

**MARYLAND-NATIONAL CAPITAL PARK & PLANNING
COMMISSION**

Prince George's County Department of Parks and Recreation

Purchase Card Audit

Audit Report Number: PG-005-2017-B

September 28, 2016

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[REDACTED]

[REDACTED]

I. EXECUTIVE SUMMARY

A. Overall Perspective

The [REDACTED] have 11 purchase cards/cardholders throughout their Division. On June 29, 2016, due to a change in purchase card approver responsibilities, the Office of Internal Audit (OIA) received a request to perform an audit of the purchase card held [REDACTED]. This purchase card has a \$10,000 transaction limit and \$40,000 monthly limit.

For the six month period, January 1, 2016 through June 30, 2016, the [REDACTED] purchase card was used for 168 purchases, totaling \$130,245.62.

B. Audit Scope, Objectives, and Methodology

The purpose of the audit was to specifically evaluate the system of internal controls for the purchase card held in the [REDACTED] [REDACTED] [REDACTED]. The scope of our audit included, but was not limited to the following audit procedures:

- Obtained a master listing of all purchase card transactions from J.P. Morgan Chase occurring January 1, 2016 through June 30, 2016.
- Reviewed 100% of purchase card transactions for compliance with Commission policies and procedures and established [REDACTED] internal control procedures for purchase card transactions.
- Interviewed purchase card holder, approver and Fiscal Affairs Manager.

This audit was conducted in accordance with *Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide 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.

The period covered in this review was January 1, 2016 to June 30, 2016.

[REDACTED]

[REDACTED]

C. Major Audit Concerns

The results of our evaluation and testing procedures indicated the following major audit concerns:

- Internal control procedures for purchase card transactions established by [REDACTED] are not being followed, increasing the risk of fraud, waste, and abuse.

D. Overall Conclusions

The audit was conducted in accordance with Generally Accepted Government Auditing Standards. The results of our evaluation and testing procedures indicate deficiencies in the design or operation of internal controls for the Support Services purchase card as noted in the Major Audit Concerns section of this report, see definition below.

We believe all weaknesses identified and communicated are correctable and that management's responses to all recommendations satisfactorily address the concerns. It is the responsibility of management to weigh possible additional costs of implementing our recommendations in terms of benefits to be derived and the relative risks involved.

We wish to express our appreciation to the [redacted] management and staff for the cooperation and courtesies extended during the course of our review.



Robert Feeley, CGFM, CFE, CAA, CICA
Senior Auditor



Renee M. Kenney, CPA, CIA, CISA
Chief Internal Auditor

September 28, 2016

Conclusion Definitions

Satisfactory	No major weaknesses were identified in the design or operation of internal control procedures.
Deficiency	A deficiency in the design or operation of an internal control procedure(s) that could adversely affect an operating unit's ability to safeguard assets, comply with laws and regulations, and ensure transactions are properly executed and recorded on a timely basis.
Significant Deficiency	A deficiency in the design or operation of an internal control procedure(s) which adversely affects an operating unit's ability to safeguard assets, comply with laws and regulations, and ensure transactions are properly executed and reported. This deficiency is less severe than a material weakness, yet important enough to merit attention by management.
Material Weakness	A deficiency in the design or operation of an internal control procedure(s) which may result in a material misstatement of the Commission's financial statements or material impact to the Commission.

[REDACTED]

[REDACTED]

II. DETAILED COMMENTARY AND RECOMMENDATIONS

1. Obtain Management Approval on Changes

Issue: Changes on the Materials Request form are not initialed or dated. Once signed by the Division Chief or delegate, the Material Request form is the official procurement document evidencing approval.

Criteria/Risk: Crossing out approved dollar amounts or quantities on Material Request forms increases the Commission's risk of fraud, waste, and abuse.

Recommendation: We recommend [REDACTED] management strengthen internal controls by requiring any cross outs of quantities or dollar amounts on the Material Request form be initialed and dated. If the date of the change is after the Division Chief's or delegate's initial approval, the form should be re-routed to the Division Chief or delegate for re-approval.

Issue Risk: High

Management Response: A new process for the completion of Material Request forms has been implemented. No longer will Material Request forms be signed off or approved with cross outs or hand written additions/corrections. Any and all changes will be corrected with the completion of a new (error free) Materials Request form without any cross outs or hand written corrections.

Expected Completion Date: Completed

Follow-Up Date: October 2016

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2. Follow Established Internal Controls

Issue: Our reviewed determined that 30 purchase card transactions did not contain the Fiscal Affairs Manager's approval on the Material Request form. These purchases had a total value of \$17,816.67.

The Material Request form requires a business purpose justification. This is not consistently completed. For example, a purchase was made for 3 Chard stainless steel ice maker's with water dispenser at a price of \$120 each. Neither the purchase card approver nor Fiscal Affairs Manager knew where two of the ice makers were located or why needed. The business purpose justification section on the Material Request form was blank. (Note: The OIA later determined, due to significant price discounts from the vendor, 3 were purchased; one is in use, one is waiting to be installed, and one is in storage.)

