



**Mecklenburg County
Department of Internal Audit**

Land Use and Environmental Services Agency
Procurement Cards
Report 1663
July 10, 2017

Internal Audit's Mission To support key stakeholders in cultivating an environment of accountability, transparency, and good governance.

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MECKLENBURG COUNTY
Department of Internal Audit

To: Ebenezer Gujjarlapudi, Director, Land Use and Environmental Services Agency

From: Joanne Prakapas, Director, Department of Internal Audit

Date: July 10, 2017

Subject: Land Use and Environmental Services Agency Procurement Card Report 1663

The Department of Internal Audit has completed its audit of the Land Use and Environmental Services Agency procurement card program to determine whether internal controls effectively manage key business risks inherent to this activity. Internal Audit interviewed key personnel; reviewed and evaluated policies, procedures, and other documents; observed operations; and tested various procurement cards activities from July 1, 2013 through June 30, 2016.

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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

OVERALL EVALUATION

Overall, key risks inherent to the procurement card process 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 the risk observations identified during the course of this 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 Training Requirements 2.2 Destruction Notices			
3. Procurement Card Risk	●	●	●
3.1 Cardholder Reconciliations 3.2 Reconciliation Receipt Forms			
4. Documentation Risk	●	●	●
4.1 Document Retention			
5. Accounting Risk	●	●	●
5.1 Recordation			
6. Authorization Risk	●	●	●
No risk observation noted			
7. Segregation of Duties Risk	●	●	●
No risk observations noted			
8. Human Resource Risk	●	●	●
No risk observations noted			

The risk observations and management’s risk mitigation strategies as defined in Appendix C are discussed in detail in the attached. Internal Audit will conduct a follow-up audit to verify management’s action plans have been implemented and are working as expected.

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

c: County Manager
Assistant County Managers
Deputy County Attorney
Senior County Attorney
Board of County Commissioners
Audit Review Committee

BACKGROUND

The Land Use and Environmental Services Agency (the Department) “works in partnership with the community to enhance the quality of life through environmental stewardship and economic vitality”. The agency’s major responsibilities include air and water quality, flood control, waste disposal, building safety, and zoning.

Procurement Card Program

The Mecklenburg County Procurement Card (P-card) Program provides departments with a convenient, flexible method to procure and pay for goods and services. The County has contracted with a major bank to provide, implement and support the program.

The County Financial Services Department (Finance) is charged with overall program administration and maintains the Procurement Card Policies and Procedures Manual, which also delineates the rules and responsibilities of program participants.

Roles and Responsibilities of Program Participants	
Role	Key Responsibilities
Program Administrator	Oversees and manages day-to-day P-card program administration; serves as liaison between the County and the bank
Department Director	Authorizes departmental and employee program participation
Program Manager	Ensures cardholders, accountants, and supervisors comply with program requirements
Accountant	Reviews cardholder reconciliations for proper documentation and processing and ensures proper allocation of expenditures
Supervisor	Ensures appropriate P-card use and program compliance
Cardholder	Makes P-card purchases and reconciles transactions against monthly bank statement

Source: Mecklenburg County Procurement Card Policies and Procedures Manual

Card Issuance—Each P-card is issued in the employee’s name who is accountable for all P-card purchases and for the protection of the card. Cardholders and other program participants are required to complete an initial training before participating in the program and refresher training thereafter.

P-card purchase limits are typically set at \$3,000 per transaction and \$6,000 per month. The program administrator assigns in WORKS, the bank’s online P-card software application, other P-card limitations such as alcohol purchases, to further restrict the cardholder’s ability to purchase specific goods and services.

