, we selected 109 transactions (approximately 26%) in the amount of \$24,602.86 (approximately 32%) from the entire population for testing.

The engagement was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

The audit methodology used to assess each department selected included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from the authorized software application used by Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.

- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card Policies and Procedures along with the Travel Policy.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card, Travel, and other related policies and procedures.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County purchasing card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

It appears the Department's purchasing card procedures were materially compliant with the County Purchasing Card Policy and Procedures along with the Travel Policy. While the findings discussed below may not, individually or in the aggregate, impair compliance with the County Purchasing Card Program, they do present risks that can be more effectively controlled. We appreciate the courtesies and cooperation extended to the Auditor-Controller's Office during the audit process.

FINDINGS AND RECOMMENDATIONS

There were no significant findings and recommendations for the Department purchasing card transactions during fiscal year 2014-2015.

**STANISLAUS COUNTY
EXECUTIVE SUMMARY
GENERAL SERVICES AGENCY
PURCHASING CARD AUDIT**

The Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program for fiscal year beginning July 1, 2014 through June 30, 2015. The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card Policy and Procedures along with the Travel Policy in effect at the time of the purchases. We also considered Department Policy, if applicable and other County policies as they related to the purchasing card transactions. In addition, we assessed the Department's internal controls over the maintenance and use of the County purchasing cards.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001, directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

All County departments and related agencies utilizing the County purchasing card system are subject to the audit process as required by policy. In consideration of several consecutive years of performance of purchasing card audits along with performance of an annual risk analysis, a determination was made to audit the departments and agencies over a two year time period. A total of 18 department and related agencies were selected for audit covering fiscal year 2014-2015 transactions.

The audit period covered purchasing card activity for General Services Agency during fiscal year 2014-2015. There were no Department Head transactions incurred during the period under review. The test transactions for department personnel were selected randomly at approximately 15% of the total transactions. Additional transactions were also judgmentally considered for testing, based on dollar amount or transaction type. The purchasing card transactions for department personnel consisted of 578 transactions totaling \$84,912.53. For our engagement, we selected 92 transactions (approximately 16%) in the amount of \$25,998.04 (approximately 31%) from the entire population for testing.

The engagement was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

The audit methodology used to assess each department selected included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from the authorized software application used by Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card Policies and Procedures along with the Travel Policy.

- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card, Travel, and other related policies and procedures.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County purchasing card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

It appears the Department's purchasing card procedures were materially compliant with the County Purchasing Card Policy and Procedures along with the Travel Policy. While the findings discussed below may not, individually or in the aggregate, impair compliance with the County Purchasing Card Program, they do present risks that can be more effectively controlled. We appreciate the courtesies and cooperation extended to the Auditor-Controller's Office during the audit process.

FINDINGS AND RECOMMENDATIONS

There were no significant findings and recommendations for the Department purchasing card transactions during fiscal year 2014-2015.

**STANISLAUS COUNTY
EXECUTIVE SUMMARY
GRAND JURY
PURCHASING CARD AUDIT**

The Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program for fiscal year beginning July 1, 2014 through June 30, 2015. The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card Policy and Procedures along with the Travel Policy in effect at the time of the purchases. We also considered Department Policy, if applicable and other County policies as they related to the purchasing card transactions. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

All County departments and related agencies utilizing the County purchasing card system are subject to the audit process as required by policy. In consideration of several consecutive years of performance of purchasing card audits along with performance of an annual risk analysis, a determination was made to audit the departments and agencies over a two year time period. A total of 18 department and related agencies were selected for audit covering fiscal year 2014-2015 transactions.

The audit period covered purchasing card activity for Grand Jury during fiscal year 2014-2015. There were no Department Head transactions incurred during the period under review. The purchasing card transactions for department personnel consisted of 34 transactions totaling \$1,085.70. For our engagement, we selected 25 transactions (approximately 74%) in the amount of \$877.46 (approximately 81%) from the entire population for testing.

The engagement was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

The audit methodology used to assess each department selected included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from the authorized software application used by Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card Policies and Procedures along with the Travel Policy.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card, Travel, and other related policies and procedures.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County purchasing card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

It appears the Department's Purchasing Card procedures were materially compliant with the County Purchasing Card Policy and Procedures along with the Travel Policy. While the findings discussed below may not, individually or in the aggregate, impair compliance with the County Purchasing Card Program, they do present risks that can be more effectively controlled. We appreciate the courtesies and cooperation extended to the Auditor-Controller's Office during the audit process.

FINDINGS AND RECOMMENDATIONS

There were no significant findings and recommendations for the Department purchasing card transactions during fiscal year 2014-2015.

**STANISLAUS COUNTY
EXECUTIVE SUMMARY
HEALTH SERVICES AGENCY
PURCHASING CARD AUDIT**

The Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program for fiscal year beginning July 1, 2014 through June 30, 2015. The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card Policy and Procedures along with the Travel Policy in effect at the time of the purchases. We also considered Department Policy, if applicable and other County policies as they related to the purchasing card transactions. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

All County departments and related agencies utilizing the County purchasing card system are subject to the audit process as required by policy. In consideration of several consecutive years of performance of purchasing card audits along with performance of an annual risk analysis, a determination was made to audit the departments and agencies over a two year time period. A total of 18 department and related agencies were selected for audit covering fiscal year 2014-2015 transactions.

The audit period covered purchasing card activity for Health Services Agency during fiscal year 2014-2015. All, or 100%, of the Department Head's transactions were tested for this period. The Department Head did not incur any transactions during the period under review. The test transactions for department personnel were selected randomly at approximately 20% of the total transactions. Additional transactions were also judgmentally considered for testing, based on dollar amount or transaction type. The purchasing card transactions for department personnel consisted of 1,380 transactions totaling \$223,508.02. For our engagement, we selected 273 transactions (approximately 20%) in the amount of \$77,578.70 (approximately 35%) from the entire population for testing.

The engagement was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

The audit methodology used to assess each department selected included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from the authorized software application used by Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card Policies and Procedures along with the Travel Policy.

- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card, Travel, and other related policies and procedures.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County purchasing card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

It appears the Department's purchasing card procedures were materially compliant with the County Purchasing Card Policy and Procedures along with the Travel Policy. While the findings discussed below may not, individually or in the aggregate, impair compliance with the County Purchasing Card Program, they do present risks that can be more effectively controlled. We appreciate the courtesies and cooperation extended to the Auditor-Controller's Office during the audit process.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT HEAD FINDINGS

There were no Department Head findings for the period under review.

DEPARTMENT FINDINGS

A) Cost Comparison for Travel

We noted eight transactions (totaling \$2,800.35) for four separate trips greater than 100 miles one-way that did not have supporting travel cost comparisons on file as required by Stanislaus County Travel Policy to determine the most cost effective method of travel.

Recommendation

We recommend the Department review and revise their procedures to ensure cost comparisons are performed to determine the most cost effective method of travel for any trips greater than 100 miles one-way as required by Stanislaus County Travel Policy.

Department Response

While the Department did choose the lowest cost travel option as required by the County's Travel Policy on page 5, Section 2.4 (B), the documentation that the cost comparison was performed was not included as part of the supporting documentation. In the future, the Department will require that all travel requests that are greater than 100 miles one-way will include a print out of the cost comparison as documentation the comparison was performed.

B) Meals

We noted the following issues related to meal purchases:

- One meal transaction (totaling \$287.50) served as an award for employee participation that did not occur in conjunction with a County business meeting or special project; therefore, this transaction is considered an exception to policy. Exceptions to the Stanislaus County Travel Policy require written approval from the Chief Executive Officer or their Designee.
- One meal transaction (totaling \$235.70) where the Department Head or Designee's written approval was not obtained prior to the purchase as required by Stanislaus County Travel Policy.
- Two meal transactions (totaling \$144.21) during two separate trips that appear to not qualify as necessary business expenses due to meeting end times and travel distances, resulting in an additional cost to the County of \$127.75.

Recommendation

We recommend the Department review and revise their procedures to ensure the Department Head or Designee's written approval is obtained prior to in-county meal purchases. Exceptions to policy require written approval from the Chief Executive Officer or their Designee.

In addition, we recommend that the Department review and revise their procedures to ensure that meal purchases are necessary, reasonable and in accordance with the Stanislaus County Travel Policy. Furthermore, County travelers should exercise prudent judgment and show proper discretion for accountable and economic use of public funds.

Department Response

- The meal purchase referenced in the first bullet was associated with a significant **Department project** – Public Health Accreditation which was authorized by the Board of Supervisors on December 8, 2015 in Board Item #2015-596. While Public Health Accreditation is not currently mandated; however, it is extremely likely that it will be a criterion for competitive funding in the future. Since the Health Equity Staff Survey was/is a necessary component for Accreditation and the Department needed substantial employee participation for the survey to be valuable, an incentive was offered for the division/building/program with the most participation.
- The meal purchase referenced in bullet two in the amount of \$235.70 was related to a Heart Coalition event. The meal purchase was pre-approved by the Heart Coalition members who are representatives of multiple non-county organizations. The pre-approval by the membership was noted on the Golden Rod that documented the purchase. Finally, the County was reimbursed for the transaction the same month that the event occurred.
- The two meal transactions referenced in the third bullet were both related to out of town trips to Sacramento – one was for the Annual California Conference of Local Health Data Managers and Epidemiologists and the other was for a meeting with the State. While the Department believes that the meals were appropriately approved due to extenuating circumstances, the Department will ensure that all extenuating circumstances which result in meals being approved are fully documented.

C) Inappropriate Use of Prepaid Bank Card

We noted one transaction (totaling \$206.95) for a prepaid bank card used by an employee for the sole purpose of making purchases for a County program. The bank card was used to pay for 14 clients' meals and party supplies for successfully completing a program. While the business purpose appears appropriate, the exceptions related to this one transaction are as follows:

- Providing a County employee with a prepaid bank card to make County business purchases has no governing authority approval and appears to circumvent the County's procurement process.
- The bank card was used to purchase food items at an O'Brien's Market for a total of \$10.75. Per Stanislaus County Purchasing Card Policy, employees are prohibited from making County purchases at an O'Brien's Market to mitigate the appearance of a conflict of interest.
- The transaction included a \$6.95 purchase fee which resulted in an additional cost to the County to use the bank card for County business purposes.

Recommendation

We recommend the Department review and revise their procedures to ensure employees are not utilizing prepaid bank cards to make County business related purchases.

