

Audit Report

Police Department
Procurement Card Purchases



Office of the County Auditor
Baltimore County, Maryland
November 2013



BALTIMORE COUNTY, MARYLAND
OFFICE OF THE COUNTY AUDITOR

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November 15, 2013

Honorable Members of the County Council
Honorable Kevin Kamenetz, County Executive
Baltimore County, Maryland

We have audited the procedures and controls over the Police Department's procurement card (p-card) purchases for the period July 1, 2011 through June 30, 2012. The Police Department made 2,360 p-card purchases totaling \$909,227, which accounted for 12% of total county-wide p-card purchases, during the audit period.

The Office of Budget and Finance, Purchasing Division manages the county-wide p-card process, while department-level responsibilities reside with the Police Department. Our audit disclosed that the Department did not always comply with county-wide and department-level p-card procedures.

A response to our findings is included as Appendix A to this report.

We wish to express our appreciation to the Police Department and the Purchasing Division for the cooperation and assistance extended to us during our audit.

Our audit reports and responses thereto are available to the public and may be obtained online at "www.baltimorecountymd.gov/agencies/auditor" or by contacting the Office of the County Auditor, 400 Washington Avenue, Towson, Maryland 21204.

Respectfully submitted,

A handwritten signature in black ink that reads "Lauren M. Smelkinson".

Lauren M. Smelkinson, CPA
County Auditor

Table of Contents

	<u>Page</u>
Transmittal Letter	1
Background	3
Findings and Recommendations.....	5
Audit Scope, Objectives, and Methodology.....	7
Agency Response.....	Appendix A

Background

In 1998, the Office of Budget and Finance (OBF) implemented the procurement card (p-card) purchasing program to reduce the administrative costs of processing small-dollar purchases (generally \$1,000 or less) and to provide a more convenient and efficient procurement method. OBF's Purchasing Division manages the county-wide p-card process and has delegated department-level management responsibilities to each agency that uses p-cards.

OBF has established county-wide p-card policies and procedures, including those prescribed in the County's Purchasing Manual. The policies allow agencies to establish additional internal procedures to monitor and control p-card expenditures. The Police Department is responsible for complying with county-wide policies and procedures and has established additional internal policies and procedures to monitor and control its p-card expenditures.

County-wide

In accordance with the county-wide p-card policies and procedures, cardholders are subject to a per-purchase limit (generally \$1,000 or less), and a monthly aggregate limit (generally \$10,000 or less) set by the cardholder's "approving official" (agency head or designee). Cardholders are restricted from splitting purchases (i.e., one purchase with the same vendor, on the same date, divided into multiple purchases to avoid the per-purchase limit). The policies and procedures specifically restrict sales tax from being charged and certain types of purchases using p-cards (e.g., travel, food, medical/health care services, personal use, etc.). P-card purchase restrictions are enforced before the purchase is made through Merchant Category Classification (MCC) codes, which block purchases from vendors with conflicting industry classifications (e.g., travel agency, fast food restaurant, hospital, golf course, etc.), and after the purchase is made by the approving official's review of the p-card documentation to identify restricted p-card purchases.

For each p-card purchase, the cardholder is to record the purchase on an activity log; maintain the corresponding proof of purchase (e.g., receipt/invoice); reconcile his/her monthly p-card statement with the activity log; sign both documents; and submit the documents (with proof of purchase) to the approving official. The approving official is to review and sign the p-card statement and forward it to the Purchasing Division by the 20th of the month to make one monthly county-wide payment.

Police Department

In addition to the county-wide p-card policies and procedures, the Police Department has established the following procedures to monitor and control its p-card expenditures. The Department has reassigned responsibility for identifying p-card purchase restrictions

from its approving officials to certain personnel (i.e., three Management Analyst IIs). The Management Analyst IIs provide purchase authorization (prior to purchase) if the request is not identified as a purchase restriction per the policies and procedures, funds are available, and the purchase is appropriate and permitted under the grant award (if applicable). Department-level procedures further require the Budget Management Section (four Account Clerk IIIs) to perform a review subsequent to the approving official's review. Budget Management review procedures verify that: both the activity log and p-card statement are reconciled and signed by the cardholder and authorized approving official; proof of purchase exists for each purchase; sales tax was not incurred; and split purchases did not occur. Budget Management submits the signed p-card statement to the Purchasing Division by the 20th of the month for payment.

