

County of Napa

Auditor-Controller

Internal Audit Report

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

For the Period of July 1, 2023 – December 31, 2023

Report Date: February 23, 2024



Tracy A. Schulze, CPA
Auditor-Controller

A Tradition of Stewardship
A Commitment to Service

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A Tradition of Stewardship
A Commitment to Service

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Tracy A. Schulze
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February 23, 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 July 1, 2023 – December 31, 2023.

Internal Audit conducted the 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. Based Internal Audit's review, we believe that overall, P-Card usage does comply with the County's P-Card procedures. However, we found one instance of non-compliance with the County P-Card Procedures and have included it 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, CPA". Below the signature, the text "Auditor-Controller" is printed in a smaller, sans-serif font.

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. 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.

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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 transactions and related document files for the period of July 1, 2023 – December 31, 2023.

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 Procurement Card Procedures and 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 P-Card Procedures, County's Purchasing Policy, and the County Travel Policy.
- Sampled transactions were also tested against employee expense claims for potential duplication of payments.

Results

As of December 31, 2023 there were 18 active P-Cards utilized by County employees.

Per US Bank reports, there were 649 approved transactions for the six-month period totaling \$215,058. 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, hotels, restaurants, and wholesale trade, 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.

206 attempted transactions were declined due to US Bank's internal controls. 83% 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.

During this review period cardholders were given access to the Declined Transactions report by USBank to monitor their own accounts. This may explain the drop in declined transactions from 342 in the previous review period to the 206 declined transactions for this period.

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 Procurement Card (P-Card) Procedures as approved by the Board on February 10, 2015.

However, 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 one finding for non-compliance with the Procurement Card (P-Card) Procedures.

**County-Wide Audit
Procurement Card (P-Card) Program
For the Period of July 1, 2023 – December 31, 2023**

Finding

Procurement Card (P-Card) Procedures: Section 1-3.1; “The Card Holder is responsible for keeping the P-Card secure.” Section 1-4.2; “No one but the Card Holder may use this card”.

On November 29, 2023, two (2) transactions were charged to a P-Card by another staff member without the knowledge of the cardholder, indicating that the card was not secured according to the Procurement Card Procedures. The cardholder was made aware of the charges only when Accounts Payable requested backup documentation for the transactions.

Recommendation

Program Administrator and Department Heads should continue to stress to each cardholder the importance of securing their card, including not allowing others within the department to have access to the card in their absence.

Management Response

The Program Administrator agrees.

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

Internal Audit's review of sampled P-Card Statements found multiple transactions with insufficient backup documentation to support and justify the expenditure. This was most often found for food purchases, and lodging charges with only the hotel folio attached for backup, and no documentation identifying the purpose of the employee's travel and stay, such as a conference registration or meeting agenda.

Recommendation

Internal Audit continues to recommend a revision of the Procurement Card Procedures, last issued in 2015, to align with updated County policies, including guidance related to documentation and departmental oversight and internal controls.

Management Response

The 2015 Procedure document has been wrapped into the amended Purchasing Policy, effective February 27, 2024. The Program Administrator will be creating a Procedure Document that builds on the Policy.

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Procurement Card (P-Card) Program
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Exhibit A
Top Spending by Merchant Category
July 1, 2023 – December 31, 2023

<u>Merchant Category</u>		<u>Total Spend</u>	<u>Percentage</u>
Hotels ¹	\$	77,338.00	36.00%
Business Expense ²		49,215.00	23.00%
Office Services ³		21,641.00	10.00%
Airline ⁴		20,443.00	10.00%
Wholesale Trade ⁵		20,876.00	10.00%
Restaurants ⁶		9,848.00	5.00%
Other ⁷		11,313.00	5.00%
Office Supplies ⁹		2,444.00	1.00%
Total \$		213,118.00	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 (i.e., Shelter Meals)

⁷ Artists Supply and Crafts, Drop Box Services, Theaters, Domain Hosting

⁸ Conferences and Training

⁹ Stationery Stores/Supplies, Computer Software Stores

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Exhibit B
Top 10 Merchants
July 1, 2023 – December 31, 2023

<u>Merchant Name</u>		<u>Total Spend</u>	<u>Percentage</u>
Southwest Airlines ¹	\$	10,964.00	19.00%
The Webstaurant Store ⁸		9,009.00	16.00%
Panera Bread ⁴		6,118.00	11.00%
Oakland City Marriott ⁵		5,857.00	10.00%
California District Attorney ³		5,325.00	10.00%
Hyatt House Pleasanton ⁵		4,372.00	8.00%
Doubletree Hotels ⁵		4,271.00	8.00%
EIG*ConstantContact.com ⁷		3,555.00	6.00%
Air France Airline ¹		3,499.00	6.00%
Hyatt Regency Monterey ⁵		3,300.00	6.00%
Total	\$	56,270.00	100.00%