Department Response

The Department disagrees with the finding that the use of a prepaid bank card appears to circumvent the County's procurement process for the following reasons: (1) per GSA's Purchasing Policies and Procedures 2.24.130 Credit Cards – "credit cards may be used to procure goods and services for official county business" and as noted by the internal auditor above, the purchase was appropriate; (2) the purchase was approved in advance in accordance with the Department's Policies and Procedures that dictate the P&P's over purchases made on a County Purchasing Card; and (3) the tracking of the prepaid card was in accordance with the Department's Policies and Procedures over the use of prepaid cards/gift cards; and (4) the purchase was made for the Department's Nurse-Family Partnership Program which is funded by a State Grant. Since the grant paid for the costs of these purchases including the \$6.95 transaction fee, the purchase of the prepaid card did not result in any cost to the County.

The Department does agree that the prepaid card was used to purchase food items at O'Brien's Market. The Managing Director periodically reminds management staff that purchases at O'Brien's Market are prohibited and added that to the Director discusses this during her new manager orientation meetings.

Department Conclusion

Based on the above summary as well as an internal review of the Department's Policies and Procedures over county purchasing card transactions, the Department will perform the following:

1. Create an memorandum that must be signed annually acknowledging an understanding of the County's and Departments Travel Policy as well as the Purchasing Card Policy(as applicable to each employee);
2. Create a reminder to help employees remember items/steps that are required to ensure compliance with the Department and County policies; and,

3. Revise the P&Ps to include references to 1 and 2 and to add the following steps – (a) require an annual review of the Department Head’s designee list and the associated duties to ensure it is up to date, (b) create an inventory of all purchasing cards to include the location of the cards when not in use and (3) perform a periodic check to ensure the location of said cards.

Internal Audit Response

No governing authority has approved the use of prepaid bank cards to make County business purchases and GSA’s Purchasing Division Policies and Procedures 2.24.130 is referring to the use of County issued purchasing cards and not prepaid bank cards.

**STANISLAUS COUNTY
EXECUTIVE SUMMARY
LAW LIBRARY
PURCHASING CARD AUDIT**

The Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program for fiscal year beginning July 1, 2014 through June 30, 2015. The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card Policy and Procedures along with the Travel Policy in effect at the time of the purchases. We also considered Department Policy, if applicable and other County policies as they related to the purchasing card transactions. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

All County departments and related agencies utilizing the County purchasing card system are subject to the audit process as required by policy. In consideration of several consecutive years of performance of purchasing card audits along with performance of an annual risk analysis, a determination was made to audit the departments and agencies over a two year time period. A total of 18 department and related agencies were selected for audit covering fiscal year 2014-2015 transactions.

The audit period covered purchasing card activity for Law Library during fiscal year 2014-2015. All, or 100%, of the Department Head's transactions were tested for this period. The Department Head transactions consisted of 31 transactions totaling \$4,216.40. There were no transactions for Department personnel. For our engagement, we selected 31 transactions (100%) in the amount of \$4,216.40 (100%) from the entire population for testing.

The engagement was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

The audit methodology used to assess each department selected included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from the authorized software application used by Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card Policies and Procedures along with the Travel Policy.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card, Travel, and other related policies and procedures.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County purchasing card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

It appears the Department's purchasing card procedures were materially compliant with the County Purchasing Card Policy and Procedures along with the Travel Policy. While the findings discussed below may not, individually or in the aggregate, impair compliance with the County Purchasing Card Program, they do present risks that can be more effectively controlled. We appreciate the courtesies and cooperation extended to the Auditor-Controller's Office during the audit process.

FINDINGS AND RECOMMENDATIONS

There were no significant findings or recommendations for Department purchasing card transactions during fiscal year 2014-2015.

**STANISLAUS COUNTY
EXECUTIVE SUMMARY
LIBRARY
PURCHASING CARD AUDIT**

The Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program for fiscal year beginning July 1, 2014 through June 30, 2015. The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card Policy and Procedures along with the Travel Policy in effect at the time of the purchases. We also considered Department Policy, if applicable and other County policies as they related to the purchasing card transactions. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001, directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

All County departments and related agencies utilizing the County purchasing card system are subject to the audit process as required by policy. In consideration of several consecutive years of performance of purchasing card audits along with performance of an annual risk analysis, a determination was made to audit the departments and agencies over a two year time period. A total of 18 department and related agencies were selected for audit covering fiscal year 2014-2015 transactions.

The audit period covered purchasing card activity for Library during fiscal year 2014-2015. All, or 100%, of the Department Head's transactions were tested for this period. The Department Head transactions consisted of 12 transactions totaling \$1,624.23. The test transactions for department personnel were selected randomly at approximately 15% of the total transactions. Additional transactions were also judgmentally considered for testing, based on dollar amount or transaction type. The purchasing card transactions for department personnel consisted of 1,184 transactions totaling \$234,504.23. For our engagement, we selected 180 transactions (approximately 15%) in the amount of \$71,460.16 (approximately 30%) from the entire population for testing.

The engagement was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

The audit methodology used to assess each department selected included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from the authorized software application used by Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.

- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card Policies and Procedures along with the Travel Policy.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card, Travel, and other related policies and procedures.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County purchasing card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

It appears the Department's purchasing card procedures were materially compliant with the County Purchasing Card Policy and Procedures along with the Travel Policy. While the findings discussed below may not, individually or in the aggregate, impair compliance with the County Purchasing Card Program, they do present risks that can be more effectively controlled. We appreciate the courtesies and cooperation extended to the Auditor-Controller's Office during the audit process.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT HEAD FINDINGS

There were no significant Department Head findings noted for fiscal year 2014-2015.

DEPARTMENT FINDINGS

A) Travel Authorization

We noted travel related expenses (totaling \$1,376.03) on four Travel Authorization Forms that were not completed properly.

- Two Travel Authorization Forms were approved subsequent to incurring the expense.
- One Travel Authorization Form was approved by an employee not authorized as a Department Head designee.
- One Travel Authorization Form was approved subsequent to incurring the expense and the approval was performed by an employee not authorized as a Department Head designee.

Recommendation

We recommend the Department review and revise their procedures to ensure Travel Authorization Forms include all travel expenses and are completed and approved by appropriate personnel prior

to incurring any travel related expenses. The Travel Authorization Forms must be supported with written documentation in accordance with the Stanislaus County Travel Policy.

Department Response

The Department agrees with the recommendation and will revise the Library Purchasing Cards policy to include a section prohibiting staff from incurring any travel costs until a completed Travel Authorization form has been approved and signed by the County Librarian or one of her designees.

A new designee memo to include all current Library Managers was submitted on May 16, 2016. To avoid this audit finding in the future, a checklist has been developed to prompt Accounting staff to complete a new Department Head designee memo each time a new Library Manager is hired.

**STANISLAUS COUNTY
EXECUTIVE SUMMARY
LOCAL AGENCY FORMATION COMMISSION
PURCHASING CARD AUDIT**

The Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program for fiscal year beginning July 1, 2014 through June 30, 2015. The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card Policy and Procedures along with the Travel Policy in effect at the time of the purchases. We also considered Department Policy, if applicable and other County policies as they related to the purchasing card transactions. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

All County departments and related agencies utilizing the County purchasing card system are subject to the audit process as required by policy. In consideration of several consecutive years of performance of purchasing card audits along with performance of an annual risk analysis, a determination was made to audit the departments and agencies over a two year time period. A total of 18 department and related agencies were selected for audit covering fiscal year 2014-2015 transactions.

The audit period covered purchasing card activity for Local Agency Formation Commission during fiscal year 2014-2015. All, or 100%, of the Department Head's transactions were tested for this period. The Department Head transactions consisted of 64 transactions totaling \$5,610.76. Department personnel incurred 9 purchasing card transactions totaling \$601.18. For our engagement, we tested 100% of the Department personnel transactions.

The engagement was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

The audit methodology used to assess each department selected included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from the authorized software application used by Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card Policies and Procedures along with the Travel Policy.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card, Travel, and other related policies and procedures.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County purchasing card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

It appears the Department's Purchasing Card procedures were materially compliant with the County Purchasing Card Policy and Procedures along with the Travel Policy. While the findings discussed below may not, individually or in the aggregate, impair compliance with the County Purchasing Card Program, they do present risks that can be more effectively controlled. We appreciate the courtesies and cooperation extended to the Auditor-Controller's Office during the audit process.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT HEAD FINDINGS

A) Annual Review of Need and Limit

The Department Head's annual review determining the need and limit of the department's purchasing cards was not performed for the period under review. Pursuant to County Purchasing Card Policy, the Department Head shall determine the needs and limits for department purchasing cards on an annual basis, evidence review with signature and date, and maintain on file for a minimum of five years.

Recommendation

We recommend the Department review and revise their procedures to ensure the Department Head reviews the list of purchasing card holders to determine the need and limit of purchasing cards annually as required by the County Purchasing Card Policy. The review should be documented with a signature and a date and maintained with the purchasing card records for five years.

Department Response

Management agrees with the finding and recommendation. Reviews were previously provided via e-mail and documentation was not retained. Annual reviews will now be documented and maintained as recommended.

B) Before Event Expense

We noted one travel charge (totaling \$100.35) where one night of lodging was incurred the day before the event resulting in an additional cost to the County of \$100.35. The additional expense was not deemed necessary based on the location of the training. In addition, the justification for the before event expense was not noted on the travel authorization form.

Recommendation

We recommend the Department review and revise their procedures to ensure the business purpose for travel expenses incurred before and after an event are reasonable and documented in accordance with the County Travel Policy. This should be based on, but not limited to, the location of the event and the time of day the event begins and ends.

Department Response

Management agrees with the finding and recommendation. Copies of the 2016 County Travel Policy have been provided to employees with a memo detailing that only reasonable and necessary expenses related to training will be authorized.

C) Parking

We noted an instance where economy parking was not utilized at an airport during a conference, resulting in an additional cost to the County of \$57.00. The cardholder is no longer employed with Stanislaus County, resulting in obtaining reimbursement from the retiree difficult.

Recommendation

We recommend the Department review and revise their procedures to ensure the most cost-effective options are selected.

Department Response

Employees will be reminded of the need to use the most cost-effective travel options. Research of the most economical parking will be completed prior to travel with appropriate documentation.

D) Meal/Tip Overage

We noted one transaction containing a meal overage in the amount of \$32.00. The cardholder is no longer employed with Stanislaus County, resulting in obtaining reimbursement from the retiree difficult.

Recommendation

We recommend the Department review and revise their procedures to ensure meal limits are not exceeded and immediately collect any overages, if they occur.

