Date: August 27, 2019

To: Board of Supervisors

From: Tracy A. Schulze, Auditor-Controller

Subject: Summary of Internal Audits for Fiscal Year 2018-19

During fiscal year 2018-19, the Internal Audit Division of the Auditor-Controller’s Office completed, or is in the process of completing, the following:

**County-Wide Engagements - Completed**

Annual procurement card procedure compliance monitoring (See Attachment A)

**County Wide Engagements – In Progress**

- Security role review within the County’s PeopleSoft Financial System
- Authorization and approval process of County computer purchases
- Vehicle usage of County-owned vehicles
- Authorization and approval process of recurring wire transfers completed by the County Treasurer

**Contracted Services**

- Quarterly reviews for Napa-Vallejo Waste Management Authority, submitted to and approved by NVWMA Board, of revenue and accounts receivable associated with inbound customers and verification of controls associated with fees collected, manual tickets issued, stored tare weights, voids and issuance of tickets at Devlin Road Transfer Station operated by Northern Recycling Operations and Waste Services, LLC.

- Quarterly reviews for Napa County Housing Authority, submitted to and approved by NCHA Board, of the cash receipt process and internal controls of cash collecting and handling by the Contracted Operator for the three County owned Farm Worker Centers, California Human Development Corporation.
Contracted Services – Continued

- Annual rate reviews for Upper Valley Waste Management Agency, submitted to and approved by UVWMA Board, of solid waste fees charged by Clover Flat Landfill and Upper Valley Disposal Services to ensure compliance with allowable expenses being recovered by the contractors per their agreements.

Other Engagements

- Annual rate review for Napa County Recycling and Waste Services, LLC for compliance of solid waste fees proposed for the unincorporated area of Garbage Zone 1 submitted to and approved by the Board of Supervisors on August 28, 2018
- Two District Attorney grant fund audits (Automobile Insurance Fraud and Workers Compensation Fraud) submitted to and approved by the County Board of Supervisors January 1, 2019. No findings reported.
- Quarterly cash counts of the Treasurer Office communicated to the County Board of Supervisors and posted at the Auditor-Controller’s Office. No findings reported.
- Quarterly County-wide donation reporting, submitted to and approved by the County Board of Supervisors quarterly.
- Continuous revolving fund monitoring – No findings to report.
- Peer Review of Yolo County’s Internal Audit Division

If you have any questions, or want a copy of the reports, please do not hesitate to contact Karen Dotson at 253-4588.
Fiscal Monitoring
County of Napa
County-Wide Audit
P-Card Activity

For the Period: April 1, 2018 - September 30, 2018

Report Date: March 1, 2019

Tracy A. Schulze
Auditor-Controller
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Engagement Team

Karen Dotson, CPA  Audit Manager
Marie Nicholas    Auditor-In-Charge
March 1, 2019

Napa County Board of Supervisors
Minh Tran, County Executive Officer

Executive Summary

The Internal Audit Section of the Napa County Auditor-Controller’s Office has completed a fiscal monitoring audit of the Purchasing Card activity from April 1, 2018 through September 30, 2018 subject to requirements established in the County’s P-Card Procedures.

We are not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on specified elements, accounts or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters may have come to our attention that would have been reported to you.

It was noted that one card, though no longer in the possession of the former employee or utilized by the department, still remained active after the employee terminated their employment with Napa County. See the Results and Recommendation Section for additional information.

This report is intended solely for the information and use of the Board of Supervisors and the County Executive Officer and is not intended to be used by anyone other than these specified parties.

I want to thank the Internal Audit staff and the Program Administrator for their expertise and professionalism in conducting this engagement.

Sincerely,

Tracy A. Schulze
Auditor-Controller
Background/Authority

On August 13, 2013, the Napa County Board of Supervisors approved a County Purchasing Card Pilot Program. During the pilot program, purchasing cards were held by the Purchasing Manager who acts as the Program Administrator and the Auditor-Controller’s Office who provides oversight. On February 10, 2015, the Board of Supervisors adopted Board Resolution 2015-13 amending County Policy Manual Part I: Section 6, implementing a County Procurement Card (P-Card) Program to facilitate the acquisition of goods and services, in coordination with the Purchasing Agent (County Executive Officer). The Auditor-Controller and County Executive Office issued Procurement Card (P-Card) Procedures which were adopted pursuant to Board Resolution No. 2015-13.

At the conclusion of the monitoring period, P-Cards were issued to seven County employees. Each card carries the cardholder’s name and may be used for purchases based on the approval of the cardholder’s Department Head and the County Executive Officer. Restrictions are set individually for each cardholder for spending limits and on the type of transaction the cards can be utilized.

Scope and Objective

Our engagement was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing. We have performed a county-wide review of the Procurement Card (P-Card) activity for the period of April 1, 2018 to September 30, 2018. The audit work papers and back-up documentation will be made available upon request. The primary objectives of our engagement was to:

1. Determine internal controls over P-Cards are adequate to effectively safeguard the County’s resources; and
2. Determine that P-Cards are utilized in accordance with the County’s Purchasing Policy, P-Card Procedures and other related County policy and procedures.

Procedures

In achieving the engagement objectives, the following procedures were performed, including but not limited to:
1. **Declined Transactions – US Bank System Controls** – Review declined transactions to ensure US Bank controls were functioning.

