



**Mecklenburg County
Department of Internal Audit**

Financial Services Department
Enterprise Procurement Card Program Audit
Report 1664

August 24, 2017

Internal Audit's Mission	To support key stakeholders in cultivating an environment of accountability, transparency and good governance.
Internal Audit Contacts	Joanne Prakapas, CPA/CFF, CIA, CFE, CRMA, Audit Director (980) 314-2889 or joanne.prakapas@mecklenburgcountync.gov Felicia Stokes, CIA, CISA, CRMA, Audit Manager (980) 314-2893 or felicia.stokes@mecklenburgcountync.gov
Staff Acknowledgements	Gewreka Robertson, Auditor-In- Charge Eric Davis, CIA, CISA, CRMA, Information Technology Auditor
Obtaining Copies of Internal Audit Reports	This report can be found in electronic format at http://charmeck.org/mecklenburg/county/audit/reports/pages/default.aspx



MECKLENBURG COUNTY
Department of Internal Audit

To: Mark Foster, Assistant County Manager/ Interim Finance Director
Financial Services Department

From: Joanne Prakapas, Director
Department of Internal Audit

Date: August 24, 2017

Subject: Enterprise Procurement Card Program Audit Report 1664

The Department of Internal Audit has completed its audit of the Financial Services Department enterprise 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 card 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 enterprise 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 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. Procurement Card Risk	●	●	●
2.1 Code Monitoring			
2.2 Card Deactivation			
2.3 Split Transaction Monitoring			
2.4 P-card Invoice Review			
2.5 Receipt Reconciliation Form Review			
3. Segregation of Duties Risk	●	●	●
3.1 Program Administrator Duties			
4. Authorization Risk	●	●	●
4.1 Unapproved Documents			
5. Compliance Risk	●	●	●
5.1 Random Audits			
5.2 Credit Limit Increases			
5.3 Minority, Women, and Small Business Enterprise			
6. Accounting Risk	●	●	●
6.1 P-card Rebate Validation			
7. Human Resource Risk	●	●	●
7.1 P-card Training			
8. Documentation Risk	●	●	●
8.1 Document Retention			

The risk observations and management's risk mitigation strategies as defined in Appendix C are discussed in detail in the attached document. 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 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
- Assistant County Managers
- Deputy County Attorney
- Senior County Attorney
- Board of County Commissioners
- Audit Review Committee

BACKGROUND

The Mecklenburg County Financial Services Department (Finance) is responsible for the administration of County finances in accordance with State laws and budget ordinances established by the Mecklenburg Board of County Commissioners. These administrative activities include investment; financial reporting; cash flow and banking; debt management; budgetary compliance; payroll; accounts payable; and procurement card transactions.

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.

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.

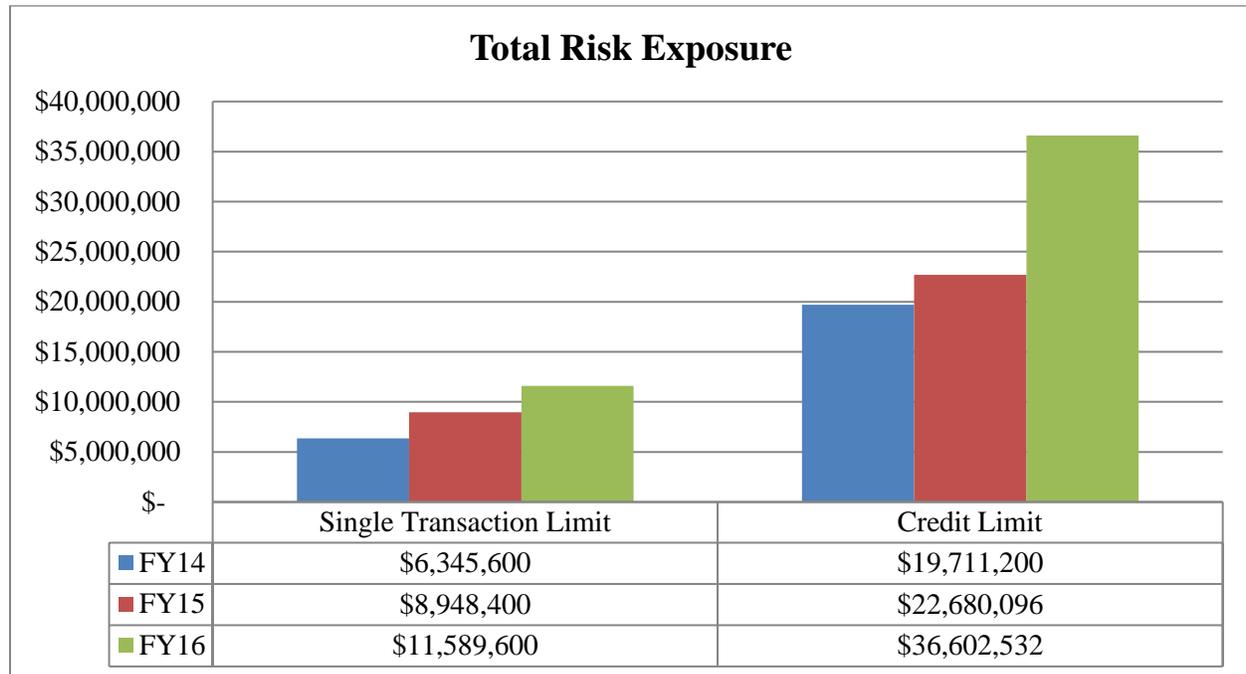
Roles and Responsibilities of Program Participants	
Role	Key Responsibilities
Program Administrator	Oversees and manages day-to-day P-card program administration; serves as liaison between the County and the bank
Department Director	Authorizes departmental and employee program participation
Program Manager	Ensures cardholders, accountants, and supervisors comply with P-card program requirements
Accountant	Reviews cardholder reconciliations for proper documentation and processing; 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 Merchant Category Classification (MCC) codes to further restrict the cardholder’s ability to purchase specific goods and services.

