

County of Napa

Auditor-Controller

Internal Audit Report

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

For the Period of July 1, 2022 – December 31, 2022

Report Date: April 6, 2023



A Tradition of Stewardship
A Commitment to Service

Tracy A. Schulze, CPA
Auditor-Controller

Table of Contents

	<u>Page</u>
Executive Summary	1
Background and Authority.....	2
Objectives and Scope	3
Procedures.....	3
Results	4
Conclusion	4
Exhibit A – Top Spending by Merchant Category	8
Exhibit B – Top 10 Merchants.....	9
Exhibit C – Top Spending by Division.....	10

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A Tradition of Stewardship
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Tracy A. Schulze
Auditor-Controller

April 6, 2023

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 July 1, 2022 to December 31, 2022.

We conducted our audit in conformance with the *International Standards for the Professional Practice of Internal Auditing (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 P-Card Procedures, as approved by the Board of Supervisors in 2015, and to evaluate the administration of the Program for adequate internal controls. To accomplish our objectives, we reviewed a sample of the P-Card purchases and related documentation files to ensure card holders' compliance with current procedures, and to determine if adequate internal controls are in place and operating as designed. Based on our audit, we believe that overall P-Card usage does comply with the County's P-Card procedures and the administration of the P-Card Program has adequate internal controls. However, we did note three observations and provided recommendations for improvement.

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 internal audit team, Purchasing Manager, and cardholders for their expertise and professionalism in conducting this engagement.

Sincerely,

A handwritten signature in blue ink, reading "Tracy A. Schulze".

Tracy A. Schulze, CPA
Auditor-Controller

County-Wide Audit
Procurement Card (P-Card) Program
For the Period of July 1, 2022 – December 31, 2022

Background and Authority

CAL-Card is the registered name of the State of California's Purchase Card Program. 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 August 13, 2013, the Board of Supervisors approved and authorized an addendum to the State of California's Purchase Card Program Master Services Agreement (DGS MSA 5-06-99-01) with U.S. Bank National Association to implement a Procurement Card (P-Card) Program for Napa County. In doing so, the Board of Supervisors also authorized a P-Card "Pilot" Program to ensure the County's P-Card Procedures could be developed with strong internal controls prior to a county-wide implementation.

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 County's P-Card Procedures exist.

The P-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 P-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.

County-Wide Audit
Procurement Card (P-Card) Program
For the Period of July 1, 2022 – December 31, 2022

Objectives and Scope

The primary objectives of this engagement were to review Procurement Card usage for compliance with the County's P-Card Procedures and to evaluate the administration of the P-Card Program for adequate internal controls. The scope included a review of P-Card transactions and related document files for the period of July 1, 2022 – December 31, 2022.

Procedures

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

- Interviewed Accounting Staff and Purchasing Manager to evaluate the administration of the P-Card Program.
- Reviewed the County's Procurement Card Procedures
- 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
- On a sample basis, reviewed P-Card expenditures to ensure compliance with the County's P-Card Procedures.

County-Wide Audit
Procurement Card (P-Card) Program
For the Period of July 1, 2022 – December 31, 2022

Results

As of December 31, 2022, there were 17 active P-Cards utilized by County employees, including four new cardholders added between July 1, 2022, and December 31, 2022. No P-Cards were terminated or placed on hold.

We found that 199 transactions had been declined over the period July 1, 2022 to December 31, 2022. We noted that 70% of the declined transactions were due to cardholders attempting to make purchases without having the proper merchant category codes assigned to their P-Card profile.

We tested 40 P-Card expenditures and verified that they were in compliance with the County's P-Card Procedures.

Per US Bank reports, there were 870 approved transactions for the six-month period totaling \$255,235, with an average transaction amount of \$293. 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 travel, lodging and training, as shown in the Top 10 Merchants chart (**Exhibit B**). Additionally, we included a breakdown of spending per division (**Exhibit C**).

Conclusion

We reviewed a sample of the P-Card purchases and related documentation files 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 our audit, we believe that overall P-Card usage does comply with County's Procedures and the administration of the P-Card Program has adequate internal controls. However, we did note three observations and provide recommendations for improvement.

County-Wide Audit
Procurement Card (P-Card) Program
For the Period of July 1, 2022 – December 31, 2022

1. Updates needed to the Procurement Card Program Procedures

Observation

We found several sections in the Procurement Card Procedures that require updates to reflect the change in process for when the County moved from PeopleSoft to Tyler-Munis financials in 2021. Some of the sections include the following:

- *Section 4.4 – Transaction List Report* (i.e., how monthly reconciliations are now completed in Tyler-Munis as compared to delivering signed copies of the statements and receipts to accounts payable section to be entered into PeopleSoft)
- *Section 5 – Approving Manager* (i.e., completed now electronically in workflow)

The procedures in these sections discuss how cardholders are to reconcile their monthly statements, obtain approvals, and meet filing deadlines.

