



# HARFORD COUNTY, MARYLAND

## Office of the County Auditor

December 27, 2012

Honorable Members of the County Council  
Harford County, Maryland  
18 Office St.  
Bel Air, MD 21014

Dear Members:

In accordance with Section 213 of the Harford County Charter, we have performed an audit of the County's Purchase Card Controls to determine if purchasing card controls are effective and can provide assurance that purchasing requirements have been met. Additionally, we sought to determine if purchases were reasonable in cost and justification and to perform analytics to identify potentially problematic purchases.

The audit found several areas for improvement in the effectiveness and efficiency of the purchase card program. The following report details our findings and recommendations for improvement.

We would like to thank the members of management for their cooperation during the audit. While there were several findings in our audit, we noted that management is working to improve the process. In particular, the Purchase Card Coordinator and Accounts Payable Supervisor had identified deficiencies in the program and have been developing new procedures. In some cases, the audit findings served to quantify matters they had identified. We hope the audit recommendations will help management continue to identify and address potential risks before they become problems.

The audit team is available to respond to any questions you have regarding the attached report.

Sincerely,

Chrystal Brooks, CPA, CGFM, CIA, CISA, CGAP  
County Auditor

cc: Mr. David Craig, County Executive  
Ms. Kathryn Hewitt, Treasurer  
Ms. Deborah Henderson, Director of Procurement

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## HARFORD COUNTY, MARYLAND Office of the County Auditor

### **AUDIT OF PURCHASE CARD CONTROLS**

Period Covered:  
**07/01/2010 through 06/30/2012**

**Report Number: 2012-A-05**

Date Issued:  
**12/27/2012**

#### **Audit Team:**

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## **EXECUTIVE SUMMARY**

Audit of Purchase Card Controls  
Period: 07/01/2010 through 06/30/2012

This audit assessed if Harford County Government's (the County) purchasing card controls are effective and if the controls can provide assurance that County purchasing requirements have been met. Purchasing card transactions are governed by County procurement laws and regulations and various County policies and procedures. The County usually uses corporate purchase cards for procuring small goods and services (under \$2,500).

The purchase card program was implemented in 2010; since then, management has worked to develop policies and procedures to facilitate the administration of this rapidly growing program. Controls over the purchase cards have not been effectively enforced to ensure that cardholders and approving officials have complied with the County's purchasing policies and procedures. For example, documentation supporting the propriety and approval of transactions was often missing or incomplete.

We determined that the County's purchasing card controls are generally improving but controls have not been effectively enforced to ensure that cardholders and approving officials have complied with the County's purchasing policies and procedures. The purchase card program has eased the procurement process, but requires additional administration to ensure that the program is not abused.

## **BACKGROUND INFORMATION**

### **INTRODUCTION**

Harford County (the County) uses corporate purchase cards (CPC) to simplify and expedite the process for procuring goods and services under \$2,500. The program is intended to follow the guidance provided by County Code Chapter 41 - Procurement and policies from the Department of Procurement. Bank of America serves as the program provider under the State of Maryland Comptroller's contract for purchase card services. Within Harford County, the program is administered by a purchase card coordinator (PCC) who is part of the Department of Procurement. The PCC is responsible for setting up and revoking accounts, reviewing, at a high level, transactions for reasonableness and supporting documentation for completeness.

Departments are responsible for filling out CPC applications, setting appropriate dollar purchase limits for each CPC card requested, and reviewing all charges billed to the Cardholder's card to ensure charges are verified, appropriate, and reconciled. CPC cards are ultimately approved by the PCC. Prior to card issuance, cardholders and approving officials must sign a cardholder agreement and participate in the required training. Each month, cardholders must submit their purchase card activity logs and appropriate support for each transaction to their assigned supervisor for approval of purchases. Effective June 2012, the original documentation of this review is required to be sent to Accounts Payable, in accordance with Harford County Government's Corporate Purchasing Card Program Policy and Procedures. This policy requires cardholders to be accountable for their purchases and ensure that proper accounting exists for the related transactions. Without appropriate review by the Approving Official, cardholders may make purchases that are not prudent and necessary. Through effective controls, a department can safeguard assets, prevent, detect, and correct errors and irregularities, ensure reliability of financial information, ensure compliance with the policies and procedures, and maintain appropriate records in a safe and secure location.

