

County of Napa

Auditor-Controller

Internal Audit Report

County-Wide Audit Procurement Card (P-Card) Program

For the Period of January 1, 2024 – June 30, 2024

Report Date: August 30, 2024



A Tradition of Stewardship
A Commitment to Service

Tracy A. Schulze, CPA
Auditor-Controller

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A Tradition of Stewardship
A Commitment to Service

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Tracy A. Schulze
Auditor-Controller

August 30, 2024

To the Board of Supervisors
Napa County, CA

Executive Summary

The internal audit section of the Napa County Auditor-Controller's Office has completed a county-wide audit of Napa County's Procurement Card (P-Card) Program for the period of January 1, 2024 – June 30, 2024.

Internal Audit conducted the audit in conformance with the *Global Internal Audit Standards (Standards)* established by the Institute of Internal Auditors. These *Standards* require that we identify, analyze, evaluate, and document sufficient information and evidence to achieve our objectives; and that the internal audit activity be independent, objective, and perform engagements with proficiency and due professional care.

The primary objectives of this engagement were to review Napa County's Procurement Card usage for compliance with the County's Purchasing Policy, as approved by the Board of Supervisors in 2024, and to evaluate the administration of the Program for adequate internal controls. Based on Internal Audit's review, we believe that overall, P-Card usage does comply with the County's P-Card procedures. However, we found three instances of non-compliance with the County Purchasing Policy and have included those in this report.

This report is a matter of public record and is intended solely for the information and use of Napa County's Board of Supervisors, County Executive Officer, Purchasing Manager, and individual cardholders. I want to thank the Purchasing Manager and cardholders for their assistance and professionalism in conducting this engagement.

Sincerely,

A handwritten signature in blue ink that reads "Tracy A. Schulze".

Tracy A. Schulze, CPA
Auditor-Controller

County-Wide Audit
Procurement Card (P-Card) Program
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Background and Authority

CAL-Card is the registered name of the State of California’s Purchase Card Program (P-Card). CAL-Card is a VISA purchase card provided by a State of California leveraged procurement agreement (LPA) and offered to participating state and local government agencies. CAL-Card provides a flexible payment mechanism for the acquisition of goods and services with flexible spending limits and merchant category codes (MCC) for each card. Cards are issued in the name of the cardholder and billed to the agency.

On February 10, 2015, the Board of Supervisors adopted Board Resolution No. 2015-13, authorizing the P-Card Program. The Purchasing Agent is the County Executive Officer, who has designated the Purchasing Manager as the Program Coordinator. The Program Coordinator is responsible for overall administration of the P-Card Program. The Auditor-Controller is responsible for monitoring and auditing all activity of the P-Card Program to ensure no violations of the State or County Purchase Card policies exist.

The Purchase Card Program is intended to facilitate the acquisition of goods and travel-related services necessary for accomplishing the County’s goals and objectives of automation and streamlining processes. The Card itself is issued to individual employees, who have been designated by the County and may only use it for the type of purchases authorized by the Board of Supervisors. Several unique controls have been developed for the P-Card Program to ensure that P-Cards can be used only for specific categories of purchases (i.e., MCC) and within specific dollar limits. Through U.S. Bank, there are enhanced controls and data reporting tools available that enable the County to streamline the traditional paper and labor-intensive procurement process. The P-Card Program allows the County to efficiently purchase authorized items directly without the necessity of preparing individual purchase requisitions and processing individual receiving reports for each transaction.

Objectives and Scope

The primary objectives of this engagement were to review Procurement Card usage for compliance with the State and County’s Purchasing Policy and P-Card procedures and to evaluate the administration of the program for adequate internal controls. The scope included a review of transactions and related document files for the period of January 1, 2024 – June 30, 2024.

