

**Stanislaus County Audit**  
**Grand Jury Case No. 02-14-GJ**  
**July 5, 2002**

**REASON FOR INVESTIGATION**

Section 925 of the California Penal Code mandates that the Civil Grand Jury "...shall investigate and report on the operations, accounts, and records of the officers, departments, or functions of the county...". This mandate includes examining the books and records of any incorporated city or joint powers agency located within the county. The investigations may be conducted on some selective basis each year.

One of the responsibilities of the Grand Jury is to oversee financial compliance by the Stanislaus County (County) governmental entities. The Grand Jury only provides oversight, does no investigation of its own, but rather assures itself that the entities are properly executing their financial responsibilities. The Grand Jury makes no assurances as to the financial stability of the entities, only that they completed the financial tasks that the Grand Jury reviewed.

As part of that responsibility, we have selected the following areas of County operations to study:

1. The Independent Audit of County Finances.
2. The Independent Auditor's Management Letter and County responses.
3. The Auditor-Controller's Internal Audit of Credit Card use and documentation.

**BACKGROUND**

The Stanislaus County Board of Supervisors (SCBOS) contracted with the Certified Public Accounting firm of Bartig, Basler and Ray (BBR), A Professional Corporation, to conduct the annual audit of the fiscal year ending June 30, 2001 and to conduct internal audits as specified. Their report has been forwarded to the SCBOS.

As of June 30, 2001, the County has 4,972 employees which includes temporary and extra-help employees. There are nine (9) incorporated cities within the County and two (2) Special Districts controlled by the SCBOS. There are nine (9) other Special Districts. The total 2001-2002 Budget adopted September 18, 2001 is \$706,888,853.

The Auditor-Controller's office hired two Internal Auditors this fiscal year. They immediately began the Transient Occupancy Tax audit of local hotels and motels within

the County as had been recommended by BBR in their Management Report. This audit has not been completed as of the writing of this report. The internal auditors did perform an audit of the purchase card use by department which is required by the County Purchasing Card Program and Policies. This Grand Jury reviewed the draft audit reports and the responses to these audits from those departments audited. Of the thirty (30) audit reports reviewed, only two (2) had no exceptions and no recommendations. The remaining twenty-eight (28) reports had varying degrees of findings and recommendations.

The Stanislaus County Library (Library) continues to have some of the same problems that have been discovered in previous audits: card sharing, missing supportive documentation for purchases and travel, and transaction detail reports not reviewed and approved. These findings indicate a potential for abuse; therefore, the Grand Jury looked more closely into Library practices and procedures.

The Grand Jury reviewed the Recommendations and Management Responses included in the Management Report for the Year Ended June 30, 2001 prepared by BBR. The County has agreed to the recommendations and has, in fact, begun implementing these recommendations.

In past years, outside auditors and prior Grand Juries have recommended the County hire internal auditors to monitor and review County agencies' financial transactions. In Fiscal Year 2002, two (2) people were hired to fill those vacancies. The Stanislaus County 2001-2002 Mid Year Financial Report dated March 2002 indicates a reduction in the budget may be required. The internal auditor's function is essential to insure the budget is managed with honesty, integrity, and competence, and it must be given appropriate priority in the County's budgeting considerations.

#### **PROCEDURES FOLLOWED**

1. The Civil Grand Jury interviewed:
  - a. Selected Stanislaus County department heads at the Grand Jury Audit Exit Conference, December 11, 2001.
  - b. The Stanislaus County Chief Deputy Auditor-Controller.
  - c. The Stanislaus County Director of Purchasing.
  - d. A manager in the County's Management Information Systems (MIS) Department.
  - e. The Stanislaus County Treasurer-Tax Collector.
  - f. BBR, independent audit accountants.
  - g. An employee of the Library Acquisition Department.
  - h. Children's Librarian.
  - I. Library Storekeeper.