This subject matter has not been audited in the past.

### **KEY STATISTICS**

In our planning for this audit, we found that Harford County had 138 actively used purchasing cards as of the June 27, 2012 purchase card statement. There were a total of 189 open purchasing card accounts on that date. During the 24 month review period, Harford County purchase cards logged more than 20,000 transactions, which amounted to approximately \$3 million. The card purchases in fiscal years 2011 and 2012 amounted to approximately \$1,050,000 and \$1,950,000, respectively.

## **REVIEW OBJECTIVE, SCOPE AND METHODOLOGY**

The objective of this audit was to determine if Harford County's corporate purchase card program has sufficient controls in place to ensure that purchases are proper, allowable and correctly allocated for financial reporting. The scope was limited to the controls over approving and reviewing cardholders, transactions, and related accounting. This audit did not include a complete evaluation of internal control, but instead, relied on substantive testing to support conclusions. Due to the narrow scope of this review, our evaluation of internal control was limited to those areas noted above. This lack of a complete review of internal control did not affect our achievement of the audit objective.

The audit focused on activity during the period of 07/01/2010 through 06/30/2012. We opted to follow the audit program provided by U.S. General Accounting Office Audit Guide *GAO-04-87G: Auditing and Investigating the Internal Control of Government Purchase Card Programs*. Our audit procedures included interviews, observation and testing. Specifically, we met with employees responsible for the administration of the purchase card process and managers that supervise, or are themselves, cardholders.

We selected a random sample of cardholders to test certain attributes related to the issuance of cards and to test the review of monthly purchase card logs. For our transaction testing, we selected a random sample of transactions, but also selected a sample of transactions in high-risk categories. We believe our sample of monthly cardholder logs and transactions is a fair representation of the purchase card activity and purchase card risk areas.

The controls related to the Bank of America WORKS system were reviewed using reports provided by management. We were not granted "Auditor" level access to the system, as requested. This did not present a scope limitation for this audit, but will hinder our ability to perform follow-up and continuous auditing procedures.

After we completed our audit procedures, we identified ten purchase card accounts, with purchases in excess of \$139,600, which are outside of the County's purchase card program. Those cards are held by officials within the Sheriff's and State's Attorney's Offices. Because these purchases were not subjected to the County's controls, we will test the controls for these accounts in a supplemental audit.

The audit was performed in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## REVIEW RESULTS

Harford County management is responsible for establishing and maintaining effective internal controls. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets and compliance with applicable laws, rules and regulations are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected.

Our audit procedures disclosed that controls have not been effectively enforced to ensure that cardholders and approving officials have complied with the County's purchasing policies and procedures. For example, we noted documentation for purchase card transactions was not sufficient to support the necessity, appropriateness and approval of purchases and required some additional explanation to clearly show the business purpose of the transactions. We noted instances of transactions that were not clear violations of the County Code or policies, but did not meet a "prudent person" standard. Those transactions generally indicated areas for improvement or clarification of the County's policies. Furthermore, we noted cardholders were receiving personal benefits through rewards programs for purchases made with their County purchase card.

Additionally, we noted many instances of purchase card logs that were not completed or approved by a cardholder's supervisor. Without appropriate review by the Approving Official, cardholders may make purchases that are not prudent and necessary. There were sporadic instances of card use for personal purchases, including several airfare purchases for an employee's spouse, who is not a county employee. We were only able to identify reimbursements from the cardholder for a portion of the purchases.

All cardholders must be held accountable with regard to their purchases. This type of purchasing activity highlights the need for each cardholder to have an approving official. The County's Procurement Law requires purchasers to act in the best interest of the County. Harford County Code Section 41-5 Standards of Conduct reads as follows:

"All county personnel engaged in procurement and related activities shall conduct business dealings with contractors in a manner above reproach in every respect. Transactions relating to the expenditure of public funds require the highest degree of public trust to protect the interests of the county. The official conduct of county personnel engaged in procurement and related activities must be such that the individual would have no reticence about making a full public disclosure thereof."

