

County of San Bernardino

Auditor-Controller/Treasurer/Tax Collector
Internal Audits Section

Purchasing Department: Cal Card Program Administration Audit



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SUBJECT: PURCHASING CAL CARD PROGRAM ADMINISTRATION AUDIT

In compliance with Article V, Section 6, of the San Bernardino County Charter and County Policy 05-20 entitled Internal Operational Auditing, we have completed an audit of the Cal Card Program Administration for all active cardholders as of January 2016. The primary objective of the audit was to determine whether adequate controls are in place that govern the administration of procurement cards. We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

We identified several procedures and practices that could be improved. We have listed these areas for improvement in the Audit Findings and Recommendations section of this report.

We sent a draft report to the Department on August 15, 2016 and discussed our observations with management on September 6, 2016. The Department's responses to our recommendations are included in this report.

We would like to express our appreciation to the personnel at the Purchasing Department who assisted and cooperated with us during this engagement.

Respectfully submitted,

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Purchasing Department: Cal Card Program Administration Audit

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Summary of Audit Results

Our findings and recommendations are provided to assist management in improving internal controls and procedures relating to the Purchasing Department's Cal Card Program.

The table below summarizes the audit findings and recommendations for this audit engagement. For further discussion, refer to the *Audit Findings and Recommendations* section of this report.

Finding No.	Findings and Recommendations	Page No.
1	Finding: Purchasing Department personnel should perform their responsibilities in accordance with the Procurement Card Manual.	5
	Recommendation: We recommend that management strengthen its oversight over the administrative process by performing consistent, routine reviews, at least quarterly, of the duties performed by the personnel directly involved with the Cal Card program. The reviews of the Program Administrator's responsibilities would provide management with adequate assurance of the employees' compliance with the Procedures Manual.	
2	Finding: The guidelines established in the Procurement Card Manual are not consistently followed.	7
	Recommendation: We recommend that the Program Administrator ensures that CAO Analyst approval is obtained for credit limits exceeding the stated dollar thresholds, both when initially establishing the Cal Card account and requesting subsequent credit limit increases. We further recommend that the training facilitated by Program Administrator be expanded to include both the program participants and the Approving Officials.	



Finding No.	Findings and Recommendations	Page No.
3	Finding: The Procurement Card Program procedures should be clearly detailed in the Procurement Card Program Procedures Manual (Rev 10/09).	9
	Recommendation: We recommend that the County Program Administrator revise the Procedures Manual to clearly outline each critical aspect of the procurement card program. Furthermore, the Cal Card Committee should conduct an annual review of the procedures manual to determine if revisions are needed.	
4	Finding: Controls over safeguarding of the undistributed procurement cards need to be improved.	11
	Recommendation: We recommend that management improve safeguarding controls by changing the lock to the file cabinet where the undistributed procurement cards are stored when a Program Administrator is transferred, terminated, or assigned other duties. If there are no staffing changes, keys should be changed at least annually.	



Purchasing Cal Card Administration

The Procurement Card Program was established to accommodate County departments in transacting minimal dollar purchases for goods and services that do not exceed a pre-determined dollar limit. By implementing the purchasing card program, the County hoped to achieve efficiencies by simplifying purchases of inexpensive items. The ultimate advantage of the program is that departments are not required to undergo formal requisition through the Purchasing Department. The CalCard, the program's credit card, is a VISA card offered by U.S. Bank Government Services under the State of California's procurement card contract. As of January 2016, there were approximately 1,200 active Cal Cards assigned to County personnel.

Departments are solely responsible for purchases with procurement cards. The cardholders are required to report to the department's "Approving Official" who monitors each cardholder and certifies procurement card activity. It is critical for a formal review to be conducted to ensure that card purchases are acknowledged and controlled. In addition, if procurement card misuse is evident, the misuse can be detected and the appropriate action can be taken immediately when adequate controls are in place.



Scope and Objectives

Our audit examined the Purchasing Department's Cal Card administrative practices for all active cardholders as of January 2016. We conducted our fieldwork at the Purchasing Department. The objective of our audit was to determine whether adequate controls are in place that govern the administration of procurement cards.