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Procedures

To accomplish the audit objectives, the procedures included, but were not limited to, the following:

- Engaged with Cardholders, Accounting Staff and Purchasing Manager to evaluate the administration of the P-Card Program.
- Reviewed the County's Purchasing Policy and P-Card procedures, and the County Travel Policy.
- Conducted a walk-through of P-Card transactions to identify any changes in key controls.
- Reviewed P-Card holders' profiles within the US Bank system to ensure spending and merchant category codes, including limits, were properly supported, and authorized.
- Verified P-Cards were properly terminated or placed on hold, if applicable.
- Reviewed declined P-Card purchase transactions to ensure controls were functioning properly.
- Reviewed sampled P-Card expenditures to ensure compliance with the County's Purchasing Policy and P-Card procedures, and the County Travel Policy.
- Sampled transactions were also tested against employee expense claims for potential duplication of payments.

Results

As of June 30, 2024 there were 17 active P-Cards utilized by County employees.

Per US Bank reports, there were 772 approved transactions for the six-month period totaling \$261,141. A detailed breakdown of the overall spending is provided in the Top Spending by Merchant Category (**Exhibit A**). The largest volume of expenditures was for hotels and business expenses as shown in the Top 10 Merchants chart (**Exhibit B**). Additionally, a breakdown of spending by Department is also included (**Exhibit C**).

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Results (continued)

Multiple P-Card transactions were tested for each active cardholder and verified that they were in compliance with the County's P-Card procedures.

245 attempted transactions were declined due to US Bank's internal controls. 73% of declined transactions were for "Unapproved Merchant Category Code". This occurs when the cardholder has not been approved to utilize a specific merchant code, or when an external attempt is made to use the card number for a purchase and the merchant code is not assigned to that card number.

For those cardholders with more than 25 declined transactions during the 6-month review, the cardholder was asked to confirm whether these were attempted by the cardholder or attempted by an external party. If it was a recurring attempt by a vendor, the cardholder was asked to contact the vendor to resolve the issue.

Conclusion

Internal audit sampled P-Card transactions for each cardholder and related documentation to ensure cardholders' compliance with current policies and procedures, and to determine if adequate internal controls are in place and operating as designed. Based on the audit, we believe that overall, P-Card usage does comply with the Purchasing Policy for the Procurement Card.

The P-Card procedures do not supersede County policies and it is the role of the Auditor-Controller to audit *"all activity of the P-Card Program, ensuring no violations of the County policies and procedures exist"*. Therefore, we are including three findings of non-compliance with the County Purchasing Policy for the Procurement Card.

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Napa County Purchasing Policy: Section 11. Purchasing Card (P-Card)

Section:

- a. **11-3.1:** *The Card Holder is responsible for keeping the P-Card secure.*
- b. **11-4.2:** *Only the Card Holder may use this card and the P-Card must not be used for personal purchases.*
- c. **11-4.4:** *Intentional use of the P-Card for other than Official Use Only will be considered an attempt to commit fraud against the County.
Any unintentional misuse of the card is the employee's responsibility and will result in the immediate termination of the Card Holder's assigned card.*

Finding # 1

On April 2, 2024 a transaction for \$480.19 was charged to a department's P-Card by an unauthorized user without the knowledge of the cardholder. The card was left in an unsecured location and used in the cardholder's absence. (*Section 11-3.1 & 11-4.2*)

Finding # 2

Cardholder made a personal purchase on April 23, 2024 online through his personal eBay account. After reviewing the US Bank Statement for the P-Card, he became aware that the P-Card was the card on file with eBay, and not his personal card. The cardholder immediately reported the error to the ACO and reimbursed the agency. (*Section 11-4.2 & 11-4.*)

Finding # 3

Cardholder booked flights and conference registration for the spouse of the Department Head. This transaction is considered personal use and is non-compliant with the policy. The Department Head reimbursed the County; however, this was the second occurrence and the second finding for the same use of the P-Card by this department. (*Section 11-4.4*)

Recommendation

Cardholders are responsible for all transactions and should familiarize themselves with the County Travel Policy and the County Purchasing Policy, Section 11 when uncertain as to whether a transaction is considered official business or personal. If the purchase does not fall under *Official Use Only*, then the requestor should make the purchase using their personal credit card.

