



# 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 FY2018.

#### What We Found

While there is a control framework in place; it can be better enforced to ensure all purchases meet County guidelines.

**Report Number:** 2018-A-10

**Date Issued:** 12/31/2018

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 objective of the audit was to determine if purchasing requirements were met and the purchases were prudent and reasonable. The results of that 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 meet County guidelines or did not have adequate supporting documentation to support the necessity, appropriateness and approval of the purchases. The issues noted have been reported in the past. We continue to suggest that management provide frequent reminders to cardholders about the program's requirements.

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

Sincerely,

A handwritten signature in cursive script that reads "Chrystal Brooks, CPA".

Chrystal Brooks  
County Auditor

#### **Audit Team:**

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

Sarah Self, CIA  
Staff Auditor

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



# HARFORD COUNTY, MARYLAND

## Office of the County Auditor

### REVIEW RESULTS

We have audited Purchase Card Controls for the period of 6/27/2017 through 6/26/2018. Due to potential for abuse associated with purchase cards, the Office of the County Auditor performs 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 conclusion, based on the evidence obtained, is that, while most purchases are reasonable and appropriate, policies and procedures have not been adequately enforced to ensure compliance with guidelines. The audit approach focused on testing the key controls that address management's objectives for the process. Conclusions drawn are below.

<b>Risk</b>	<b>Expected Control</b>	<b>Conclusion</b>
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 <sup>th</sup> day of the following month.	Needs Improvement  Satisfactory
Purchases in excess of \$2,500 do not meet procurement documentation requirements.	Only a few cardholders have single transaction limits greater than \$2,500 and all other purchasing guidelines must be followed.	Needs Improvement
Purchases are made that cannot be attributed to a specific employee.	Cardholders follow the County policy prohibiting the sharing of cards.	Satisfactory
Cards are issued to employees who are not familiar with the County policies and regulations.	Cardholders are required to complete training prior to card issuance.  Cardholders and approvers receive refresher training periodically	Satisfactory  Needs improvement

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.

## FINDINGS AND CORRECTIVE ACTIONS

### **Finding Number: 2018-A-10.01 Cardholder Training Not Completed**

**Not all County Purchase Card users have completed the required on-line training.**

**Analysis:** The Procurement department instituted a policy in April 2018 requiring all current Purchase Card users complete a Baseline training online and pass a related test. Employees who become p-card users after April 2018 are required to complete the same training prior to being issued a card. The purpose of the test is to confirm that users have reviewed and understand the Harford County Government Corporate Purchasing Card (P-Card) Program Policies and Procedures Manual. Training topics include receipt documentation requirements, sales tax exemption, spending limits, and travel authorization. Employees who became purchase card users after April 2018 are required to complete the same training prior to being issued a card. During our review, we noted that 52 of the 218 purchase card holders had not completed the online training and test.

**Recommendation:** We recommend the department have the remaining employees complete the training in a timely manner.

**Management Response:** Management provides training to all pcard holders. No employee receives a pcard until they have gone through training. The on-line training was a new tool provided by the previous Administrative Secretary. After her retirement earlier this year, her replacement and the Director both trained new cardholders in-person. We could supply the list of those who received training. Procurement will be utilizing the on-line training tool again in the near future. Providing in-person training was a more in-depth way to train the new Administrative Secretary on the program.

## STATUS OF PRIOR AUDIT FINDINGS

We have reviewed the issues reported in prior purchase card audits. Current conclusions for the findings included in audit reports 2015-A-05 and 2016-A-02 are noted below.

Previously, we noted “Documentation for purchase card transactions was not sufficient to support the necessity, appropriateness and approval of purchases.” In the current review, we found that purchases continue to have missing support. For example, some purchases receipts were missing or were not itemized; some did not include a business purpose for the purchase and some did not have confirmation of approval for travel. Details of the exceptions we noted have been provided to management. *This issue remains open.*

Previously, we noted “Purchases were split which circumvented the single transaction spending limit of \$2,500 and/or avoided more stringent procurement requirements.” In the current review, we did not find any instances of split transactions. *This issue has been closed.*

Previously, we noted “Monthly cardholder logs are not always approved in a timely manner to ensure purchases are appropriate and approved.” In the current review, the occurrence of late log submissions was low enough to have little impact on operations. *This issue has been closed.*

Previously, we noted “Cardholder spending limits have not been reviewed for appropriateness.” In the current review, we found evidence that cardholder limits have been reviewed and adjusted based upon the review. *This issue has been closed.*

## **MANAGEMENT RESPONSE**

Management will focus on an approach to better manage refresher training for existing card holders. However, management does not agree with the note regarding appropriateness/approval of purchases. Appropriateness and approval of purchases is at the discretion of management. With regards to confirmation of approval for travel, Procurement does not validate the travel approval given to departments. All travel for County Government Service agencies are approved by the Director of Administration. For County funded State agencies (Elections, Sheriff’s Office, etc.) travel approval is at the discretion of the agency head. Procurement will discuss/review in-house travel approval documentation.

## **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. During the review period, Harford County purchase cards were used for more than 13,500 transactions, totaling approximately \$3.1 million. The County had 218 active purchase cards as of June 2018.

The County’s Corporate Purchasing Card Program Policies 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 approver, 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.

**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 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 objectives.

The audit focused on activity during the period of 6/27/2017 through 6/26/2018. Our audit procedures included testing a selection of transactions for supporting documentation and cardholder logs for timely completion, supervisory review and approval. For our transaction testing, we selected a random sample of transactions, as well as 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.

Every other year, we review the program-wide purchase card controls to ensure that they are adequate. Specifically, this year, we reviewed new card issuance, cardholder spending limits, data transfer between systems and confirmed that Bank of America's processing controls had been reviewed by an external auditor.

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.