



HARFORD COUNTY, MARYLAND

Office of the County Auditor

AUDIT OF PURCHASE CARD CONTROLS

Report Highlights

Why We Did This Audit

This audit was conducted as part of the County Auditor's risk-based Annual Audit Plan, approved by the County Council for FY2015.

What We Found

Some purchase card transactions were not supported by sufficient documentation to determine the reasonableness of the purchase.

What We Recommend

Management should enforce the purchase card procedures that are currently in place.

Report Number: 2015-A-05

Date Issued: 07/27/2015

To: Mr. Billy Boniface, Director of Administration
Ms. Karen Myers, Director of Procurement

In accordance with Section 213 of the Harford County Charter, we have performed audit procedures related to the County's Purchase Card program to determine if purchasing requirements have been met. Additionally, we sought to determine if purchases were justified and reasonable in cost and to perform analytics to identify potentially problematic purchases.

We found several purchase card transactions did not have adequate supporting documentation to support the necessity, appropriateness, and approval of the purchases.

We will continue to perform similar audit procedures throughout the year and will review the overarching program controls at the end of the calendar year. The following report is an interim update and details our findings and recommendations for improvement from December 2014 through May 2015.

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

Sincerely,

Chrystal Brooks, CPA

Chrystal Brooks
County Auditor

cc: County Council Members
County Executive Glassman



HARFORD COUNTY, MARYLAND

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REVIEW RESULTS

We have audited the County's Purchase Card Transactions for the period of 12/1/2014 through 05/26/2015. Due to the potential for abuse associated with the purchase cards, the Office of the County Auditor has been performing continuous audit procedures related to the program. Specifically, we review purchase card transactions periodically throughout the year and review overall controls for the program at least every two years. This report summarizes our results of our review of transactions from 12/1/2014 through 5/26/2015.

Our opinion, based on the evidence obtained, is that policies and procedures have not been effectively enforced to ensure the compliance of cardholders and approving officials. For example, we noted documentation for purchase card transactions was not sufficient to support the necessity, appropriateness and approval of purchases. The audit approach focused on testing the key controls that address management's objectives for the process. Conclusions drawn are below.

Risk	Expected Control	Conclusion
Cardholders use cards for personal or inappropriate purchases.	Cardholder provides sufficient documentation to justify the appropriateness of the purchase. Approving officials review the monthly purchase card logs for support by the 12 th of the following month.	Needs Improvement Needs Improvement
Purchases in excess of \$2,500 are split to avoid single use transaction limits and subsequent procurement requirements.	Policy stating "purchases may not exceed \$2,500 and may not be split to avoid more stringent procurement requirements." is followed and enforced.	Needs Improvement
Purchases are made that cannot be attributed to a specific employee.	Cardholders abide by the County policy prohibiting the sharing of cards.	Needs Improvement
Purchases exceed the \$2,500 limit, avoiding subsequent procurement requirements.	Bank of America prevents purchases from going through if they exceed \$2,500.	Satisfactory

Areas for improvement are described in the Findings and Recommendations section of this report. Management has been provided an opportunity to respond to this report; the response provided follows the Findings and Recommendations.

FINDINGS AND RECOMMENDATIONS

Finding Number: 2015-A-05.01 Insufficient Support for Purchase Card Transactions

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

Analysis: Harford County's Purchasing Card program and policies states "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 Owner/Approving Official. The purpose of the controls is to prevent errors as well as fraudulent use of the card."

Our test of 413 transactions between 12/1/14 and 5/26/15 disclosed that many transactions were missing appropriate supporting documentation to support the necessity, appropriateness, and approval of the purchases.

Most commonly, we noted:

- Receipts were not itemized (38)
- Transactions related to out-of-state hotel and travel/transportation costs lacked travel authorization (23)
- Meal receipts did not indicate who attended the meal. The names of the meal attendees are important because the County has set limits for meal reimbursements; many receipts did not include this information. (21)
- Cardholders did not clearly document the business purpose for transactions (14)
- Transactions were missing receipts (6)
- Sales tax was charged on purchases despite County sales tax exemption (4)
- Purchases were made for flowers which is against County policy (2)
- Transactions were coded to the incorrect sub-object for accounting purposes (2)
- An employee used their personal airline reward account when making purchases with their County purchase cards, which is a violation of the County Code Chapter 14, Section 41-13(B), "Gifts and rebates." (1)

Additionally, management did not have a policy in place regarding the purchase of gasoline for County vehicles. We noted 11 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.

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."

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."

These findings are repeated from prior audits as finding numbers 2012-A-05.02 and 2012-A-05.08.

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

Management Response: We are in agreement that sufficient documentation be provided, including attachment to the logs of out-of-state travel approval. In the short term, notification will be sent out to every individual cardholder, making them aware of their issues from this audit. For the long term, Marcus Williams and I will be holding mandatory PCard Refresher Training, targeted for October 2015. Procurement will be taking a more proactive role with holding all cardholders accountable for their actions and implementing consequences identified in Section IV. Of the Corporate Purchasing Card Program Policy and Procedures Manual.