Methodology

In achieving the audit objectives, the following evidence gathering and analysis techniques were used, including but not limited to:

- Reviewing the County's Procurement Card Program Procedures Manual (Rev 10/09).
- Interviewing Department personnel directly involved in the issuance, usage, and the cancellation of County procurement cards.
- Examining procurement card request applications, along with other relevant documentation to support credit limit increases.



Finding 1: Purchasing Department personnel should perform their responsibilities in accordance with the Procurement Card Manual.

The County's Program Administrator is primarily responsible for overseeing the administrative functions of the County's procurement card program. According to the Procurement Card Program Procedures Manual (Rev. 10/09) (Procedures Manual), the responsibilities of the County Program Administrator include, but are not limited to, the following:

- Providing Auditor-Controller/Treasurer/Tax Collector with a monthly report of canceled cards.
- Performing random audits of the department's procurement card files to ensure that cardholders are adhering to the County Purchasing policies and procedures.
- Reviewing quarterly reports such as vendor spend and declined transactions to look for patterns and/or possible violations of Purchasing policies and procedures.
- Ensuring and documenting destruction of unneeded and canceled cards.

Additionally, the Supervising Buyer, Analyst, or Administrative Supervisor of the Purchasing Department is required to review the duties performed by the County Program Administrator on a quarterly basis.

We identified several administrative functions that were not consistently performed by the Program Administrator, which included the following:

- The Program Administrator does not submit a monthly canceled card report to the Auditor-Controller's office. The last canceled card report was submitted to the Auditor-Controller's Office in October 2014.
- The Program Administrator does not perform periodic audits of the procurement card files to ensure that cardholders are adhering to the County's purchasing policies and procedures.
- The Program Administrator has not conducted a review of the quarterly reports, such as vendor spend and declined transactions, that are generated from the U.S. Bank website. Therefore, the required sanctions may not be imposed upon those cardholders that have violated the County's purchasing policies and procedures.



- The Program Administrator has not developed a practice for destroying canceled cards that have been returned to the Purchasing Department. Additionally, the Program Administrator accumulates returned Cal Cards without knowing if these particular cards have been deactivated. Furthermore, departments were returning canceled Cal Cards to the Purchasing Department without cutting them in half.

According to the Procedures Manual, the Program Administrator is required to fulfill various administrative and supportive functions, which include establishing all of the County's procurement card accounts, providing training to all cardholders, auditing the procurement card program for compliance purposes, and following up on any violations resulting from improper card usage. The numerous responsibilities of the Program Administrator require the assistance of other personnel. Furthermore, a supervisory-level review of the duties performed by the Program Administrator was not conducted on a quarterly basis to ensure the duties were sufficiently performed. Management cannot assure consistent compliance with policies and procedures among the staff if management does not improve its oversight function.

Recommendation:

We recommend that management strengthen its oversight over the administrative process by performing consistent, routine reviews, at least quarterly, of the duties performed by the personnel directly involved with the Cal Card program. The reviews of the Program Administrator's responsibilities would provide management with adequate assurance of the employees' compliance with the Procedures Manual.

Management's Response:

The Purchasing Department (Department) agrees with and has addressed this finding.

Procurement Card (P-Card) Program buyers report to a supervising buyer with whom quarterly review meetings are scheduled to ensure compliance with the CAL-Card Procedures Manual (Manual).

- For many years, the P-Card Program (Program) Administrator juggled a workload including assigned departments and Program responsibilities. With the addition of four buyer positions in the 2013-14 and 2014-15 budgets, the Department was able to assign a full-time buyer to administer the Program. The Department developed a comprehensive action plan in June 2015 just before this audit began.



The Board of Supervisors approved an additional buyer position in the 2015-16 Q1 Budget Report (November 2015) to supplement Program resources in the Department, and specifically to implement new initiative in the action plan. The second position was filled in August 2016.

