



HARFORD COUNTY, MARYLAND

Office of the County Auditor

February 22, 2012

Honorable Members of the County Council
Harford County, Maryland
212 S. Bond Street
Second Floor
Bel Air, MD 21014

Dear Council Members:

In accordance with Section 213 of the Harford County Charter, we have performed a supplemental 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. The results of that audit are detailed in the attached report.

The audit found most of the same issues that were identified in the prior purchase card audit. We noted that the accounts reviewed for this audit were general business accounts and were subject to interest and late payment fees. We have recommended that the Sheriff's Office migrate as many cards as possible to the County's central purchase card program to avoid those fees.

The following report summarizes our findings and recommendations for improvement. We would like to thank the members of management for their cooperation during the audit. 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
Mr. Jesse Bane, Sheriff
Mr. Joseph Cassilly, State's Attorney
Ms. Deborah Henderson, Director of Procurement

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HARFORD COUNTY, MARYLAND
Office of the County Auditor

**AUDIT OF PURCHASE CARD CONTROLS -
SUPPLEMENTAL PROCEDURES**

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

Report Number: 2012-A-06

Date Issued:
02/22/2012

Audit Team:

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County Auditor

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BACKGROUND INFORMATION

INTRODUCTION

In December 2012, the Office of the County Auditor issued a report on Purchase Card Controls (Report Number 2012-A-05). Subsequently, a determination was made to perform supplemental audit procedures to address the controls related to ten purchase card accounts that were managed separately from the County's central purchase card program.

Prior to the County's centralized purchase card program, the State's Attorney's Office and Sheriff's Office began using credit card accounts as a payment mechanism for some of their purchases. The monthly invoices were submitted to Accounts Payable for payment. There were no standards for the documentation required to pay the bills. As elected officials, the State's Attorney and Sheriff (and their respective Offices) are not under the direction of the County Government. They have the authority to create and implement policies and procedures that differ from those followed by the County.

This report summarizes the supplemental audit procedures.

KEY STATISTICS

There were ten purchase cards included in the scope of this audit. They are distributed between the State's Attorney's Office and the Sheriff's Office as summarized below:

	Number of Cards	FY2011 and FY2012 Amount of Spending
State's Attorney	3	\$ 14,223.96
Sheriff	7	125,403.28
Total	10	\$ 139,627.24

The State's Attorney's Office no longer uses these accounts; the Sheriff's Office continues to use 6 cards.

REVIEW OBJECTIVE, SCOPE AND METHODOLOGY

The objective of this audit was to determine if sufficient controls are in place to ensure that credit card purchases made outside of the Bank of America purchase card program 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 used best practices for governmental purchase card programs to evaluate the controls identified. The audit criteria were based on the Harford County Code and Policies and Procedures and consideration of any documented policies and procedures that were implemented by the Sheriff or State's Attorney. 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. Given the relatively small number of accounts involved in this supplemental audit, we reviewed most of the related transactions for all of the accounts.

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.

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 procedures disclosed many of the same issues that were noted in the primary audit, such as missing sufficient documentation to support the necessity, appropriateness, and approval of the purchase. In addition to the issues noted previously, we noted that these accounts are commercial accounts that incur interest and penalty charges. This is not the case with the County's centralized purchase card program.

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.

Areas for improvement are described in the Findings and Recommendations section of this report. In some cases, the Findings duplicate those that were identified in the primary audit. These items will be merged with the other findings for follow-up purposes and have been numbered to correspond with the earlier audit. Management was provided an opportunity to respond to the recommendations; however, responses were not requested for the repeated items. Management's general response is below and a specific recommendation response is included in the Findings and Recommendations section.

MANAGEMENT RESPONSE

Harford County State's Attorney's Office

The line of credit and subsequent three cards that the State's Attorney's Office maintains with BB&T were established in October 2006, which predates the establishment of the Harford County Purchasing Card Program Policies and Procedures that our office received in October 2010. Additionally, the Purchasing Card Program Policies and Procedures were distributed at a Bank of America Purchase Card training being administered with the new County P-cards, and existing business credit cards were not discussed. Therefore, the findings of missing monthly purchase logs, non-itemized receipts, and cardholder issuance and limits that are cited in the audit, are exceptions to policies that the State's Attorney's Office were not aware existed or applied to the BB&T accounts. In addition, all but one of the exceptions occurred prior to the issuance of County policies and procedures regarding County purchasing cards. Employees were not aware of the restriction of personal rewards accounts use under County Code, but have since been notified.