The table below summarizes the County’s total dollar exposure based on individual cardholders’ approved single transaction and credit limits.



Source: Auditor analysis of P-Card data, unaudited

Reconciliation—Each month the cardholder records all purchases made on a Receipt Reconciliation form, reconciling the monthly bank statement with the 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. Finance staff then receives the form and original receipts to ensure compliance with P-card program requirements.

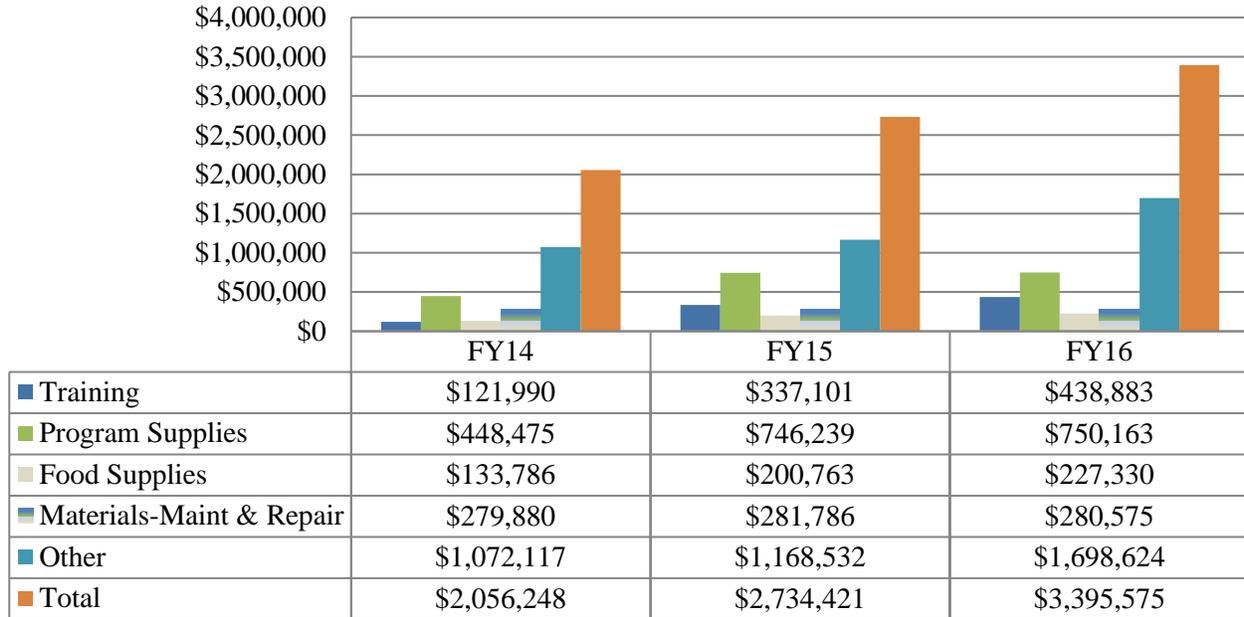
Finance uploads the monthly County transaction detail from WORKS into Advantage, the County’s financial system. Finance also reconciles the monthly bank invoice against the WORKS upload before issuing payment by the due date.