Controls related to the issuance of purchase cards were ineffective. Documentation was not available to confirm that purchase cards were issued in accordance with the County's

polices. Moreover, the employee designated as the Purchasing Card Program Administrator had the ability to order new cards, had access to new cards after they were received from the bank, and had administrative access to establish cardholder capabilities (for example, to allow cardholders to approve their own transactions). Consequently, cards could be inappropriately issued, and unauthorized purchases could be made without timely detection. Finally, there was a lack of centralized monitoring to ensure that card limits were reasonable and purchases were not being split in order to avoid more stringent procurement requirements.

Our conclusion, based on the evidence obtained, is that controls have not been effectively enforced to ensure that cardholders have complied with the County's purchasing policies and procedures. Additionally, the efficiency of the controls that have been implemented can be improved.

Management appears to be taking steps to develop new policies and enforce standards and has implemented some new policies and procedures after our audit period. The effectiveness of those changes has not been assessed.

Areas for improvement are described in the Findings and Recommendations section of this report. Management has been provided with an opportunity to respond to this report and to the findings. Management's general response is below and responses to specific recommendations are included the Findings and Recommendations section.

## **MANAGEMENT RESPONSE**

The Procurement Card Program in Harford County began in 2007 and was modeled after the Howard County Program; however, the entire program consisted of the management of three cards for a period of approximately three years. The program has grown to having issued over 300 cards and has been actively managed by the current Purchasing Card Coordinator (PCC) since May of 2011. Since that time, the PCC initiated regular meetings with a counterpart in Treasury's Accounts Payable section who monitors expenditures and the bank statements in order to increase efficiencies and to strengthen the oversight necessary in the program. This, in turn, lead to revision of the program manual which was modified to provide for increased controls and oversight and will continue to evolve as necessary to improve the program.

In October 2012 training was conducted for all reconcilers and approvers in the program. During this training emphasis was placed on tighter controls and oversight within each

department and the need for the diligence required by everyone who plays a role in the administration of the program.

The ongoing process improvements identified by the PCC and Treasury were already underway at the time of the commencement of the audit. Indeed, many of the recommendations suggested by the auditors involve items that had already been recognized, addressed and coincidentally were scheduled to be implemented, prior to or concurrent with the completion of this audit.

The objectives of the Procurement Card Program were to create an easier method to purchase small items in the field; provide a mechanism for tracking and reporting small commodity/service purchases; decrease paperwork such as purchase orders and invoices; and reduce remittance time. Through the Purchasing Card Policies and Procedures Manual update and the training efforts conducted in October 2012, management has addressed many areas of concern and established tighter guidelines in an effort to prevent errors and inappropriate use of the purchase cards. Together with closer monitoring of monthly reports and more frequent review of transactions, management will continue to improve the program while continuing to provide a streamlined purchasing process.

## FINDINGS AND RECOMMENDATIONS

### **Finding Number: 2012-A-05.01 Incomplete Monthly Purchase Logs**

#### **Monthly Cardholder Logs were not always prepared and approved.**

**Analysis:** Harford County's Purchasing Card Program Policies and Procedures note, "Each department should establish internal controls sufficient to regulate its P-Card activities. The responsibility for appropriate use of the card lies not only with the Cardholder, but also with the Approving Official. The purpose of the controls is to prevent errors as well as fraudulent use of the card." This policy requires cardholders to be accountable for their purchases and ensure that proper accounting exists for the related transactions. Without appropriate review by the Approving Official, cardholders may make purchases that are not prudent and necessary.

The policies also note, "Through effective controls, a department can safeguard assets, prevent, detect, and correct errors and irregularities, ensure reliability of financial information, ensure compliance with the policies and procedures, and maintain appropriate records in a safe and secure location." And "When policy and/or procedural violation by a particular cardholder or approving official are identified, the Director of Procurement or the related department may impose various penalties from warning to suspicion of the card."

Our review of purchase card transaction monthly activity logs and supporting documentation showed that some departments lacked adequate controls over their corporate purchasing cards. Cardholder monthly transaction logs and related supporting documentation, such as invoices, were not always reviewed and approved by the assigned Approving Official as required. Consequently, the departments lacked assurance that corporate card purchases were proper.