Recommendation

We recommend that the Auditor-Controller work with accounts payable and the P-Card Program Coordinator to revise the County's Procurement Card Procedures, specifically as they relate to Tyler-Munis processes, and submit the revised procedures to the Board of Supervisors for approval.

Management's Response

Auditor-Controller agrees with this recommendation and has been working with the P-Card Program Coordinator the past couple of years to implement and fine-tune the new Tyler-Munis process. We will make updating the P-Card Procedures a priority, pending staffing resources available as we are continuing to implement and train all users on the new system.

County-Wide Audit
Procurement Card (P-Card) Program
For the Period of July 1, 2022 – December 31, 2022

2. Monthly reconciliations are not submitted timely

Observation

Procurement Card Procedures require that the billing official (or cardholder) must complete the reconciliation and attach all required documentation within 5 working days of receipt of the monthly statement. The department is then given an additional 5 working days to have the approving manager review and approve all transactions.

Procedure 6.3.3 - Submit to Auditor-Controller for Payment requires that the completed report and documentation, and management approval, be submitted to accounts payable within 15 days of the end of the billing cycle.

During this review, we found two departments that were more than 30 days delinquent in submitting their approved reconciliations. A discussion with accounts payable indicated similar delinquencies from multiple departments becoming an issue in trying to close out the monthly statement and invoice from US Bank prior to the close of the next billing cycle.

Recommendation

We recommend that a notification of non-compliance with Procurement Card Procedures, *Section 6-3.3 - Submit to Auditor-Controller for Payment*, be sent to the approving manager by the Auditor-Controller when approved reconciliations have not been received within the 15 days from the end of the billing cycle.

Management's Response

Auditor-Controller agrees with this recommendation and will implement this change within the next six months.

County-Wide Audit
Procurement Card (P-Card) Program
For the Period of July 1, 2022 – December 31, 2022

3. Some card users have repeated declined transactions

Observation

In a review of the US Bank Declined Transactions Report, we found that 199 transactions had been declined over the period July 1, 2022 to December 31, 2022. We noted that 70% of the declined transactions were due to cardholders attempting to make purchases without having the proper merchant category codes assigned to their P-Card profile. The other 30% of declined transactions were largely due to US Bank preventing potential external data breaches or fraud and cardholders attempting purchases that exceed their overall or single transaction limits.

One cardholder had 30 transactions declined during this review period, and 51 declined during the previous review period. A discussion with the cardholder found that most of the transaction attempts were due to not having the appropriate MCC assigned to their P-Card profile.

Recommendation

We recommend that cardholders review their declined transactions report monthly and request MCCs if not appropriately assigned, and report any unauthorized usage, or attempted usage, to the Program Coordinator in a timely manner.

We also recommend that the Program Coordinator review card security requirements with cardholders who have a large volume of declined transactions to ensure they are following *Section 1-3.1 – Individual Card Holders* of the Procurement Card Procedures for cardholders' responsibilities.

Management's Response

The Program Coordinator agrees with the recommendations and will work with cardholders and US Bank for ways to better identify declined transactions. Currently cardholders do not have access to the section of the reporting tool that shows declined transactions. Cardholder security requirements, specifically Section 1-3.1 of the Procurement Card Procedures, are reviewed with all new cardholders and again during the required biennial training. The Program Coordinator committed to providing a spreadsheet to cardholders during the recent biennial training which shows the MCCs currently assigned to their card accounts if they are not able to access the information via US Bank; and will work with US Bank in an attempt to identify efficient methods for cardholders to access their own information.

**County-Wide Audit
Procurement Card (P-Card) Program
For the Period of July 1, 2022 – December 31, 2022**

**Exhibit A
Top Spending by Merchant Category**

<u>Merchant Category</u>	<u>Total Amount Spent</u>	<u>Percentage</u>
Hotels ¹	\$85,969	33.69%
Business Expense ²	48,781	19.11%
Office Services ³	26,910	10.54%
Airline ⁴	24,714	9.68%
Wholesale Trade ⁵	24,065	9.43%
Restaurants ⁶	17,078	6.69%
Other ⁷	16,443	6.44%
Conferences & Train ⁸	6,104	2.39%
Office Supplies ⁹	3,997	1.57%
Other Travel ¹⁰	816	0.32%
Vehicle Expense ¹¹	240	0.09%
Mail/Telephone ¹²	118	0.05%
Total	\$255,235	100.00%

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 (i.e., Shelter Meals)

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

County-Wide Audit
Procurement Card (P-Card) Program
For the Period of July 1, 2022 – December 31, 2022

Exhibit B
Top 10 Merchants

<u>Merchant Name</u>	<u>Total Amount Spent</u>	<u>Percentage</u>
Southwest Airlines ¹	\$10,789	17.64%
United Airlines ¹	8,812	14.40%
The Westin ⁵	7,161	11.71%
Black Bear Diner Napa ⁴	7,095	11.60%
California District Attorneys Association ³	5,177	8.46%
Renaissance Hotels ⁵	4,765	7.79%
California State Association of Counties ²	4,550	7.44%
California Narcotic Officers' Association ³	4,410	7.21%
Wal-Mart ⁶	4,350	7.11%
Occupational Safety and Health Administration Training ³	4,065	6.64%
Total	\$61,174	100.00%

