

EL DORADO COUNTY GRAND JURY 2019-2020



COUNTY CREDIT CARDS

CASE 19-03 • MAY 1, 2020

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The Grand Jury became aware of El Dorado County Board of Supervisors Policy D-2, *County Credit Cards*. We were concerned about potential abuse and endeavored to learn more about the County use of Credit Cards, their effectiveness and adherence to the Policy. Is an update of the policy necessary?

BACKGROUND

The County Credit Cards Policy D-2 currently states:

It is the intent of El Dorado County to utilize credit cards to make routine purchases when the normal County purchasing process cannot be utilized to make emergency and other authorized purchases within certain constraints, or when a purchase using a credit card is more cost effective to the County. This policy is intended to be used in conjunction with the County Travel Policy and the County Purchasing Ordinance 3.12.¹

An **important distinction** is that County staff, and this report, refer to credit cards as **pcards**, sometimes known as Purchase Cards. The Professional Association for the Commercial Card and Payment Industry defines a pcard:

A Purchasing Card (P-Card) is a type of Commercial Card that allows organizations to take advantage of the existing credit card infrastructure to make electronic payments for a variety of business expenses (e.g. goods and services). In the simplest terms, a P-Card is a charge card similar to a consumer credit card. However, the card-using organization must pay the card issuer in full each month, at a minimum.²

METHODOLOGY

Documents Reviewed

- County of El Dorado, Board of Supervisors Policy D-2 – County Credit Cards
- Bank of America credit card agreement with the County
- Request for Quotes for banking services including credit cards
- Bank records of annual credit card activity
- List of County issued credit cards
- Auditor/Controller *Guidelines for Administering the County Pcard Program*

¹ <https://www.edcgov.us/Government/BOS/Policies/documents/D-2.pdf>

² <https://www.napcp.org/page/WhatAreP-cards>

Websites Reviewed

- Professional Association for the Commercial Card and Payment Industry
- Government Finance Officers Association

Interviewed

- Various El Dorado County personnel and elected officials

DISCUSSION

The Government Finance Officers Association recommended in 2011 that governments explore the use of pcards to improve the efficiency of their purchasing procedures. The Association reports there are numerous benefits to utilizing pcards including:

- Convenience of purchasing without a purchase order
- Expedited delivery of goods
- Better pricing on goods
- Expanded list of merchants from whom purchases can be made
- Reduced paperwork

The Association does acknowledge a disadvantage of pcards could be the public perception that "...issuing 'credit cards' to employees could be negative, and the potential for abuse..."

The County Credit Card Policy states that County pcards are to be used for emergency and other authorized purchases or when it is more cost effective. The largest number of pcard transactions are travel related, however the most money spent by far using pcards is with non-travel vendors not directly associated with purchases by individual County employees.

Travel transactions include securing air travel, rental car and hotel reservations - and again used for payment of those services. Each is not for an extremely large dollar amount; however, the volume of travel easily makes the number of transactions higher than other pcard uses.

Vendors receiving the largest pcard payments are suppliers of bulk goods such as fuel for snow removal, sheriff, and other county operated vehicles. Bulk purchases at a Countywide level such as office copier leases and utilities like El Dorado Irrigation District and Pacific Gas & Electric are paid using pcards, represent the largest annual dollar amount.

Consumer like purchases do occur using pcards, which can be used like credit cards. A Facilities worker needing a bolt or screw can make that small purchase quickly at the local hardware store or home center using a pcard.

In fiscal year 2018/19 pcards were used to pay approximately 26% of vendor invoices. Over the last five fiscal years, 2014/15 through 2018/19, the average number of pcard transactions was 14,481 averaging \$8,446,124 annually. Use of pcards is an important component of El Dorado County fiscal policy. Several interviewees expect pcard use will increase in the future as the business community moves away from paper checks.

The Auditor/Controller’s office issues pcards in accordance with the County Credit Card Policy. The policy states: “Assigned credit cards may be issued to elected officials and Department Heads. Additional credit cards and credit cards for County employees may be authorized by the Chief Administrative Officer...” Department heads may request a pcard for themselves or their employees. After approval by the Chief Administrative Office (CAO) the request is forwarded to the Auditor/Controller for further approval and possible issuance.

Pcard credit limits are regulated by the Auditor/Controller’s office, first agreed upon during the approval process, and then adjusted as needed. Limits can be changed upon request of the department head and CAO as the need arises for anticipated expenditures. The majority of pcards are used sparingly and maintained with a nominal credit limit of \$10. As of September 2019, there were 385 pcards issued. Departments with the most pcards were:

Department	Num Pcards
Sheriff	133
Probation	90
District Attorney	46
Chief Administrative Office	37
Health & Human Services	21

Pcards by Department 9/2019

Departments that spent the most using pcards in fiscal 2018/19 were:

Department	Spending (\$)
Sheriff	2,456,339
Community Development	1,892,154
Health & Human Services	1,481,776
Chief Administrative Office	1,282,282
Probation	513,905

Pcard Spending FY 2018/19

Pcard transactions differ from all other vendor transactions only in the timeliness of payment. Pcard transactions are paid to the vendor expeditiously by the bank. County processing encompasses approval by the department that initiated the transaction before forwarding it to a fiscal office. Some County departments maintain their own fiscal office while the CAO handles multiple departments that do not. The Credit Card Policy states that after department approval all pcard transactions go to the CAO for approval before forwarding on to the Auditor/Controller. This step is inconsistently followed.