- A Staff Analyst II in the Purchasing Department has tested and been credentialed as a Certified Procurement Card Professional (CPCP) by the National Association of Procurement Card Professionals (NAPCP) in August 2016, to assist Program staff in designing auditing protocols. Among numerous goals in the action plan, auditing transactions for policy compliance is a priority. Additional staff resources will enable Program staff to perform periodic transactional audits for compliance with purchasing policy and procedures.
- The Program Administrator has been submitting a monthly Cancelled Card Reports to the Auditor-Controller's Office since January 2016.
- The Department subscribed to the US Bank Payment Analytics Program in 2014, and with increased resources is able to prioritize review of bank reports such as the Vendor Merchant Spend and Declined Transactions reports to identify unusual patterns of activity on p-cards.
- The Department currently verifies deactivation of returned cards, including those from terminated employees.

Quarterly management reviews of administrative practices are being conducted with both staff recently hired to administer the Program.

Auditor's Response:

The Department's actions will correct the deficiencies noted in the finding.

Finding 2: The Department's Cal Card administrative practices need to be improved.

The Procurement Card Program Procedures Manual (Rev 10/09) (Procedures Manual) states that "if the single purchase limit exceeds \$3,000 or the 30-day dollar limit exceeds \$30,000 the additional approval of respective CAO analyst is required" to obtain a procurement card. The Procedures Manual also states that the Department Procurement Card Coordinator must return unneeded and canceled cards to the County Program Administrator.



Our testing of the 60 procurement cardholders and the related supporting documentation revealed that 31 cardholders required CAO Analyst approval. Of the 31 cardholders, 13 (42%) did not obtain CAO Analyst approval when the credit limit exceeded the stated dollar thresholds.

We also discovered an “active” Cal Card on the U.S. Bank list for a terminated employee. Since the Program Administrator was not notified of the employee’s termination by their Department Procurement Card Coordinator, U.S Bank was not instructed to close the terminated employee’s account in a timely manner.

The Program Administrator did not perform their due diligence procedures by ensuring that the required CAO approval was obtained for the stated credit limit. Also, the Department Procurement Card Coordinator neither informed the Program Administrator of the employee’s terminated status nor did they return the unneeded procurement card to the Program Administrator. If the guidelines in the Procedures Manual are not followed, the key controls developed for administering Cal Cards will not be effective.

Recommendation:

We recommend that the Program Administrator ensures that CAO Analyst approval is obtained for credit limits exceeding the stated dollar thresholds, both when initially establishing the Cal Card account and requesting subsequent credit limit increases. Management should develop a monitoring protocol that will include periodic reviews of the administrative procedures conducted by the Program Administrator.

We further recommend that the training facilitated by Program Administrator be expanded to include both the program participants and the Approving Officials. Enhancing program controls to include training for the Approving Officials will serve to strengthen compliance with program policies and procedures at the department level. Furthermore, the Procedures Manual should be amended to address the training requirements for the Approving Officials.

Management’s Response:

The Department has implemented the recommended practices in this finding.

- The Department consistently obtains Finance (CAO) Analyst written approval for all requests to increase a credit card limit. In the past, verbal approvals have been accepted under certain circumstances. Specific steps have been identified to document spending authority (ref. page 17, revised CAL-Card Manual):



ITEMS OVER \$3,000

For a permanent increase of the single purchase limit over \$3,000, including payments for utilities, written approval by a Finance Analyst on the Card Holder Request Form (Attachment E) is required.

For a temporary or one-time increase of the single purchase limit over \$3,000, the following steps must be taken:

- Step 1: Contact Approving Official, Finance Analyst and Program Administrator via email.
- Step 2: Explain in detail the purpose and total amount of the purchase.
- Step 3: Request Finance Analyst written approval for any one-time or temporary increase. For a temporary increase, include the beginning and end dates.
- Step 4: Upon receipt of written Finance Analyst approval, the Program Administrator will increase the cardholder limit with US Bank.

All steps must be completed prior to the cardholder making the purchase, and this practice applies to both initial and subsequent requests.

The Department currently provides training to all program participants upon issuance of a p-card. Per the action plan developed by the Department in 2015, training will be expanded to include Approving Officials by January 2017. Current cardholders will also be required to attend "refresher" training on a rotational basis beginning in January 2017. The Department plans to develop video and eLearning training options in the future to facilitate various ongoing training needs.