Card Deactivation—When a cardholder transfers jobs, retires, or is terminated, the program manager receives any 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.

Enterprise Spending

In fiscal year 2016, there was an average of 331 cardholders within the organization. The table below illustrates the County's P-card purchases from July 1, 2013 through June 30, 2016.

Procurement Card Purchases



Source: Auditor analysis of P-Card data, unaudited

Monitoring Activities

Every month the program administrator randomly selects a department for review, using the Procurement Card Program Audit form to document compliance with specific criteria, such as:

- Accurate and complete Receipt Reconciliation form and associated original receipts
- Business purpose statement
- Appropriateness of purchases
- Reasonableness of general ledger coding
- Unacceptable purchases or split transactions to evade P-card purchase limits

At the end of the fiscal year, the program administrator compiles a report listing P-cards with ten or less transactions or less than \$500 in purchases made during the year. The department director and program manager receive and review the report, providing a written justification if they want to keep the P-card(s) active.

Rebate Program

The bank provides the County a rebate based on total annual P-card net purchase volume. The bank emails the rebate amount to Finance whose staff validates the rebate amount against County P-card payments made.

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—While Finance had documented policies and procedures for many aspects of the P-card program, some procedures did not reflect current and/or best practices. Yet, policies and procedures are important control activities to help management ensure its directives are carried out while mitigating risks that may prevent the organization from achieving its objectives.

Recommendation

- 1.1 Internal Audit recommends management update its P-card program procedures and train staff accordingly. Procedures should include, at a minimum:
- Frequency of policy and procedure reviews and updates
 - Staff roles and responsibilities, including proper segregation of duties
 - Staff training requirements
 - Document retention requirements
 - Rebate processing procedures, including general ledger recordation
 - Administrator oversight and monitoring, e.g., merchant category codes, training, split transactions, and terminations
 - Review of general ledger transaction recordations

Management's Response

- 1.1 **Risk Mitigation Strategy:** Reduce **Implementation Date:** July 2017

Action Plan:

- The Procurement Card policy will be reviewed annually and the date of review will be noted on the cover page of the document.
- Staff roles and responsibilities are documented in the Procurement Card Policy including new responsibilities for the Supervisor of the Program Administrator. These roles and responsibilities will include proper segregation of duties.
- The document retention requirements have been added to the Procurement Card policy.
- Random sampling of the MCC codes has been added to the roles and responsibilities outlined in the Procurement Card policy.

- The Procurement Card Program will follow the retention guidelines as outlined by North Carolina Department of Natural and Cultural Resources located at <https://www.ncdcr.gov/resources/records-management>. This information will be updated in the County Procurement Card Policy.
- The policy will include training requirements for all those involved in the p-card process.
- The policy will include rebate processing procedures, including general ledger recordation.
- The policy will include Administrator oversight and monitoring, e.g., merchant category codes, training, split transactions, and terminations.
- The policy will include review of general ledger transaction recordations

Risk Factor	Criticality	Design	Operation
2. Procurement Card Risk	●	●	●

Risk Observations

- 2.1 Code Monitoring—The program administrator does not have a process in place to monitor and update the MCC codes in the bank system. As a result, a cardholder may be able to make inappropriate purchases.
- 2.2 Card Deactivation—Cardholders of terminated employees whose P-cards should have been deactivated were still active in WORKS. Six P-cards were still active 28 to 2,556 days after the employees were terminated. Moreover, one employee terminated on December 31, 2014 still had an active P-card at the time of this audit. Failure to timely deactivate procurement cards may leave the organization susceptible to fraud.
- 2.3 Split Transaction Monitoring—Although Finance received routine reports on potential split transactions countywide, they did not use the reports to respond to and resolve these possible County policy violations.
- 2.4 P-card Invoice Review—The program administrator did not consistently document the monthly P-card bank invoice review and necessary follow-up of questionable purchases. As a result, management cannot be assured cardholders are using P-cards for appropriate business purchases.
- 2.5 Receipt Reconciliation Form Review—Finance staff did not always document their review of the Receipt Reconciliation forms. As a result, there is no way to validate the review was completed.

Recommendations

- 2.1 Internal Audit recommends management develop a process to annually review and update the MCC codes as necessary in the bank system.
- 2.2 Internal Audit recommends management ensure P-cards of terminated employees whose P-cards should be deactivated are timely done so in WORKS.

