



A Tradition of Stewardship  
A Commitment to Service

## Attachment C

**Auditor-Controller**  
1195 Third Street · Room B10  
Napa, CA 94559

Main: (707) 253-4551  
Fax: (707) 226-9065  
[www.countyofnapa.org](http://www.countyofnapa.org)

**Tracy A. Schulze**  
Auditor-Controller

# COUNTY-WIDE AUDIT OF P-CARD MONITORING FOR THE NINE MONTHS ENDED MARCH 31, 2018

Napa County Board of Supervisors  
Minh Tran, County Executive Officer  
Karen Dotson, Internal Audits Manager

## 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 July 1, 2017 to March 31, 2018. The audit work papers and discovery materials will be made available upon request. The objective of our engagement was to:

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

## 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 Agent who acts as the Program Administrator and the Auditor-Controller's Office. 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. Subsequent to the Board's formal approval of the program, P-Cards have been issued to eight other employees.

Each card carries the cardholder's name and may be used for low value purchases based on the approval of the cardholder's Department Head and the County Executive Officer. Restrictions are set individually by cardholder for spending limits and on the type of transaction the cards can be utilized for.

Setting the limits on the type of transactions requires using merchant codes. Merchants who accept credit cards determine the merchant code that best describes their business. For example, The Napa Register could utilize #2741 (Misc. Publish and Print) or possibly #5994 (News Dealers/Newsstands). The cards are primarily used for travel and training related expenses as demonstrated in Exhibits A and B.

## **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 utilized Merchant Codes that were not assigned to the issued Card.
4. **Purchase Card Analysis** - Review card set up within US Bank system to ensure access limits and merchant codes agree with limits authorized.
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.

## **Summary of Results and Recommendations**

### **1. Declined Transactions – US Bank System Controls**

**Result:** Based on the results of the Declined Transaction report, US Bank system controls are functioning effectively to prevent unauthorized transactions. During the period July 1, 2017 to March 31, 2018, there were 266 declined transactions. The majority of the declined transactions were unauthorized merchant codes (142 instances), and other US Bank transaction filters.

In setting up the merchant codes, the County took a very conservative approach not knowing that allowable/authorized purchases would be declined. This has been more of a hindrance to the cardholders causing frustration and sometimes delayed payments.

Additional instances of declined transactions, is activity prevented by the transaction filters established by US Bank. As a fraud protection measure, US Bank analyzes the historical shopping patterns of a cardholder and matches a cardholder's current purchases against historical data to detect if the number of transactions within the merchant code match up or if there appears to be an irregularity for a billing cycle. In addition, US Bank has flagged certain vendors as high risk.

**Recommendation:** Now that we have historical use of P-card transactions, we recommend the Program Administrator work with the Auditor-Controller's Office reviewing the restrictions on merchant codes and limitations put on the cardholder. Based on the results of their review provide direction to the County Executive Office for modifications to cardholder access. We also recommend the County Executive Office determine a threshold for the acceptable level of declined transactions identified by US Bank to would trigger a replacement card.

## 2. Declined Transactions – Cardholder Errors

**Result:** There were 18 instances where cardholders could have prevented the declined transactions. The majority of the transactions were declined due to the cardholder exceeding their single purchase limit or where they would have exceeded their 30 day limit.

**Recommendation:** We recommend follow-up training and annual certifications of cardholders to provide more awareness of the rules. During the training, emphasis will be placed on cardholders becoming cognizant of the restrictions placed on their card and how to review their account activity.

## 3. Merchant Codes

**Result:** An examination of transactions successfully processed by US Bank during the engagement period was performed to determine if the transactions agreed with the limitations established for the selected cardholders. Restrictions on merchant codes can be lifted for emergencies and are removed when US Bank performs a software upgrade.

During the 2017 Napa Complex Fire, restrictions for the Program Administrator were removed to accommodate various purchases within the Procurement Division of the Emergency Operations Center. Two purchases occurred after the merchant code limits should have been reinstated back to the cardholder's original limits.

**Recommendation:** Although this was an emergency and should not be a frequent problem, we recommend enhancing the emergency P-card portion of the policy to set specific timeframes or events that require written approval by the County Executive Officer to open and close the restrictions. Since the Program Administrator has the card, to maintain internal controls the approval should come from another individual.

#### 4. Purchase Card Analysis

**Result:** Maintenance forms for cancellation and replacement of two cards due to unauthorized activity identified by US Bank were not provided to the auditors by the Program Administrator. In accordance with the P-Card Procedures, the Program Administrator was notified of external fraudulent activity and they immediately deactivated the card. However, a maintenance form must also be submitted and on file with the Program Administrator confirming the reason for cancellation and the request for a new card.

**Recommendation:** The Program Administrator should not issue replacement cards until an approved maintenance form has been submitted. The Program Administrator must retain the form in accordance with the County's approved retention schedule.

#### 5. Unauthorized and Duplicate Expenses

**Result:** We reviewed a sample of expenses to determine if cardholders complied with all policies and procedures and whether any expenses were duplicated in an employee's travel reimbursement request. We found no exceptions.

**Recommendation:** Annual certification of policy review by the individual card holders and continuous review and monitoring by the Auditor-Controller due to the high risk of procurement card transactions.

### **Conclusion**

Internal controls over P-Cards effectively safeguard the County's resources; and processed purchases are in accordance with the County's Purchasing Policy, P-Card Procedures and other related County policy and procedures. Best practices that should be implemented immediately include:

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

**Training** - It is recommended that training be enhanced to ensure cardholders know their restrictions, limits, the procedures and policy and how to best utilize the US Bank on-line system. In addition, the P-Card Administrator may want to provide an annual review and certification 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.