Department Response

Management has reviewed its procedures related to meal limits and will use the per diem option, consistent with the County's Travel Policy, to ensure future overages do not occur.

DEPARTMENT FINDINGS

There were no Department findings for the period under review.

**STANISLAUS COUNTY
EXECUTIVE SUMMARY
PARKS & RECREATION
PURCHASING CARD AUDIT**

The Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program for fiscal year beginning July 1, 2014 through June 30, 2015. The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card Policy and Procedures along with the Travel Policy in effect at the time of the purchases. We also considered Department Policy, if applicable and other County policies as they related to the purchasing card transactions. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

All County departments and related agencies utilizing the County purchasing card system are subject to the audit process as required by policy. In consideration of several consecutive years of performance of purchasing card audits along with performance of an annual risk analysis, a determination was made to audit the departments and agencies over a two year time period. A total of 18 department and related agencies were selected for audit covering fiscal year 2014-2015 transactions.

The audit period covered purchasing card activity for Parks & Recreation during fiscal year 2014-2015. There were no Department Head transactions incurred during the period under review. The purchasing card transactions for department personnel consisted of 695 transactions totaling \$91,166.12. For our engagement, we selected 171 transactions (approximately 25%) in the amount of \$41,833.71 (approximately 46%) from the entire population for testing.

The engagement was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

The audit methodology used to assess each department selected included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from the authorized software application used by Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card Policies and Procedures along with the Travel Policy.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card, Travel, and other related policies and procedures.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County purchasing card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

It appears the Department's purchasing card procedures were materially compliant with the County Purchasing Card Policy and Procedures along with the Travel Policy. While the findings discussed below may not, individually or in the aggregate, impair compliance with the County Purchasing Card Program, they do present risks that can be more effectively controlled. We appreciate the courtesies and cooperation extended to the Auditor-Controller's Office during the audit process.

FINDINGS AND RECOMMENDATIONS

There were no significant findings and recommendations for the Department purchasing card transactions during fiscal year 2014-2015.

**STANISLAUS COUNTY
EXECUTIVE SUMMARY
PROBATION DEPARTMENT
PURCHASING CARD AUDIT**

The Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program for fiscal year beginning July 1, 2014 through June 30, 2015. The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card Policy and Procedures along with the Travel Policy in effect at the time of the purchases. We also considered Department Policy, if applicable and other County policies as they related to the purchasing card transactions. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

All County departments and related agencies utilizing the County purchasing card system are subject to the audit process as required by policy. In consideration of several consecutive years of performance of purchasing card audits along with performance of an annual risk analysis, a determination was made to audit the departments and agencies over a two year time period. A total of 18 department and related agencies were selected for audit covering fiscal year 2014-2015 transactions.

The audit period covered purchasing card activity for Probation during fiscal year 2014-2015. All, or 100%, of the Department Head's transactions were tested for this period. The Department Head transactions consisted of 14 transactions totaling \$2,387.41. The test transactions for Department personnel were selected randomly at approximately 20% of the total transactions. Additional transactions were also judgmentally considered for testing, based on dollar amount or transaction type. The purchasing card transactions for Department personnel consisted of 2,051 transactions totaling \$363,805.44. For our engagement, we selected 415 transactions (approximately 20%) in the amount of \$104,237.83 (approximately 29%) from the entire population for testing.

The engagement was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

The audit methodology used to assess each department selected included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from the authorized software application used by Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.

- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card Policies and Procedures along with the Travel Policy.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card, Travel, and other related policies and procedures.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County purchasing card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

It appears the Department's purchasing card procedures were materially compliant with the County Purchasing Card Policy and Procedures along with the Travel Policy. While the findings discussed below may not, individually or in the aggregate, impair compliance with the County Purchasing Card Program, they do present risks that can be more effectively controlled. We appreciate the courtesies and cooperation extended to the Auditor-Controller's Office during the audit process.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT HEAD FINDINGS

A) Annual Purchasing Card Review

The Department Head's annual review determining the need and limit of the department's purchasing cards was not performed during fiscal year 2014-2015. Pursuant to the Stanislaus County Purchasing Card Policy, the Department Head shall annually determine the need and limits for department purchasing cards.

Recommendation

We recommend the Department review and revise their procedures to ensure the Department Head annually reviews the department's list of purchasing cards to determine the need and limits. The review shall be signed and dated by the Department Head and maintained with the purchasing card records for five years in accordance with the Stanislaus County Purchasing Card Policy.

Department Response

Department Head reviews and approves every purchasing card application submitted by the Department and the card limits requested. The Department Head's annual review was delegated to the Administrative Services Manager, who has since retired, and the Department has been unable to locate a signed copy of the annual review.

DEPARTMENT FINDINGS

A) Lack of Separation of Duties – Monthly Reconciliations

We noted one cardholder reconciled their own monthly purchasing card statements for 11 of 13 periods under review. Although a second review was performed, Stanislaus County Purchasing Card Procedures and proper accounting principles require separation of duties to maintain the integrity of the accounting process. An individual who has been issued a purchasing card should not reconcile their own account. A second review is allowed only for those departments whose size prohibits separation of duties as a reasonable control. The size of the Probation Department should be sufficient to allow another authorized employee to reconcile the cardholder's purchasing card transactions. The current notification for audit period fiscal year 2014-2015 represents the second notification to the Department regarding this issue. The prior period that noted the recurring finding was fiscal year 2012-2013.

Recommendation

We recommend that the Department review and revise their procedures to ensure that employees are not reconciling their own purchasing card statements. Per the Stanislaus County Purchasing Card Procedures, "Proper accounting principles require separation of duties to maintain the integrity of the accounting process. An individual who has been issued a Purchasing Card shall not reconcile his/her own account."

Department Response

The cardholder referenced above is the Department's Accounting Technician. The term "reconciled" is in reference to the cardholder attaching the approved receipts to the statement from the bank. The cardholder's charges were approved prior to purchase, reviewed and signed off by the Accountant, reviewed again by the Fiscal Manager, then reviewed by a second manager. The Accounting Technician's receipts are now "reconciled" by the Department's Accountant.

B) Lack of Pre-Approval for Purchases

We noted two transactions (totaling \$15,265.00) where Department Head pre-approval was not obtained for purchases exceeding \$5,000.00 as required by the Probation Department's Administrative Policy Manual.

Recommendation

We recommend the Department review and revise their procedures to ensure that Department Head's pre-approval is obtained for purchases exceeding \$5,000.00 in accordance with the Probation Department's Administrative Policy Manual.

Department Response

Both of these charges were for the purchase of ammunition. For several years ammunition was in short supply and difficult to come by, resulting in the need to purchase it when it could be found. The purchases were made on a credit card so staff could drive to Hanford to pick up the ammunition before it was out of stock. The purchases were pre-approved verbally; however, written approval was not obtained.

C) Travel Authorization

We noted 17 travel related expenses (totaling \$5,816.38) for 16 separate trips were incurred prior to completing a Travel Authorization Form. A completed Travel Authorization Form is required of all County personnel prior to incurring travel and other related expenses. While the expenses were

valid County business expenses, the form was not completed prior to incurring the expense as required by Stanislaus County Travel Policy.

Recommendation

We recommend the Department review and revise their procedures to ensure Travel Authorization Forms are completed and approved prior to travel and occurrence of travel related expenses.

Department Response

Travel Authorizations for all 15 trips were completed prior to the actual travel. Eleven of the Travel Authorizations were signed by the Department Head prior to the travel taking place. Twelve of the 17 charges incurred were airfare and lodging for State mandated Placement Visits and four more were for meals during the transport of minors. These are costs incurred by state mandates and are approved by a Supervisor/Manager prior to the booking of trips. The Department Head has assigned "designee" status, in writing, to Supervisors and Managers for purposes of approving travel expenses.

D) Excessive Charge

We noted two lodging transactions (totaling \$630.63) for one employee's two night stay where the second night stay was \$179.67 more than the first night stay and is deemed excessive. The second night stay charge of \$403.65 should have been identified as excessive and alternative, cost-effective lodging arrangements made.

Recommendation

We recommend the Department review and revise their procedures to ensure that excessive lodging charges are identified prior to hotel stay and that other cost-effective arrangements are made. Per Stanislaus County Travel Policy, lodging accommodations should be moderate considering location and availability.

Department Response

The above referenced charges were incurred by staff attending a conference held by Liebert Cassidy Whitmore (LCW). The conference room rate was communicated, via conference flier, to be \$269.50 per night. When rooms were booked, the first night deposit was charged at \$194. The second night stay was charged at \$345 as there were not any more rooms available at the conference rate. Staff did not realize this until they checked out of the hotel.

E) In-County Meals

We noted four in-county meal transactions (totaling \$261.55) where the Department Head's written approval was not obtained prior to the purchase as required by the Stanislaus County Travel Policy.

Recommendation

We recommend the Department review and revise their procedures to ensure the Department Head's written pre-approval is obtained for in-county meals in accordance with the Stanislaus County Travel Policy.

Department Response

These meals were provided for mandated quarterly council meetings conducted as working lunches. The purchase of lunch items was verbally pre-approved by the Department Head and later approved in writing by the Department Head when the receipts were submitted. The Department now has a memo assigning "designee" status, for the purchase of food for working lunches, on file.

F) Personal Unallowable Expenses

We noted five transactions (totaling \$203.75) that were personal expenses. One purchase in the amount of \$150.00 was refunded by the vendor and four purchases totaling \$53.75 were reimbursed by four employees. Although the charges were subsequently reimbursed to the County, the County purchasing cards are not to be used for personal or unallowable expenses.

Recommendation

We recommend the Department remind employees that purchasing cards are not to be used for personal or unallowable expenses.

Department Response

All five cardholders noticed the error at the time of purchase and either received credits immediately from the vendor or submitted reimbursement to the department. Only a select list of staff is allowed to carry their county credit card with written approval from the Department Head. When personal purchases are made on their county credit card, staff are required to submit a memo to the Department Head explaining why the charge occurred.

G) Transactions of \$5,000 or More

We noted two transactions (totaling \$15,265.00) that did not include evidence of three vendor quotes and a Justification for Sole Source/Sole Brand form was not on file. The Stanislaus County Purchasing Card Policy requires that cardholders comply with the General Services Agency Purchasing Division procurement policies and procedures to ensure that the best price is obtained for the County. Per General Services Agency Purchasing Division Policies and Procedures, transactions of \$5,000.00 or more require three competitive quotes or completion and approval of a Justification for Sole Source/Sole Brand form.