- 2.3 Internal Audit recommends Finance staff review its monthly list of potential split transactions and timely respond to and resolve the possible violations. Documentation of the review and any actions taken should be maintained.
- 2.4 Internal Audit recommends management ensure the program administrator consistently document and maintain proof of the monthly P-card bank invoice review and any actions taken.
- 2.5 Internal Audit recommends management ensure Finance staff consistently document and retain proof of their review of the Receipt Reconciliation forms and any actions taken.

Management's Response

- 2.1 **Risk Mitigation Strategy:** Reduce **Implementation Date:** June 2017

Action Plan: There will be random and annual audits of the MCC codes. The audits will be documented with findings and dated. If follow-ups are required due to findings the Program Administrator will ensure that the bank is notified and MCC codes are removed/added to reflect current policy guidelines. This process will be documented and maintained with the Procurement Card MCC Code Audit Files.

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

Action Plan: As of 2/5/2016, the current Program Administrator now receives an employee termination report from the Human Resources Department so that it can be verified that an employee is no longer with the County and be immediately deleted from the WORKS program.

- 2.3 **Risk Mitigation Strategy:** Reduce **Implementation Date:** July 2017

Action Plan: Prior split transactions reports were reviewed when received and no violations were found. As reports are received, Finance will review the monthly list of potential split transactions and respond to and resolve possible violations. Documentation of the split transactions review and any actions taken will be maintained.

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

Action Plan: A form was created on 5/5/16 to list any questionable purchases and actions taken. This form serves as documentation for the review of the monthly Procurement Card statement.

- 2.5 **Risk Mitigation Strategy:** Reduce **Implementation Date:** August 2016

Action Plan: A fiscal staff member in Central Finance has been trained to ensure that reconciliations are reviewed, signed and date stamped. Staff members currently review, sign, and date stamp all procurement card reconciliations.

Risk Factor	Criticality	Design	Operation
3. Segregation of Duties Risk	●	●	●

Risk Observation

3.1 Program Administrator Duties—Responsibilities for establishing new cardholders, recording cardholder information in WORKS, deactivating P-cards, and monitoring P-card activities were not always properly separated to help prevent or timely detect errors or fraud.

Recommendation

3.1 Internal Audit recommends management appropriately segregate duties for new cardholder establishment, WORKS cardholder data input, P-card deactivation, and P-card monitoring so no one person has the responsibility to conduct two or more phases of the program administration process. If adequate segregation of duties cannot be achieved, management should implement appropriate compensating controls.

Management’s Response

3.1 **Risk Mitigation Strategy:** Reduce **Implementation Date:** July 2017

Action Plan: The Supervisor of the Program Administrator will perform random quarterly audits on the establishment of new cardholders, and will review paperwork proper authorization.

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

Risk Observation

4.1 Unapproved Documents—The program administrator did not always ensure essential program documents were properly approved. For instance, one Cardholder Account Action Request form with a high dollar credit limit was never signed by the department director. Moreover, the program manager did not sign 12 of 67 or 18% of terminated and inactive employee destruction notices sampled. Proper documentation, however, helps ensure P-card activities are properly authorized to protect against fraud, waste, and abuse.

Recommendation

4.1 Internal Audit recommends management ensure all P-card program documents are properly authorized prior to being processed.

Management’s Response

4.1 **Risk Mitigation Strategy:** Reduce **Implementation Date:** July 2017

Action Plan: There will be random quarterly checks of documentation to ensure all required documents have been properly authorized.

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

Risk Observations

5.1 **Random Audits**—The program administrator did not always conduct the monthly random audits as required by County policy. From January 1, 2014 through June 30, 2016, no audits were conducted in 14 of the 24 month-period. In addition, there was no evidence to support discrepancies identified in the random audits were followed up on within a month as established in the program administrator’s procedures.

5.2 **Credit Limit Increases**—Cardholder credit limit changes were not consistently justified and appropriately authorized. For instance, 37 of 41 or 90% of Cardholder Account Action Request forms sampled did not include the department director’s written explanation for the higher credit limit request.

In addition, 5 of 67 or 7% of credit limit increases sampled lacked either the program administrator’s initials and dates on the form for temporary increases or approving emails from the program manager for permanent increases. Furthermore, 7 of the 67 or 10% credit limit increases recorded in WORKS did not agree to the temporary increase indicated in the emails.

