



AUDITOR-CONTROLLER

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August 29, 2002

The Honorable William A. Mayhew
Presiding Judge of the Superior Court
800 11th Street
Modesto, CA 95354

**SUBJECT: AUDITOR-CONTROLLER RESPONSE
2001-2002 STANISLAUS COUNTY CIVIL GRAND JURY
FINAL REPORT-PART FOUR**

This letter will serve as the Auditor-Controller's response to the Grand Jury Final Report for the 2001-2002 year. The Grand Jury should be commended for devoting a significant amount of time interviewing numerous individuals and reviewing thousands of pages of documents. Reporting on matters as complex as those contained in the report is a difficult and challenging task.

The Auditor-Controller's Office is unable to comment on all of the findings and recommendations contained in the report. In some instances, a finding or recommendation deals with a specific issue the Auditor-Controller's Office has no previous knowledge of, on which to base a response. Our responses are in the same order as they appeared in the Grand Jury Report. We have included the Grand Jury findings and recommendations followed by our response.

FINDINGS:

Finding #1: The Grand Jury received the full cooperation from the County and its employees in requests for information and documentation.

The respondent agrees with the finding.

Finding #2: BBR validated the financial statements of the County which had been prepared by the Auditor-Controller for the fiscal year ended June 30, 2001.

The respondent agrees with the finding.

Finding #3: The Stanislaus County Mid-Year Report presented to the SCBOS indicates the need to make budget adjustments due to increasing costs, as well as anticipated revenue reductions. Adjustments are necessary, primarily due to the State's projected financial deficit, which will greatly affect the revenues the County will receive.

The respondent agrees with the finding.

Finding #4: Those employees interviewed and those whom the Grand Jury visited during the internal purchasing card audit procedure were aware of the County Purchase Card Program and Policies.

The respondent agrees with the finding.

Finding #5: There are thirty-one (31) departments in the County that have purchase cards. As of February 26, 2002, there are 1,673 employees that have active purchase cards. Some employees have more than one active card.

The respondent agrees with the finding.

Finding #6: The CEO has verbally directed the Auditor-Controller's Office to obtain his approval for all purchase card limits over \$10,000.

The respondent agrees with the finding. No cards with limits higher than \$10,000 have been issued subsequent to the CEO directive.

Finding #7: As of February 2002, eighteen (18) departments had issued 1,677 purchase cards with a combined credit of \$5,168,500. Sixty-seven (67) of those cards have limits exceeding \$5,000 distributed as follows:

1	at	\$ 6,000	=	\$ 6,000
6	at	7,000	=	42,000
9	at	7,500	=	67,500
2	at	8,000	=	16,000
34	at	10,000	=	340,000
1	at	15,000	=	15,000
2	at	20,000	=	40,000
1	at	25,000	=	25,000
4	at	30,000	=	120,000
6	at	50,000	=	300,000
1	at	70,000	=	70,000

The respondent agrees with the finding.

Finding #8: The majority of the departments' purchase cards are kept in a locked drawer or cabinet as recommended by the County. These cards are maintained by a designated employee.

The respondent agrees with the finding.

Finding #16: The internal purchase card audit discovered two (2) transactions for meals that were charged by a Library employee on a purchase card. These same transactions were also reimbursed through the payroll system in the same amounts.

The respondent agrees with the finding.

Finding #18: A 2002 internal audit discovered that seventy-three (73) receipts were missing out of 2,155 transactions. Of those departments with missing receipts, thirty-one (31) were from the office of the CEO. The majority of all receipts were found at a later date and given to the proper individual, but they were not available at the time of audit.

The respondent agrees with the finding.

RECOMMENDATIONS:

Recommendation #1: The County continue to educate employees on purchase card policies and emphasize the necessity to reconcile, review, and approve the Transaction Detail Reports within ten (10) days of receipt. This should be the number one priority of each department.

The recommendation has been implemented. The Internal Audit staff will continue to perform audits of the Purchasing Card Program. One of the audit steps includes an examination of the Transaction Detail Report. This examination checks for appropriate review of charges and will include substantiation of a timely review.

