



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 FY2016.

What We Found

We noted that while a control framework is in place, it can be better enforced to ensure all purchases meet County guidelines.

Report Number: 2016-A-02

Date Issued: 11/22/2016

Council Members and County Executive Glassman:

In accordance with Section 213 of the Harford County Charter, we have performed an audit of Purchase Card Controls. The audit was done to determine if purchasing requirements have been met, as well as determine if purchases were reasonable and prudent. The results of the audit, our findings and recommendations for improvement are detailed in the attached report. We would like to thank the members of management for their cooperation during the audit.

The audit found several purchase card transactions did not have adequate supporting documentation to support the necessity, appropriateness, and approval of the purchases. In addition, we noted that cardholder spending limits should be reviewed for appropriateness and reduced as necessary to limit the County's exposure to misappropriation.

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

Sincerely,

Chrystal Brooks
County Auditor

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



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REVIEW RESULTS

We have audited Purchase Card Controls for the period of 5/27/2015 through 5/28/2016. Due to the potential for abuse associated with purchase cards, the Office of the County Auditor has been performing continuous audit procedures related to the program, as well as a review of the overall controls for the program at least every two years.

Our opinion, based on the evidence obtained, is that policies and procedures have not been adequately enforced to ensure the compliance of cardholders and approving officials. 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.	Needs Improvement
	Approving officials review the monthly purchase card logs for support by the 12 th day of the following month.	Needs Improvement
Purchases in excess of \$2,500 are split to avoid single transaction limits and subsequent procurement requirements.	County policy prohibiting purchases in excess of \$2,500 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.	Satisfactory

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

FINDINGS AND CORRECTIVE ACTIONS

Finding Number: 2016-A-02.01 Unallowed or Unsupported Purchases

Some purchases were made that do not follow the County's purchase card guidelines.

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 tests of 401 transactions disclosed that 76 transactions were missing appropriate supporting documentation (i.e., itemized receipt) to support the necessity, appropriateness, and approval of the purchase or did not follow the County's guidelines for purchase card use.

Specifically, we noted:

- Transactions were missing receipts (12);
- Receipts were not itemized (9);
- Cardholders did not clearly document the business purpose for transactions (10);
- Meal receipts did not indicate who attended the meal (19);
- Unallowed purchases such as flowers, gifts, parties and fundraiser donations (20);
- Transactions were coded to the incorrect sub-object for accounting purposes (15);
- Transactions were missing approval for travel (4);
- Fuel purchased at a gas station instead of using a County fuel pump (5);
- Transactions over \$2,500 without a purchase order or quotes (6); and
- Transactions split into multiple purchases, circumventing the County's \$2,500 maximum purchase limit (7 purchases split into 16 transactions).

Similar issues have been noted in prior audits. The current number of exceptions is an improvement from prior audits.

Management Response: The Department of Procurement, along with Treasury, will continue to train cardholders and approvers on the do's and don'ts of the procurement card program. We will continue to hold annual pcard training sessions, and are exploring an option to hold on-line training through SharePoint, where cardholders and approvers will have to take a test in order to continue to have card privileges. The Pcard Coordinator will also develop a tool to track offenses per cardholder, and will proactively review monthly reports to monitor usage.

Expected Completion Date: On-going

Finding Number: 2016-A-02.02 Timeliness of Cardholder Log Review and Approval

Cardholder logs were not always prepared and/or reviewed in a timely manner.

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 necessary or prudent.

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 suspension 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 88 monthly statements sampled from June 2015 through May 2016, we noted the following:

- 6 monthly transaction logs lacked adequate supporting documentation, such as receipts
- 6 monthly transaction logs were not completed
- 7 monthly transaction logs were not approved by the 12th of the following month

These issues have been noted in prior audits.

Management Response: The Procurement Department, in conjunction with Treasury, will continue to train and reinforce the procedures under the procurement card program.

Expected Completion Date: On-going

Finding Number: 2016-A-02.03 Cardholder Spending Limits

Cardholder spending limits have not been reviewed for appropriateness.