The State's Attorney's Office has not used the BB&T cards for any purchases involving County funds since August 2012. The County P-cards are being used for all transactions where County funds will be applied, and all County policies and procedures are being followed for these cards.

Harford County Sheriff's Office

The Harford County Sheriff's Office has always cooperated with every State or County audit of any component of our operations involving our spending and accounting practices. We have appreciated the ability to work with your office to identify areas where we can enhance our practices in our attempt to be responsible and transparent in our spending of Harford County tax dollars. We agree with your recommendations and will, within the context of our unique organization, work to improve our protocols to address the concerns which were raised to better serve the citizens and businesses of Harford County.

FINDINGS AND RECOMMENDATIONS

Disposition: *Report*

Finding Number: 2012-A-06.00 Late Payment Fees/Finance Charges

Finance Charges and Late Payment Penalties were assessed and paid for certain purchase card accounts.

Analysis: The Sheriff's Office has a business line of credit account with Bank of America that is separate from the County's general purchase card program with Bank of America. There are business reasons for maintaining a number of the accounts. However, these accounts are standard commercial accounts, so they accrue interest on unpaid balances and are subject to late fees and penalties when the account terms are not met. The interest rates ranged from 13.99% to 15.99% per year. In our review of these accounts, we noted \$1,697.54 in interest charges and late payment fees. The charges were allocated to various accounting subobjects, including Parking and Tolls, Lodging, Fuel and Transportation Costs, among others.

We additionally noted that since these transactions are not imported to the County's general ledger from the bank, they are often recorded as allocations of the total bill amount. In some cases this results in one card swipe being split into several transactions in the general ledger. In other cases, several card swipes may be grouped into just one general ledger transaction. This can make it difficult to identify transaction level detail and confirm complete documentation.

Recommendation: We recommend that the Sheriff's Office determine a timeline to migrate as many credit card accounts as possible to the County's centralized program. For cards remaining outside of the County's program, we recommend the Sheriff's Office utilize Bank of America's online account tools to facilitate timely reconciliation of purchases and ensure that bills can be paid as promptly as possible.

Management Response: Based on the above recommendation, the Sheriff's Office will review current procedures and implement protocols to satisfy our requirements.

Expected Completion Date: 10/01/2013

Disposition: *Combined with another Issue*

Finding Number: 2012-A-06.01 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 suspension of the card."

Our review of purchase card transactions showed that these two offices did not prepare monthly activity logs for these non-county purchase cards. Even though there was an individual assigned to initiate and approve the transactions, there was no supporting documentation of this subsequent review. Within the Sheriff's Office, the transaction approval and monthly statement reconciliation are segregated processes

Recommendation: We recommend management enforce existing procedures to help ensure that supervisory personnel perform thorough reviews of cardholders' transactions to ensure all purchases are appropriate, ensure that cardholder logs and related documentation are forwarded to Accounts Payable for review and retention, 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.

Disposition: *Combined with another Issue*

Finding Number: 2012-A-06.02 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 361 transactions disclosed that, 1 State's Attorney's Office and 21 Sheriff's Office transaction receipts were not itemized. Also, 2 State's Attorney's Office transactions did not clearly document the business purpose for transactions to support the necessity, appropriateness, and approval of the purchase.

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:

- An original, itemized receipt/invoice from the vendor including: Vendor Name, Transaction Amount, Date, Itemized description of item(s) purchased.
- 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."

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.

Disposition: *Combined with another Issue*

Finding Number: 2012-A-06.03 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 10 cardholders, we noted the following:

- applications were not approved by appropriate personnel (i.e., approving official, department head, and P-Card Coordinator);

- 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
- cardholders were not assigned approving officials.

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 officials, 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 all 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.

Disposition: *Combined with another Issue*

Finding Number: 2012-A-06.04 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 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. Additionally, annual credit limit reviews of prior spending were not performed for the active cardholders.

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 appropriately limited.

Disposition: *Combined with another Issue*

Finding Number: 2012-A-06.08 Use of Personal Rewards Accounts

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

Analysis: We noted 5 (State's Attorney's Office) 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). These offices are also subject to the State Ethics Law. A January 24, 2013 summary memo from the State Ethics Commission notes "Bonus Program Points. Bonus points and similar awards offered by airlines, hotels, etc. to travelers and earned when a State employee is engaged in travel involving official State business are property of the State. They may not be retained by the employee."

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.