Recommendation #2: Management enforce the policy that no employee shall allow another to use their purchase card.

The recommendation has been implemented. The Internal Audit staff will continue to perform audits of the Purchasing Card Program. One of the audit steps includes checking for the use of a purchase card by someone other than the one to whom the card was issued.

Recommendation #3: Purchase cards with limits of \$5,000 or more must be approved in writing by the department head, the Auditor-Controller, and the CEO. This written policy needs to be implemented by October 1, 2002.

The recommendation requires further analysis. All purchasing cards, regardless of limit, are approved by the department and a member of the Auditor-Controller's Office administrative staff. Purchasing Cards with limits of \$10,000 or more are approved by the Chief Executive Officer. Analysis of this recommendation will be completed by December 31, 2002.

Recommendation #4: The County develop criteria to reduce the number of outstanding credit cards—thirty-four percent (34%) of all County employees currently have a credit card. A review of card limits with appropriate reductions should occur annually.

The recommendation has not been implemented but will be in the future. A listing of individual cards will be provided to department heads for their review and verification. Any card no longer needed will be canceled.

Recommendation #5: The internal auditors review the process for cancellation of purchase cards when a County employee resigns, retires, or transfers to another department, or when a card is lost or stolen. These cards are to be returned to the Auditor-Controller's Office and immediately deactivated.

The recommendation has not been implemented. This review will be included as one of the audit steps and will be performed by the Internal Auditors during the scheduled Purchasing Card Audits for the 2002-2003 fiscal year.

Recommendation #6: Travel and expense forms be consistent within all County departments. The Sheriff's Department has established an excellent model for expense reports that could be used.

The recommendation requires further analysis. The County, at one time, used a generic travel and expense form. It was recognized that the generic form was not meeting the needs of all departments. We will be identifying specific items that must be included on all travel and expense forms. Compliance to this requirement will be verified during credit card audits. Required information will include:

Estimate of all costs broken down category:

Transportation

Meals

Lodging

Registration

Purpose and dates of trip

Destination

Recommendation #7: Travel and purchase card transactions of all department heads, including the CEO, be approved by their respective supervisor(s).

The recommendation will not be implemented. It is not reasonable to require the Chief Executive Officer or the Board of Supervisors to approve travel and purchasing card transactions for appointed department heads. Travel and purchasing card transactions are included in the audits of Purchasing Cards.

Recommendation #8: Receipts for all meals showing date, place and amount must be attached to time cards when requesting reimbursement. An explanation of the business activity should be included along with names of others in attendance.

The recommendation requires further analysis to determine the additional impact on departments and their staff. This analysis will be completed within the next six months.

Recommendation #9: A complete analysis of the Purchase Card Program be conducted to determine actual savings to the County, if any. Cost factors should include time spent researching and approving purchases, ordering, checking invoices, approving payments, and checking with the appropriate departments (MIS, Purchasing, or Emergency Dispatch) to determine the best price/vendor. Internal audits, inventory control, and any other relevant costs associated with the purchase should also be determined.

The original September 27, 1994, agenda item referenced in the Grand Jury Report presented the initial cost savings estimate associated with the use of Purchasing Cards. The following is an excerpt from that agenda item:

"Excellent data supporting the use of credit cards was collected by this group. The result of the general use of credit cards will be a significant reduction in the number of purchase orders needed to acquire goods costing under \$1,000. Paying the credit card account monthly would require the processing of one blue claim per department per month. The data collected by this team shows that each purchase order currently costs \$48.36 to generate; approximately 1,100 are written each month, costing \$53,200. If credit cards were used for only half of this activity, the savings would be approximately \$25,000 per month. This savings would be offset by some increase in the number of blue claims generated to pay the credit card account, so this team's estimated savings of \$207,000 per year supports the one made by the Procurement Option Team."

It is important to refer to this earlier work to establish a baseline from which to evaluate the savings achieved by the Purchasing Card Program.