Auditor's Response:

The Department's actions and planned actions will correct the deficiencies noted in the finding.

Finding 3: The Procurement Card Program procedures should be clearly detailed in the Procurement Card Program Procedures Manual (Rev 10/09).

The County's Internal Control and Cash Manual on page 2-2 states that by establishing internal controls, management is provided with reasonable assurance that their objectives are being met in a supportive control



environment. An effective control environment includes the existence of policies and procedures.

Our audit work identified limitations within the Procurement Card Program Procedures Manual (Procedures Manual), which included the following:

- Credit limits exceeding \$3,000 require CAO Analyst approval. However, if the purpose of the higher limit is to pay for utilities, then the CAO Analyst approval is not required. The Procedures Manual does not include any verbiage regarding this specific exception.
- Cardholders frequently request temporary or permanent credit limit increases subsequent to their initial Cal Card applications. There are no procedural guidelines stipulated in the Procedures Manual for this particular process (i.e., completing the required forms, obtaining the appropriate levels of approval, etc.).

The County Program Administrator did not revise the Procedures Manual to encompass all program procedures that are commonly practiced by all program participants (i.e., Cal Card Committee, Program Administrator, Approving Officials, and cardholders). If the Procedures Manual does not address all key functions of the procurement card program, the staff may not adequately perform their assigned responsibilities.

Recommendation:

We recommend that the County Program Administrator revise the Procedures Manual to clearly outline each critical aspect of the procurement card program. Furthermore, the Cal Card Committee should conduct an annual review of the procedures manual to determine if revisions are needed.

Management's Response:

The Department does not agree with this finding, in that the Manual was recently updated and has been pending review and approval by members of the CAL-Card Committee. The update was completed in September 2015 and the expected publication date is January 2017. This audit began on July 1, 2015 and the updated Manual was not referenced in the audit that concluded in August 2016.

Updates have not been published annually due to limited resources, and staff has committed to initiate ongoing and/or annual updates to the Manual (for CAL-Card Committee approval) from January 2017 forward.



Auditor's Response:

The Procurement Card Program Procedures Manual used to evaluate the Cal Card transactions was the most recently published manual, as appropriate. As long as the newly updated manual is published and clearly outlines each critical aspect of the procurement card program, the Department's actions and planned actions will correct the deficiency noted in the finding.

Finding 4: Controls over safeguarding of the undistributed procurement cards need to be improved.

According to the Internal Controls and Cash Manual (ICCM), Chapter 3 – Cash Controls, County departments are instructed to change the combinations to the safe when an employee who has knowledge of the combination terminates County employment, is transferred to another County department, or is assigned to other duties. Even if there are no staffing changes, combinations must be changed annually. Since the ICCM allows cash to be stored in a safe or locked file cabinet, the cabinet lock should be changed in the same manner as a safe combination.

The Program Administrator is responsible for safeguarding the undistributed procurement cards. The common practice is to secure the cards in a locked file cabinet. The Department has experienced several personnel changes with regards to the Program Administrator. However, when the former Program Administrators vacated the position, management did not rekey the lock on the file cabinet where the undistributed procurement cards were stored.

Management did not enforce the safeguarding guidelines set forth in the ICCM for cash-equivalent assets. Inadequate internal controls serve as a catalyst for misappropriation or theft, thereby increasing the risk of procurement card misuse.

Recommendation:

We recommend that management improve safeguarding controls by changing the lock to the file cabinet where the undistributed procurement cards are stored when a Program Administrator is transferred, terminated, or assigned other duties. If there are no staffing changes, keys should be changed at least annually.



Management's Response:

The Department agrees and is obtaining quotes for a safe. All undistributed CAL-Cards will be secured in the safe versus a locked filing cabinet. This will enable controlled access by changing the lock combination when staff or assignment changes occur, or at least annually as required by the Manual.

Auditor's Response:

The Department's planned actions will correct the deficiency noted in the finding.