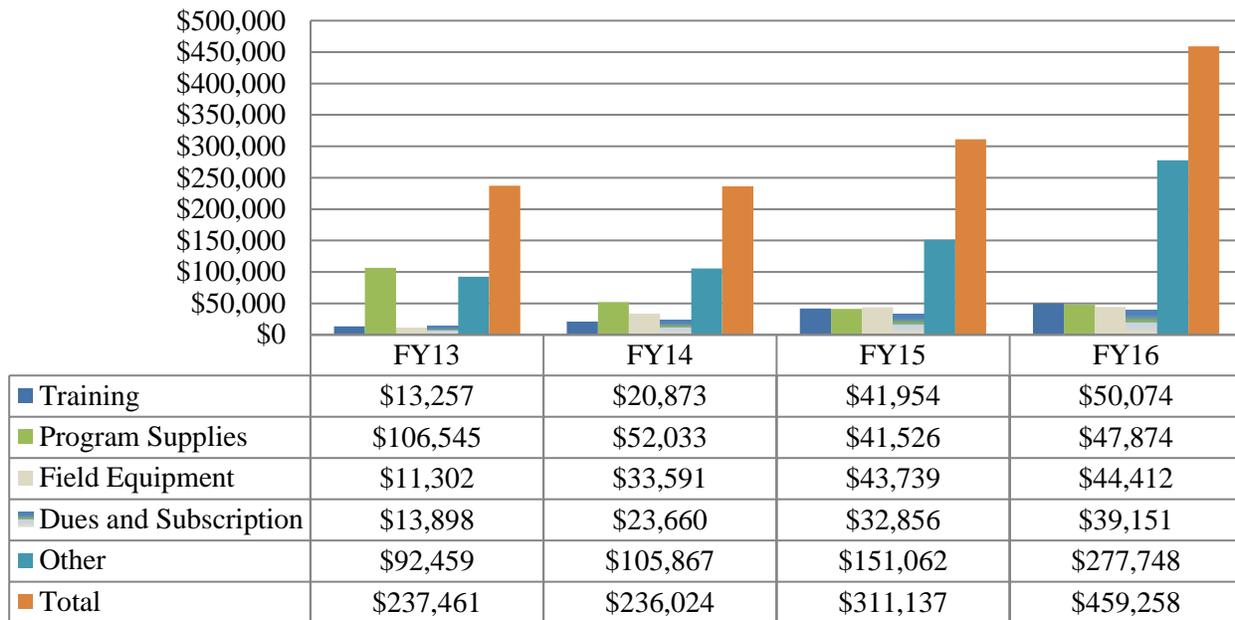
Reconciliation—Each month the cardholder records all purchases made on a Receipt Reconciliation form, reconciling the monthly bank statement with original transaction receipts. Approving officials then review and approve the form, original purchase receipts, and the general ledger account coding. Approving officials include the cardholder’s reviewing supervisor, the accountant, and the program manager.

Card Deactivation—When a cardholder transfers jobs, retires, or is terminated, the program manager receives the original receipts and P-card from the accountant, destroys the card, and sends the program administrator a Destruction Notice to deactivate the card. If the P-card is lost, stolen, or compromised, the cardholder must first report the occurrence to the bank and program manager before following the deactivation process.

Department Spending

The table below illustrates the Department’s P-card purchases from July 1, 2012 through June 30, 2016.

Procurement Card Purchases



Source: Auditor analysis of Advantage data, unaudited

COUNTY MANAGER’S OVERALL RESPONSE

The County Manager concurs with all action plans and implementation timeframes.

RISK OBSERVATIONS AND MITIGATION STRATEGIES

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

Risk Observation

- 1.1 Formal Documentation—The Department did not have documented procedures for administering its P-card activities. Yet, policies and procedures are important control activities to help ensure management’s directives are consistently carried out while mitigating risks that may prevent the organization from achieving its objectives.

Recommendation

- 1.1 Internal Audit recommends management document procedures for administering its P-card activities and train staff accordingly. The procedures should be comprehensive, consistent with applicable County requirements, and include at a minimum:
- Essential operating activities, e.g., pre-authorization requirements, P-card issuance and deactivation, transaction approving and coding requirements, documentation submission and retention standards, and supervisory oversight and monitoring methods
 - Staff training requirements
 - Staff roles and responsibilities
 - Periodic procedure reviews and updates
 - Internal and external communications

Management’s Response

- 1.1 **Risk Mitigation Strategy:** Reduce **Implementation Date:** July 2016

Action Plan: Department P-Card procedures were developed, documented and approved by the Agency Director in July 2016. The procedures were communicated to cardholders by email. The procedures were added to the LUESA Fiscal Control SharePoint site on May 3, 2017. Updates to the procedures are also posted to the LUESA Fiscal Control SharePoint and shared with cardholders by email.

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

Risk Observations

- 2.1 Training Requirements—Twenty-six of 30 or 86% of cardholders sampled did not complete the required refresher training. In addition, 17 of 17 or 100% of the related supervisors did not complete the refresher training. Further, the accountant and program manager did not complete either the initial training or the refresher training.
- 2.2 Destruction Notices—P-card destruction notices were not always submitted timely. Of 13 P-cards deactivated, there were four instances where the days between the destruction form date and the actual deactivation date exceeded seven days, with one taking 28 days. Failure to timely submit destruction notices increases the risk P-cards may be used inappropriately.