In our test of 60 monthly statements sampled from September 2010 through May 2012, we noted:

- 9 instances in which the monthly transaction log was not prepared nor were purchases approved by an approving official;
- 5 monthly transaction logs lacked adequate supporting documentation, such as receipts;
- 13 monthly transaction logs were not signed and dated by the cardholder and 13 other monthly transaction logs were not signed and dated by an approver, as required;
- 19 monthly transaction logs were not prepared by the 12th of the following month;
- 3 monthly transaction logs were signed by someone other than the cardholder; and
- 12 monthly transaction logs were signed by someone other than the assigned

approving official.

We noted 10 instances (included above as exceptions for timely preparation) in which the supporting documentation was prepared at the time of our request, but were back dated to the date the logs should have been prepared. Those matters have been referred to Human Resources for appropriate action.

After performing the above test, we were advised that prior to June 2012 cardholders were not required to submit their signed and approved logs to Accounts Payable, but that the control was implemented in June. To confirm the effectiveness of the new control, we reviewed the June purchase card statements (due in July) for each of the cardholders in our cardholder sample.

For the 38 June statements sampled, we noted the following:

- 9 instances in which the monthly transaction log was not prepared nor were transactions approved by an approving official
- 5 monthly transaction logs were not prepared in a timely fashion (prepared by the 12th of the following month)
- 7 monthly transaction logs were signed by someone other than the cardholder
- 6 monthly transaction logs were not signed and dated by an approver
- 6 monthly transaction logs were signed by someone other than the assigned approving official

We found several personal charges for one employee that were not reimbursed to the County. The monthly logs related to that employee were not approved because the employee was not assigned an approving official. In another instance, we found an employee made 4 personal charges within one month. All of the purchases were reimbursed to the County; however, this type of use should be closely monitored to be sure that it is not abusive.

Harford County's Purchase Card Program Policies and Procedures specifically require the following of Cardholders and Approvers:

Cardholders are responsible for the following:

1. Reviewing the monthly bank statement for accuracy and completeness.
2. Maintaining accurate Transaction Log Envelope(s) and sufficient required documentation for each purchase. Provide additional information on any invoice/receipt that does not clearly identify the transaction that occurred.
3. Sign Transaction Log Envelope and provide to Approving Official by the last day of each month so that their review may take place prior to Treasury's review.

Approvers are responsible for: "As part of the monthly review of Cardholder Transaction Log

Envelope(s), reconcile supporting documentation (i.e. receipts/invoices) for individual Cardholder transactions to the monthly statement. Sign the Transaction Log Envelope(s) as verification that the Cardholder's transactions were appropriate (i.e. legitimate business purpose) and were in accordance with all policies and procedures." Furthermore, effective June 2012, Approvers are required to send original cardholder transaction logs and original receipts and invoices to Accounts Payable by the 12th of the subsequent month.

**Recommendation:** We recommend management enforce existing procedures related to review and approval of cardholders' transactions and logs, and enforce related consequences for cardholders and approvers who do not comply with the purchase card guidelines. We additionally recommend that the cardholder log template be revised to include a space for the cardholder's acknowledgement of the appropriateness of their purchases and the completeness of their documentation. Finally, we recommend review of the aforementioned personal purchases and corrective action, as appropriate.

**Management Response:** Management agrees with the recommendation and had already implemented a process of re-training all of those individuals involved with the program. The revised manual, available online, reflects an emphasis on the need for approval of transactions and the importance of proper documentation for all transactions. All purchases will be reviewed monthly by the PCC in conjunction with the Director of Procurement. Persons who are responsible for non-compliance will be counseled and reminded of their responsibilities to the program and may be referred for remedial training or disciplinary action.

**Expected Completion Date:** Ongoing

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#### **Finding Number: 2012-A-05.02 Insufficient Support for Purchase Card Transactions**

**Documentation for purchase card transactions was not sufficient to support the necessity, appropriateness and approval of purchases.**

**Analysis:** Our test of 658 transactions disclosed that, 100 transactions were missing appropriate supporting documentation (i.e., itemized receipt) to support the necessity, appropriateness, and approval of the purchase.