Recommendation

We recommend the Department review and revise their procedures to ensure that three competitive quotes are obtained or a Justification for Sole Source/Sole Brand form is completed and approved for transactions of \$5,000.00 or more in accordance with General Services Agency Purchasing Division procurement policies and procedures.

Department Response

Both of these charges were for the purchase of ammunition. For several years ammunition was in short supply and difficult to come by, resulting in the need to purchase it when it could be found. The purchases were made on a credit card so staff could drive to Hanford to pick up the ammunition before it was out of stock.

**STANISLAUS COUNTY
EXECUTIVE SUMMARY
PUBLIC DEFENDER
PURCHASING CARD AUDIT**

The Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program for fiscal year beginning July 1, 2014 through June 30, 2015. The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card Policy and Procedures, along with the Travel Policy in effect at the time of the purchases. We also considered Department Policy, if applicable and other County policies as they related to the purchasing card transactions. In addition, we assessed the Department's internal controls over the maintenance and use of the County purchasing cards.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

All County departments and related agencies utilizing the County purchasing card system are subject to the audit process as required by policy. In consideration of several consecutive years of performance of purchasing card audits along with performance of an annual risk analysis, a determination was made to audit the departments and agencies over a two year time period. A total of 18 department and related agencies were selected for audit covering fiscal year 2014-2015 transactions.

The audit period covered purchasing card activity for Public Defender during fiscal year 2014-2015. All, or 100%, of the Department Head's transactions were tested for this period. The Department Head transactions consisted of 12 transactions totaling \$1,432.49. The test transactions for Department personnel were selected randomly at approximately 25% of the total transactions. Additional transactions were also judgmentally considered for testing, based on dollar amount or transaction type. The purchasing card transactions for Department personnel consisted of 96 transactions totaling \$22,600.19. For our engagement, we selected 32 transactions (approximately 33%) in the amount of \$9,249.76 (approximately 41%) from the entire population for testing.

The engagement was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

The audit methodology used to assess each department selected included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from the authorized software application used by Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.

- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card Policies and Procedures along with the Travel Policy.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card, Travel, and other related policies and procedures.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County purchasing card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

It appears the Department's Purchasing Card procedures were materially compliant with the County Purchasing Card Policy and Procedures along with the Travel Policy. While the findings discussed below may not, individually or in the aggregate, impair compliance with the County Purchasing Card Program, they do present risks that can be more effectively controlled. We appreciate the courtesies and cooperation extended to the Auditor-Controller's Office during the audit process.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT HEAD FINDINGS

A) Department Head's Designee

We noted the designees assigned by the Department Head were listed in the Department's purchasing card policy; however, the Department Head's certification by signature and corresponding effective date were not reflected in the Department's purchasing card policy. A separate document listing the assigned designees and duties certified by the Department Head should be created to ensure compliance with the County purchasing card policy. The current notification for audit period fiscal year 2014/2015 represents the fourth notification to the Department regarding this finding. Prior periods that noted the recurring finding include fiscal years 2009/2010, 2011/2012 and 2012/2013.

Recommendation

We recommend the Department Head identify and certify a designee in writing and document what the designee is authorized to approve in the event of the Department Head's unexpected absence pursuant to the County of Stanislaus Purchasing Card and Travel Policies.

Department Response

The department has a signed writing document that lists the designees authorized to approve in the event of the department head absence.

B) Annual Review of Need and Limit

The Department Head's annual review determining the need and limit of the Department's purchasing cards was not certified and dated by the Department Head.

Recommendation

We recommend the Department review and revise their procedures to ensure the Department Head reviews the list of purchasing card holders to determine the need and limit of purchasing cards annually as required by the County Purchasing Card Policy. The review should be documented with a signature and date and maintained with the purchasing card records for five years.

Department Response

The department head reviews and determines the amount and limit for each card holder as need it by the card holder, this is done every year dept., prints a yearly report with the credit card holder limit, It will be signed and dated by DH.

DEPARTMENT FINDINGS

A) Monthly Bank Statement Reconciliation

We noted 8 of 13 reconciliations were not evidenced with a date; therefore, we were unable to determine timeliness of the reconciliations.

Recommendation

We recommend the Department review and revise their procedures to ensure the monthly purchasing card reconciliations are complete, performed timely and certified with a signature and date in accordance with the County of Stanislaus Purchasing Card Policy.

Department Response

The department processed the monthly purchasing card reconciliations every month as notified by the auditors dept. contact, then the reports are printed reviewed and will be dated, signed off by Conf. Assistant, Chief Deputy and DH.

**STANISLAUS COUNTY
EXECUTIVE SUMMARY
PUBLIC WORKS
PURCHASING CARD AUDIT**

The Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program for fiscal year beginning July 1, 2014 through June 30, 2015. The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card Policy and Procedures along with the Travel Policy in effect at the time of the purchases. We also considered Department Policy, if applicable and other County policies as they related to the purchasing card transactions. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

All County departments and related agencies utilizing the County purchasing card system are subject to the audit process as required by policy. In consideration of several consecutive years of performance of purchasing card audits, along with performance of an annual risk analysis, a determination was made to audit the departments and agencies over a two year time period. A total of 18 department and related agencies were selected for audit covering fiscal year 2014-2015 transactions.

The audit period covered purchasing card activity for Public Works during fiscal year 2014-2015. All, or 100%, of the Department Head's transactions were tested for this period. The Department Head transactions consisted of 22 transactions totaling \$2,252.13. The test transactions for department personnel were selected randomly at approximately 20% of the total transactions. Additional transactions were also judgmentally considered for testing, based on dollar amount or transaction type. The purchasing card transactions for department personnel consisted of 376 transactions totaling \$79,862.71. For our engagement, we selected 64 transactions (approximately 17%) in the amount of \$21,813.96 (approximately 27%) from the entire population for testing.

The engagement was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

The audit methodology used to assess each department selected included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from the authorized software application used by Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.

- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card Policies and Procedures along with the Travel Policy.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card, Travel, and other related policies and procedures.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County purchasing card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

It appears the Department's purchasing card procedures were materially compliant with the County Purchasing Card Policy and Procedures along with the Travel Policy. While the findings discussed below may not, individually or in the aggregate, impair compliance with the County Purchasing Card Program, they do present risks that can be more effectively controlled. We appreciate the courtesies and cooperation extended to the Auditor-Controller's Office during the audit process.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT HEAD FINDINGS

A) Monthly WORKS Billing Statements

We noted the following issues related to the Department Head's monthly review of the WORKS Billing Statements:

- One of 13 reconciliations was not signed or dated;
- Three of 13 reconciliations were not performed timely; and,
- One of 13 reconciliations was missing.

Recommendation

We recommend the Department review and revise their procedures to ensure the Department Head's monthly review and approval of the WORKS Billing Statements are complete, performed in a timely manner, and certified with a signature and date in accordance with the County Purchasing Card Policy.

Department Response

Department will review and revise procedures. Untimely reconciliations were due to a medical leave and a staff vacancy.

DEPARTMENT FINDINGS

A) Monthly Bank Statement Reconciliation

The monthly reconciliation of purchasing card transactions was untimely for 3 of 13 periods under review. The monthly reconciliation is performed to ensure department charges on a County purchasing card are appropriate business expenses and are reviewed and certified in a timely manner, prior to the next month's statement.

Recommendation

We recommend the Department review and revise their procedures to ensure the monthly purchasing card reconciliations are complete, performed timely, and certified with a signature and date in accordance with the County Purchasing Card Policy.

Department Response

Department will review and revise procedures. Untimely reconciliations were due to a medical leave and a staff vacancy.

**STANISLAUS COUNTY
EXECUTIVE SUMMARY
SHERIFF'S DEPARTMENT
PURCHASING CARD AUDIT**

The Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program for fiscal year beginning July 1, 2014 through June 30, 2015. The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card Policy and Procedures along with the Travel Policy in effect at the time of the purchases. We also considered Department Policy, if applicable and other County policies as they related to the purchasing card transactions. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

All County departments and related agencies utilizing the County purchasing card system are subject to the audit process as required by policy. In consideration of several consecutive years of performance of purchasing card audits along with performance of an annual risk analysis, a determination was made to audit the departments and agencies over a two year time period. A total of 18 department and related agencies were selected for audit covering fiscal year 2014-2015 transactions.

The audit period covered purchasing card activity for the Sheriff's Department during fiscal year 2014-2015. All, or 100%, of the Department Head's transactions were tested for this period. The Department Head transactions consisted of 37 transactions totaling \$9,776.84. The test transactions for Department personnel were selected randomly at approximately 25% of the total transactions. Additional transactions were also judgmentally considered for testing, based on dollar amount or transaction type. The purchasing card transactions for Department personnel consisted of 1,713 transactions totaling \$524,309.78. For our engagement, we selected 430 transactions (approximately 25%) in the amount of \$200,363.77 (approximately 38%) from the entire population for testing.

The engagement was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

The audit methodology used to assess each department selected included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from the authorized software application used by Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.

- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card Policies and Procedures along with the Travel Policy.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card, Travel, and other related policies and procedures.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County purchasing card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

It appears the Department's purchasing card procedures were materially compliant, except for the findings noted below, with the County Purchasing Card Policy and Procedures along with the Travel Policy. While the findings discussed below may not, individually or in the aggregate, impair compliance with the County Purchasing Card Program, they do present risks that can be more effectively controlled. We appreciate the courtesies and cooperation extended to the Auditor-Controller's Office during the audit process.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT HEAD FINDINGS

A) Monthly WORKS Billing Statements

In place of reviewing the monthly WORKS Billing Statements, the Department Head or Designee performs a detailed review of each cardholder's statement, certifying each statement with a signature and date. During our testing of the cardholder's statements, we noted the untimely review and approval of 15 out of 136 (or 11%) of bank statements tested. In addition, we noted three bank statements that were signed but not dated; therefore, timeliness of the reviews was undeterminable. The Department Head is responsible for ensuring all Department charges on a County purchasing card are appropriate business expenses and certified in a timely manner, prior to the next month's statement. The current notification for audit period fiscal year 2014-2015 represents the seventh notification to the Department regarding this issue. Prior periods that noted the recurring finding include fiscal years 2005-2008, 2008-2009, 2009-2010, 2010-2011, 2012-2013 and 2013-2014.

Recommendation

We recommend the Department review and revise their procedures to ensure the Department Head's monthly review and approval of purchasing card transactions are complete, performed in a timely manner, and certified in accordance with the Stanislaus County Purchasing Card Policy.

