

County of San Bernardino

Auditor-Controller/Treasurer/Tax Collector
Internal Audits Section

Transitional Assistance

Department:

CalCard Compliance Audit



Larry Walker

Auditor-Controller/Treasurer/Tax Collector

222 West Hospitality Lane
San Bernardino, CA 92415-0018
(909) 386-8821

Website: www.sbcounty.gov/atc

Fraud, Waste & Abuse Hotline: (800) 547-9540

Auditor-Controller/Treasurer/Tax Collector

Mission Statement

The San Bernardino County Auditor-Controller's Office is committed to serving our customers by processing, safeguarding, and providing information regarding the finances and public records of the County. We perform these functions with integrity, independent judgment, and outstanding service. We are accurate, timely, courteous, innovative, and efficient because of our well-trained and accountable staff.

Audit Team

Denise Mejico
Chief Deputy Auditor

Mary Barber, CPA
Internal Audits Manager

Denise Lassiter
Internal Auditor III

Deborah Buckingham, CPA
Internal Auditor III

AUDITOR-CONTROLLER/ TREASURER/TAX COLLECTOR



COUNTY OF SAN BERNARDINO

222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

172 West Third Street, First Floor
San Bernardino, CA 92415-0360 • (909) 387-8308 • Fax (909) 387-6716

LARRY WALKER
Auditor-Controller/
Treasurer/Tax Collector

November 4, 2014

Nancy Swanson, Director

Transitional Assistance Department
860 E. Brier Drive
San Bernardino, CA 92415-0520

SUBJECT: Audit of the Transitional Assistance Department's CalCard Process

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 Transitional Assistance Department's CalCard process for the period of July 2012 through May 2013. The primary objective of the audit was to determine whether CalCard purchases were supported by at least three quotes as required by the Procurement Card Program Procedure Manual or that justification for noncompetitive procurement was maintained by the Department. We also reviewed for compliance with the Human Services policy that requires use of the least expensive mode of transportation. 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 July 28, 2014 and discussed our observations with management on August 11, 2014. The Department's responses to our recommendations are included in this report.

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

Respectfully submitted,

Larry Walker

Auditor-Controller/Treasurer/Tax Collector
San Bernardino County

By: 

Denise Mejico
Chief Deputy Auditor

Enclosure

Distribution of Audit Report:

- Robert Lovingood, 1st District Supervisor
- Janice Rutherford, Chair, 2nd District Supervisor
- James Ramos, 3rd District Supervisor
- Gary Ovitt, Vice Chair, 4th District Supervisor
- Josie Gonzales, 5th District Supervisor
- Gregory C. Devereaux, County Executive Officer
- Grand Jury, Foreperson (2)
- Auditor-Controller Audit Committee

Date Report Distributed: 11/4/14

LDW:DLM:DML:oac



Transitional Assistance Department: CalCard Compliance Audit

Executive Summary	1
Audit Background, Scope, Objectives, and Methodology	2-3
Audit Findings and Recommendations	4-6



Summary of Audit Results

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	<p>Finding:</p> <p>The Department did not always use the least expensive mode of transportation.</p>	4
	<p>Recommendation:</p> <p>The Department should select travel arrangements based on the best value to the County.</p>	
2	<p>Finding:</p> <p>The Department did not maintain either documentation to show a competitive process was used or justification for non-competitive procurement.</p>	5
	<p>Recommendation:</p> <p>The Department should document three quotes for CalCard purchases, as appropriate, or maintain justification for noncompetitive procurement.</p>	
3	<p>Finding:</p> <p>Credit card numbers were not safeguarded.</p>	5
	<p>Recommendation:</p> <p>The Department should not use the full 16 digit card numbers on forms and supporting documentation.</p>	



Background

The Transitional Assistance Department (TAD) is the County agency that is responsible for administering Public Assistance programs for the eligible residents of San Bernardino County. The Department uses CalCards to pay for travel-related expenses.