Most commonly, we noted:

- Transactions were missing receipts (49).
- Receipts were not itemized (21).
- Cardholders did not clearly document the business purpose for transactions (31).
- Meal receipts did not indicate who attended the meal (17). The names of the meal attendees are important because the County has set limits for meal reimbursements;

many receipts did not include this information, but clarifying information was provided by management for all but 1 meal.

- Transactions were coded to the incorrect sub-object for accounting purposes (79).
- Purchases that should be included in the County's inventory system, but were not (5). These items were generally small electronics such as cameras, televisions and DVD players. There is an increased risk that items may be lost or stolen when they are not labeled with a County property tag and counted during a periodic inventory. These purchases have been referred to Risk Management for follow-up.

Harford County's Purchase Card Procedure Manual requires: "An itemized receipt must support each transaction. The preferred documentation is listed below in order of preference:

1. An original, itemized receipt/invoice from the vendor including: Vendor Name, Transaction Amount, Date, Itemized description of item(s) purchased.
2. A screen-print or order confirmation e-mail, when making Internet purchases, or a copy of an order form that was mailed to a vendor to request an item."

Management did not have a policy in place regarding the purchase of gasoline for County vehicles. We noted 18 instances of gasoline purchased locally. Generally, county vehicles should be refueled from County pumps because the County has negotiated lower than market rates for fuel.

**Recommendation:** We recommend management require cardholders to provide sufficient documentation to support the propriety of all transactions. We also recommend all cardholders and approving officials receive refresher training regarding the purchase card program, so that they will be aware of the documentation and approval requirements for purchases. Finally, we recommend that consequences for inappropriate purchase card use be enforced systematically.

**Management Response:** Management agrees with the recommendation and completed the refresher training as of 10/31/2012. Each department will be reminded of the responsibilities of cardholders and approving officials on an ongoing basis including the requirement to obtain fuel from County pumps when they are in service.

**Expected Completion Date:** Refresher training was completed 10/31/2012

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#### **Finding Number: 2012-A-05.03 Insufficient Support for Card Issuance**

**Documentation was not available to confirm that purchase cards were properly issued in accordance with the County's Policies.**

**Analysis:** Controls related to the issuance of purchase cards may be ineffective. Although, the policies provide a framework for effective card issuance, they may not have been followed or enforced. Specifically, in our test of 45 cardholders, we noted the following:

- 11 applications were not approved by appropriate personnel (i.e., approving official, department head, and P-Card Coordinator);
- 30 cards did not have proper documentation showing receipt of card by the assigned cardholder;
- Documentation of training was not available for any of the cardholders or approvers; and
- 1 Cardholder was not assigned an approving official.

The Purchase Card Program Policies and Procedures require the following when issuing cards:

- “Purchase card application must be completed and approved and returned to the P-Card Coordinator before the P-Card is ordered.
- Approving officials and Cardholders must participate in the required training and sign the Cardholder Agreement before a card will be issued.
- Cardholders must pick up the card in person from the P-Card Coordinator.”

Cardholders and approvers who have not been thoroughly trained on their responsibilities may make or allow purchases that are in violation of County policies or laws. Additionally, when cardholders are not assigned an approving authority, they may not maintain the same high standards as a cardholder who expects close scrutiny for every transaction. To promote accountability and fairness, every cardholder must have an approving official. The approver should be someone who supervises the employee and has a working knowledge of the materials needed by the cardholder. In the case of a Department Head or other high ranking or elected official, the Approving Official should be someone who has the authority to make or approve large purchases and the objectivity to follow-up on inappropriate purchases.

**Recommendation:** We recommend management ensure that all current cardholders are assigned an approving official. We also recommend that all required approvals are obtained prior to the issuance of the card. This information should be documented on the cardholder application. To improve cardholder accountability, we further recommend that management standardize the training (and re-training) that is provided to cardholders and approvers, and maintain documentation of such training.

**Management Response:** Management agrees with the recommendation. The cardholders have been reminded of their assignment of an approving official. Consideration will be given to including additional requirements prior to the issuance of a card and revocation of card privileges for lack of use.

