

Final Report

Purchase Card Policies and Procedures

*of
Montgomery College*

Report # OIG-16-004

January 28, 2016

Montgomery County Maryland
Office of the Inspector General



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Report in Brief

Purchase Card Policies and Procedures of Montgomery College

January 28, 2016

Background

We reviewed the purchase card policies and procedures of the Montgomery County government and six independent County agencies for which the Montgomery County Code assigns the Office of the Inspector General certain responsibilities. This report addresses the control policies and procedures at Montgomery College.

Why We Did This Audit

Purchase cards billed centrally to Montgomery College for purchases totaled approximately \$9.97 million total in fiscal year 2014. We analyzed the policies and procedures controlling the use of these payment mechanisms and related purchases.

Matters for Management Consideration

Although we issued no findings or recommendations, we identified two matters for consideration.

- 1) For three types of Purchase Card Controls, Montgomery College did not document 2 out of 26 controls for its general purchase card, and it did not document 4 out of 26 controls for its travel card¹. In addition to the controls already in place and the planned annual certifications of cardholders, the College might benefit from implementing Merchant Category Code restrictions for its travel card.
- 2) Seven of the 114 Montgomery College approvers are responsible for reviewing charges for a large number of cards, which may not allow them to adequately review card charges. Montgomery College has described a process for redistributing the workload. However, we suggest that the College would benefit from further review to ensure this approval process is effective.

¹ These controls were the Controls over Assignments of Cards, Cardholder Responsibilities, and Purchase and Payment Controls categories. The Monitoring Controls are not included in the 26.

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Purchase cards billed centrally are used for many purchases at Montgomery College (College), which had approximately \$9.97 million in purchase card charges in fiscal year 2014. The County government and the six independent County agencies we reviewed charged approximately \$50 million total on purchase cards in fiscal year 2014.

During our audit, we considered the following elements of a purchase:

1. The requisition of a good or service by an individual who identifies a mission related or business need.
2. The purchase and selection processes that:
 - evaluate available goods and services that satisfy the need
 - evaluate the range of costs
 - make the selection
 - place the order
3. The receipt of the good or service, confirmation of receipt, invoice and payment processes.

In large procurements these steps are typically separated among several individuals, thereby providing a safeguard against possible errors. In a purchase card transaction, even in a very large one, it is possible for these steps to be performed by a single individual. Accordingly, policies and procedures to ensure the appropriate purchases and payments with the use of centrally billed purchase cards are necessary. Our audit was intended to determine the extent to which such policies exist and procedures are required at the entities for which the Montgomery County Code assigns us certain responsibilities.

This report addresses the control policies and procedures at Montgomery College.

Our audit was conducted in accordance with *Government Auditing Standards* issued by the U.S. Government Accountability Office and *Principles and Standards for Offices of Inspector General* issued by the Association of Inspectors General.

Objectives, Scope, and Methodology

The objectives of the Office of the Inspector General (OIG) audit were to:

- Determine the policies and procedures and related internal controls over purchases using purchase cards, including those that are not formally documented.
- Identify any opportunities for improvement.

In our reviews of the County government and the six independent agencies, we identified in some cases issues that we determined did not rise to the level of a “Finding”, because they did not represent significant deficiencies requiring immediate management attention and thus our formal recommendation for action. Nonetheless, we did believe it was appropriate to address those issues and what would be appropriate management responses in what, in this set of reports, we have termed “Other Matters for Consideration”.

The scope of our audit included examination of the purchase card policies and procedures of Montgomery College.

We requested purchase card policies and procedures, laws and regulations from the County government and the independent County agencies. In addition, we looked at examples of recommended practices in the Federal Government and in the State of Maryland.²

From these materials, we identified 28 significant controls over purchase cards. We grouped these controls into four categories for the purposes of our analysis:

- Controls over Assignment of Cards (7 controls)
- Cardholder Responsibilities (6 controls)
- Purchase and Payment Controls (13 controls)
- Monitoring (2 controls)

We prepared a table showing the controls we identified, and indicated which ones Montgomery College identified in its policies and procedures. We provided the table to

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- ² The Maryland Comptroller’s purchase card policies and procedures
 - The U.S. Government Charge Card Abuse Prevention Act of 2012, applicable to the federal government
 - U.S. Office of Management and Budget policies and procedures in Circular No. A-123, Appendix B (2009)
 - U.S. Government Accountability Office audit guides from 2003 and 2008
 - U.S. Gen'l Services Admin., 2004 “Guide for Purchase Card Oversight” and 2003 “Guide to Best Practices”
 - Federal Deposit Insurance Corporation, Office of the Inspector General Report No. AUD-14-007
 - The U.S. Department of Agriculture Cardholder’s Guide
 - The Council of the Inspectors General on Integrity and Efficiency’s audit framework

Montgomery College for review. We considered the responses and edited our table accordingly.