Expected Completion Date: Training to be complete 10/31/15. Accountability, on-going.

Finding Number: 2015-A-05.02 Split Purchase

Purchases were split which circumvented the single transaction spending limit of \$2,500 and/or avoided more stringent procurement requirements.

Analysis: We identified three instances (related to 6 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 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.

These findings are repeated from Audit 2012-A-05.

Recommendation: We again 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: This requirement will be reiterated again. Procurement was made aware ahead of time regarding the need for splitting one transaction, and approval was given; it was determined at that time that it was more efficient to split rather than changing a limit and having to change back.

Expected Completion Date: October 31, 2015

Finding Number: 2015-A-05.03 Purchase card use by non-County employee

A cardholder allowed a non-county employee to use their purchase card for board related expenses.

Analysis: A County employee allowed a member of the Cultural Arts Board to use their

County purchase card to make three purchases totaling \$207.83. These transactions included a training seminar and luncheon event for a Board employee, as well as food for an event hosted by the Board. The County is responsible for reimbursing board members for eligible expenses, however, board members should not be allowed to utilize a County purchase card and cardholders are prohibited from sharing their cards.

Purchase cards are issued to individual County employees to facilitate the purchase process for items under \$2,500. The Harford County Corporate Purchase Card Program policy states that the card should always be protected and kept in a secure location. The policy also states "The only person authorized to use the P-Card is the cardholder whose name appears on the face of the card. Under no circumstances may a Cardholder allow another individual to use his or her P-Card."

As a result of allowing a non-county employee to use a county purchase card, the County is vulnerable to increased risk of misuse of the card.

Recommendation: We recommend management reiterate to cardholders and approvers the lending of the county purchase cards is prohibited and that management enforces the policy.

Management Response: This cardholder will be contacted immediately and warned. Everyone will be reminded of this requirement during Refresher Training in October.

Expected Completion Date: August 1, 2015 for cardholder with current violation; October 31, 2015 for everyone in Refresher Training.

Finding Number: 2015-A-05.04 Timeliness of Cardholder Log Review and Approval

Monthly cardholder logs are not always prepared or approved in a timely manner to ensure purchases are appropriate and approved.

Analysis: Harford County's Purchasing Card Program Policies and Procedures note, "Each department should establish internal controls sufficient to regulate its PCard (sic) 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 showed that purchase card transaction monthly activity logs and supporting documentation, such as invoices, were not always reviewed and approved timely by the assigned Approving Official, as required. Consequently, the departments lacked assurance that purchase card transactions were proper.

In our test of 50 monthly statements sampled from December 2014 through May 2015, we noted the following:

- five (5) monthly transaction logs were not prepared and reviewed in a timely fashion (approved by the 12th of the following month),
- two (2) monthly transaction logs were not reviewed by an approving official,
- one (1) monthly transaction log was not reviewed timely, and
- one (1) log was signed but not dated so we were unable to determine if it was reviewed in a timely manner.

This finding is repeated from Audit 2012-A-05.

Recommendation: We again 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.

Management Response: A review of the current hierarchy will be completed by 9/15/15 to validate all approving officials are correct and current. The procedures will be addressed and reinforced with all attending the Refresher Training in October.

Expected Completion Date: October 31, 2015

MANAGEMENT RESPONSE

Due to reorganization and new employees on board with the County, new training and refresher training is necessary. Tighter controls/consequences are also required; many

years ago, a Procurement Agent was assigned this program responsibility; the previous Director re-assigned that role to her Administrative Secretary; I believe a Procurement Agent needs to take a more direct role again, and as of August 3, 2015, I am assigning the role to Stacy Rappold.

Also, I believe this contract needs to be reviewed and rebid again, or reviewed for a more competitive piggyback contract. Stacy will be reviewing those options prior to the end of the Calendar Year.

BACKGROUND INFORMATION

PROGRAM DESCRIPTION AND KEY STATISTICS

Harford County (the County) uses corporate purchase cards (CPC) to simplify and expedite the process for procuring goods and services under \$2,500. The Harford County Government's Corporate Purchasing Card Program Policy and Procedures requires cardholders to be accountable for their purchases and ensure that proper accounting exists for the related transactions. Cardholders are required to maintain a purchase card log which is reconciled to the Bank Statements and supporting documentation, including an itemized receipt. Cardholders must submit their purchase card activity logs and appropriate support for each transaction to their assigned supervisor for approval of purchases. 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.

In our planning for this audit, we found that Harford County had 219 actively used purchasing cards as of the May 26, 2015 purchase card statement. During our audit period, Harford County purchase cards logged more than 6,300 transactions, which amounted to approximately \$1.33 million.

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 transactions. 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. We will continue performing reviews of transactions

throughout the remainder of the year. In addition, at the end of 2015, we will evaluate the controls over approving and reviewing cardholders.

The audit focused on activity during the period of 12/1/2014 through 5/26/2015. Our audit procedures included the testing of selected transactions for supporting documentation and cardholder logs for timely completion and supervisory review and approval. 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.

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.

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 objectives.

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