- j. Manager of Computer Services and Technical Services for the Library.
  - k. Accountant I for the Library.
2. The Civil Grand Jury reviewed the following documents and records:
- a. County of Stanislaus Management Report for the year ended June 30, 2001.
  - b. County of Stanislaus Single Audit dated June 30, 2001.
  - c. BBR Audit Planning Memo dated June 30, 2001.
  - d. Stanislaus County Amended Purchasing Card Policy and Travel Policy dated August 7, 2001.
  - e. Stanislaus County Purchasing Card Audit Procedures dated August 31, 2000.
  - f. Stanislaus County Health Services Agency Clinic and Ancillary Services Enterprise Fund Audit Report by BBR for fiscal year ended June 30, 2001.
  - g. Stanislaus County Community Services Agency Program Specific Audit Reports by BBR for fiscal year ended June 30, 2001.
  - h. Stanislaus County Children and Families Commission Financial Statements prepared by BBR for fiscal year ended June 30, 2001.
  - I. Stanislaus County Purchasing Card Audit Report dated April 26, 2001.
  - j. SCBOS Action Agenda #B-8 dated August 7, 2001.
  - k. SCBOS Action Agenda #B-15 dated September 18, 2001.
  - l. SCBOS Action Agenda #B-1 dated November 6, 2001.
  - m. Stanislaus County Fixed Asset Accounting Policy and Procedure dated March 16, 1999.
  - n. California Penal Code Section 925.
  - o. California Constitution Article 13B - Government Spending Limitation.
  - p. Stanislaus County Customer Service Guide/Purchasing-Central-Fleet Services.
  - q. Stanislaus County Departmental Purchasing Card Summary 7/1/00 through 6/30/01.
  - r. Stanislaus County Departmental Purchasing Card Summary 5/1/01 through 12/31/01.
  - s. Trial Balance of General Ledger Accounts for Stanislaus County Medical Center dated 2/22/02.
  - t. Stanislaus County Business Assessment - Central Services (Draft #4 dated January 2002 by Patrick E. Carroll & Associates, Inc.).
  - u. Stanislaus County Purchase Card Audit Reports prepared by internal audit.
  - v. Stanislaus County Purchasing Policies and Procedures.
  - w. Projects & Objectives and Responsible Individual for Purchasing, Fleet Services and Central Services.
  - x. Stanislaus County Training & Travel/Credit Card Expense Report envelope.
  - y. Stanislaus County Sheriff's office memo regarding missing credit card receipts requiring approval.
  - z. Stanislaus County Credit Card Authorization & Application Form for all

- employees who have credit limits over \$10,000.
- aa. The Auditor-Controller's current year draft audit of the Transient Occupancy Tax.
- bb. The Auditor-Controller's current year draft audit of the County employees purchase card use.
- cc. Stanislaus County 2001-2002 Mid-Year Financial Report dated March 2002.
- dd. Smart Data for Hierarchy Detail Transaction Report - May 2001 through December 2001.

**FINDINGS**

1. The Grand Jury received the full cooperation from the County and its employees in requests for information and documentation.
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.
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.
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.
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.
6. The CEO has verbally directed the Auditor-Controller's office to obtain his approval for all purchase card limits over \$10,000.
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
<u>1</u>	at	70,000	=	<u>70,000</u>
67				\$1,041,500

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.
9. Two (2) of the Library personnel interviewed allowed another person to use their credit card and a third person knew of the practice.
10. All Library credit cards are kept in a locked safe and employees are required to sign for them.
11. The fiscal impact of the County Purchasing Card Program as reported by the SCBOS Action Agenda Summary dated August 7, 2001 is as follows:
  - a. The program purportedly saved \$2,000,000 per year in transaction costs and an additional \$2,000,000 in discounts.
  - b. This \$4,000,000 total savings had been extrapolated from a September 27, 1994 action to implement a Total Quality Management (TQM) program.
  - c. In 1994, the estimated savings was to be between \$189,000 and \$207,000 per year.
  - d. The TQM program included a recommendation that employees use credit cards to purchase items costing less than \$1,000.
12. Contrary to County policy, employees failed to obtain competitive quotes prior to