2. **Declined Transactions – Cardholder Errors** – Review declined transactions to determine if cardholders are utilizing cards in accordance to their limits.

3. **Merchant Codes** - Determine if cardholder incurred expenses for categories that were not assigned to the issued Card.

4. **Purchase Card Analysis** – Review card set up within US Bank system to ensure spending and merchant code limits were authorized by cardholder’s Department Head and the County Executive Officer.

5. **Authorized and Duplicate Expenses** – Examine a sample of transactions to ensure they are in accordance with County policy and procedures and to determine if expenses were duplicated in an employee’s travel reimbursement request.

### Results and Recommendation

For the period of April 1, 2018 to September 30, 2018, internal controls over P-Cards effectively safeguarded the County’s resources; and purchases are in accordance with the County’s Purchasing Policy, P-Card Procedures and other related County policy and procedures. However, the following reportable result was noted:

**Purchase Card Analysis**

**Result:** We reviewed the “Account List Report” from US Bank to check the current status for each cardholder. It was discovered that a cardholder had terminated their employment with Napa County but the card had not been inactivated. The card in question was physically held by the department and no transaction had transpired after the date of the employee’s termination. In accordance with the P-Card Procedures, Section 8-2, the department should have notified the Program Administrator immediately and a maintenance form noting the termination along with the card should have been submitted to the Program Administrator. The Auditor-Controller’s Office notified the Program Administrator of the terminated employee. The Program Administrator immediately inactivated the card and worked with ITS to be added to the workflow notifications of terminated and transferred employees.
Recommendation: The Program Administrator should be notified immediately upon the termination or transfer of an employee by the department. Department Heads should perform and certify annually a verification of the card’s existence.

Other Matters

The following best practices are recommended to be implemented immediately:

Review Merchant Codes and Spending Limits - Now that we have historical data of P-card transactions, it is recommended that the Auditor-Controller, County Executive Office and Purchasing Manager review restricted merchant codes and other limitations put on the cardholder and provide recommendations to the Board of Supervisors for approval.

Training - It is recommended that training be enhanced to ensure cardholders, approving managers, and department heads are aware of their restrictions and spending limits. Training should also be provided on utilizing the US Bank on-line system. In addition, the P-Card Administrator may want to provide an annual review on the policy and procedures to each cardholder to provide a refresher of their limits and responsibilities.

Procurement Card Procedures – It is recommended that the following key changes occur to the Procurement Card Procedures, including but not limited to:

- Review and adjust the merchant codes, and the groups of merchant codes listed in Attachment C of the procedures to determine which new categories are needed to ensure effective use of the procurement cards.
- Review and adjust the spending levels and limits listed in Attachment D of the procedures to determine levels required to minimized risk but to allow for an efficient use of the procurement cards.
- Evaluate and address in the P-Card Procedures whether temporary modifications to a cardholders spending levels and merchant codes should be allowed. If allowed then the P-Card Maintenance form should include a designated area for the time frame the modification will be active.
- Section 1-2.1 – If it is necessary for the Program Administrator to retain the use of a procurement card then all changes to Categories and Spending Limits of the Program Administrator’s card should be approved in writing by the County Executive Office representative.
# Exhibit A

**Merchant Spending Analysis Summary**

For the Six Months Ended

September 30, 2018

## Merchant Spend Analysis - Summary

<table>
<thead>
<tr>
<th>MCCG</th>
<th>Description</th>
<th>Debit Amount</th>
<th>Nbr of Debit Trans</th>
<th>Average Spend per Debit Trans</th>
<th>Credit Amount</th>
<th>Nbr of Credit Trans</th>
<th>Total Spend</th>
<th>% of Total Spend</th>
<th>Nbr of Trans</th>
<th>Total Sales Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>239645</td>
<td>AIRLINE</td>
<td>$17,444.41</td>
<td>61</td>
<td>$285.97</td>
<td>$1,108.40</td>
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<td>$16,336.01</td>
<td>14.79%</td>
<td>65</td>
<td>$0.00</td>
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<tr>
<td>239646</td>
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<td>679.07</td>
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<td>1,358.13</td>
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<td>396.09</td>
<td>1,515.00</td>
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<td>112.17</td>
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<tr>
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<td>615.63</td>
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Total: $114,123.20  $3,704.54  $110,418.66  311  $122.14

Total Number of Records: 12
## Exhibit B

### Top 10 Merchants
For the Nine Months Ended March 31, 2018

### Top Merchant Spend Analysis

<table>
<thead>
<tr>
<th>MCCG</th>
<th>Merchant Category Code</th>
<th>Merchant Group Description</th>
<th>MCC</th>
<th>Merchant Name</th>
<th>Merchant City</th>
<th>State/Province</th>
<th>Debit Amount</th>
<th>Nbr of Debit Trans</th>
<th>Average Spend per Debit Trans</th>
<th>Credit Amount</th>
<th>Nbr of Credit Trans</th>
<th>Total Spend</th>
<th>% of Total Spend</th>
<th>Nbr of Trans</th>
<th>Total Sales Tax</th>
</tr>
</thead>
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<tr>
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<td>3066</td>
<td>520</td>
<td>SOUTHWEST AIRLINES</td>
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<tr>
<td>239848</td>
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<td>RTCPAY</td>
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<td>RURAL COUNTY REPRESENTATIVE</td>
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Total

| Total | $26,444.64 | $250.00 | $26,194.84 | 46 | $0.00 |

Total Number of Records: 40