Department Response

The Department agrees with this finding and has specifically targeted efforts towards reconciling these reports in a timely manner. We expect the findings in this category to decrease significantly in the future.

B) Unallowed Expenses

We noted four travel related transactions (totaling \$4,724.51) that included personal charges totaling \$1,063.79 which are unallowable expenses per the Stanislaus County Purchasing Card and Travel Policies. The charges were subsequently reimbursed to the County; however, we noted that three personal charges were not reimbursed immediately as required by the Stanislaus County Purchasing Card Policy. One transaction was reimbursed four months after purchase and two transactions were reimbursed 19 months after purchase.

Recommendation

We recommend the Department remind employees that purchasing cards are not to be used for personal or unallowable expenses. In addition, we recommend the Department review and revise their procedures to ensure that employee reimbursements of personal charges are reimbursed immediately in accordance to the Stanislaus County Purchasing Card Policy.

Department Response

The Department agrees with this finding and has specifically targeted efforts towards not allowing personal charges for travel related transactions to be made on Stanislaus County Purchasing Cards and to ensure that any personal charges are reimbursed immediately.

DEPARTMENT FINDINGS

A) Lack of Separation of Duties – Monthly Reconciliations

We noted one cardholder that reconciled their own monthly purchasing card statements for 3 of 13 periods under review. Although a second review was performed, an individual who has been issued a purchasing card should not reconcile their own account. The Department has sufficient staff to assign several reconcilers to the monthly reconciliation process in order to prevent the need for a cardholder to reconcile their own account. The current notification for audit period fiscal year 2014-2015 represents the second notification to the Department regarding this issue. The prior period that noted the recurring finding was fiscal year 2013-2014.

Recommendation

We recommend that the Department review and revise their procedures to ensure that employees are not reconciling their own purchasing card statements.

Department Response

The Department agrees that the events described in this finding did occur and in strict terms this practice did violate the existing policy however at the time the Sheriff's Department was short staffed and as a result the Purchasing Card Clerk was also performing travel booking for trainings. In accordance with the Purchasing Card Policy, the Purchasing Card Clerk performed reconciliations on all of the cards including her own. In an effort to provide sufficient oversight, an additional clerk reconciled the Purchasing Card Clerk's statement as did the Business Manager so there were two additional checks after the employee reconciled her own statement.

B) Purchase Greater than \$5,000 per Item/Service

We noted two transactions (totaling \$38,790.00) spent for employee training that included individual registration fees ranging between \$6,830.00 and \$15,200.00. Although the purchases were valid County business expenses, pursuant to the Stanislaus County Purchasing Card Policy, a purchasing card is for the purchase of goods and services costing less than \$5,000 per item, including taxes, shipping, etc. The current notification for audit period fiscal year 2014-2015 represents the second notification to the Department regarding this issue. The prior period that noted the recurring finding was fiscal year 2013-2014.

Recommendation

We recommend the Department review and revise their procedures to ensure that purchasing cards are only used for goods and services costing less than \$5,000 per item and follow General Services Agency's Purchasing Division Policies and Procedures Manual and Customer Guide, in accordance with the Stanislaus County Purchasing Card Policy.

Department Response

The Department agrees with the finding. At the time the purchases were made, the Department Staff was under the impression that these trainings required a credit card for payment. As of 8/1/15 we started utilizing accounts payable and sending a check to pay for training related costs over \$5,000.

C) Transactions of \$5,000 or More

We noted five transactions (totaling \$56,327.47) that did not include evidence of three vendor quotes and a Justification for Sole Source/Sole Brand form was not on file. The Stanislaus County Purchasing Card Policy requires that cardholders comply with the General Services Agency Purchasing Division procurement policies and procedures to ensure that the best price is obtained for the County. Per General Services Agency Purchasing Division Policies and Procedures, transactions of \$5,000 or more require three competitive quotes or completion and approval of a Justification for Sole Source/Sole Brand form.

Recommendation

We recommend the Department review and revise their procedures to ensure that three competitive quotes are obtained or a Justification for Sole Source/Sole Brand form is completed and approved for transactions of \$5,000 or more in accordance with General Services Agency Purchasing Division procurement policies and procedures.

Department Response

The Department agrees with the finding, At the time the purchases were made, the Department Staff was under the impression that these transactions required a credit card for payment. As of 8/1/15 we started utilizing accounts payable and sending a check to pay for training related costs over \$5,000. Purchases for items over \$5,000 will include evidence of three vendor quotes or a Justification of Sole Source/Sold brand.

D) Insufficient Reconciliation of Lodging Charges

We noted one transaction (totaling \$1,670.88) for a 12-night lodging deposit that appears to not have been properly reconciled and resulted in the following issues:

- Three nights were double charged and resulted in an additional cost to the County of \$417.72.

- One night was not used by the employee and resulted in an additional cost to the County of \$139.24.
- Twelve nights of occupancy room tax was refunded per the hotel's itemized receipt; however, the refund was not applied to the cardholder, resulting in an additional cost to the County of \$146.88.

The monthly reconciliation process did not detect the above issues and a refund was not requested in the amount of \$703.84. As a result of the audit, the Department has contacted the hotel and is awaiting a response.

Recommendation

We recommend the Department review and revise their procedures to ensure that lodging transactions are reconciled to actual stay charges, along with supporting documentation, and that any discrepancies are identified and resolved in a timely manner.

Department Response

The Department agrees with the finding and has specifically targeted efforts towards ensuring that lodging transactions are reconciled to actual stay charges. The Sheriff's Department was short staffed and as a result the transaction was not properly reconciled. When the hotel was contacted to resolve this issue they had purged their files due to a change of systems and the transaction could no longer be located.

E) Travel Authorizations

We noted five travel related expenses (totaling \$3,947.94) for five separate trips were incurred prior to completing a Travel Authorization Form. A completed Travel Authorization Form is required of all County personnel prior to incurring travel and other related expenses. While the expenses were valid County business expenses, the form was not completed prior to incurring the expense as required by the Stanislaus County Travel Policy.

Recommendation

We recommend the Department review and revise their procedures to ensure Travel Authorization Forms are completed and approved prior to incurring any travel related expenses.

Department Response

The Department agrees with the finding and has specifically targeted efforts towards ensuring that travel authorization are completed and approved prior to incurring any travel related expenses. The Department is looking at ways to improve the travel and training approval process to avoid this issue in the future.

F) Before and After Event Expenses

We noted the following issues related to before and after event transactions:

- One lodging charge (totaling \$1,124.00) included a weekend stay in the Bay Area on Friday and Saturday nights between two consecutive weeks of training. Per the Department, the employee was authorized to stay the weekend to complete coursework; however, the location of the training appears to be within a reasonable driving distance to return home for the weekend and resulted in an additional cost to the County of \$281.00.
- One travel charge (totaling \$96.97) included one night of lodging in Sacramento the day before a training event. Based upon the location and start time of the training the lodging

does not appear necessary and resulted in an additional cost to the County of \$96.97.

The additional expenses noted above do not appear necessary based upon the location of the events. In addition, we noted that the reason for the before and after event transactions did not accompany the supporting documentation as required by the Stanislaus County Travel Policy.

Recommendation

We recommend the Department review and revise their procedures to ensure the reason for travel expenses incurred before and after an event and lodging accommodations is documented and reasonable (length and rate). This should be based on, but not limited to, the location of the event and the time of day the event begins and ends.

Department Response

The Department has reviewed the finding and recommendations. When the Department Head or Designee signs the Trip Authorization they are acknowledging and therefore approving the lodging. The Department standard practice is to ensure a consistency when employees are traveling is to provide before event lodging in locations such as Sacramento, Fresno, Oakland, San Jose and San Francisco with a round trip of more than 50 miles. The Commission on Peace Officer Standards and Training (POST) allows for a day's subsistence reimbursement when travel is a round trip of 50 miles or more. Below is Section 4-10 from the POST Administrative Manual:

4-10. Subsistence for Enroute Travel Time:

Subsistence will be reimbursed for enroute time not to exceed 24 hours of subsistence allowance at the daily subsistence established by the Commission for the fiscal year. The subsistence allowance for enroute travel time will be calculated as a fraction of a day's subsistence allowance and will be proportional to the distance traveled between the trainee's station assignment and the training institution. A round trip of less than 50 miles will not be eligible for any enroute subsistence, and a route trip of greater than 400 miles may receive no more than one day of enroute subsistence.

G) Unallowed Expense

We noted one travel related transaction (totaling \$561.60) that included a personal charge in the amount of \$187.20 which is an unallowable expense per the Stanislaus County Purchasing Card and Travel Policies. The personal charge was reimbursed timely to the County; however, County purchasing cards are not to be used for personal or unallowable expenses.

Recommendation

We recommend the Department remind employees that purchasing cards are not to be used for personal or unallowable expenses.

Department Response

The Department agrees with this finding and has specifically targeted efforts towards not allowing personal charges for travel related transactions to be made on Stanislaus County Purchasing Cards and making sure these charges are reimbursed immediately.

H) In-County Meals

We noted four in-county meal transactions (totaling \$841.02) where the Department Head's written approval was not obtained prior to the purchase as required by the Stanislaus County Travel Policy.

Recommendation

We recommend the Department review and revise their procedures to ensure the Department Head's written approval is obtained prior to the purchase of in-county meals in accordance with the Stanislaus County Travel Policy.

Department Response

The Department agrees with the finding and to avoid this from happening in the future the form for Authorization for Travel and Purchasing Card Designees has been revised to allow more designees to sign and approve In-County Meal Authorization forms.

I) Sales/Use Tax

We noted sales tax for three transactions (totaling \$5,128.75) was not paid at the time of purchase and the Department did not report the transactions on the appropriate tax log to the Auditor-Controller's Office. This resulted in a shortage of \$415.00 of sales tax not forwarded to the California State Board of Equalization.

Recommendation

We recommend the Department review and revise their procedures to ensure credit card purchases for which sales tax or district tax was not paid are logged on the correct Use Tax or District Tax Log and submitted to the Auditor-Controller's Office pursuant to the Stanislaus County Purchasing Card Procedures.

Department Response

The Department agrees with the finding and has specifically targeted efforts to ensure the correct Use Tax or District Tax is logged and submitted to the Auditor-Controller's Office for credit card purchases for which sales tax or district tax was not paid.

J) No Show Charge

We noted one lodging transaction that was cancelled in an untimely manner resulting in a no show fee of \$159.48. Although the cancellation was due to circumstances beyond the employee's control, the employee did not cancel the hotel reservation and the Finance Department was not notified in time to cancel the hotel reservation.