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Recommendation (continued)

Cardholders should exercise due diligence to ensure that vendors do not save the P-card information for additional transactions except when it is a recurring subscription payment authorized by the Department Head.

In each of these three findings the cardholder and/or the Department Head were notified of the non-compliance with Napa County Purchasing Policy for the P-Card. Future violations by the same cardholder or department will be reported to the County Purchasing Agent (CEO), and may result in the termination of the P-Card.

Observation

As part of our procedures, we review the Cardholder monthly reconciliations of the US Bank statement of activity and the backup documentation provided to support the purchases. As per Exhibit A, spending for Hotels and Airlines represented just under \$121,000 during this review period.

We continue to see flight and hotel receipts with no notations indicating why these expenditures were necessary, such as a notation of *“attending CSAC conference 8/1-8/4/2024”*. Confidential information should be redacted from these receipts. The County Travel Policy requires an approval by the Department Head/Designee for any employee travel. That approval email should also be included in the backup documentation.

As per Exhibit A, spending for Restaurants and Food Services represented \$14,000 during this review period.

Restaurant and grocery store receipts also had no explanation on the receipt to indicate purpose of the purchase. These receipts should have a notation which indicates the reason or use of the purchased foods, such as *“Closed session working lunch for BOS.”*; *“OES standup 10/2-10/6/2023”*; *“Shelter Thanksgiving meals”*.

Recommendation

Internal Audit recommends that backup documentation be provided for every purchase which would demonstrate the legitimacy and transparency of all expenditures of County, State, and Federal funds. As per the County Travel Policy Section XIII *“All County expenditures are public records subject to disclosure under the Public Records Act and other laws”*. Department Head/Designee approving the P-Card reconciliations each month should confirm that all backup documentation is provided and complete.

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Exhibit A

**Top Spending by Merchant Category
January 1, 2024 – June 30, 2024**

<u>Merchant Category</u>	<u>Total Spend</u>	<u>Percentage</u>
Hotels ¹	\$ 97,684	37.41%
Business Expense ²	68,430	26.20%
Office Services ³	25,363	9.71%
Airline ⁴	23,009	8.81%
Wholesale Trade ⁵	17,270	6.61%
Restaurants/Food ⁶	13,999	5.36%
Other ⁷⁻¹²	15,386	5.89%
Total \$	261,141	100.00%

Source: USBank

Definitions of Merchant Categories

¹ Hotels for Conferences and Trainings

² Memberships, Cable Services, Charitable and Social Services, Education and Trade School Expenses, Political Organizations

³ Advertising, Information Retrieval Services, Employment Agencies, Continuity Subscriptions

⁴ Flights to Attend Conferences and Trainings

⁵ Discount Stores (Wal-Mart, Costco), Wholesale Books and Magazines, Office Supplies

⁶ Restaurants/Food Services - including for shelters

⁷ Artists Supply and Crafts, Dropbox Services, Theaters, Domain Hosting

⁸ Conferences and Training

⁹ Stationery Stores/Supplies, Computer Software Stores

¹⁰ Trains and Ground Transportation

¹¹ Tolls and Bridge Fees

¹² Office Depot Mail/Phone

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**Exhibit B
Top 10 Merchants by Spend
January 1, 2024 – June 30, 2024**

<u>Merchant Name</u>		<u>Total Spend</u>	<u>Percentage</u>
Stanislaus County Sheriff ⁶	\$	8,700	13.89%
Southwest Airlines ¹		8,250	13.17%
The Webstaurant Store Inc. ⁸		6,907	11.03%
Hampton Inn Windsor ⁵		6,429	10.26%
Hilton Internationals ⁵		6,064	9.68%
Drury Inns ⁵		5,922	9.45%
California District Attorney ²		5,698	9.10%
Thompson Washington DC ²		5,313	8.48%
Hampton Inn Queen Creek ⁵		5,115	8.17%
4Imprint, Inc. ⁶		4,237	6.76%
Total	\$	62,635	99.99%