Recommendations

- 2.1 Internal Audit recommends management improve the tracking and monitoring of program participant training.
- 2.2 Internal Audit recommends management immediately submit destruction notices upon events that warrant P-card deactivation.

Management's Responses

- 2.1 **Risk Mitigation Strategy:** Reduce **Implementation Date:** May 2016

Action Plan: The MeckEDU training module was assigned to P-Card users on May 3, 2016 and all future program participants will be enrolled accordingly. As of May 20, 2016, all P-Card participants completed the required refresher training. In addition, a process/system reminder is now in place within MeckEDU to assist in monitoring training compliance

- 2.2 **Risk Mitigation Strategy:** Reduce **Implementation Date:** July 2016

Action Plan: It is the intention of the Program Manager to immediately submit P-Card destruction notices when events warrant the deactivation. Destruction notices will be handled timely for employees for whom notifications are received. Going forward, necessary notifications will be made to ensure destruction notices are initiated

Risk Factor	Criticality	Design	Operation
4. Documentation Risk	●	●	●

Risk Observation

4.1 Document Retention—The Department did not retain some documents as required by County policy and procedures. Specifically:

- Destruction Card Notices were missing for 2 of 15 or 13% of deactivated P-cards sampled
- New Cardholder Authorization forms were missing for 10 of 30 or 33% of cardholders sampled
- Cardholder Agreement forms were missing for 4 of 30 or 13% of cardholders sampled
- Statement of Responsibility forms were missing for 12 of 17 or 71% of the approving officials sampled

Failure to adequately retain documentation compromises management’s ability to ensure controls are functioning as intended.

Recommendation

4.1 Internal Audit recommends management re-emphasize to staff document retention requirements.

Management’s Response

4.1 **Risk Mitigation Strategy:** Reduce **Implementation Date:** May 2016

Action Plan: LUESA has made a concentrated effort to ensure all the proper forms are filled out, signed and a copy retained within the department. These efforts include verifying supervisors report the termination of employees with P-Cards to the Program Accountant so cards can be properly destroyed, scanning documents for records retention, and discussing P-Card procedures with managers in staff meetings.

Risk Factor	Criticality	Design	Operation
5. Accounting Risk	●	●	●

Risk Observation

5.1 Recordation—P-card transactions were not always recorded accurately in Advantage, the County’s financial management system. Of 53 transactions sampled, 46 that involved sales tax were incorrectly recorded, 18 of which also incorrectly recorded the cost of the goods purchased. Improper recording of transactions could conceal fraud and/or affect some financial reports and State sales tax reimbursements.

Recommendation

- 5.1 Internal Audit recommends management provide staff additional training on coding P-card transactions.

Management's Response

- 5.1 **Risk Mitigation Strategy:** Reduce **Implementation Date:** July 2016

Action Plan: The LUESA Program Manager and Program Accountant have received additional training in recording sales taxes and are aware of the appropriate coding.

APPENDIX A—Risk Factor Definitions

Risk Factor	Definition
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.
Authorization Risk	Failure to clearly articulate and communicate authority to commit the organization may result in internal and external misunderstandings.
Compliance Risk	Failure to comply with established policies, procedures, and/or statutory requirements may result in unacceptable performance that impacts financial, operational, or customer objectives.
Documentation Risk	Failure to adequately collect, file, and retain key documentation may result in lack of accountability and/or evidence to support transactions and events.
Human Resources 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.
Policies and Procedures Risk	Failure to have formal, documented, clearly stated, and updated policies and procedures may result in poorly executed processes and/or increased operating costs.
Procurement Card Risk	Failure to consistently and effectively execute procurement card policies and procedures may result in expenditures that do not meet management's criteria.
Segregation of Duties Risk	Failure to adequately segregate duties may allow an employee or group of employees to perpetrate and conceal errors or irregularities 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 significant 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 moderate 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 minimal 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 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.

APPENDIX C—Risk Mitigation Strategy Definitions

Risk Mitigation Strategy	Definition
Reduce	Risk response where actions are taken to reduce a risk or its consequences.
Accept	Risk response where no action is taken to affect the risk.
Transfer	Risk response where a portion of the risk is transferred to other parties.
Avoid	Risk response to eliminate the risk by avoiding or withdrawing from the activity giving rise to the risk.