



**Mecklenburg County  
Department of Internal Audit**

Department of Social Services  
Procurement Card Audit  
Report 1475

January 29, 2015

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**Internal Audit's Mission**

Through open communication, professionalism, expertise and trust, Internal Audit assists executive management and the Audit Review Committee in accomplishing the Board's objectives by bringing a systematic and disciplined approach to evaluate the effectiveness of the County's risk management, control and governance processes in the delivery of services.

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**Staff Acknowledgements**

Crystal Turner, CDFM, Auditor-In-Charge  
Eric Davis, CIA, CRMA, Senior Auditor  
Rick Kring, CISA, Information Technology Auditor

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## MECKLENBURG COUNTY Department of Internal Audit

**To:** Peggy Eagan, Director, Department of Social Services  
**From:** Joanne Prakapas, Director, Department of Internal Audit  
**Date:** January 29, 2015  
**Subject:** Department of Social Services Procurement Card Audit Report 1475

The Department of Internal Audit has completed its audit of Department of Social Services to determine whether internal controls over procurement cards effectively manage key business risks inherent to those activities. Internal Audit interviewed key personnel, observed operations, reviewed policies and procedures; performed data analytics, and tested procurement card activity from July 1, 2011 through June 30, 2014.

This audit was conducted in conformance with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### **OVERALL EVALUATION**

Overall, the risks inherent to procurement card activities were managed to an acceptable level; however, opportunities exist to improve the design and operation of some control activities.

## RISK OBSERVATION SUMMARY

The table below summarizes key inherent risks and, where applicable, related risk observations identified during the course of the audit, grouped by the associated risk factor and defined in Appendix A. The criticality or significance of each risk factor, as well as Internal Audit’s assessment of the design and operation of key controls to effectively mitigate the risks, are indicated by the color codes described in Appendix B.

RISK OBSERVATION SUMMARY			
Risk Factors and Observations	Criticality	Design	Operation
1. Policies and Procedures Risk	●	●	●
1.1 Formal Documentation			
2. Compliance Risk	●	●	●
2.1 Management Review 2.2 Document Retention			
3. Authorization Risk	●	●	●
No risk observations noted			
4. Human Resource Risk	●	●	●
No risk observations noted			
5. Accounting Risk	●	●	●
No risk observations noted			
6. Reconciliation Risk	●	●	●
No risk observations noted			
7. Segregation of Duties Risk	●	●	●
No risk observations noted			

The risk observations and management's risk mitigation strategies are discussed in detail in the attached document. Internal Audit will conduct a follow-up review at a later date to verify management's action plans have been implemented and are working as expected.

We appreciate the cooperation you and your staff provided during this audit. Please feel free to contact me at 980-314-2889 if you have any questions or concerns.

- c: County Manager
- Deputy County Manager
- Assistant County Managers
- Deputy County Attorney
- Senior County Attorney
- County Procurement Card Administrator
- Board of County Commissioners
- Audit Review Committee