Background

Montgomery College is a multi-campus institution that serves nearly 60,000 students a year, through both credit and noncredit programs, in more than 100 areas of study. In sixty years, approximately one half million men and women have attended Montgomery College. The College offers Associates of Science, Applied Science, Arts, Fine Arts, Arts in Teaching, and Certificates in a wide range of areas. Some of the programs of study are Accounting, Applied Geography, Biotechnology, Business, Computer Science and Technologies, Construction Management, Emergency Preparedness Management, Engineering Science, Graphic Design, Health Information Management, Network and Wireless Technologies, Paralegal Studies, Radiologic Technology, and Surgical Technology.

Montgomery College's total approved FY 2014 Operating budget was \$279,967,810. The FY14 budget included 1,862 full time equivalent employees.

Montgomery College has implemented and continues to use purchase cards to save time and money in procurement, by reducing paperwork requirements and simplifying the purchasing process. The use of purchase cards can result in a significant reduction in the volume of purchase orders, invoices, and checks processed.

Montgomery College has two types of cards that are charged to the College: (1) the corporate/travel card (travel card), and (2) the purchasing card.

An additional benefit to the use of purchase cards is the receipt of rebates. Montgomery College received \$51,743 in rebates from May 2013 through April 2014 from the combined use of its general and travel purchase cards.

However, the use of purchase cards can lead to increases in the risk of fraudulent and improper purchases. Strong internal controls are important for mitigating this risk.

In 2014, Montgomery College's cards were made up of 319 general purchase cards and 7 travel cards. There is a manual for each type of card.

The *Cards and Charges* table below indicates Montgomery College’s number of purchase cards and the dollars charged on them in 2014.

Cards and Charges	Montgomery College
Number of cards in 2014	326
Dollars charged in 2014	\$9,972,053
Average Dollars / card	\$30,589

Source: Information provided by Montgomery College

Reported Policies and Procedures

Controls over Assignment of Cards

The Controls over Assignment of Cards category addresses who is issued and holds purchase cards. As more employees possess and use purchase cards, the risks increase, as does the administrative burden. Thus, it is important that purchase card issuance be focused on the employees who can most productively and responsibly make use of the cards. We found discussions of and examples of extensive criteria in the Federal and State government purchase card programs.³

³ For example, the Maryland Comptroller’s purchase card policies and procedures state that cards are limited to “employees who have not had personnel incidents which impact the use of the card.” The U.S. Department of Agriculture’s program guide states that only individuals who “have demonstrated that they are responsible and possess the required business acumen to be entrusted with a government purchase card” should be nominated to be cardholders.

The College has documented six out of seven of these controls for its general purchase card, and it has documented five out of seven of these controls for its travel card, as shown in the following *Controls over Assignment of Cards* table.

Controls over Assignment of Cards	College Purchasing	College Travel
Dept. Head or Supervisor approval required for issuance	X	X
Criteria for card issuance: Cardholder (CH) is an employee and does purchasing	X	X
Cards reissued/expire every 36 months, or more often	X	X ₁
Card cancelled/collected w/in 1 pay period of CH departure	X	X
Purchase Card Administrator notified of terminated CHs	X	-
Department certifies list of CHs annually	-	-
Inactive cards noted for possible cancellation	X	X

X = drawn from written documentation

X₁ = determined by discussions with or emails from upper management; no additional documentation

Source: OIG review of documentation, and College responses to OIG.

We communicated to the College our conclusion that the College did not require that each department annually review a list of cardholders and certify that the people on that list should have purchase cards. The Procurement Director of the College responded that the College will implement annual certifications of cardholders at the beginning of calendar year 2016.

Regarding the travel cards, the Purchase Card Administrator is not notified when travel cardholders are terminated. The Purchasing manager emailed us that the cards were reissued or expired every 24 months, although we did not receive any additional documentation for this control.

In order to be eligible for a general purchase card, an employee must be either a full or part-time, permanent employee.

The College requires that travel cardholders be full-time, permanent employees. The travel cardholders must also meet at least one of the following conditions: more than three business trips a year, at least \$500 in business-related expenditures per year, or some other unique circumstance as authorized by the Senior Vice President for Administrative and Fiscal Services.

Cardholder Responsibilities

The Cardholder Responsibilities Controls are primarily related to the requirements of cardholders. The College has documented five out of six of these controls for its general purchase card, and it has documented all six of these controls for its travel card, as shown in the following *Cardholder Responsibilities* table.