When a transaction invoice agrees with County purchasing or travel policy and matches the dollar amount charged to the County by the bank, the invoice is posted to the County ledger. Any discrepancies noted by the Auditor/Controller's office cause the invoice to be returned to the department for resolution.

Non pcard transactions follow the same approval process. However, they are processed by the Auditor/Controller's office in a more expeditious manner to ensure timely payment to the vendor by check or electronic money transfer. Slow payment of non pcard transactions could potentially cause late fees and affect vendor relationships.

Because pcard vendors have already been paid by the bank, pcard transaction processing receives a lower priority. Every two to three weeks the Auditor/Controller sends each fiscal office a list of pcard transactions not yet matched with approved invoices. Fiscal offices then match those transactions with their records as described above. Pcard processing is often backlogged depending on the workload. When problems do arise, older transactions are more difficult to resolve. The table below shows the average number of days to complete pcard processing and the maximum number of days a pcard transaction was open before being resolved.

Department	Avg Days to Process	Max Days Open Pcard Transaction
Sheriff	100	326
Chief Administrative Office	61	263
Community Development	44	286
Health & Human Services	57	195
Probation	61	220

Transactions by Department FY 2018/19

Slow processing of pcard transactions costs the County in staff time. The Auditor/Controller's office spends time following up on open transactions. Departments spend more time on older transactions. Over time, transaction details become more time consuming to process. All pcard transactions must be resolved at fiscal year-end before final year-end fiscal reports can be completed. Open pcard transactions are a part of any year-end backlog. The delay in processing pcard transactions can play a part in the (un)timely approval of new budgets. The Board of Supervisors cannot approve a final budget for a new fiscal year until the previous year is officially closed.

It is the Auditor/Controller's policy to delay processing a pcard transaction when there is any discrepancy between the backup paperwork and the bank transaction, no matter how small. At times, tracking down minor discrepancies requires significant staff time which is not cost efficient. Giving managers the ability to approve transactions with minor discrepancies would save the County money.

The Grand Jury interviewed a broad spectrum of County personnel involved with pcard transactions ranging from clerks doing the daily processing to managers and elected officials. When questioned about fraudulent use of pcards, the consistent answer was *it does not happen*. County employees entrusted with a pcard take that responsibility seriously and do not abuse the pcard. However, holders of pcards do need to be reminded about the importance of promptly completing paperwork associated with a pcard transaction.

The Grand Jury acknowledges the dedication and thoroughness of the Auditor/Controller's office and County department fiscal offices in their processing of pcard transactions.

The Credit Card Policy states that an agreement with a financial institution will be solicited at least every five years. This has been done and the current agreement is with Bank of America. The agreement includes a rebate schedule for pcard use. The dollar amount of rebates depends on several factors and is not a consistent percentage of the individual purchases. Rebates are returned to the County General Fund as general revenue for non-specific purposes. Rebates for the past five years are:

Year	Rebate (\$)
2019	68,279
2018	68,842
2017	67,428
2016	68,172
2015	70,377

Pcard Rebates

FINDINGS

- F1. County Credit Card Policy D-2 was last revised in 2003 and is outdated.
- F2. Pcards are appropriately issued to County employees with strict rules on issuance and use.
- F3. Pcard transaction processing has lower priority in fiscal offices because the vendor has already been paid.
- F4. Delays in processing pcard transactions cause additional work and expense for the County.
- F5. Fraudulent or improper use of County issued pcards is not a problem.
- F6. The County receives a rebate from the issuing financial institution for the use of pcards. The average annual rebate received in the last five years is \$68,620.
- F7. The Auditor/Controller's Office spends an inordinate amount of time resolving minor discrepancies between transaction detail and the bank charge.

RECOMMENDATIONS

- R1. The CAO's office, with the cooperation of the Auditor/Controller's office, should revise the County Credit Card policy to better reflect current practices.
- R2. The Board of Supervisors should stress to County department heads that pcard transactions must be processed in a timely fashion.
- R3. The Auditor/Controller should review and determine a transaction discrepancy amount that can be authorized by managers that will reduce excessive staff time.

REQUEST FOR RESPONSES

This Grand Jury report is an account of an investigation or review. It contains findings and recommendations, and names those who should respond to each finding and each recommendation pertaining to matters under the respondent's control.

Please review *Responding to a Grand Jury Report*, a separate document included with this report.

Responses are requested in accordance with California Penal Code §933 and §933.05.

- Responses to F1, F4, R1 and R2 are required from the Board of Supervisors.
- Responses to F1, F4, F7, R1 and R3 are required from the Auditor/Controller.