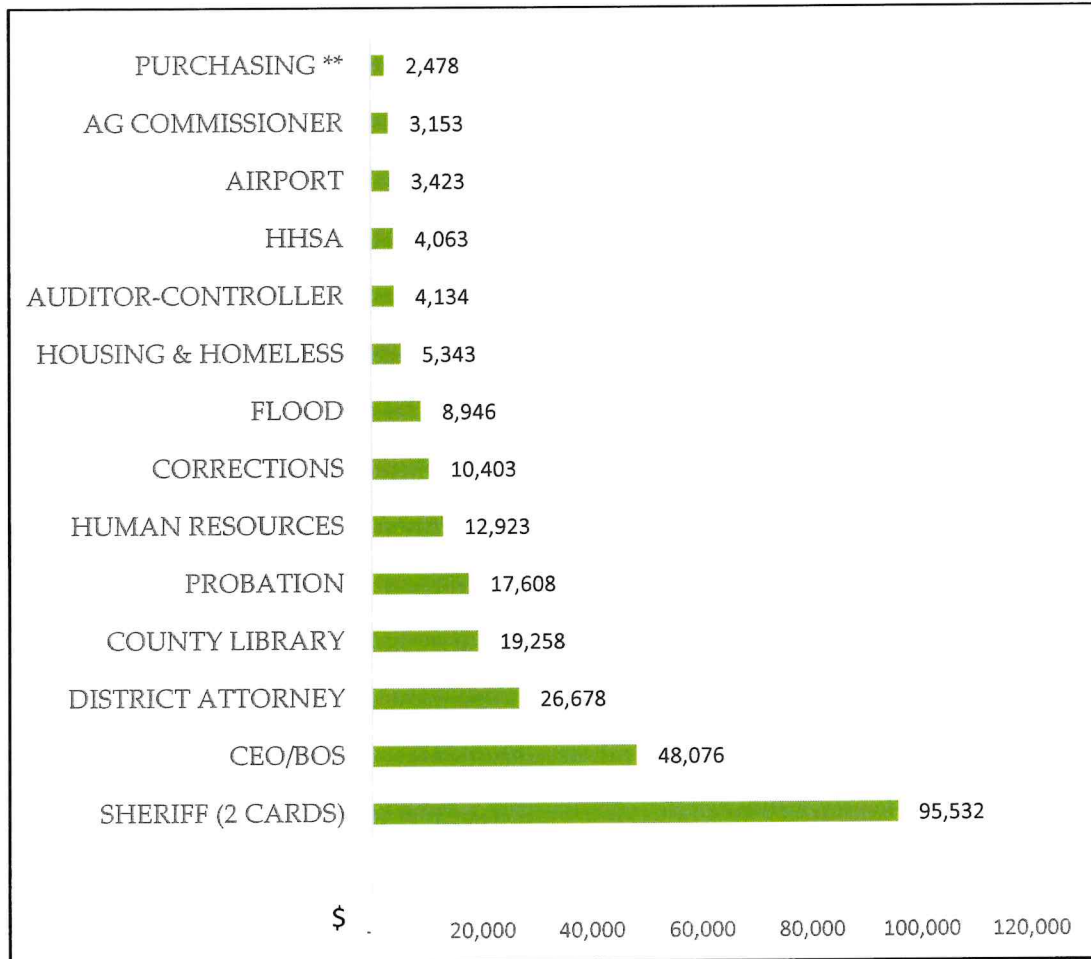
Source: USBank

Services Provided by Merchant

- ¹ Flights for Conferences
- ² Membership / Political / Government Organization
- ³ Conferences
- ⁴ Restaurants/Food Services
- ⁵ Hotel for conferences and training
- ⁶ Office Services
- ⁷ Business Expense
- ⁸ Wholesale Trade

**County-Wide Audit
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**Exhibit C
Spending by Department
January 1, 2024 – June 30, 2024**



** Includes purchases on behalf of other departments.

Source: Tyler Munis P-Card Disbursements