Southwest Airlines® has three rates available for each flight: Business Select®, Anytime, and Wanna Get Away®. Business Select® is priced the highest, the ticket is refundable, offers 12 Reward Points per dollar spent, includes a complimentary premium drink during the flight, and priority boarding and security lanes. Anytime fares are priced in the middle, the ticket is refundable, and offers 10 Reward Points per dollar spent. Wanna Get Away® fares are priced lowest; tickets that are cancelled can be applied to future travel within 12 months and offer 6 Reward Points per dollar spent.

To earn A-List Preferred Member status, the Reward Member must purchase 50 qualifying one-way flights or earn 70,000 Tier Qualifying Points in a calendar year. A-List Preferred Members earn double points on every Southwest Airlines® flight flown. The cost to purchase one Reward Point is \$0.0275. To earn a Companion Pass, one must take 100 qualifying one-way flights or earn 110,000 Qualifying Points in a calendar year. A Companion Member Pass entitles the holder to travel with the Companion for an entire year, paying \$5.60 per one-way trip and any additional tax liability.

Scope and Objectives

Our overall objective was to determine whether CalCard purchases made by the Transitional Assistance Department (TAD) were supported by at least three quotes or that written justification for non-competitive procurement was maintained by the department as required by the Procurement Card Program Procedure Manual (Procurement Card Manual). We also reviewed for compliance with the Human Services (HS) policy that requires use of the least expensive mode of transportation. We reviewed the department's documentation for a sample of CalCard charges made from July 2012 through May 2013.



Methodology

Our audit included reviewing the Procurement Card Manual and the Human Services (HS) Policy and Standard Practice Manual related to the use of credit cards and travel. We also interviewed some of the TAD and HS staff directly involved in the CalCard use and payment processes to gain an understanding of how CalCards are used and what backup documentation is kept at the department.

We selected a sample of CalCard transactions for the audit period and reviewed the department's supporting documentation for compliance with the Procurement Card Manual and the HS Policy.



Finding 1: The Department did not always use the least expensive mode of transportation.

The HS Policy and Standard Practice Manual states in section 3-2 (page 2 of 7) and 3-2 SP (page 3 of 11) "All HS employees must read the HS Policy and Standard Practice Manual regarding travel. Travel arrangements are to be made at least one month in advance of travel whenever possible. The least expensive mode of travel is to be utilized... HS policy requires that the selected mode of transportation is the mode which represents the lowest cost to the County".

At least one employee routinely purchased Anytime and Business Select airline tickets through Southwest instead of the Wanna Get Away® fares. When purchased even a few days in advance, the Wanna Get Away® fares are a significant savings to the County. Purchasing the Anytime and Business Select instead of the Wanna Get Away® fares substantially increases the amount of reward points earned.

One employee had approximately \$4,788 in Anytime fares and \$4,881 in Business Select fares during the audit period. Based on the receipts, the employee is likely an A-List Preferred Member, and could have potentially earned 212,530 points. It would cost that same employee \$5,844 to purchase these points. The points earned by this employee qualified the employee to earn a Companion Member Pass, allowing them to name a companion to travel for an entire year for approximately \$5.60 per one-way flight, plus additional tax liability. Auditors did not find any evidence of Department staff using reward points to pay for County related travel.

Department staff has been instructed to purchase Anytime fares for some of the staff because they are refundable. In the case noted above, the employee travels frequently, and although the Wanna Get Away® would not be refundable, it could easily be transferred to another flight within 12 months of the original travel date. We also noted that there weren't any flights cancelled for the employee mentioned above during the audit period. The Anytime fares being purchased are more than twice the cost of the Wanna Get Away® fares.

The Department is not ensuring the best use of taxpayer funds when electing to purchase airline tickets at the Anytime rate.

Recommendation:

We recommend that TAD ensures travel arrangements and purchases are selected based on what is the best value for the Department and County overall.



Management's Response:

The employee who routinely purchased Business Select airline tickets through Southwest always reimbursed the county the difference in cost between the Anytime fare and the Business Select fare by submitting a personal check with the procurement package to HS Administrative Support Division finance/fiscal for processing. This was not noted in the findings above.