5.3 **Minority, Women, and Small Business Enterprise (MWSBE)**—Finance did not monitor cardholder purchases greater than \$1,000 to ensure they completed the necessary due diligence and MWSBE Control Form as required by County policy.

Recommendations

5.1 Internal Audit recommends management ensure monthly random audits are conducted each month and follow-up is completed within a month, documenting all identified discrepancies and resolutions.

5.2 Internal Audit recommends management ensure all credit limit increase requests are properly supported with a written explanation from the department director and authorized with the program administrator’s initials and date on the requesting document.

5.3 Internal Audit recommends management monthly monitor all cardholder purchases greater than \$1,000 and ensure MWSBE Control Forms are completed.

Management’s Response

5.1 **Risk Mitigation Strategy:** Reduce **Implementation Date:** July 2017

Action Plan: There is a monthly Administrator’s checklist that serves as a reminder that the audit be done which also chooses the department to be audited. The Administrator will ensure monthly random audits are conducted each month and follow-up is completed within a month, documenting all identified discrepancies and resolutions.

5.2 **Risk Mitigation Strategy:** Reduce **Implementation Date:** May 2017

Action Plan: The Cardholder Action Request Form has been updated with a place for the Director to put an explanation for the increase. The Administrator will ensure all credit limit increase requests are properly supported with a written explanation from the department director and authorized with the program administrator’s initials and date on the requesting document.

5.3 **Risk Mitigation Strategy:** Reduce **Implementation Date:** December 2017

Action Plan: Finance is not changing Procurement card policy C.1.4. However, for the policy to be successfully implemented p-card users must have information regarding potential MWSBE vendors and Finance must have a way to track P-card purchases against those vendors. Finance is working with internal Business Analyst staff members to review procurement card transactions and determine vendors that qualify for MWSBE. A list of those vendors will be shared with procurement cardholders. In addition, the department is working with internal Business Analyst staff members to determine if reports can be developed to reconcile procurement card transactions, the BOA Works system and Advantage to track MWSBE spend.

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

Risk Observation

6.1 P-Card Rebate Validation—Finance staff did not document their FY 2014 and FY 2016 annual bank cash rebate validations to evidence the County received the total annual bank rebate due.

Recommendation

6.1 Internal Audit recommends management ensure the annual P-card bank rebate validation is conducted, documented, and maintained.

Management’s Response

6.1 **Risk Mitigation Strategy:** Reduce

Implementation Date: July 2017

Action Plan: The Investment Officer will ensure that the annual P-card rebate validation is conducted, documented, and maintained. Central Finance management will review and approve the P-card rebate validation process.

Risk Factor	Criticality	Design	Operation
7. Human Resource Risk	●	●	●

Risk Observation

7.1 P-Card Training—The program administrator did not track and monitor all P-card program participants’ training to ensure they completed the initial and refresher courses as required by County policy.

Recommendation

7.1 Internal Audit recommends management develop and implement a tracking and monitoring process to ensure program participants completed the mandatory initial and refresher P-card training.

Management’s Response

7.1 **Risk Mitigation Strategy:** Reduce

Implementation Date: May 2017

Action Plan: The new Procurement Card training module was rolled out to Procurement Card participants on May 4, 2017. The new MeckEDU training will track training dates to ensure all Procurement participants are on schedule with their required training.

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

Risk Observation

8.1 Document Retention— Finance did not have supporting documentation for certain P-card program compliance requirements. The following were missing:

- 27 of 59 or 46% of new cardholder document packets sampled, i.e., the cardholder agreement form, account authorization, and the P-card training test results
- 7 of 40 or 18% of Statement of Responsibility forms sampled that were required from department accountants and program managers
- 11 of 58 or 19% Destruction Notices sampled for inactive cardholders
- 9 of 22 or 41% of Destruction Notices sampled for terminated employees

- 13 of 73 or 18% of Receipt Reconciliation forms sampled
- 4 of 49 or 8 % of department justification statements to keep low use P-cards active

Failure to appropriately collect, file, and retain documentation comprises 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.

Recommendation

- 8.1 Internal Audit recommends management ensures staff consistently complies with P-card document collection and retention requirements.

Management's Response

- 8.1 **Risk Mitigation Strategy:** Reduce **Implementation Date:** May 2017

Action Plan: The Procurement Card program follows the retention schedule of the NC General Statutes. This information has been added to the Procurement Card Policy. The retention schedule can be found at <https://www.ncdcr.gov/resources/records-management>.

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 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.
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.

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.