In the year prior to the initiation of the Purchasing Card Program, there were 19,134 purchase orders issued. Five years after implementation, there were 9,383 purchase orders issued or a

51% decrease from the high in 1993. The estimated cost for the Purchasing Department and Auditor-Controller's Office to process a single Purchase Order was \$ 47.86, resulting in a savings totaling \$465,707. It is important to note that had a Purchasing Card Program not been implemented the number of Purchase Orders would have continued to increase. Therefore, the savings presented above is very conservative.

Another recommendation approved, was the discontinuance of the Purchasing Division's petty cash and revolving fund. County employees could request immediate reimbursement and payment for items purchased with personal funds, made possible through the use of Purchasing Cards. The use of the petty cash and revolving fund had become a fulltime job for an Account Clerk by the time it was discontinued. An Account Clerk's annual salary with benefits was \$35,000.

Prior to the Purchasing Card Program, the Auditor-Controller's Office provided travel advances up to 75% of the estimated out-of-pocket-expenses. These had to be manually tracked, since each employee had to account for the advance once they returned from their trip. Without the Purchasing Card Program, continuance of the travel advance program would require a half-time Account Clerk position costing \$17,500 per year.

In the original study, you will note a reference to the completion of a monthly claim by each department for their Purchasing Card payment. Several years ago this process was automated and the bank processes the payment electronically; thus eliminating one of the steps in processing the Purchasing Card payments for Departments.

Purchasing Card Statements must still be reconciled and monitored. However, after contacting several Departments, we were told that the work required is not as much as required in preparing Purchase Orders. As an example, the Community Services Agency has estimated that if the Purchasing Card Program were terminated, they would have to hire 1.5 to 2.0 additional Account Clerks. This represents a cost increase of approximately \$60,564 to \$81,128. The time required for obtaining approvals for specific equipment and vendor bids is the same whether a Purchasing Card is used or a Purchase Order processed. Therefore, these costs were considered to be neutral for this analysis.

The estimate for the annual cost of auditing the Purchasing Card Program is \$10,000. This will vary year to year depending on the number and scope of audits. This amount was identified through the County's Annual Cost Plan.

Purchasing Card Program Savings/Cost Summary

\$465,707	Reduced Purchase Orders
35,000	Petty Cash
17,500	Travel Advances
<u>(10,000)</u>	Audit Costs
\$508,207	Estimated Net Annual Savings

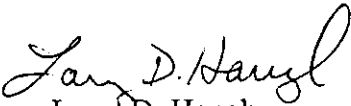
This analysis does not include other benefits, such as cost savings from immediate purchases of emergency items, items that are purchased in the field thus avoiding delays or a trip to a main office for parts, and discounts offered for purchases with the use of a credit card. The purpose of this analysis was to identify those savings or costs that are easily measurable and conservative. Higher cost saving estimates could be derived depending on the assumptions applied.

The conservative cost analysis presented above demonstrates the savings and substantiates the continuation of this very successful program.

Recommendation #10: The Purchase Card Audit Report, prepared by the internal auditors with departmental responses, should be forwarded to the SCBOS for their review.
The recommendation has been implemented.

Recommendation #11: The County maintain internal audit staffing at the present level and add additional personnel as growth dictates.
The recommendation has been implemented. Future growth, however, will be subject to budget constraints.

Recommendation #15: Timecards that request expense reimbursement should be reviewed by internal auditors to insure proper documentation.
The recommendation has been implemented. One of the steps included in the Purchasing Card Program audits is a review of time cards that have expense reimbursements. This step will continue to be included as part of the annual audits.


Larry D. Haugh
Auditor-Controller

- C: Honorable Pat Paul, Chair, Supervisor – District 1
 Honorable Thomas W. Mayfield, Chair of the Board of Supervisors – District 2
 Honorable Nick W. Blom, Supervisor – District 3
 Honorable Ray Simon, Supervisor – District 4
 Honorable Paul W. Caruso, Supervisor – District 5
 Reagan Wilson, Chief Executive Officer