Recommendation

We recommend the Department review and revise their procedures to ensure that lodging cancellations are made in a timely manner to prevent additional travel cost to the County.

Department Response

The Department agrees with the finding and had specifically targeted efforts to remind employees that they must cancel a reservation if they are not able to be at the lodging at the appointed time. We have also instituted an after-hours notification process for employees to be able to contact a member of Training or Finance after-hours to let them know they are not able to attend the training and accommodations need to be cancelled.

BEHAVIORAL HEALTH AND RECOVERY SERVICES
EXECUTIVE SUMMARY
GENERAL SERVICES/FACILITIES AND FAMILY PARTNERSHIP CENTER PROGRAM
INCENTIVE GIFT CARD INVENTORY AND HANDLING

CONCLUSION

Based upon the results of our review, we recommend that Behavioral Health and Recovery Services strengthen its internal controls over incentive gift cards and other cash equivalent items as stated in the Findings and Recommendations section of this report.

We would like to thank Behavioral Health and Recovery Services for their cooperation. Their assistance contributed significantly to the successful completion of this engagement.

BACKGROUND

The Auditor-Controller's Office was informed of a risk to County assets due to large quantities of gift cards residing at various Department program sites. The programs use gift cards as motivational incentive tools to enhance treatment, facilitate recovery, and encourage community and peer participation. Gift cards are considered cash equivalents; therefore, internal controls and levels of risk regarding the handling of these cards are treated similarly to cash handling. Gift cards are purchased with a fixed amount and are not assigned to specific individuals as credit cards are and the person in possession of the gift cards has immediate access to the dollar amount loaded onto the cards, increasing exposure to risk. Security over the physical location of gift cards and adequate handling procedures are crucial in safeguarding these County assets.

Prior to notification to the Auditor-Controller's Office, the Department's accounting staff performed an internal review of 16 programs located at 15 sites that maintain and distribute gift cards to clients as motivational incentives. The Department's internal review noted that the Family Partnership Center ("FPC") held the largest number of gift cards totaling 4,126 cards valued at approximately \$22,408. They also noted that FPC's average historical gift card usage for years 2008 through 2014 was approximately 400 cards per year, resulting in approximately 10 years' worth of cards on hand. Based upon these results, the FPC program transferred 2,120 cards valued at \$11,275 to the Department's General Services/Facilities Division ("GSF") for safekeeping and future distribution to respective programs. In addition, the Department established the Purchase and Use of Incentive/Gift Cards policy and procedure on February 2, 2015 and further revised the policy on March 16, 2015.

As a result of the Department's internal review and notification to the Auditor-Controller's Office, the Auditor-Controller determined that priority be given to safeguarding the large quantities of gift cards held by the Department and particularly the FPC program site. In addition, the Auditor-Controller included the GSF site as part of the scope of the engagement with the objective that GSF would act as the Department's centralized custodian of gift cards.

OBJECTIVE

The objective of this engagement was to determine if gift card inventories were adequately safeguarded at the GSF and FPC sites and to evaluate the appropriateness of gift card handling and issuance at the FPC program site. In addition, we evaluated the Department's policies and procedures for significant internal control weaknesses related to gift card inventories and handling. Potential procedural inefficiencies were also considered.

BEHAVIORAL HEALTH AND RECOVERY SERVICES
EXECUTIVE SUMMARY
GENERAL SERVICES/FACILITIES AND FAMILY PARTNERSHIP CENTER PROGRAM
INCENTIVE GIFT CARD INVENTORY AND HANDLING

SCOPE AND METHODOLOGY

The scope of this engagement was limited to GSF and the FPC program and included the Department's policies and procedures related to incentive gift card inventory and handling, as well as, verifying inventory balances and evaluating controls at the GSF and FPC sites. Audit fieldwork was conducted between January and June 2015.

The methodology used to perform this limited engagement included the following:

- Reviewed Department's Purchase and Use of Incentive/Gift Cards Policy and Procedure established on February 2, 2015 and revised on March 16, 2015.
- Discussions were held with Department's GSF, FPC and accounting staff.
- Conducted physical inventory counts of gift cards located at GSF and FPC and reconciled to the inventory control logs.
- Performed testing procedures to verify the program's compliance with Department policy and procedures in place at the time fieldwork was performed.

STANDARDS

The Internal Audit Division conducted this engagement in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. We are not issuing a formal opinion for this engagement such as required by audit or attestation, including examination, review or agreed-upon procedures due to the non-audit status of this engagement.

FINDINGS AND RECOMMENDATIONS

The Department established policies and procedures related to the purchase and use of incentive gift cards on February 2, 2015, and subsequent to the Department's internal review and commencement of the Internal Audit Division's engagement. The policy was further revised on March 16, 2015. While the policy and procedures had been under development for several years prior to February 2, 2015, it was not completed and controls and safeguards were not communicated to Department staff. As a result, the lack of Department policies and procedures contributed to the following:

- Significant amount of missing gift cards;
- Insufficient tracking and monitoring of gift cards issued to programs;
- Missing and incomplete documentation of gift cards disbursed to clients;
- High inventory levels of gift cards at program sites that appears to be unnecessary;
- Lack of sufficient internal controls over gift card handling and security of inventory;
- Number of gift cards provided to each client was not documented in their respective files nor was gift card use analyzed for appropriateness;
- Gift cards were used for employee and client meals where no County governing authority was provided for such use;

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- Incident reports were not filed with the Department's Risk Management when assets went missing; and,
- The Auditor-Controller's Office was not informed by the Department when County assets went missing.

FINDINGS AND RECOMMENDATIONS FOR DEPARTMENT ADMINISTRATION

A. Gift Card Inventory Levels

We noted that the Department's current incentive gift card policy and procedure allows up to a two year supply of gift card inventory to be maintained at program sites. This inventory level appears excessive and increases the risk for loss and theft.

Recommendation

We recommend that the Department review and revise their procedures to limit programs' gift card inventory levels to a three month supply. Since the Department utilizes a daily courier system, implementation of this recommendation does not appear to be overly burdensome for Department staff.

Department Response

BHRS is in the process of revising the Gift Card Policy to comply with this section. A strategic plan has been implemented in order to reduce the current inventory to an acceptable level within a reasonable amount of time.

B. Gift Card Oversight

We noted that the Department's programs were not adequately monitored to ensure that all gift cards were accounted for, disbursements were adequately documented and that inventory levels did not become excessive.

Recommendation

We recommend that the Department assign a centralized Department Gift Card Custodian with responsibilities including, but not limited to:

- Create and maintain a master inventory control log of all gift cards and other cash equivalents issued to programs, including quantities and values;
- Monitor programs' gift card inventory levels;
- Ensure programs' gift card levels are not excessive and maintained at a reasonable level;
- Ensure gift card disbursement documentation is complete; and,
- Compare master inventory control log levels to the respective programs' inventory control logs on a periodic basis for reasonableness.

Department Response

Although not formally designated, a Department GSF employee has been assigned with the recommended responsibilities. BHRS is in the process of formally designating a GSF Gift Card Custodian, and the Gift Card Policy is in the process of being revised to comply with this section.

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C. Monthly Count and Reconciliation of Gift Cards

We noted that the Department's gift card policy and procedures requires that the gift card custodian or program coordinator perform the physical count and reconciliation of gift card inventories on a monthly basis; however, allowing the gift card custodian to complete this process results in a lack of segregation of duties. The person responsible for maintaining custody of the gift cards should not also perform the monthly counts and reconciliation.

Recommendation

We recommend that the Department review and revise their gift card policy and procedures to ensure proper segregation of duties are maintained by assigning an employee other than the gift card custodian to perform the monthly count and reconciliation of cards. Furthermore, the count and reconciliation should be performed in the presence of the gift card custodian and both employees should sign and date the count sheets evidencing verification of the inventory balances. The count sheets and reconciliation should be approved by program management and a copy forwarded to GSF for monitoring purposes.

Department Response

It is the understanding of the current senior leadership team of BHRS that draft findings of this audit were conveyed to each program where gift cards are used, to correct the custody, handling and control deficiencies. The Accounting Division of BHRS is currently conducting an internal review of handling, custody and control of gift cards at Department GSA and selected programs. Additionally, the Gift Card Policy is being revised to comply with this and other areas. The revised policy will be forwarded to the Auditor-Controller for review and approval.

D. Employee Safety Incentive Gift Cards

We noted that the Department does not have established policies and procedures for the use of gift cards as employee safety incentives. Gift cards are cash equivalents and written policy and procedure should be established to safeguard these assets.

Recommendation

We recommend that the Department review and revise their existing Incentive/Gift Cards Policy and Procedure to incorporate procedures surrounding the purchase, issuance, disbursement, and reporting of gift cards utilized as employee safety incentives.

Department Response

BHRS is in the process of revising the Gift Card Policy to include policies and procedures for the use of gift cards as employee safety incentives.

E. Other Cash Equivalent Items

We noted that the Department does not have established policies and procedures for the use of other cash equivalent items, such as bus passes. These are considered cash equivalents and written policy and procedures should be established to safeguard these assets.

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Recommendation

We recommend that the Department review and revise their existing Incentive/Gift Cards Policy and Procedure to incorporate procedures surrounding the purchase, distribution and issuance of other cash equivalent items.

Department Response

BHRS is in the process of forming a work group to establish a written policy and internal procedures within a reasonable time to comply with this section.

FINDINGS AND RECOMMENDATIONS FOR GENERAL SERVICES/FACILITIES DIVISION

A. Gift Card Purchases

We noted that gift cards were ordered for programs without requiring a completed Incentive/Gift Card Distribution Log. These logs are numerically sequenced and issued to programs with approximately 25 gift cards per log to track and document the disbursement of gift cards to clients. Per Department gift card policy, completed logs are required before additional gift cards may be ordered and issued to a program. As a result, gift cards were ordered without consideration of program's existing inventory levels.

Recommendation

We recommend that GSF review and revise their procedures to ensure that completed Incentive/Gift Card Distribution Logs are obtained prior to ordering additional gift cards as required by the Department's gift card policy.

GSF Response

BHRS General Services now requires that completed Incentive Distribution Logs be submitted before additional cards will be ordered or disbursed from GSF inventory.

B. Gift Card Handling

Although procedures were implemented for accessing the GSF safe, we noted that policies and procedures were not established for storing, receiving and disbursing gift cards from the safe. In addition, we noted that gift cards were not being logged in and out of the safe as required by the Department's gift card policy.