## BACKGROUND

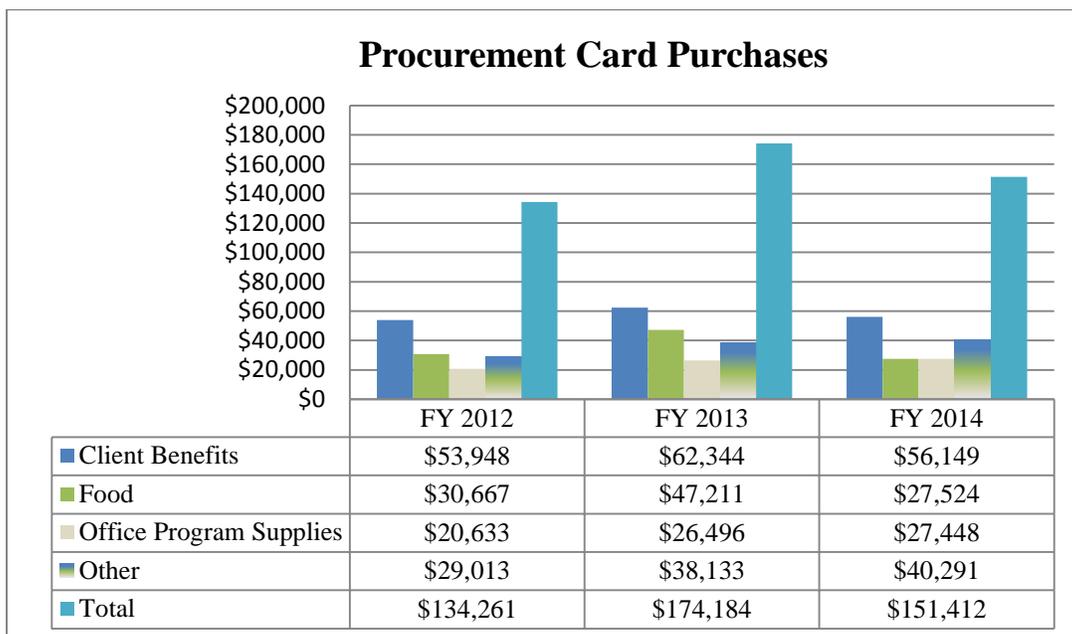
The Department of Social Services (the Department) provides a variety of economic and social services designed to sustain and/or improve the quality of life for Mecklenburg County residents. The major divisions of the Department are Economic Services, Community Resources, Services for Adults and Youth and Family Services.

### Procurement Cards

The County's Procurement Card Program (the Program) provides County departments with a convenient and flexible method of procuring and paying for purchases. The procurement card, or P-card, is administered through a major bank. The Department currently has 45 P-cards, and two Human Services Finance (HSF) staff members serve as an accountant and a program manager.

The Program participant, whose name appears on the P-card, is responsible for protecting the card and is accountable for all purchases made using the card number.

Each month the P-card holder records all purchases made on a Receipt Reconciliation Form. The form is signed by both the P-card holder's supervisor and program manager to certify their review and approval of the transactions as appropriate business expenses. The Receipt Reconciliation Form is forwarded to the HSF accountant for review and appropriate entry into WORKS, the bank's online procurement card software application. The Financial Services Division (FSD) uploads the transactions from WORKS into Advantage, the County's financial system, to record the transactions in the general ledger. The majority of the Department's P-card purchases are for client related expenses, food, and supplies. Other purchases include professional membership dues; subscriptions and books; drug supplies; maintenance and repairs; training; and non-capitalized assets. The table below illustrates the types and volume of the Department's P-card purchases between July 1, 2011 and June 30, 2014.



*Source: Auditor analysis of Advantage data, unaudited*

## COUNTY MANAGER’S OVERALL RESPONSE

The County Manager concurs with all risk mitigation strategies and timeframes for implementation.

Risk Factor	Criticality	Design	Operation
1. Policies and Procedures Risk	●	●	●

### Risk Observation

Formal Documentation—While the Department follows the County’s P-card policies and procedures, they do not have formally documented department-level procurement card policies and procedures. Yet, policies and procedures are important control activities to help ensure management’s directives are carried out while mitigating risks that may prevent the organization from achieving its objectives.

### Recommendation

- 1.1 Internal Audit recommends management develop and implement formal, documented P-card policies and procedures. The policies and procedures should include, at a minimum:
- Staff roles and responsibilities
  - Staff training requirements
  - Internal and external stakeholder communication requirements
  - Frequency of policy and procedure reviews and updates
  - Adoption of applicable County policy and procedures

### Management’s Risk Mitigation Strategy

- 1.1 The Department of Social Services will develop department specific P-card policies and procedures and will distribute to staff. The department will develop a routine review process to ensure the policies and procedures are current and up to date with the latest County P-card policy. The department specific policies and procedures will be completed by February 27, 2015.

### Risk Observation

Risk Factor	Criticality	Design	Operation
2. Compliance Risk	●	●	●

### Risk Observations

- 2.1 Inappropriate Purchases—While P-card transactions reviewed appeared to be appropriate items with a clear business purpose, there were some purchases that are prohibited by the County’s procurement card policies and procedures. For example:
- Out-of-town training registration (five transactions)
  - Club membership (one transaction)
  - Extermination service contract (one recurring transaction)

2.2 Document Retention—Documentation to evidence some compliance requirements was not maintained by the Department as required by County procedures. Specifically:

- Destruction Card Notices were not available for 24 of 30 P-cards deactivated during the review period.
- Card Holder Agreement form was not available for one P-card holder.
- Statement of Responsibility forms were not available for seven supervisors.
- New Card Holder Authorization form was not available for one P-card holder.

