

Sonoma County

Auditor-Controller-Treasurer-Tax Collector

**Internal Audit:
Sonoma County
2nd CAL-Card Follow-up**

Original Report Dated
December 2013

Engagement No: 3108 Report
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Executive Summary

As part of the 2021/22 Annual Audit Plan, the Internal Audit Division (IAD) of the Sonoma County Auditor-Controller-Treasurer-Tax Collector's (ACTTC) Office conducted a second follow-up audit of the CAL-Card Program Countywide Audit report. The audit was issued in December 2013, and the first follow up audit was issued in May 2016. The original report contained thirteen recommendations which were accepted by management. For the purposes of this report management includes the department heads and executive staff of the Auditor-Controller-Treasurer-Tax Collector, County Administrator, General Services and Sonoma Public Infrastructure (SPI).

As of the date of this second follow up, management has implemented nine and partially implemented one out of the thirteen recommendations contained in our original report. SPI management is in the process of implementing recommendations #10 and #11, recommendation #13 has not been implemented. IAD continues to recommend that ACTTC management implement recommendation #13. The status of the seven recommendations (#'s 5,6,7,10,11,12,13) that were the subject of this follow-up, are included in this report beginning on page 3.

Summary of Recommendation Implementation Status:

<u>Recommendation Number(s)</u>	<u>Status</u>
1, 2, 3, 4, 6, 7, 8, 9, 12	Implemented
5	Partially Implemented
10, 11	In Process
13	Not Implemented

Background, Objective, Scope, Methodology and Staff Acknowledgement

Background

In February of 2013, the Sonoma County (County) Board of Supervisors adopted the CAL-Card review plan which required the County Administrator, the County Auditor-Controller Treasurer-Tax Collector (ACTTC), and the General Services Department (GS) to implement an action plan to ensure continued compliance with County policies and the effectiveness of the CAL-Card program. On August 2, 2022 the Board of Supervisors approved the consolidation of the Transportation and Public Works and General Services Departments. The newly formed department, Sonoma County Public Infrastructure (SPI), will be taking over responsibility for implementing recommendations that were previously handled by General Services. Our initial audit report dated December 2013 was part of that plan and covered CAL-Card purchase transactions from July 1, 2010 – June 30, 2012. Our primary objectives were to determine if:

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

A follow up audit was completed in May 2016, where it was identified that five of the thirteen recommendations were still in process or not implemented.

Objective, Scope and Methodology

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

Our procedures were limited to reviewing evidence supporting actions taken by GS – Purchasing, the County Administrator’s Office and the ACTTC, towards implementation of the report recommendations. We reviewed GS - Purchasing CAL-Card records and conducted interviews with management of GS and ACTTC. Where available, we reviewed documentation supporting implementation of recommendations stated as implemented by GS.

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

Staff Acknowledgement

We would like to thank GS and ACTTC staff for their helpfulness and cooperation in conducting this follow-up audit. If you have any further questions regarding this report, please contact Damian Gonshorowski at (707) 565-8309.

Implementation Status of Recommendations

The following is the status of recommendations that were not fully implemented as of our first follow-up audit. Each recommendation number below is referenced to the original audit report.

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

Current Status: Partially Implemented:

General Services and the ACTTC implemented additional documentation requirements for CAL-Card claims in July 2014, including a requirement to provide itemized receipts, and specific requirements for justifying in County meal purchases. Three primary areas for improvements were identified in the first audit:

- 1) Meal allowance rates
- 2) Justification for business meals
- 3) Proper support for claims submitted

The additional documentation requirements for CAL-Card claims covers, among other things, meals purchased using the CAL-Card, however reimbursements for meals purchased using a personal credit card are covered by the Policy for Travel and Meal Reimbursements. The Policy for Travel and Meal Reimbursements has not been updated since 2007, as a result the County will continue to reimburse higher amounts for meals than other comparable entities.

The Travel and Meal Reimbursement Policy is an administrative policy, responsibility for updating this policy resides with the County Administrator's Office. Internal Audit continues to recommend that the County Administrator and the ACTTC management fully implement this recommendation.

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

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

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

Current Status: Implemented:

Written procedures for risk-based auditing have been developed and staff have been trained in the new procedures. The ACTTC implemented a risk-based approach for its review of accounts payable transactions on 7/1/15, additional risk-based review procedures for CAL-Card claims were implemented effective 10/1/15.

Implementation Status of Recommendations

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

Current Status: Implemented:

In January and July of each year, Purchasing emails each department's billing official a list of active CAL-Cards. The billing officials are required to confirm that there is a continued business need for the CAL-Card, if not the CAL-Card will be deactivated. Purchasing follows up with department billing officials who do not respond to their request. In addition, US Bank automatically purges any card that hasn't been used for a year. Purchasing reviews spend limits upon request of the cardholder or their management and adjusts as necessary.

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

Current Status: In Process:

SPI management is adding requirements to the CAL-Card policy for Approving Officials to ensure that CAL-Card purchases for BPO eligible transactions do not exceed the BPO pricing. Transactions exceeding BPO pricing will be reported to department management and Purchasing. The change is scheduled to be effective February 2023. The Purchasing Agent has advised us that the purchasing division has the following process in place to reduce the risk that a CAL-Card is used for items covered by BPOs, resulting in lost discounts or other benefits:

- Monthly, Purchasing posts an updated, searchable listing of current BPOs and available commodities to the Purchasing intranet. This list can be accessed by all County staff.

Audit Division Position:

The above procedures that SPI management is in the process of implementing should be sufficient to address the findings and recommendation from the original audit report.

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

Current Status: In Process:

The new requirements under recommendation No.10 will identify transactions exceeding BPO pricing affording Purchasing the opportunity to negotiate pricing with suppliers to provide appropriate discounts. Purchasing will maintain a repository identifying items covered under BPOs and avoid using CAL-Cards for the purchases that exceed BPO pricing.

Audit Division Position:

The above procedures that SPI management is in the process of implementing should be sufficient to address the findings and recommendation from the original audit report.

Implementation Status of Recommendations

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

Current Status: Implemented:

On an ad hoc basis Buyers and managers identify CAL-Card eligible purchases when reviewing EFS transactions and work with departments to see if a CAL-Card can be used as method of payment. Purchasing is using a “ghost” CAL-Card account to pay for recurring expenses such as electricity, refuse and recycling services, City of Santa Rosa water, and fuel for the Sheriff’s helicopter.

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

Current Status: Not Implemented:

We were unable to obtain documentation of an exploration or evaluation of purchasing card features. The County piggybacks on the State of California’s cooperative agreement with US Bank, that agreement ends December 31, 2025. A preliminary exploration of the feasibility of issuing an RFP for a P-Card program was done in 2016/17, however no RFP was issued. Purchasing is planning to release an RFP in fiscal year 2023/2024.

In 2014 EFS management explored the feasibility of automating the process to enter CAL-Card expense data. Automation between EFS and US Bank was briefly implemented for two months, but the information US Bank provided was not to the detailed level that EFS needed. A business decision was made to pull the interface and to have the Departments continue to enter the information manually.

Until this recommendation is implemented, the County is missing an opportunity for saving staff time by automating routine data entry processes. This feature of purchasing cards is widely used and is considered a best practice.

Internal Audit recommends that ACTTC management continue to explore automating CAL-Card transaction entries and reconciliations.