**Monitoring** – It is recommended that the Auditor-Controller's Office continue to monitor the P-Card Activity with US Bank to ensure US Bank's security protocols are working effectively and that cardholders are utilizing their P-Cards in accordance with Procurement Card Procedures and County Policy.

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

Sincerely,

*Tracy A. Schulze*

Tracy A. Schulze  
Auditor-Controller

## Exhibit A

### Merchant Spending Analysis Summary For the Nine Months Ended March 31, 2018

#### Merchant Spend Analysis - Summary

MCCG	Merchant Category Code Group Description	Debit Amount	Nbr of Debit Trans	Average Spend per Debit Trans	Credit Amount	Nbr of Credit Trans	Total Spend	% of Total Spend	Nbr of Trans	Total Sales Tax
239845	AIRLINE	\$ 20,431.03	94	\$ 217.35	\$ 1,459.10	4	\$ 18,971.93	8.50%	98	\$ 0.00
239846	AUTO/RV DEALERS	111.79	1	111.79	0.00	0	111.79	0.05%	1	7.04
239848	BUSINESS EXPENS	44,743.94	135	331.44	1,710.00	6	43,033.94	19.29%	141	134.58
239849	EATING/DRINKING	6,734.99	36	187.08	0.00	0	6,734.99	3.02%	36	99.72
239850	HOTELS	74,246.06	156	475.94	3,956.66	20	70,289.40	31.50%	176	0.00
239851	MAIL/TELEPHONE	1,997.91	9	221.99	768.30	3	1,229.61	0.55%	12	17.21
239852	MEDICAL	265.03	1	265.03	0.00	0	265.03	0.12%	1	0.00
239854	MRO SUPPLIES	1,660.00	4	415.00	0.00	0	1,660.00	0.74%	4	0.00
239855	OFFICE SERVICES	30,058.17	68	442.03	747.00	2	29,311.17	13.14%	70	0.00
239856	OFFICE SUPPLIES	2,028.88	6	338.15	0.00	0	2,028.88	0.91%	6	7.13
239857	OTHER	23,577.66	22	1,071.71	5,630.56	4	17,947.10	8.04%	26	0.00
239858	OTHER TRAVEL	556.43	4	139.11	47.12	2	509.31	0.23%	6	0.00
239859	RENTAL CARS	52.07	1	52.07	0.00	0	52.07	0.02%	1	0.00
239863	VEHICLE EXPENSE	10,103.33	2	5,051.67	0.00	0	10,103.33	4.53%	2	748.40
239864	WHOLESALE TRADE	22,917.95	57	402.07	2,025.90	3	20,892.05	9.36%	60	760.34
<b>Total</b>		<b>\$239,485.24</b>			<b>\$16,344.64</b>		<b>\$223,140.60</b>		<b>640</b>	<b>\$1,774.42</b>

Total Number of Records: 15

## Exhibit B

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

#### Top Merchant Spend Analysis

MCCG	Merchant Category Code Group Description	MCC	Merchant Name	Merchant City	Merchant State/ Province	Debit Amount	Nbr of Debit Trans	Average Spend per Debit Trans	Credit Amount	Nbr of Credit Trans	Total Spend	% of Total Spend	Nbr of Trans	Total Sales Tax
239845	AIRLINE	3066	SOUTHWES 5260151326738	800-435-9792	TX	\$13,327.94	66	\$ 197.67	\$ 281.94	3	\$ 13,046.00	14.97%	69	\$ 0.00
239848	BUSINESS EXPENS	8398	CALIF STATE ASSOC OF CO	916-327-7500	CA	6,974.00	10	697.40	0.00	0	6,974.00	8.00%	10	0.00
239848	BUSINESS EXPENS	8699	CALIFORNIA PEACE OFFICER	916-263-0541	CA	4,733.00	13	364.08	0.00	0	4,733.00	5.43%	13	0.00
239850	HOTELS	3501	HOLIDAY INN EXPRESS	LATHROP	CA	24,250.68	53	456.70	45.50	3	24,205.18	27.77%	56	0.00
239850	HOTELS	7011	NAPA WINERY INN COO	NAPA	CA	4,290.66	6	715.11	0.00	0	4,290.66	4.92%	6	0.00
239855	OFFICE SERVICES	7399	BOXWOOD TECHNOLOGY	888-4918833	MD	7,899.00	19	415.74	0.00	0	7,899.00	9.06%	19	0.00
239857	OTHER	5712	FURNITURE 4 LESS	NAPA	CA	7,354.00	2	3,677.00	0.00	0	7,354.00	8.44%	2	0.00
239857	OTHER	5994	NAPA VALLEY PUBLISHING CO	707-2562207	CA	4,215.39	1	4,215.39	0.00	0	4,215.39	4.84%	1	0.00
239863	VEHICLE EXPENSE	5599	TRACTOR SUPPLY #2079	AMERICAN CANY	CA	9,014.84	1	9,014.84	0.00	0	9,014.84	10.34%	1	667.77
239864	WHOLESALE TRADE	5039	HD SUPPLY WHITE CAP #024	FAIRFIELD	CA	6,627.24	4	1,357.52	1,197.18	2	5,430.06	6.23%	6	467.36
<b>Total</b>						<b>\$88,686.75</b>			<b>\$1,524.62</b>		<b>\$ 87,162.13</b>		<b>183</b>	<b>\$ 1,135.13</b>

Total Number of Records: 10