- making credit card purchases.
13. Those interviewed who use credit cards instead of the Purchasing Department listed the following major reasons for use:
    - a. Convenience: Prior to credit card use, an employee had to prepare a purchase order and a check request. The Library Accounting Department typed it and sent it to the Audit-Controller's office to have a check prepared and mailed. The transaction had to be entered into two (2) computer software systems--Dynex and Oracle.
    - b. Timely transaction: Prices change rapidly which is costly.
    - c. Responsiveness: The Purchasing Department has not been responsive in the past.
    - d. Employee time: Follow-up is redundant, time consuming and non-productive.
  14. The County has eleven (11) satellite libraries. With the exception of Denair, each has a non-interest bearing checking account at a local bank.
    - a. Funds collected from book sales and fines are deposited in these accounts.
    - b. Checks are written on these accounts and deposited in the County treasury.
    - c. Denair delivers their funds directly to the County treasury.
    - d. A delay of up to six (6) months has occurred before library funds were transferred to the County's interest bearing account.
    - e. An estimated \$40,000 was being held in these non-interest bearing accounts.
  15. Of the five (5) Library employees interviewed, only one (1) uses the Purchasing Department services.
  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.
  17. Library supply inventories are locked in a room, however, any Library employee is allowed access for convenience. The computer equipment is also under lock and key, and three (3) employees have keys to access the room.
  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.

## CONCLUSIONS

The Civil Grand Jury concluded that:

1. County employees demonstrate a high degree of professionalism in performing their duties.
2. The CEO is acting prudently in his analysis of the County's fiscal position by recommending a reduction and reprioritization of expenditures to maintain a balanced budget.
3. The County has done a good job informing employees of policies regarding the Purchase Card Program. The majority of the credit card discrepancies occurred due to under-staffing and staff perception that credit card monitoring was not a high priority.
4. The approval of some purchase cards with limits of over \$10,000 is being done by the Auditor-Controller's office which contradicts a verbal directive by the CEO.
5. Per SCBOS Agenda #B-12 dated September 27, 1994, the County's original intent was to allow the departments to use credit cards for minor expenses.
6. Department heads were originally given authority to issue credit cards to employees for purchases under \$1,000. This limit was increased to \$5,000 in 2001.
7. The requirement that employees obtain competitive quotes and review purchases with either Emergency Dispatch (for communication equipment), MIS (for telephone and computer equipment) and Purchasing (for most other purchases) is not followed in many cases.
8. The Library purchase card limits need to be reduced. Past staff shortages which caused late approvals and late payments have been rectified, eliminating the need for high card limits. No Library credit cards have approximated their limit in the last year.
9. The majority of purchases in the Library are for books. The Library has two (2) main sources for books (Ingram and Brodart) and would not normally contact the Purchasing Department to purchase books from these suppliers. They do

purchase books from Barnes and Noble and Amazon Books with their purchase cards. The person in charge of purchasing supplies does interact with the Purchasing Department when time permits.

10. Two (2) Library employees have allowed others to use their purchase cards. Both employees knew what was being ordered and had given verbal approval for use of their card.
11. The Library purchase cards are locked in a safe place and signed out by employees when needed. Most merchandise is ordered by phone, FAX or computer where only the card number is needed, not the card itself.
12. There is no written policy regarding the transfer of funds into the County Treasury. The funds in the satellite library checking accounts are not transferred in a timely manner. Balances in these accounts have, at times, exceeded \$40,000.
13. Library supplies are available to all employees with no supervision and no inventory control. Computer equipment is locked in a separate room with limited authorized access.
14. According to the Patrick E. Carroll & Associates report, employees are using credit cards for purchases when they should be utilizing the County's Purchasing Department to maximize cost effectiveness.
15. There is no evidence to conclude the purchase card program has saved \$4,000,000.
16. Internal audit found one employee had abused the purchase card policy by requesting payroll reimbursements for purchases made by credit card which resulted in duplication of payment. This was found in a random sampling of employees and their credit card receipts. It is unknown how many actual instances there are of this problem; however, under current policy, the potential for this type of abuse does exist.