¹ Flights for Conferences

² Membership / Political / Government Organization

³ Education, Training, Conferences

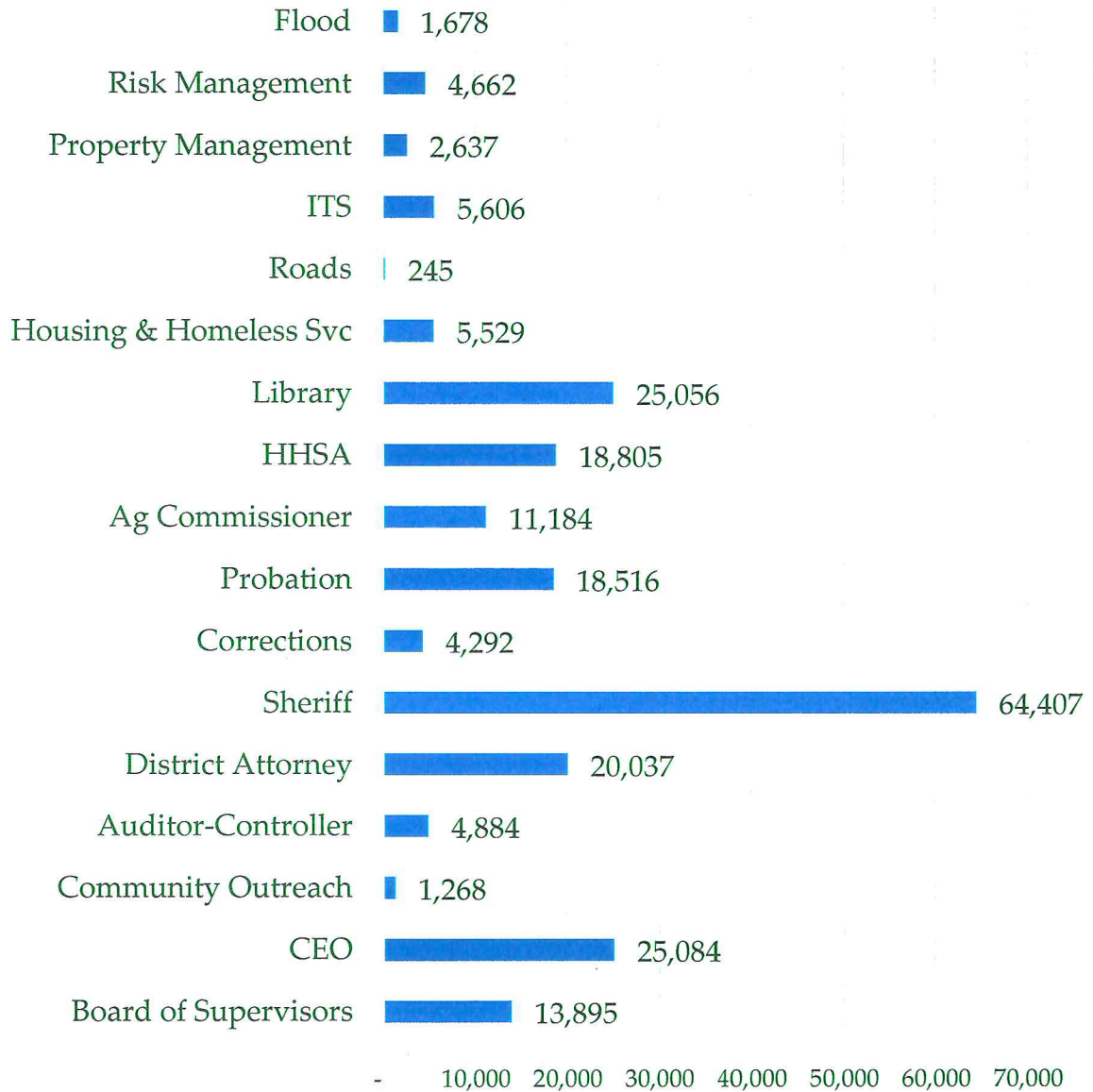
⁴ Restaurants/Eating (i.e., Shelter Meals)

⁵ Hotel for conferences and training

⁶ Grocery Stores / Gift Certificates (i.e., Housing and Public Health)

**County-Wide Audit
Procurement Card (P-Card) Program
For the Period of July 1, 2022 – December 31, 2022**

**Exhibit C
Top Spending by Division
July 1, 2022 - December 31, 2022**



Source: US Bank

Note: Data covers paid (converted) P-Card charges, which totaled \$227,235; remaining outstanding balance due to US Bank totaled \$27,450 as of January 2023.