For the period from July 1, 2011 to June 30, 2012, the Police Department made 2,360 p-card purchases totaling \$909,227, which accounted for 12% of total county-wide p-card purchases. As of June 30, 2012, 128 p-cards were issued to 111 Police Department employees (certain employees with multiple budget responsibilities are assigned multiple cards).

Findings and Recommendations

1. The Police Department did not always comply with county-wide and department-level p-card procedures.

To supplement the county-wide p-card policies and procedures, the Police Department has established additional procedures to monitor and control its p-card expenditures. County-wide policies and procedures require the cardholder to record each purchase on an activity log (date, description, amount, etc.) and maintain the corresponding proof of purchase (e.g., receipt/invoice). The Department's procedures further require cardholders to obtain purchase authorization (from one of its three Management Analyst IIs) prior to making a purchase. Authorization will be provided if the requested purchase is not specifically identified as a purchase restriction per the county-wide policies and procedures, funds are available, and the purchase is appropriate and permitted under the grant award (if applicable).

On a monthly basis, county-wide procedures require the cardholder to reconcile his/her p-card statement with the activity log, and sign/submit both documents along with the proofs of purchase to the approving official, who is responsible for reviewing and signing the p-card statement. Department-level procedures further require the approving official to sign the activity log and then submit all documents (i.e., p-card statement, activity log, and proofs of purchase) to the Department's Budget Management Section (i.e., four Account Clerk IIIs) to verify that the purchases were compliant with the county-wide and department-level policies and procedures (i.e., the activity log/p-card statement were reconciled and signed by the cardholder and authorized approving official; proofs of purchase exist for each purchase; sales tax was not charged; and split purchases did not occur). Once the review is complete, Budget Management submits the signed monthly p-card statement to the Purchasing Division by the 20th of the month for payment.

However, our review of 40 Police Department monthly p-card statements and activity logs totaling \$95,718 (approximately 10% of Police Department p-card purchases for the audit period) and 58 judgmentally selected receipts/invoices (\$50,286) from those p-card statements/activity logs disclosed that 20 monthly p-card statements or the related activity logs (\$39,432) lacked documented evidence (e.g., signoff, email correspondence, notations, etc.) of a review performed by Budget Management. Additionally, of these 20 monthly p-card statements and logs, 1 p-card statement and log were not signed by the authorized approving official (\$611), and 1 p-card statement was not signed by the cardholder (\$1,542).

Our audit further disclosed 11 receipts (of the 58 selected) were for fuel purchases totaling \$27,002 that did not provide sufficient detail (i.e., "fuel" purchase description and

quantity were missing) for the approving official or Budget Management to verify that fuel had been purchased for the Department's helicopters (10) and boat (1). Additionally, we noted 4 receipts for two purchases of helicopter fuel totaling \$11,537 that were split (2 receipts per purchase) to avoid the cardholder's \$5,000 purchase limit; however, these split purchases were not identified through Budget Management's reviews.

These conditions increase the risk that Police Department p-cards could be misused without timely detection.

To ensure the proper use of p-cards, we recommend that the Department comply with county-wide and department-level p-card policies and procedures. Specifically, we recommend that p-card documentation properly evidence reconciliation and review/approval from the appropriate individuals (i.e., cardholder, approving official, and Budget Management). We also recommend that review and approval procedures ensure that split purchases are not made and that receipts are descriptive for verification of purchases.

Audit Scope, Objectives, and Methodology

We have audited the procedures and controls over the Police Department's procurement card (p-card) purchases for the period July 1, 2011 through June 30, 2012. The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review. Those 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.