**Expected Completion Date:** Ongoing

**Finding Number: 2012-A-05.04 Cardholder Spending Limit Review**

**Monthly cardholder limits have not been reviewed for appropriateness.**

**Analysis:** Per the County's Purchase Card Policies and Procedures, "Each department is responsible for setting the single (per transaction) and the monthly maximum [spending] limits commensurate with the individual Cardholder's responsibilities and purchasing activity. Single, per transaction limits may be set up to but no greater than \$2,500.00. Annually, the P-Card Coordinator will analyze Cardholder activity to determine that dollar limits are consistent with usage. Where exceptions are noted, the P-Card Coordinator will work with the department to set appropriate limits."

Our review of spending activity for cardholders showed that most cardholders use only a small percentage of their assigned credit limit. As a result, each month, Harford County's potential exposure for unauthorized purchase card transactions is more than \$1.1 million greater than its average spending. For the accounts that were active as of 6/30/2012:

- Monthly limits total \$1,268,000, while average spending is approximately \$163,400 or 12.9% of the limit.
- Only 3% of cardholders regularly use 50% of their limit.
- Only 20% have ever used more than 75% of their limit.
- Half (50%) of the active cardholders have never spent more than 30% of their monthly credit limit.
- Most cardholders' (66%) average use is less than 15% of their monthly credit limit.
- There were 29 cardholders, with limits totaling \$163,500, who had never used their cards.
- Annual credit limit reviews of prior spending were not documented for any cardholders and were likely not performed for most of the active cardholders.

We surveyed the County's department heads to determine their procedures for reviewing purchase card limits and noted that only a few departments, related to 16 purchase cards, review limits informally and no departments maintained documentation of the review. Responses to the survey indicated that managers were primarily concerned with making sure that limits were high enough to prevent purchases from being declined by the bank, but had not considered that high spending limits increase the risk for misuse of a purchase card. Additionally, user departments relied on the Procurement Department to determine appropriate limits, while the Procurement Department, by policy, relied on the departments to determine user needs.

**Recommendation:** We recommend management review and adjust, if necessary, cardholder spending limits at least annually, in accordance with the County's policies, to ensure that the County's exposure to misappropriation is limited.

**Management Response:** Management agrees with this recommendation and will review limits and compare the established history of card use to the cardholder application for compatibility with departmental and program objectives.

**Expected Completion Date:** 03/31/2013

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**Finding Number: 2012-A-05.05 Vendor Purchases Exceed \$25,000**

**Several vendors had total annual purchases exceeding \$25,000, without soliciting competitive bids and entering into a written contract, as required.**

**Analysis:** Per Section 41-14 of the Harford County Code, "Except as otherwise provided herein, all purchases of and contracts for supplies and contractual services, in an amount of \$25,000 or more, shall be based on competitive bids.". This policy is in place to ensure the County's procurements are fair and competitive. We analyzed the purchase card transactions to identify trends in vendor selection. We determined that 11 vendors had annual purchases exceeding the \$25,000 threshold. The total purchases for the 11 exceptions noted were approximately \$567,500. In some cases, the vendor totals include a combination of purchase cards and invoice payments. Three of the vendors had total purchases exceeding \$50,000, which is the level that would require Board of Estimates approval.

There is not currently a process in place to monitor purchase card transactions by vendor. However, many of the purchases for these vendors were related to materials and supplies or professional services and could be reasonably estimated to exceed the \$25,000 threshold within a year. When a significant amount of purchases are made without competitive bid, items may be purchased at higher than market prices or may not adhere to the County's quality standards.

**Recommendation:** We recommend management implement a process to monitor total purchases for each vendor and initiate solicitations for requirements estimated to exceed \$25,000.

**Management Response:** Management agrees with the recommendation and will develop a system to monitor all purchases, card and non-card, by vendor in order to identify cumulative purchases prior to reaching the appropriate thresholds. Additionally, through refresher training, management will remind program participants of their obligation to respect these limits.

**Expected Completion Date:** 03/31/2013

**Finding Number: 2012-A-05.06 Split Purchases**

**Purchases in excess of the single purchase limit were split into multiple purchases to avoid the single transaction spending limit of \$2,500 and/or to avoid more stringent procurement requirements.**

**Analysis:** We identified two (2) instances (related to 10 transactions) in which the single transaction limit was exceeded by splitting the purchase into multiple transactions. Per the purchase card policy manual, "Each department is responsible for setting the single (per transaction) and the monthly maximum limits commensurate with the individual Cardholder's responsibilities and purchasing activity. Single, per transaction limits may be set up to but no greater than \$2,500.00."

