



HARFORD COUNTY, MARYLAND

Office of the County Auditor

AUDIT OF PURCHASE CARD CONTROLS

Report Number:

2022-A-10

Report Date:

9/12/2022

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 for the period of 6/28/2021 through 6/28/2022. This audit was conducted as part of the County Auditor's risk-based Annual Audit Plan approved by the County Council for fiscal year 2022.

The objective of this audit was to confirm that controls are adequate to ensure that purchase card transactions are proper, allowable, approved and correctly allocated for financial reporting purposes. The scope of this review was limited to the controls over reviewing and approving transactions, cardholder logs and related accounting. The results of the audit, our findings and recommendations for improvement are detailed in this report.

We would like to thank the members of management for their cooperation during the audit; they have been provided an opportunity to respond to this report; the response provided follows the Issues and Corrective Actions.

Sincerely,

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

Chrystal Brooks
County Auditor

CONCLUSIONS

Our opinion, based on the evidence obtained, is controls could be improved to ensure that purchase cards are used in accordance with the program guidelines and County's Procurement Code. This assessment is based on the strengths and weaknesses identified for the operational objectives below.

Business Process Objective	Assessment ⁱ
Purchase card users follow the Procurement guidelines and P-card policy manual	Generally Effective
Transactions are properly accounted for	Effective
Purchases are reviewed and approved by supervisors	Generally Effective

ISSUES AND CORRECTIVE ACTIONS

2022-A-10.01 Unallowable or Unsupported Purchases

As a part of our on-going review of Harford County's Purchasing Card program, we reviewed a random sample of 315 transactions as well as some transactions specifically chosen from high-risk categories to confirm the purchases were allowable and supporting documentation is adequate. Of those, we found a number of transactions that were either unallowable per the County's Purchase Card Procedure Manual or lacked sufficient documentation to support the necessity, appropriateness, validity, and approval of the purchases. Specifically, we noted:

- Receipts were not itemized (15) or were missing (3).
- Purchases were made for personal expenses (e.g., flowers, care packages) that are not allowed (9).

Harford County's Purchase Card Procedure Manual requires "An itemized receipt must support each transaction." Further, the Manual states, "Purchases made with the P-Card must be for expenses associated with official Harford County Government business. Use of the P-Card for unauthorized, inappropriate, or personal items is considered a misappropriation of funds which will be referred to the Internal Auditor, Treasurer and/or other Harford County Government administrators and may result in consequences as indicated in this Manual."

Cardholders that are unfamiliar with the County's Purchase Card policies increase the likelihood of spending on improper or unnecessary goods and services.

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. In addition, management may consider hosting Refresher Training for all P-Card holders.

Management Response: Procurement and Treasury will continue to train and reinforce the policies and procedures regarding P-Card purchases.

Expected Completion Date: 06/30/2023

2022-A-10.02 Untimely Cardholder Log Submission, Review and Approval

Harford County's Purchasing Card (P-Card) Program Policies and Procedures Manual note, "Original receipts, log and statement should be scanned and emailed to Accounts Payable by the 12th of the subsequent month." It continues, "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 Approver. 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.

We reviewed cardholder logs to determine if control procedures have been followed. Of the 73 logs reviewed, we found 11 purchase card monthly activity logs either were not submitted by the cardholder timely (7 instances) and/or were not reviewed and approved timely (10 instances) by the assigned Approving Official. In one of those ten instances the log was not reviewed by the Approver at all. We noted, seven of the 11 late logs were reviewed by the same Approver.

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. In addition, management may consider hosting Refresher Training for all P-Card holders.

Management Response: Procurement and Treasury will continue to train and reinforce the policies and procedures regarding P-card purchases.

Expected Completion Date: 06/30/2023

BACKGROUND, OBJECTIVES, SCOPE, AND METHODOLOGY

Harford County uses corporate purchase cards to simplify and expedite the process for procuring goods and services. During the review period, Harford County purchase cards were used for nearly 22,000 transactions, totaling approximately \$9.0 million. The County has approximately 250 active purchase cards as of September 2022.

The audit approach focused on testing the key controls that address management's objectives. The scope was limited to the routine purchase, review, and approval components of the process. We did not review the Program-Wide controls such as training, card issuance and management oversight and analysis. Our audit procedures included interviewing personnel, observation and testing as described in the table below.

Process / Control Objective	Scope of Review
Purchase Card Usage	
Cardholders follow the County Purchase Card Manual limiting purchases to only necessary and allowable transactions.	<ul style="list-style-type: none">• Searched for potentially problematic transactions such as duplicates, travel, high-risk or unallowed categories, and unusual dollar amounts, split purchases or weekends and holidays transactions
Documentation of Transactions	
Cardholders maintain sufficient documentation to justify the appropriateness of the purchase.	<ul style="list-style-type: none">• For sampled of transactions, confirmed that the purchase was appropriate and allowable• For sampled transactions, confirmed supporting documentation was complete• For sampled transactions, confirmed expense account coding was correct

Process / Control Objective	Scope of Review
Review and Approval Approving officials review the monthly purchase card logs for support by the 12th day of the following month.	<ul style="list-style-type: none">• For sampled cardholders and months, reviewed cardholder logs for completeness and timely submission• For sampled cardholder logs, confirmed the supervisor's review was completed timely

In a prior audit report, 2020-A-08, we noted "Some purchases were made that do not follow the County's purchase card guidelines." Per the Harford County Government Corporate P-Card Program Manual as of April 2019, the "P-Card may not be used in conjunction with an employee's personal club membership e.g., BJ's Wholesale Club, Sam's Club, and Costco. Harford County does not subscribe to any of these wholesale memberships and therefore the employee would need to purchase such items under their personal membership and submit for reimbursement." In the current audit, while the purchase card manual has been updated, we found some employees made purchases under their personal club memberships. *The prior issue will remain open.*

Other areas for improvement are described in the Issues and Corrective Actions section of this report.

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.

Report Distribution:	Audit Team:
Mr. Benjamin Lloyd, Director of Administration	Chrystal Brooks
Ms. Stephanie Whalon, Acting Director of Procurement	CPA, CIA, CGAP, CISA, CGFM, CRMA
	<i>County Auditor</i>
	Brad DeLauder
	CPA, CIA <i>Senior Auditor</i>

ⁱ Definitions

Effective: The design and effectiveness of the internal control environment address key risks. The business unit complies with external laws and regulations, and internal policies, procedures, and guidelines. Business processes are managed effectively resulting in achievement of expected outcomes.

Generally Effective: The design and/or effectiveness of the internal control environment generally address key risks; however, the number and severity of findings relative to the size and scope of the business unit being audited indicate that some minor areas of weakness in the control environment need to be addressed. Isolated instances of non-compliance with external laws and regulations, and internal policies, procedures and guidelines may exist. Business processes may not be managed effectively in all areas resulting in reduced achievement of expected outcomes.

Not Effective: The design and/or effectiveness of the internal control environment does not address key risks. Non-compliance or historical patterns of non-compliance with key regulatory requirements and internal policies, procedures and guidelines exist which expose the audited entity to financial, reputational, and operational risks. Business processes are not managed effectively and expected outcomes are not achieved.