Source: USBank

Services Provided by Merchant

¹ Flights for Conferences/Training

² Membership / Political / Government Organization

³ Conferences

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

⁵ Hotel for conferences and training

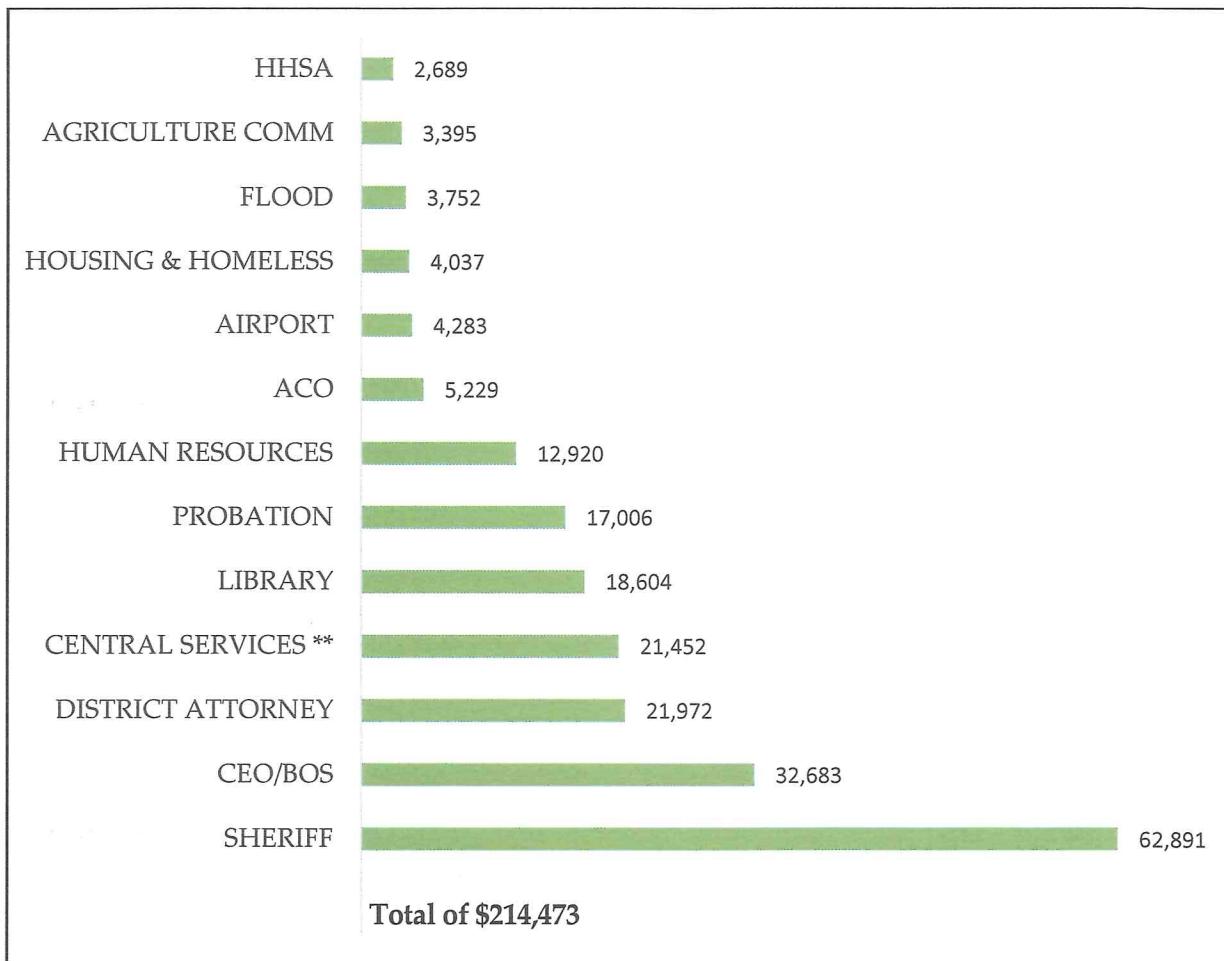
⁶ Training/Education

⁷ Business Expense

⁸ Wholesale Trade

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Exhibit C
Spending by Department
July 1, 2023 – December 31, 2023



** Includes purchases on behalf of other departments.

Source: USBank