Cardholder Responsibilities	College Purchasing	College Travel
CH trained before receiving card	X	X
CH signs Agreement	X	X
Repeated missing receipts may result in card loss	-	X
Monthly reports required from CH	X	X
If failure to reconcile, card may be suspended	X	X
Late submission of reports has consequences	X	X

Source: OIG review of documentation, and College responses to OIG.
X = drawn from written documentation

Purchase and Payment Controls

The Purchase and Payment control category addresses restrictions on and reviews of purchases.

The purchase card manual states that purchase cards are for business use. This is an important general principle to communicate to cardholders, but it does not necessarily provide sufficient guidance to enable cardholders to make decisions about individual purchases that may have substantial business and personal components, such as lodging and food. Guidelines for purchases such as travel, meal, and conference expenses would help approvers, as well as cardholders. The important issue is that government money is spent properly.

The College has documented all 13 of these controls for its general purchase card, and it has documented 10 out of the 12 applicable controls for the travel card, as shown in the following *Purchase and Payment Controls* table.

Purchase and Payment Controls	College Purchasing	College Travel
Dept. Liaison or approver trained before CH gets card	X	X
List of example disallowed items provided to CHs	X	X
List of example allowed items provided to CHs	X	X
Limits & restrictions applied at point of sale	X	-
Monthly limit	X	X
Transaction limit	X	X
Merchant Category Code (MCC) restrictions	X	-
Approver required to perform monthly reviews	X	X
Approver or CH must retain receipts	X	X
Gift card log/records kept; or no gift cards allowed	X	N/A
Approver/Supervisor reconciles receipts to transactions on the monthly statement	X	X
Approver/Supervisor reviews for legitimacy of charges	X	X
P-Card Admin/Finance reviews usage for appropriateness	X	X1

Source: Montgomery College responses to OIG.

X = drawn from written documentation

X1 = determined by discussions with or emails from upper management; no additional documentation

The Montgomery College manual for the general card states that restaurant purchases are prohibited, but also provides that catering is allowed “for College-related business events.” Other examples from the general purchase card’s list of allowed items are copy and duplicating services, promotional items, and shipping charges. Fees for certain professional training, workshops and conferences are allowed. Examples of items that may not be purchased are alcoholic beverages, water service and delivery, gift cards, gasoline, annual maintenance contracts, consulting services, cash advances, cell phones, computer hardware, and furniture.

Most College cards, both travel and general purchases, have a monthly limit of \$5,000. Of the seven travel cards, two have monthly limits of \$10,000. Of the 319 general purchase cards, 18 have monthly limits exceeding \$5,000. College cardholders can receive increases in their limits if they obtain the approval of their Account Managers and the Director of Procurement.

Splitting a large purchase into multiple smaller purchases, in order to circumvent the limits, is against the purchase card's written policy.

The College has a multi-page list of Merchant Category Codes⁴ (MCCs) for its general purchase card, but no blocked MCCs for its travel card. Blocked MCCs can be effective in preventing personal purchases, such as purchases at beer, wine, and liquor stores and boat rentals, which the College includes in its list of blocked codes for its general purchase card. These blocks can prevent deliberate misuse of the College's card, and they can prevent a cardholder from mistakenly using the College's card when the cardholder intended to use a personal card.

We communicated to the College our conclusion that the College does not block MCCs for its travel card. The College advised us that College travel cards are only held by senior executive College officials, and that blocking MCCs would take away the needed flexibility to address travel-related business expenses. When senior people in an organization have purchase cards but no one above them in the organization reviews their purchases, blocked MCCs can prevent purchases that more junior people might be hesitant to question. While there are some blocked MCCs for the College's general purchase card that would not be appropriate to block for the travel card, such as travel agencies and hotels, there are other types of vendors, such as furriers and securities brokers, which are on the College's list of blocks for its general purchase card, that may be appropriate to block for the travel card.

Other Matter for Consideration #1

For the above three types of Purchase Card Controls, Montgomery College did not document 2 out of 26 controls for its general purchase card, and it did not document 4 out of 26 controls for its travel card. In addition to the controls already in place and the planned annual certifications of cardholders, the College might benefit from implementing Merchant Category Code restrictions for its travel card.

⁴ A Merchant Category Code (MCC) is a categorization of the type of business the merchant is engaged in and the kinds of goods or services provided.

Because the responsibilities of the approvers are an important part of the effectiveness of the Purchase and Payment controls, the number of cards for which an approver is responsible for review must allow the card charges to be thoroughly reviewed in a timely manner.