Recommendation

We recommend that GSF develop and implement policies and procedures for the handling of gift card inventory including receipt, storage and issuance of gift cards.

GSF Response

At the time of the audit, GSF practice was not to store significant amounts of incentive cards. A medium size dual custody safe was procured and the following practices are currently in place:

Receipt of cards

- When received, cards are tallied, bagged, and added to the Inventory Tracking Sheet maintained by General Services staff.

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- If the cards were previously issued, the log issued with the cards will be marked as returned to General Services on the Master Log Tracking sheet, removing them from the Programs inventory.

Storage of cards

- Cards are maintained in the General Services safe under dual custody.
- Cards are stored in the safe in bundles within sealed, numbered envelopes.
- Access to the safe requires the presence of two staff members, one with the combination and one with the key.
- Inventory Tracking Sheet is maintained in another small General Services safe to enable access for staff to be able to determine what is stored in the safe.

Inventory Process

- General Services Staff performs an inventory count of the cards in the safe once a month in dual custody in the presence of designated employee.
- During inventory, General Services Staff reviews the Inventory Tracking Sheet to see which Envelopes were accessed (see distribution procedures below). Additionally a physical check is done to confirm that all other envelopes remained sealed.
- Accessed envelopes are recounted and the Inventory Tracking Sheet is updated. Envelopes are resealed using tape to cover the previous opening; the new seal is then signed by a minimum of two General Services Staff.
- In the event of a discrepancy, General Service's staff will begin an investigation to determine the cause. The discrepancy will be noted and tracked on the Monthly Inventory Sheet, as well as the steps taken to correct the discrepancy.
- On completion of the Inventory, General Service's staff will print and sign a new Inventory Tracking Sheet. This will then be provided for the review of the Custodian of the Gift Cards for review and signing.

Distribution of cards

- Upon receipt of a completely filled out and signed Purchasing Request, General Services enter the safe, and using the Inventory Tracking Sheet, will retrieve the appropriate gift cards.
- The Inventory Tracking Sheet will be updated to show the quantity of cards that were distributed.
- Log sheets are generated showing the vendor, quantity of cards, and individual card numbers as well as the program the cards are being distributed to.
- The Log Sheets are added to the Master Log Tracking Sheet.
- The program is then contacted to notify them that the cards are available.
- Cards and Log Sheets are moved to General Services small safe to await the Program arriving to pick up cards.
- Program staff must come to General Services with a locking money bag to pick up cards.
- Program staff count the cards being checked out.
- Log sheets are signed by the staff coming to pick up the cards with both their name and the time. Copies of these signed log sheets are maintained at General Services.

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- Cards and log sheets are placed into the money bag and the money bag locked prior to staff leaving General Services.

C. Tracking of Gift Cards and Other Cash Equivalents

GSF uses an Incentive Log Sheet Tracking Spreadsheet to document the location and status of gift cards issued to programs, including when the Incentive/Gift Card Distribution Log and respective gift cards were issued to a program, which program is in possession of the gift cards, and when a completed Incentive/Gift Card Distribution Log is returned to GSF following the disbursement of all cards on the log. We noted the following issues related to the Incentive Log Sheet Tracking Spreadsheet:

- The Incentive Log Sheet Tracking Spreadsheet was not updated to reflect the transfer of 3,045 gift cards valued at \$15,100 received by GSF from two programs.
- Unique gift card numbers are listed onto an Incentive/Gift Card Distribution Log. Each Incentive/Gift Card Distribution Log is then assigned a unique number which is listed onto the Incentive Log Sheet Tracking Spreadsheet. We noted that two Incentive/Gift Card Distribution Logs, each with unique gift cards numbers, were assigned a duplicated log number and only one of the duplicated log numbers were recorded to the Incentive Log Sheet Tracking Spreadsheet. As a result, the location and status of that log and respective gift cards was absent and unmonitored.
- Bus passes were distributed to programs without Incentive/Gift Card Distribution Logs and not included on the Incentive Log Sheet Tracking Spreadsheet resulting in one program retaining 764 bus passes valued at \$1,041. Due to the lack of controls regarding the purchase of bus passes, the program possessed a high level of inventory that did not align with the program need during a reasonable period such as a three month time period. As a result of the audit, approximately half of the bus passes were returned to GSF for safekeeping and redistribution.

Recommendation

We recommend that GSF establish procedures to ensure the following:

- Incentive/Gift Card Distribution Logs and their respective gift cards are properly reflected on the Incentive Log Sheet Tracking Spreadsheet;
- Incentive/Gift Card Distribution Logs are not created with duplicated log numbers; and,
- Bus passes are distributed with an Incentive/Gift Card Distribution Log and tracked on the Incentive Log Sheet Tracking Spreadsheet.

GSF Response

Cards returned to the General Services Office are now tallied, bagged, and added to the Inventory Tracking Sheet maintained by General Services staff. If the cards were previously issued, the log issued with the cards will be marked as returned to General Services on the Master Log Tracking sheet, removing them from the Programs inventory.

Incentive Gift Card Distribution log sheet numbers are generated by software in sequence, minimizing the chance that numbers will be duplicated.

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Bus passes are distributed with an Incentive/Gift Card Distribution Log and tracked on the Incentive Log Sheet Tracking Spreadsheet. This procedure was implemented in April of 2015.

FINDINGS AND RECOMMENDATIONS FOR FAMILY PARTNERSHIP CENTER PROGRAM

A. Gift Card Inventory Levels

We noted excessive gift card inventory located at FPC that included 1,832 gift cards valued at approximately \$10,142. Based upon the program's historical usage, this inventory level equates to an approximate four-and-a-half year supply. In addition, the Department's gift card policy allows a two year supply which we also consider excessive and increases the risk for loss and theft.

Recommendation

We recommend that FPC immediately reduce their gift card inventory level to a three month supply by returning surplus gift cards to GSF for safekeeping and redistribution. The Department utilizes a daily courier system therefore implementation of this recommendation does not appear burdensome for program staff.

FPC Response

At the time this audit engagement was performed, the current gift card policy requiring no more than a three-month supply of inventory was not in effect. On January 29, 2015 FPC returned 2,120 gift cards valued at \$11,275 to Department GSF. On November 3, 2016 FPC returned 798 gift cards valued at \$3,405 to GSF. FPC's current inventory level is now within the three month supply limit. BHRS is in the process of updating the Department's gift card policy to comply with the new Auditor-Controller policy.

B. Gift Card Ordering

We noted that FPC ordered similar quantities of gift cards for consecutive years without consideration of existing inventory levels and an analysis was not performed of the program's need which contributed significantly to the excessive gift card inventories.

Recommendation

We recommend that FPC review and revise their procedures to ensure that gift card orders are necessary and based upon the program's short term need that would equate to a three to six month time period.

FPC Response

Going forward, FPC will assess current inventory levels before ordering additional gift card stock. FPC is in the process of documenting internal procedures to ensure compliance with this section.

C. Lack of Separation of Duties

We noted that the FPC gift card custodian performed the physical count and reconciliation of gift card inventories on a monthly basis as required by the Department's gift card policy; however, this resulted in a lack of separation of duties as the person responsible for maintaining custody of the gift cards was also performing the count and reconciliation.

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Recommendation

We recommend that FPC review and revise their procedures to ensure that an employee other than the gift card custodian perform the monthly count and reconciliation of gift card inventories. In addition, we recommend that the count and reconciliation be performed in the presence of the gift card custodian and that both employees sign and date the count sheets, evidencing performance and verification of inventory balances.

FPC Response

Going forward, an employee other than the gift card custodian will perform the monthly count and reconciliation of gift card inventories. This count will be performed in the presence of the gift card custodian and both employee will sign and date the count sheets. FPC is in the process of documenting internal procedures to comply with this section.

D. Reporting of Missing Gift Cards

We noted that 256 missing gift cards totaling \$1,330 were not identified or reported to the Department's Risk Management Division in a timely manner. In addition, the Department did not notify the Auditor-Controller of the loss as required by Government Code Section 29390. The missing cards were identified during the Department's internal review of gift cards, performed by accounting staff, and communicated to FPC on December 4, 2014, resulting in the completion of an Incident Report on January 5, 2015. The missing gift cards were originally issued to the FPC program in years 2010, 2012 and 2013. It is unknown at this time what happened to the missing cards and whether they were used as a County business purpose.

Recommendation

We recommend that FPC review and revise their procedures to ensure that monthly card counts are performed to identify missing cards and an evaluation performed to determine the use of these cards as well as controls that allowed the cards to become missing. Missing cards must be immediately documented on an Incident Report and forwarded to the Department's Risk Management Division and the Auditor-Controller.

FPC Response

Shortly after this audit engagement was performed, BHRS finalized and implemented a written policy as mentioned in the Scope and Methodology section of this audit report, on March 16, 2015, to implement safeguards in this area and minimize the risk of loss. The Department is pleased to report that during the most recent internal audit of inventory at FPC on November 3, 2016, all gift cards were accounted for.