TAD will ensure that when airline ticket purchases are made, that the best value for the department and County overall is selected with regards to flight availability and need.

Auditor's Response:

While reviewing a sample of transactions, Auditors saw documentation that the employee who purchased Business Select airline tickets did reimburse the County for the difference in cost between the Anytime fare and the Business Select fare. However, employees who routinely travel should purchase the Wanna Get Away® fare when available. When a higher fare is selected without adequate justification, the employee should reimburse the County the difference in cost between the Wanna Get Away® fare and the higher fare selected.

Finding 2: Procurement Processes when using CalCards should be improved.

The Procurement Card Manual states on page 2 "As with any purchase, at least three (3) competitive quotes should be obtained. A record of the quotes should be maintained by the department."

We reviewed 92 procurement card transactions. The Department did not obtain three quotes for any of the transactions reviewed because they did not believe it was required for travel-related expenses. The risk of the County not obtaining the best value for each dollar expended is increased when Purchasing policies are not followed.

Recommendation:

Management should ensure staff follows the policies within the Procurement Card Manual, specifically by obtaining three quotes for CalCard purchases, as appropriate, and maintaining justification for non-competitive procurements.



Management's Response:

TAD management will ensure that staff is aware and understands the Procurement Card Program Use Policy of always obtaining three (3) quotes and maintaining the justification for non-competitive procurements such as airline travel and hotel stays and the records of the quotes will be maintained by the department.

TAD travel accommodations are reserved and booked with consideration to where and when the meetings are taking place. In an effort to reduce the cost and/or need for a rental car, the department may book a hotel with a slightly higher room rate, but is negated because the meeting is within walking distance of the hotel; hence no rental car is needed, saving the county money. The department will keep a record of the airline quotes, i.e., Southwest, Expedia.com, and a record of the local hotel quotes with a brief justification written on the printout as to why the specific airline flight was booked and the specific hotel was chosen.

Auditor's Response:

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

Finding 3: Credit card numbers were not safeguarded.

The Procurement Card Manual states on page 8 that the cardholder is responsible to, "Ensure the card is secure from theft/misuse." The U.S. Bank CalCard Cardholder Guide, page 4 states, "Maintain card security to prevent unauthorized charges against your account." In an email from the Purchasing Department to Approving Officials, with the subject of: Attachment I, Procurement Card Receipts, dated March 15, 2013, the example self-inking stamp shows only the last 4 digits of the credit card. TAD employees include their whole Visa Card Number on the Cardholder Procurement Card Payment Package Cover Sheet. This sheet is stapled to the top of each statement. Additionally, TAD employees use a stamp with the full account number preprinted on it to stamp invoices paid with CalCards. The CalCard statements and related back up are kept on shelves in an open supply/file room giving staff access to card information and account numbers. By not safeguarding the credit card number, TAD runs the risk of unauthorized charges.

Recommendation:



The Department should not use the full account number on documentation and should destroy and replace all self-inking stamps containing the full account number.

Management's Response:

TAD will discontinue stamping, pre-printing, or writing the entire Visa Card Number on the Cardholder Procurement Payment Package and Cover Sheet immediately. TAD will only use the last 4 digits of the Visa Card Number on all Procurement correspondence. TAD will ensure that the CalCard Visa Statement from US Bank has the Visa Card Number redacted except for the last four digits on this statement and all documentation containing the Visa Card Number, including when submitting the procurement package and cover sheet.

The Cal Card statements and related back up are kept on shelves in an open supply/file room at HS Administration giving staff access to card information and account numbers. Only authorized personnel are permitted to enter that area. TAD will ensure that any Procurement Packages sent to HS Administration for processing have the Visa Card number redacted, except for the last 4, to safeguard the credit card number and reduce the risk of unauthorized charges.

TAD Administration will ensure that all backup documentation kept on site for procurement packages are secured and locked and will redact the Visa Card Number, except for the last 4 digits, on all documentation containing the Visa Card number.

Auditor's Response:

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