When purchases will exceed the single transaction limit, they must be approved by the Department of Procurement and the purchase card may not be used. This control helps reduce the County's exposure to inappropriate transactions and facilitates the review of purchases that require price quotes or bids. Splitting transactions circumvents the review process for large transactions and can allow cardholders to violate the County's procurement policies.

**Recommendation:** We recommend management reiterate to cardholders and approvers that splitting transactions is not allowed and that purchases over \$2,500 may not be made using a purchase card.

**Management Response:** Management agrees with this recommendation and has reiterated these requirements to cardholders and approvers in the training conducted in October of 2012.

**Expected Completion Date:** 10/31/2012

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**Finding Number: 2012-A-05.07 Missing Travel Approvals**

**Approval of travel, including airfare and hotels, was not always documented.**

**Analysis:** Of the 658 transactions we tested, 158 were related to hotel and travel/transportation costs. For those transactions, we noted that 61 were missing documentation of prior approval for the travel as required. As we reviewed the purchase card logs for these transactions, we noted that many did not include the Director of Administration's approval. However, we found that some approval documents were maintained by the departments and were available for us to review.

Within the 158 transactions, we noted several travel charges which were personal in nature. Specifically, we noted 13 airfare charges for an employee's spouse; we were able to confirm that the County was reimbursed for 2 of them. We also noted 12 instances of hotel stays in Central Maryland or Washington, DC and 21 purchases that included personal convenience charges such as airline early check-in fees. Harford County's policies do not specify whether those charges are allowable.

The Harford County Procedure for Accounts Payable Documents indicates "Department head approval is required for all conferences, seminars and travel. The Director of Administration's approval is required for all out of State conferences, seminars and travel, if County funds are used." It additionally notes, "Registrations for out of State seminars and conferences should include written approval from the Director of Administration, only if County funds are needed" and "Expense Reports must be submitted with all applicable receipts and mileage logs attached. Reimbursement of expenses related to out of town conferences and seminars must include a copy of prior approval from the Director of Administration or the appropriate authority."

**Recommendation:** We recommend the purchase card procedure be updated to require cardholders to include their travel approval documentation with their travel receipts each month. We additionally recommend management create a policy that defines "out of town" travel, clarifies allowable "transportation expenses" and explains the documentation required for such expenses.

**Management Response:** Management agrees with this recommendation and has accomplished the removal of ambiguities and inconsistencies in the revision of the manual (Oct 2012) and the training conducted in October of 2012.

**Expected Completion Date:** 10/31/2012

**Finding Number: 2012-A-05.08 Use of Personal Rewards Accounts**

**Employees received personal benefits from the use of their County purchase cards.**

**Analysis:** We noted 11 instances of employees using their personal hotel, airline or store rewards accounts when making purchases with their County purchase cards. This is in violation of the County Code Chapter 14, Section 41-13(B), "Gifts and rebates. The Director and every officer and employee of the county are expressly prohibited from accepting, directly or indirectly, from any person to which any purchase order or contract is or might be awarded any rebate, gift, money or anything of value whatsoever, except where given for the use and benefit of the county."

Additionally, using a personal rewards card for County purchases amounts to additional income to the employee. If the payroll department is unaware of the income, it cannot be properly reported for income tax purposes.

**Recommendation:** We recommend management reinforce the importance of understanding the Procurement Code to all employees who have been authorized to make purchases on behalf of the County.

**Management Response:** Management agrees with the recommendation and has reinforced compliance in the updated manual (Oct 2012) and in the training conducted in October of 2012.

**Expected Completion Date:** 10/31/2012

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**Finding Number: 2012-A-05.09 WORKS Administrator Access**

**The system administration function within the Purchase Card system should be improved.**

**Analysis:** National Institute of Standards and Technology (NIST) issues guidance for security of information systems and networks in the form of special publications (SP). NIST SP 800-12 explains, "Effective administration of users' computer access is essential to maintaining system security. User account management focuses on identification, authentication, and access authorizations. This is augmented by the process of auditing and otherwise periodically verifying the legitimacy of current accounts and access authorizations. Finally, there are considerations involved in the timely modification or removal of access and associated issues for employees who are reassigned, promoted, or terminated, or who retire."