Criteria/Risk: The ██████████ have implemented additional internal control procedures to ensure all purchase card purchases include a business purpose, are approved by the Division Chief or delegate, and are appropriately accounted and budgeted for. Specifically, all purchases must be supported by a Material Request form. The form must be approved by the Fiscal Affairs Manager and the Division Chief before a transaction can be initiated.

Failing to obtain approval signatures or documenting a clear business purpose prior to initiating a purchase violates the established internal control procedures and increases the Commission's risk of fraud, waste and abuse. In addition, failure to obtain the Fiscal Affairs Manager's signature may have negative budgetary implications.

Recommendation: We recommend ██████████ management ensure all established internal control procedures for purchase cards are adhered to. This will ensure that all purchases support the business needs of the ██████████. If the Fiscal Affairs Manager is not available for pre-approval, their signature should be obtained on a post basis.

Issue Risk: High

Management Response: The processing of all Material Request forms requires the completion of all pertinent information, including business purpose. At no time will the Material Request form be processed without all necessary signatures (Division Chief and Fiscal Affairs Manager).

Expected Completion Date: Completed

Follow-Up Date: October 2016

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3. Strengthen Controls over Gift Card Purchases

Issue: One of the purchase card transactions reviewed was for employee gift cards, to be issued under the Commission's Performance Recognition Program, for FY16 achievements. During the review of the supporting documentation, we identified numerous discrepancies:

- The Material Request form had two line items, \$6,150 for "various gift cards"; and \$525 for "gift cards credit", for a total of \$5,625. There was no explanation provided for the credit.
- The \$5,625 was crossed off, and changed to \$6,225 on the Material Request form. The change was not initialed. No explanation for the increase was provided.
- The supporting documentation (list of awardees and amounts) reflected a total of \$6,150, however, the OIA confirmed an accurate total of \$6,300.
- The actual receipts documenting the purchase of gift cards totaled \$6,225. After communication with OIA, ██████████ staff completed a reconciliation of the gift cards purchased and confirmed the total gift cards required equaled \$6,300. They subsequently determined that one \$75.00 card was not activated by the store. The purchase card holder was instructed to purchase the additional \$75 required, gift card.

Upon subsequent discussions with the Fiscal Affairs Manager, the OIA learned that the numerous discrepancies were attributed to employee error.

The \$525 credit was attributed to unclaimed gift cards from the FY14 program, subsequently issued/used in the FY15 program. The unclaimed gift cards were found last year, unsecured, in a desk drawer by ██████████. There is no reconciling documentation available (i.e. amount originally purchased compared to actual cards issued) for the unclaimed gift cards. No mention of any credit should have been on the FY16 Material Request form.

Criteria/Risk: Failure to correctly add the amounts of requested items can lead to inaccurate purchases and increases the Commission's risk of fraud, waste, and abuse. Failure to secure gift cards may result in loss or theft. Failure to keep accurate records on gift cards purchased, cards issued, and cards remaining also increases the Commission's risk of fraud, waste, and abuse.

Recommendation: We recommend ██████████ management review Material Request forms to ensure the accuracy of the amounts approved.

[REDACTED]

[REDACTED]

In addition, controls over the Performance Recognition Program must be strengthened. Controls should include:

- Management should obtain documentation (e.g. signature and date) from all employees upon receipt of the award/gift card.
- The amount issued and any outstanding cards should be reconciled to the total purchase price. The reconciliation should be evidenced (e.g. signed and dated).
- All gift cards should be appropriately secured.
- Payroll must be notified of all Performance Recognition awards.

Issue Risk: High

Management Response: A process has been implemented to reduce the opportunity for employee error when accounting for the purchase and distribution of items such as gift cards as performance incentives. An Excel spreadsheet and log has been developed to ensure proper accounting for the purchase and distribution of items such as gift cards. The log lists the amount of the gift card, recipient name and requires the signature and date when distributed. All gift cards are now locked and secured. The process has reduced employee accountability errors and strengthened the control of gift card purchases.

Expected Completion Date: Completed

Follow-Up Date: October 2016

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4. Obtain Complete Supporting Documentation

Issue: Our reviewed determined that the following 4 purchase card transactions did not have complete/adequate supporting documentation:

Date of Transaction	Amount of Transaction	Company Name	Reason
1/21/16	\$98.99	Amazon	No Sales Receipt
5/2/16	21.25	Fed Ex	No associated documentation for what these shipping costs were for
5/3/16	4.53	Fed Ex	No associated documentation for what these shipping costs were for
5/6/16	287.26	Fed Ex	No associated shipping documentation for what these shipping costs were for
Total	\$412.03		

Criteria/Risk: The *Purchase Card Program Policy and Procedure Manual* requires that sufficient documentation of each purchase card transaction be retained by the cardholder for review by the approver and potential audit by OIA.

Recommendation: We recommend ██████████ management ensure all transactions have adequate documentation as required by the *Purchase Card Program Policy and Procedure Manual*.

Issue Risk: High

Management Response: ██████████ were able to provide the necessary supporting documentation prior to or at the audit closing meeting. Additional guidance was provided to the Purchase Card holder.

Expected Completion Date: Completed

Follow-Up Date: October 2016