### RECOMMENDATIONS

The Civil Grand Jury Recommends that:

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

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.
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.
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 de-activated.
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.
7. Travel and purchase card transactions of all department heads, including the CEO, be approved by their respective supervisor(s).
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.
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.
10. The Purchase Card Audit Report, prepared by the internal auditors with departmental responses, should be forwarded to the SCBOS for their review.
11. The County maintain internal audit staffing at the present level and add additional personnel as growth dictates.
12. Satellite library funds and any other funds held in departmental bank accounts must be transferred into the County treasury on a monthly basis.
13. The Library supplies inventory be locked at all times with one person made responsible to disburse items as needed.
14. Each department have one (1) employee assigned to purchase office supplies. More expensive items should be ordered through the Purchasing Department.

15. Timecards that request expense reimbursement should be reviewed by internal auditors to insure proper documentation.

**RESPONSE REQUIRED**

per Section 933[c] and 933.05 of the California Penal Code:

Stanislaus County Chief Executive Officer

Auditor-Controller

Stanislaus County Librarian

This Final Report will be available for public review on the Civil Grand Jury website located at: <http://www.co.stanislaus.ca.us/COURTS/courts/grandjury/index.html> and at the Stanislaus County Main Library, 1500 I Street, Modesto, California 95354.

**§933. Comments and Reports on Grand Jury Recommendations**

- [c] No later than 90 days after the grand jury submits a final report on the operations of any public agency subject to its reviewing authority, the governing body of the public agency shall comment to the presiding judge of the superior court on the findings and recommendations pertaining to matters under the control of the governing body, and every elective county officer or agency head for which the grand jury has responsibility pursuant to Section 914.1 shall comment within 60 days to the presiding judge of the superior court, with an information copy sent to the board of supervisors, on the findings and recommendations pertaining to matters under the control of that county officer or agency head and any agency or agencies which that officer or agency head supervises or controls. In any city and county, the mayor shall also comment on the findings and recommendations. All such comments and reports shall forthwith be submitted to the presiding judge of the superior court who impaneled the grand jury. A copy of all responses to grand jury reports shall be placed on

file with the clerk of the public agency and the office of the county clerk, or the mayor when applicable, and shall remain on file in those offices. One copy shall be placed on file with the applicable grand jury final report by, and in the control of the currently impaneled grand jury, where it shall be maintained for a minimum of five years.

**§933.05 Response to Grand Jury Recommendations--Content Requirements**

- A. Section 933.05 of the California Penal Code requires that a responding person or entity shall indicate one of the following:
  - (1) The respondent agrees with the finding(s); or
  - (2) The respondent disagrees wholly or in part with the finding(s). If this response is chosen, the respondent will specify that portion of the finding(s) which is disputed and shall include an explanation of the reasons for the disagreement.
  
- B. As to each Grand Jury recommendation, the responding public officer or agency shall indicate one of the following:
  - (1) The recommendation has been implemented and set forth a summary of the implemented action;
  - (2) The recommendation has not been implemented but will be implemented in the future with a time frame for implementation;
  - (3) The recommendation requires further analysis with an explanation as to the scope of the analysis and a time frame for the matter to be prepared for discussion by the officer or director of the agency or department or governing body being investigated. The time frame shall not exceed six (6) months from the date of publication of the Grand Jury report; and
  - (4) The recommendation will not be implemented because it is either not warranted or not reasonable with an explanation as to why the recommendation will not be implemented.
  
- C. If a finding or recommendation addresses budgetary or personnel matters of a department headed by an elected official, both the Department Head and the Board of Supervisors will respond. The Board of Supervisors response shall be limited to those budgetary or personnel matters over which it possesses decision making authority.

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## RESOLUTION

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**WHEREAS**, the 2001-2002 Stanislaus County Civil Grand Jury has conducted an investigation and has reached certain conclusions and made recommendations; and

**WHEREAS**, the Stanislaus County Civil Grand Jury desires to make its *FINAL REPORT* thereof;

**THEREFORE BE IT RESOLVED**, by the Stanislaus County Civil Grand Jury that the report is hereby adopted as *FINAL REPORT, PART FOUR*.

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Robert E. Johnson  
Civil Grand Jury Foreperson  
Fiscal Year 2001-2002  
Released on July 5, 2002