Internal Audit Reports

**Internal Audit Division
Board of Supervisors Presentation
June 27, 2017**

Engagements

Audits performed in accordance with standards issued by the Institute of Internal Auditors (IIA)

Completed Audits

- 1 Incentive Gift Card Inventory & Handling Review
- 18 Purchasing Card Compliance Audits

Gift Card Engagement

Behavioral Health & Recovery Services uses vendor gift cards as client incentives and employee safety incentives

- Review limited to General Services/Facilities Division and Family Partnership Center program
- Reviewed for adequate safekeeping and appropriate handling and issuance

Gift Card Findings

- 1,832 gift cards valued at \$10,142 held by one program (4.5 year supply based on historical use)
- 256 missing gift cards totaling \$1,330 not identified or reported to management timely
- Gift cards not monitored adequately to ensure all cards accounted for and records complete
- Department policy allows for two year supply (recommend 3 month supply)

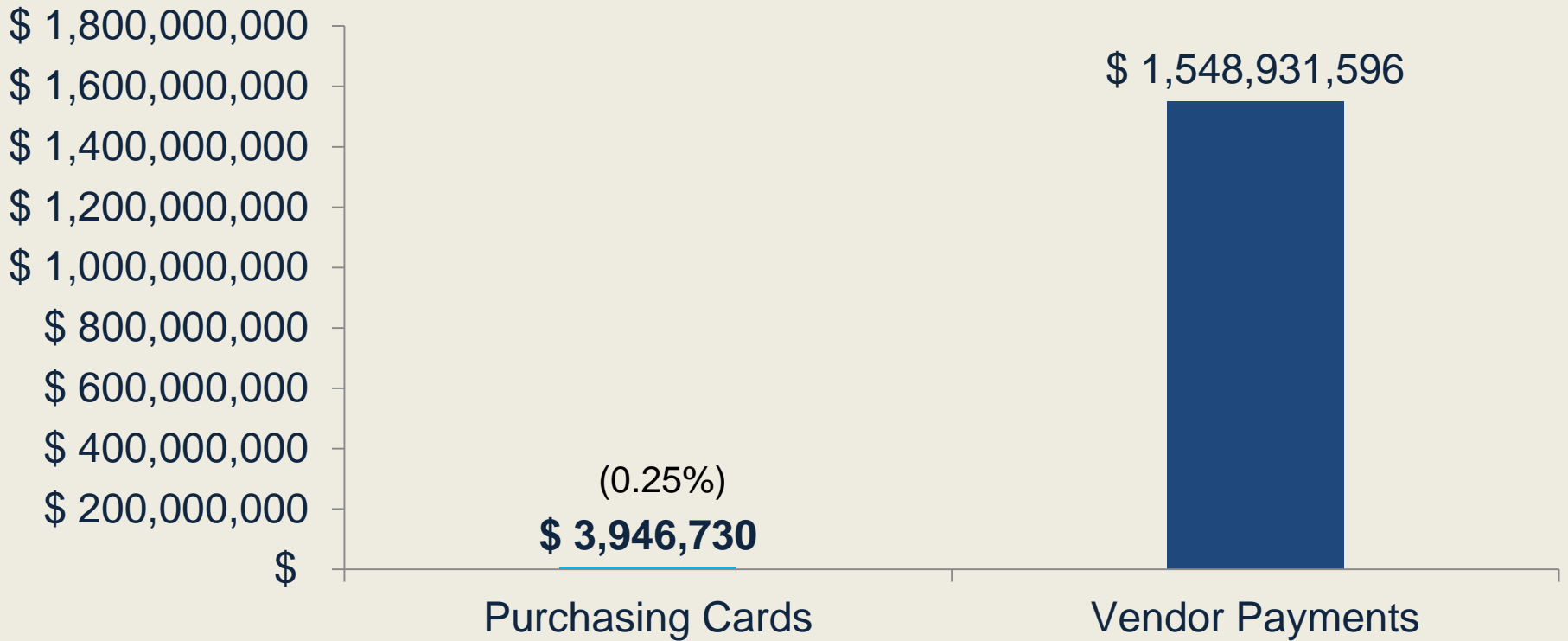
Gift Card Engagement Conclusion

Based upon our review, the Department should strengthen its internal controls over gift cards and other cash equivalent items.

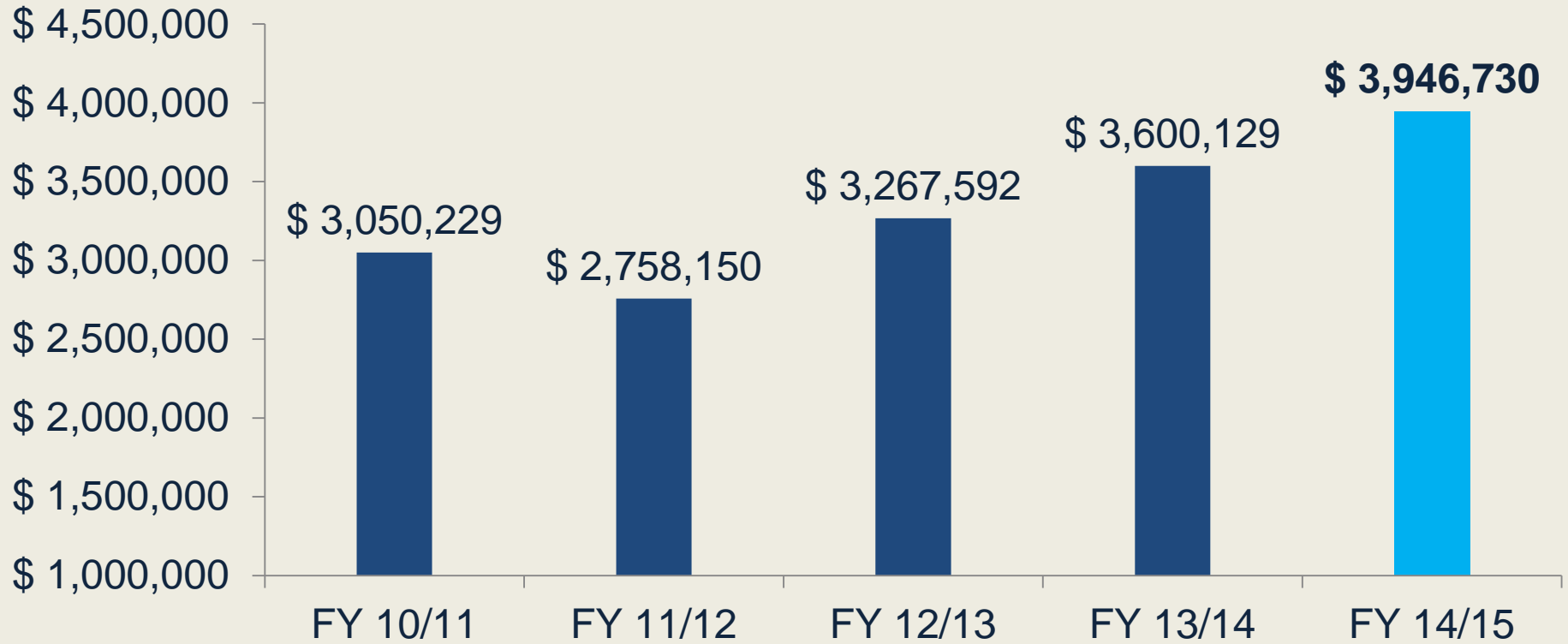
Purchasing Card Engagements

- 32 departments and related agencies utilize purchasing cards
- 18 purchasing card compliance audits were completed for period FY 14/15
- 8 out of 18 departments and related agencies had no significant findings or recommendations

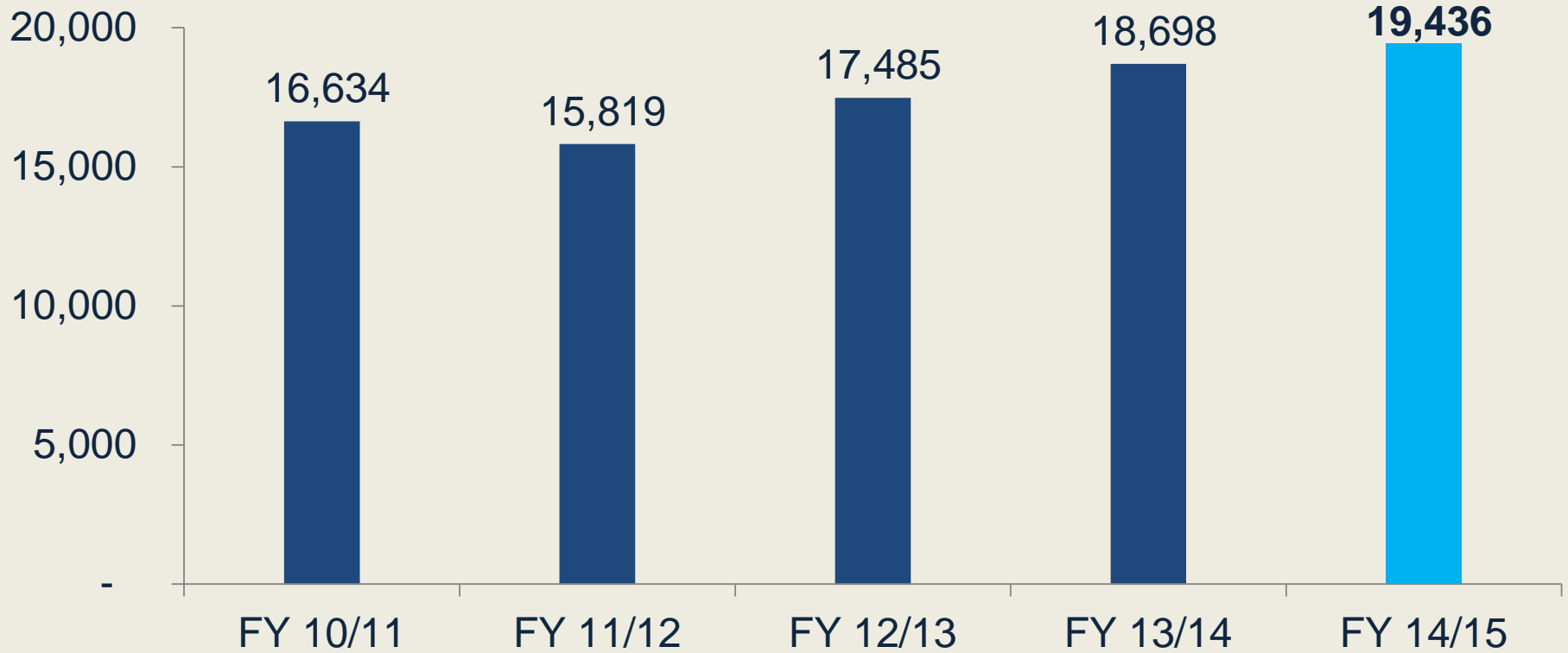
FY14/15 County Purchasing Activity



Total Purchasing Card Transactions (in Dollars)



Total Purchasing Card Transactions (in Numbers)



Purchasing Card Findings

- 23 Travel Authorization Forms not approved prior to travel related charges
- 13 monthly reconciliations not certified properly
- 12 personal charges (*all reimbursed to County*)
- 9 in-county meals without proper written approval

Purchasing Card Findings - continued

- 9 purchases in excess of \$5,000 without vendor quotes or sole source justification
- 8 monthly billing statements not reviewed by Department Head timely
- 4 items split between cardholders to avoid credit limits

Purchasing Card Engagement Conclusion

Overall, except for the findings reported, the departments chosen for testing were in compliance with the County Purchasing Card and Travel Policies.

Board Priority

The audit work performed by the Auditor-Controller's Office provides accountability to the Board of Supervisors and the public and is in alignment with the Board priority of ensuring Efficient Delivery of Public Services.

Board Approval

Staff requests approval of the Internal Audit Reports prepared by the Internal Audit Division of the Auditor-Controller's Office

Questions?