Approver reviews consist of reviews by another employee to determine whether the purchases were proper and whether the receipts and charges reconcile. The approvers are required to reconcile the cardholder's receipts to the card company's transaction records on the monthly statements and monitor whether the purchases were for business and not personal reasons. Montgomery College purchases are exempt from Maryland sales tax.

Reconciling receipts and monthly statements is an important control for detecting errors made by vendors. Examining whether purchases were not for personal reasons is an important control for detecting errors made by cardholders and unauthorized charges.

Cards per Approver

The U.S. General Services Administration (GSA) states in its 2004 *A Guide for Purchase Card Oversight* that approvers in the Federal Government most commonly have between 4 and 10 cards to review. Whether a particular ratio is appropriate depends on the volume of card activity and the organizational structure. In 2003, the GSA recommended that approvers not be responsible for more than 7 cards.

Montgomery College has 114 approvers overall, including purchase and travel card approvers. The OIG calculated that the College has an overall average of 2.9 cards per approver. Montgomery College has seven approvers with more than 10 cards to approve. This is 6% of the approvers. The greatest number of cards an approver is responsible for is 16.

We communicated to the College our conclusion that the assignments of cards to approvers with more than 10 cards to review should be examined to determine whether these approvers are over-burdened, and that the College should regularly review its approver assignments to prevent approvers from becoming overburdened. (The Federal Audit Executive Council recommends annual evaluations of the number of cardholders and approving officials.) The College's Procurement Director responded that the Purchase Card Program Manager would work with those identified approvers to delegate back-up approvers to review purchase cardholder monthly charges. He stated that back-up approvers would be assigned some of the approver's cardholders, so that the burden on any one approver would be reduced. The College plans for this process to be in place in the beginning of calendar year 2016.

Transactions per Approver

Another measure of workload is the number of transactions per approver. Montgomery College had an average of 15.7 transactions per approver per month.

The GSA recommended in 2003 that the number of monthly transactions per approver be no more than 50. Montgomery College's number is well below this limit, indicating that its approvers are not overburdened, on average.

Other Matter for Consideration #2

Seven of the 114 Montgomery College approvers are responsible for reviewing charges for a large number of cards, which may not allow them to adequately review card charges. The College has described a process for redistributing the workload. However, we suggest that the College would benefit from further review to ensure this approval process is effective.

Monitoring and Use of Level 3 Data

Monitoring

In addition to the above types of controls, central administrators can audit and review purchases. Regularly scheduled monitoring can detect errors made by vendors, errors made by cardholders, and unauthorized charges. It can also detect lapses in the implementation of controls. The following *Monitoring* table shows that the College has documented one of these two controls for its general purchase card and one of the two controls for its travel card.

Monitoring	College Purchasing	College Travel
Performs regularly scheduled audits/reviews of purchase card use	-	-
Performs regularly scheduled data analyses using Level 3 data to detect inappropriate card use	X	X

X = drawn from written documentation

Source: OIG review of documentation, and College responses to OIG.

Audits/Reviews of Purchase Card Use

We requested information from the College evidencing its continuous monitoring of purchase card use. The College's travel card manual states that the cards will be audited on a semi-

annual basis by its internal auditors. The general purchase card manual states that card usage may be audited by the Director of Procurement at any time.

The College has not audited purchase card use in recent years, although the Purchasing Manager informed us that the College has a structure in place for doing so.

The Purchasing Manager provided us with a memorandum from the Director of Procurement that was sent to individual cardholders in 2004 but not since then, stating that a review of randomly selected cardholders is completed annually. The memorandum requests purchasing transaction logs, receipts, bank statements, and account manager approval documentation. The Purchasing Manager also provided us with the College's P-Card Audit Checklist.

Montgomery College receives and reviews Level 3 data. The Purchasing Card Coordinator told us that she reviews the reports containing Level 3 data and skims the item descriptions. She provided us with the beginning of a report for the month of June 2015. She uses the list of unacceptable purchases in the purchase card manual to decide whether something she sees may be unacceptable, and she brings these cases to the attention of the Purchasing Manager.

Level 3 Data

In their oversight of purchase card use, the State of Maryland and some Federal government agencies have implemented the analysis of detailed transaction data, known as "Level 3" data. The customer can obtain this data for purchases made through the major credit card providers, such as MasterCard, at no additional charge. These credit card providers obtain Level 3 data electronically from many, but not all, merchants. The Maryland Comptroller's Office reports that Level 3 data is provided by approximately 40% of U.S. merchants.