In accordance with the Baltimore County Charter, Section 311, the objectives of our audit were to evaluate the adequacy of internal control practices and procedures over Police Department p-card purchases and to determine compliance with any applicable policies and procedures. In planning and conducting our audit, we focused on the Department's p-card purchase and approval processes based on assessments of materiality and risk.

Our audit procedures included inquiries of appropriate personnel and inspections of documents and records. We also tested purchases and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable but were not independently verified.

The Department's management is responsible for establishing and maintaining effective internal control over p-card purchases and for compliance with any applicable policies and procedures. 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, regulations, policies and procedures are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports on fiscal compliance are designed to assist the Baltimore County Council in exercising its legislative oversight function and to provide constructive recommendations for improving County operations. As a result, our reports generally do not address activities we reviewed that may be functioning properly.

This report includes findings and recommendations relating to conditions that we consider to be significant deficiencies in the design or operation of internal control and administrative and operating practices and procedures that could adversely affect the Department's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, regulations, policies and procedures. We communicated to the appropriate officials other less significant findings that did not warrant inclusion in this report.

APPENDIX A

Police Department Response

JAMES W. JOHNSON
Chief of Police



"INTEGRITY...FAIRNESS...SERVICE"

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November 7, 2013

Lauren M. Smelkinson, CPA
Office of the County Auditor
Baltimore County, Maryland
Courthouse, Room 221
Towson, Maryland 21204

Dear Ms. Smelkinson:

Listed below is the Department's response to the procurement card transaction audit findings and recommendations.

1. 20 of the statements and logs examined lacked evidence of a review performed by Budget Management.

The reviews did take place. Copies of statements are not sent to Purchasing until they are reviewed by Budget Management. However, after discussions with the on-site audit staff we immediately instituted a practice of stamping and initialing statements to evidence review by Budget Management staff.

2. 1 p-card statement and log was not signed by the authorized approving official.

Although the statement and log was signed by the Lieutenant in Personnel, it is true it was not signed by the Captain, who is the approving official.

1 p-card statement was not signed by the cardholder.

The log was signed by the cardholder, but not the statement.

Both of the above were attributable to a staff review oversight and staff have been asked to be more careful in their reviews.

3. 11 receipts for fuel purchases totaling \$27,002 did not provide sufficient detail (description of purchase and quantity were missing) for the approving official or Budget Management to verify that fuel had been purchased for the Department's helicopters (10) and boat (1).

Aviation

There were receipts for every fuel purchase. The receipts are the yellow copy of a carbonized receipt, imprinted with the name of the vendor and include the date, time and a merchandise code. The Aviation Sergeant wrote the number of the helicopter receiving the fuel and the cost per gallon on the receipt. When the on-site audit staff questioned the lack of description of purchase and quantity on the receipts, Budget Management staff contacted the Sergeant who explained that he receives a very



detailed "Line Service Invoice" that shows gallons, list price, discount, etc. That document is now sent to Budget Management along with the statement and log.

Marine

Again there were receipts for every purchase. They were credit card receipts with the name vendor, address and phone number of the vendor imprinted on the top. The date and time of the purchases were imprinted and the total of the purchase. The Marine member who purchased the fuel recorded the quantity of fuel purchased on the top of the receipt.

Since the time of the audit the marina supplying gas to Marine has changed ownership and the new receipts provide greater detail.

4. Four receipts for two purchases of helicopter fuel totaling \$11,536 were split (2 receipts per transaction) to avoid the cardholder's \$5,000 transaction limit; however these split purchases were not identified through Budget Management's reviews.

We have to fully fuel up the helicopters and at times need to exceed the \$5,000 limit in order to do so. Since the time of the on-site visit, we have obtained permission to raise the limit for aviation fuel to \$7,500 so that we do not need to split purchases in order to fuel the helicopters.

Thank you for the opportunity to respond to the audit report.

Sincerely,


James W. Johnson
Chief of Police

JWJ:dfh

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