

MEMORANDUM

DATE: May 25, 2016
TO: LAFCO Commissioners
FROM: Sara Lytle-Pinhey, Executive Officer
SUBJECT: LAFCO Purchasing Card Audit (Fiscal Year 2014-2015)

RECOMMENDATION

Staff recommends that the Commission accept the attached County-Performed LAFCO Purchasing Card Audit for the period covering Fiscal Year 2014-2015.

DISCUSSION

Stanislaus LAFCO currently contracts with the County Auditor-Controller's Office for Payroll and Purchasing Card Services. As part of these services, the County's Audit Division conducts periodic payroll reimbursement and purchasing card performance audits for LAFCO.

LAFCO Staff's purchasing cards are the preferred method of paying for travel costs, office supplies, and newspaper notices. The County's Auditor-Controller's Office recently completed the attached LAFCO Purchasing Card Audit for the period covering Fiscal Year 2014-2015. The purpose of the audit is to determine whether LAFCO's use of County-issued Bank of America Purchasing Cards complies with the County Purchasing and Travel Policies. LAFCO has based its own policies on the County's policies for consistency between the agencies.

For Fiscal Year 2014-2015, 100% of LAFCO's purchasing cards transactions were reviewed. The Auditor had four findings and recommendations related to the former Executive Officer's transactions during this time. Staff is in agreement with each of the findings and has already begun implementation of the recommended actions to ensure compliance with purchasing card and travel policies in the future.

**STANISLAUS COUNTY
EXECUTIVE SUMMARY
LOCAL AGENCY FORMATION COMMISSION
PURCHASING CARD AUDIT**

The Auditor-Controller's Office has completed an audit of the Stanislaus County Purchasing Card Program for fiscal year beginning July 1, 2014 through June 30, 2015. The objective of the audit was to determine whether the Department's use of purchasing cards complies with the County Purchasing Card Policy and Procedures along with the Travel Policy in effect at the time of the purchases. We also considered Department Policy, if applicable and other County policies as they related to the purchasing card transactions. In addition, we assessed the Department's internal controls over the maintenance and use of the County Purchasing Cards.

Stanislaus County implemented the Bank of America Purchasing Card System on October 11, 1996. The Board of Supervisors approved agenda item number 2001-593 on August 7, 2001 directing the Chief Executive Officer and the Auditor-Controller to provide an annual report of the Purchasing Card Program including department-specific findings and recommendations.

All County departments and related agencies utilizing the County purchasing card system are subject to the audit process as required by policy. In consideration of several consecutive years of performance of purchasing card audits along with performance of an annual risk analysis, a determination was made to audit the departments and agencies over a two year time period. A total of 17 department and related agencies were selected for audit covering fiscal year 2014-2015 transactions.

The audit period covered purchasing card activity for Local Agency Formation Commission during fiscal year 2014-2015. All, or 100%, of the Department Head's transactions were tested for this period. The Department Head transactions consisted of 63 transactions totaling \$5,574.76. Department personnel incurred 9 purchasing card transactions totaling \$601.18. For our engagement, we tested 100% of the Department personnel transactions.

The engagement was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. Accordingly, we examined, on a test basis, evidence supporting the procedures in place and performed such other procedures as we considered necessary.

The audit methodology used to assess each department selected included the following procedures:

- We obtained a list of purchasing card transactions for each department directly from the authorized software application used by Bank of America.
- We verified the transactions were approved and dated by appropriate personnel.
- We verified the charges were appropriate County business expenses, costs appeared reasonable, and did not exceed allowable limits contained in the County Purchasing Card Policies and Procedures along with the Travel Policy.
- We examined the transactions to ensure they complied with all other relevant guidelines contained in the County Purchasing Card, Travel, and other related policies and procedures.

We assessed the internal controls over the purchasing card transactions by:

- Interviewing department personnel and documenting the department's controls over purchasing cards.
- We examined the Purchasing Card Application and Authorization Forms to verify that an application form exists for each employee issued a County purchasing card and the form was approved by an appropriate personnel.
- We examined the Purchasing Card Reconciliation Reports to ensure administrative staff were reviewing and reconciling the monthly transactions to the purchasing card statements from the Bank of America.
- We reviewed the Purchasing Card Transaction Detail Reports to ensure management was reviewing the purchasing card transactions for appropriateness.

It appears the Department's Purchasing Card procedures were materially compliant with the County Purchasing Card Policy and Procedures along with the Travel Policy. While the findings discussed below may not, individually or in the aggregate, impair compliance with the County Purchasing Card Program, they do present risks that can be more effectively controlled. We appreciate the courtesies and cooperation extended to the Auditor-Controller's Office during the audit process.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT HEAD FINDINGS

A) Annual Review of Need and Limit

The Department Head's annual review determining the need and limit of the department's purchasing cards was not performed for the period under review. Pursuant to County Purchasing Card Policy, the Department Head shall determine the needs and limits for department purchasing cards on an annual basis, evidence review with signature and date, and maintain on file for a minimum of five years.

Recommendation

We recommend the Department review and revise their procedures to ensure the Department Head reviews the list of purchasing card holders to determine the need and limit of purchasing cards annually as required by the County Purchasing Card Policy. The review should be documented with a signature and a date and maintained with the purchasing card records for five years.

Department Response

Management agrees with the finding and recommendation. Reviews were previously provided via e-mail and documentation was not retained. Annual reviews will now be documented and maintained as recommended.

B) Before Event Expense

We noted one travel charge (totaling \$100.35) where one night of lodging was incurred the day before the event resulting in an additional cost to the County of \$100.35. The additional expense was not deemed necessary based on the location of the training. In addition, the before event expense was noted on the travel authorization form.

Recommendation

We recommend the Department review and revise their procedures to ensure the business purpose for travel expenses incurred before and after an event are reasonable and documented in accordance with the County Travel Policy. This should be based on, but not limited to, the location of the event and the time of day the event begins and ends.

Department Response

Management agrees with the finding and recommendation. Copies of the 2016 County Travel Policy have been provided to employees with a memo detailing that only reasonable and necessary expenses related to training will be authorized.

C) Parking

We noted an instance where economy parking was not utilized at an airport during a conference, resulting in an additional cost to the County of \$57.00. The cardholder is no longer employed with Stanislaus County, resulting in obtaining reimbursement from the retiree difficult.

Recommendation

We recommend the Department review and revise their procedures to ensure the most cost-effective options are selected.

Department Response

Employees will be reminded of the need to use the most cost-effective travel options. Research of the most economical parking will be completed prior to travel with appropriate documentation.

D) Meal/Tip Overage

We noted one transaction containing a meal overage in the amount of \$32.00. The cardholder is no longer employed with Stanislaus County, resulting in obtaining reimbursement from the retiree difficult.

Recommendation

We recommend the Department review and revise their procedures to ensure meal limits are not exceeded and immediately collect any overages, if they occur.

Department Response

Management has reviewed its procedures related to meal limits and will use the per diem option, consistent with the County's Travel Policy, to ensure future overages do not occur.

DEPARTMENT FINDINGS

There were no Department findings for the period under review.