The following *Selected Types of Data Available* table shows many, but not all, of the types of data available to purchase card administrators/monitors. Level 1 data is standard data provided on all purchase card transactions. Level 2 adds sales tax and other data. Level 3 adds item description, item quantity, and other information.

Selected Types of Data Available		
Level 1	Level 2	Level 3
Supplier name	Sales tax amounts	Ship to/from zip codes
Total purchase amount	Customer Accounting Codes	Discount amount
Transaction date		Freight/shipping amount
Merchant Category Code		Order date
Store location		Item description
		Item quantity
	Item total	
	Item codes	
	Item unit cost	

Source: OIG review of information from credit card providers.

Level 3 data can be useful for detecting purchases that may not be for legitimate business activities. Level 3 data might be used by an immediate supervisor, but it can also be used centrally, to examine all of an agency’s transactions.

The Maryland Comptroller’s Office provides instructions for Maryland State agencies to conduct the following analyses using Level 3 transaction data. These analyses are in addition to regular monthly reviews.

- Level 3 Data, Merchant Spend Analysis by Line Item – Review item descriptions. Non-level 3 transactions should also be reviewed. Remind the cardholders that detailed line item descriptions are available.
- Declined Transaction Report – Review reasons transactions were declined. Any attempts in excess of purchase or monthly limits or a blocked vendor could indicate a training issue or an attempt at misuse. Use this to determine patterns of potential abuse.
- Multiple Vendors at One Address – Determine (1) if more than one merchant is using the same address; (2) if the business is legitimate; (3) if the business is registered with the Secretary of State; (4) if the vendor is on a Statewide contract, and (5) if the location is consistent with the type of vendor.

- Employee Address and Vendor Address are the Same – Find any matches between employee addresses and vendor addresses, using employee address data from Human Resources.
- High Dollar Value of Purchase by One Cardholder from an Obscure Vendor – Sort data by largest charge to smallest, sort by cardholder, then look for obscure merchants. Research the merchant by asking the cardholder for more information, researching if the merchant is registered to do business in Maryland, and using an internet search engine.
- Purchases Structured to Avoid Transaction Limits (Split Purchases) Look for the same vendor with transaction amounts near the Cardholder’s limit. Also check if multiple cardholders are involved. Look for when a large ticket item is split.

Montgomery College’s methods for auditing the propriety of the charges appear appropriate.

Montgomery College’s Response

The response from the Montgomery College President to the final draft report is included in its entirety in Appendix A. Nothing in the response caused us to alter our report.



Office of the President

January 21, 2016

Mr. Edward Blansitt, Inspector General of Montgomery County
100 Maryland Avenue
Rockville, MD 20850

RE: Montgomery College Purchasing Card Program Audit

Dear Mr. Blansitt:

This letter is in response to your letter dated December 22, 2015, regarding the completion of the audit of purchase card procedures at Montgomery College. Thank you for the extension of time to review the report.

The College carefully reviewed the audit and the management considerations in providing our response. Montgomery College accepts the matters outlined in the report.

To that end, the College has started the process of addressing the recommendations related to the annual certification of cardholders, the number and workload of individuals who are approvers of purchase cards, and Merchant Category Codes on the College's travel card. As recommended by the report:

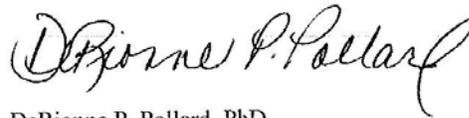
- The cardholder certification processes will be modified to an annual certification process.
- All existing cardholder accounts are being examined as to frequency of use and monthly account balances with the goal of reducing the overall number of purchase cards, to the extent that any modifications would not prohibit daily operations for the unit.
- A secondary approver will be identified for each primary card approver to address workload of individuals who are approvers.

Travel cards are issued to senior executives at Montgomery College. Currently, the College has issued a total of nine travel cards to senior executives. A thorough review is being conducted of Merchant Category Code restrictions that may be placed on travel cards in order to enhance controls without placing an undue burden on senior executives during their travels.

Mr. Edward Blansitt
January 21, 2016
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Thank you for your thorough review, report and guidance for improving the College's purchasing card program.

Sincerely,

A handwritten signature in black ink, reading "DeRionne P. Pollard". The signature is written in a cursive style with a large, stylized initial "D".

DeRionne P. Pollard, PhD
President

cc: Dr. Janet Wormack, Senior Vice President for Administrative and Fiscal Services
Mr. Patrick Johnson, Director of Procurement
Ms. Donna Schena, Associate Senior Vice President for Administrative and Fiscal Services
Ms. Ruby Sherman, Vice President for Finance