Failure to adequately collect, file, and retain documentation compromises management's ability to ensure control activities are functioning as intended, and may impair the department's ability to evidence compliance with County P-card policies and procedures.

### **Recommendations**

- 2.1 Internal Audit recommends management re-emphasize to P-card holders and supervisors that all purchases utilizing P-cards should be made in accordance with County policy.
- 2.2 Internal Audit recommends management re-emphasize P-card document retention requirements and ensure the department retains required documentation.

### ***Management's Risk Mitigation Strategy***

- 2.1 The Department of Social Services will re-emphasize to P-card holders and supervisors that all purchases utilizing P-cards should be made in accordance with County policy. The policy will be re-emphasized through the department policy and procedures and during staff meetings and emails to P-card holders and supervisors. The department specific policies and procedures will be completed by February 27, 2015.
- 2.2 The Department of Social Services will re-emphasize P-card document retention requirements and ensure the department retains required documentation. The policy will be re-emphasized through the department policy and procedures and during staff meetings and emails to P-card holders and supervisors. The department specific policies and procedures will be completed by February 27, 2015.

## APPENDIX A—Risk Factor Definitions

Risk Factor	Definition
Policies and Procedures Risk	Policies and procedures that are non-existent, ineffective, unclear, or outdated may result in poorly executed processes and increased operating costs.
Compliance Risk	Lack of compliance with established policies, procedures, and/or statutory requirements may result in unacceptable performance that impacts financial, operational, or customer objectives.
Authorization Risk	Failure to clearly articulate and communicate authority may result in misunderstandings, both internally and externally, regarding who has the right to commit the organization.
Human Resource Risk	Failure to attract, train, develop, deploy, and/or empower competent personnel may inhibit the organization's ability to execute, manage, and monitor key business activities.
Accounting Risk	Failure to accurately and timely record transactions may result in untimely or inaccurate compilation of information needed for financial and operational reporting and analysis.
Reconciliation Risk	Failure to consistently and completely accounts, transactions, and other activities may prevent accounting errors or omissions from being timely detected and adjusted.
Segregation of Duties Risk	Inadequate segregation of duties may allow individuals to carry out inappropriate activities without timely detection.

## APPENDIX B—Color Code Definitions

The criticality of a risk factor represents the level of potential exposure to the organization and/or to the achievement of process-level objectives before consideration of any controls in place (inherent risk).

Criticality	Significance and Priority of Action
	The inherent risk poses or could pose a <i>significant</i> level of exposure to the organization and/or to the achievement of process level objectives. Therefore, management should take immediate action to address risk observations related to this risk factor.
	The inherent risk poses or could pose a <i>moderate</i> level of exposure to the organization and/or to the achievement of process level objectives. Therefore, management should take prompt action to address risk observations related to this risk factor.
	The inherent risk poses or could pose a <i>minimal</i> level of exposure to the organization and/or to the achievement of process level objectives. Risk observations related to this risk factor, however, may provide opportunities to further reduce the risk to a more desirable level.

The assessment of the design and operation of key controls indicates Internal Audit’s judgment of the adequacy of the process and system design to mitigate risks to an acceptable level.

Assessment	Design of Key Controls	Operation of Key Controls
	The process and system design does not appear to be adequate to manage the risk to an acceptable level.	The operation of the process’ risk management capabilities is not consistently effective to manage the risk to an acceptable level.
	The process and system design appear to be adequate to manage the risk to an acceptable level. Failure to consistently perform key risk management activities may, however, result in some exposure even if other tasks are completed as designed.	The operation of the process’ risk management capabilities is only partially sufficient to manage the risk to an acceptable level.
	The process and system design appear to be adequate to manage the risk to an acceptable level.	The operation of the process’ risk management capabilities appears to be sufficient to manage the risk to an acceptable level.