It further notes, "It is useful to avoid creating an excessive dependence upon any single individual, since the system will have to function during periods of absence."

Our audit disclosed the employee designated as the Purchasing Card Program Administrator had the ability to order new cards, had access to new cards after they were received from the bank, and had administrative access to establish cardholder capabilities (for example, to allow cardholders to approve their own transactions). Consequently, cards could be inappropriately issued, and unauthorized purchases could be made without timely detection.

We reviewed the system maintenance log and noted that changes to users and cards were made by appropriate users. While we did not identify any instances of inappropriate activity, preventive and detective controls should be considered to improve the reliability of the purchase card program administration.

We reviewed the user list for the purchase card administration system, WORKS, and noted that all logins are assigned to specific employees, except for a generic system administrator account. This is problematic because activity performed with this account cannot be attributed to a specific user. We were advised that the account is used by Bank of America for system support. However, administrator functions, such as creating new purchase card accounts and changing credit limits are not periodically monitored for appropriateness by an individual independent of the purchase card administrator.

We additionally noted that there is no backup system administrator. If the system administrator were unavailable, the County would be unable to perform the necessary administrative functions.

**Recommendation:** We recommend that all administrator activity be reviewed periodically by an individual other than the system administrator, generic accounts within WORKS be disabled or monitored and a backup administrator be assigned.

**Management Response:** Management agrees with the recommendation. Accounts, including the activity in the system administrator account, are monitored on a monthly basis for appropriateness by a person other than the PCC and a back-up system administrator has been assigned.

**Expected Completion Date:** 10/31/2012

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**Finding Number: 2012-A-05.10 Monthly Log Preparation Inefficiency**

**The monthly log preparation process contains some unnecessary redundancies.**

**Analysis:** Each month cardholders (or their reconcilers) and system approvers must allocate each purchase card purchase within the Bank of America system, WORKS. This allocation indicates the department and expense category for each transaction and the information is transferred electronically to the County's financial system. WORKS approvers confirm that the allocation of the expenses is correct and aligned with the department's budget constraints.

Cardholders/reconcilers are additionally required to prepare a purchase card log that includes the transaction allocations, vendor names, transaction amounts and transaction descriptions. A hard copy of the log should be signed by the cardholder and the cardholder's Approving Official (who may be different than the WORKS approver). The log, the monthly purchase card statement, and the original documentation supporting the transactions are sent to Accounts Payable in hard copy and electronically.

Entering transaction information in WORKS and in the manual log is redundant, and presents an opportunity to improve the efficiency (and probably the effectiveness) of the process. All of the information on the log can be entered into the WORKS system, including the transaction description.

We surveyed the County's department heads and received similar feedback about this process. Several feel that the manual preparation of the purchase log is redundant to the information they enter in WORKS. Some suggested that the information in WORKS should be available for download to a log. Cardholders/reconcilers do currently have the ability to export the purchase data, but they have not been trained to do so. Additionally, cardholders have not been coached to enter transaction descriptions or notes into the WORKS system. Doing so would also eliminate the need to manually enter this information on the monthly log.

The County would certainly reduce the amount of time spent on purchase card administration by eliminating the redundant data entry. Department heads generally reported that approximately 1.9 hours per month are spent on purchase card administration for every cardholder. If this amount can be reduced by 20%, it would save the County approximately 830 hours annually (an estimated \$22,800). The County might also experience an increase in the accuracy and completeness of the logs by implementing a more automated log preparation process.

**Recommendation:** We recommend that the cardholder log template and preparation process be modified to facilitate electronic preparation and reduce duplication of information.

**Management Response:** Management agrees with this recommendation to the extent that efficiencies can be obtained within a particular department. The efficiencies to be gained must be balanced with the needs of the department, the ability of the participants to interface electronically and the ease of retaining appropriate source documentation in the field or at the worksite. An electronic preparation process will be researched and departments will be given the option, if appropriate.

**Expected Completion Date:** 04/30/2013