Analysis: Per the County's Purchase Card Policy and Procedures 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. The P-Card Coordinator, at the request of the Cardholder's Supervisor, 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."

Based on our review of cardholder's spending activity, it appears that most cardholders only use a small percentage of their assigned credit limit. As a result, the County's potential exposure for unauthorized purchase card transactions is more than \$1.4 million greater than its average spending each month.

For accounts active as of 05/31/2016, we noted the following:

- Monthly credit limits total \$1,626,500, while average spending totals approximately \$232,023 or 14.3% of the limit.
- The highest total monthly spending in our audit period was \$319,525.
- Only 4% of cardholders regularly use 50% of their limit.
- Only 20% of cardholders have used more than 75% of their limit in a month.
- Most cardholders (64.1%) never used more than 30% of their limit during the review period.

We noted this issue in a prior audit; at that time management indicated that when assigning credit limits, supervisors are primarily concerned with making sure that limits are high enough to prevent purchases from being declined by the bank, but did not consider that high credit limits increase the risk for misuse of purchase cards. The Procurement Department, by policy, relies on the individual department heads to determine user needs.

Management Response: The Pcard Coordinator is reviewing and adjusting these limits as we feel necessary to mitigate risk to the County. She will notify those cardholders and their Directors to inform them of this requirement where applicable. However, we do not want to affect limits in a way that would cause instances where using the credit card would not be possible due to declines at the point of sale; this would defeat the purpose of the program. Limits will continue to be monitored.

Expected Completion Date: On-going

Finding Number: 2016-A-02.04 Insufficient Support for Card Issuance

Documentation was insufficient to verify that all purchase cards were properly issued in accordance with the County's policies.

Analysis: While the County has a framework for effective purchase card issuance, these policies are not always followed or enforced. The Harford County P-Card Policy and Procedures Manual states, "The P-Card application must be completed, approved, and returned to the P-Card Coordinator before the P-Card is ordered. Approvers, Reconcilers and Cardholders must participate in the required training and sign the Cardholder Agreement before a card will be issued. Training sessions will be held at various times and locations as needed."

In our review of 51 cards that were issued during the audit period, we observed the following:

- 4 instances of the Cardholder Agreement missing the signature of appropriate personnel
- 4 instances of the cardholder not signing for receipt of the card
- 2 instances of a cardholder not assigned an approving official

In addition, the current process does not require the approving officials attend training specific to their role. Cardholders and approvers who have not been appropriately trained on their responsibilities may make or allow purchases that are in violation of County policies. Also, when cardholders are not assigned an approving official, they may not maintain the same high standards as a cardholder who expects close scrutiny for every transaction.

Management Response: The Pcard Coordinator will ensure that these steps are followed.

Expected Completion Date: On-going

MANAGEMENT RESPONSE

The Department of Procurement and Treasury will be meeting every other month to review reports and cardholder logs to ensure proper practices are addressed. This proactive approach will help to manage cardholder and approver behavior that is not in-line with required procedures. Warnings and suspensions will be adhered to per the Procurement Card Manual. A review of the Manual will take place first quarter of calendar year 2017 to ensure that it is up to date.

Split purchases are sometimes allowed at the discretion of the Director of Procurement; we will document these allowances via email. Permission is given usually under emergency circumstances.

As mentioned in responses throughout this document, training will continue on proper procedures and processes.

BACKGROUND INFORMATION

PROGRAM DESCRIPTION AND KEY STATISTICS

Harford County uses corporate purchase cards to simplify and expedite the process for procuring goods and services under \$2,500. The County'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 assigned 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.

Upon review, we found that Harford County had 198 actively used purchase cards as of May 28, 2016. During the review period, Harford County purchase cards logged more than 13,000 transactions, which amounted to approximately \$2.8 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, as well as the controls over approving and reviewing cardholders and spending limits. 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 controls did not affect our achievement of the audit objective.

The audit focused on activity during the period of 5/27/2015 through 5/28/2016. Our audit procedures included the testing of selected transactions for supporting documentation and cardholders 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.

Audit Team:

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