

Final Report

Purchase Card Policies and Procedures

of the

*Montgomery County
Government*

Report # OIG-16-007

March 14, 2016

Montgomery County Maryland
Office of the Inspector General



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Report in Brief Purchase Card Policies and Procedures

March 14, 2016

Background

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

Why We Did This Audit

Purchase cards billed centrally are used for many purchases in the County government (approximately \$13 million total in fiscal year 2014). We analyzed the policies and procedures controlling the use of these payment mechanisms and related purchases.

What We Found and Concluded

We found that (1) some County government approvers are responsible for reviewing charges for a large number of cards, which may prevent adequate review of card charges; and (2) the County government does not perform regular audits of purchase card use. Although the Purchasing Card Administrator reviews declined transactions, high dollar transactions, and high risk transactions and checks for potential split transactions, the County government is not conducting complete regularly scheduled data analysis, including using Level 3 detailed transaction data, to detect possible inappropriate card use. We reviewed \$7.1 million of purchase card transactions for January through June 2015, and we found that (3) the County government's purchase card manual appears not to reflect the County government's current business practices, in that the manual prohibits using the card for individual meals and does not address meals at meetings or after work hours.

What We Recommend

The County government should (1) annually review approver workload, and based on that review add approvers and/or redistribute the workload among approvers; (2) implement a program of audits of compliance with purchase card policies and regulations, integrated with regularly scheduled data analysis using Level 3 detailed transaction data; and (3) update its purchase card manual related to food expenditures, possibly to consider guidelines for reimbursement of meal purchases at meetings and after work hours, which are in the County's administrative procedures for local and non-local travel.

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Introduction

Purchase cards billed centrally are used for many purchases in the Montgomery County government (County government), which had approximately \$13 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 the County government, exclusive of the independent agencies.

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 the County government. The OIG also examined purchase card data provided by the Montgomery County Department of Finance for all Montgomery County purchase card transactions from January 2015 through June 2015.

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.¹

¹ We considered the following guidelines, laws, and reports:

- The Maryland Comptroller’s purchase card policies and procedures
- U.S. Government Charge Card Abuse Prevention Act of 2012, applicable to the federal government
- U.S. Office of Management and Budget, “Improving the Management of Government Charge Card Programs,” Circular No. A-123, Appendix B (2009)
- U.S. Government Accountability Office, “Auditing and Investigating the Internal Control of Government Purchase Card Program” (2003) and “Governmentwide Purchase Cards” (2008)
- U.S. General Services Administration, “Guide for Purchase Card Oversight” (2004) and “Guide to Best Practices for Purchase and Travel Charge Card Program Management” (2003)
- 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

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 controls the County government identified in its policies and procedures. We provided the table to the County government for review. We considered the responses and edited our table accordingly.

Background

For Fiscal Year 2014, the County government approved an operating budget of \$1,851,507,092 and 9,447 work years. The following *Cards and Charges* table indicates the County government's number of purchase cards and the dollars charged on them in fiscal year 2014.

Cards and Charges FY2014	County Government
Number of cards	458
Dollars charged	\$13,370,209
Average Dollars / card	\$29,193

Source: Information provided by the County government to the OIG.

The following *Departments with More than Ten Cards* table shows that three County Departments – Fire & Rescue, Health and Human Services, and the Police – together have 51.5% of the County’s purchase cards.

Departments with More than Ten Cards	Number of Cards	Percent of County Cards
Fire & Rescue	106	23
Health and Human Services	71	15.5
Police	59	13
General Services	29	6
Corrections	24	5
Transportation	24	5
Recreation	19	4
Economic Development	13	3
Technology Services	11	2

Source: OIG analysis of data provided by the County government

The County maintains that it issues purchase cards to its employees to reduce the paperwork and costs associated with processing payments to individual vendors. The County’s purchase card manual states that target items to be purchased with County purchase cards are “those with a total value of \$10,000 or less that are not under County contract – unless expressly authorized by the Director of the Office of Procurement.” The County’s manual refers to purchase cards as “a fast, flexible payment tool.”

Another typical benefit from the use of purchase cards is the receipt of rebates. The County government receives significant rebates from its purchase card use. According to the County, rebates are provided on a calendar year basis. For 2014, the information provided by the County is that the calendar year rebate was \$209,480, based on charges of \$13,817,910, and the County rebate rate was 1.516%.

The County government participates in a Cross Agency Resource Sharing (CARS) Committee consortium utilizing JPMorgan Chase MasterCards. Participants include other entities in Montgomery County and other government agencies, including Fairfax County, Virginia. This consortium, which began in late 2010 in the midst of recession and belt-tightening, aims to yield better rebates for participating entities, allow for more consistency in purchase card programs, and promote greater use of purchase cards. The rebate percent varies based on total consortium purchases and on how quickly payments are made to JPMorgan, per individual contract, so there is not one set rebate percent.

Much of what the County charges on purchase cards is for purchases made under County contracts. In February 2015, charges to three vendors for office supplies and bus replacement parts, who had contracts with the County, amounted to \$330,057. We also saw evidence that County departments are utilizing purchase cards for recurring monthly expenses such as cable and telephone. We found these to be beneficial uses of the County's purchase cards, as they allow a safe, convenient payment mechanism, as well as a rebate to the County. In addition, this is relatively inexpensive compared to the alternative of processing an account payable through the County's payment process.

The County Department of Finance is responsible for administering the purchase card program for the County. The County's Purchasing Card Administrator, within the Department of Finance, functions as the Contract Administrator with JPMorgan Chase, and is the liaison between County operating departments and JPMorgan Chase. Each County department appoints a Department Liaison, who monitors card issuance, maintains annual lists of cardholders and credit limits, and ensures prompt reconciliation of periodic statements.

Findings & Recommendations

We identified three Findings and make the following Recommendations.

The County government has documented 26 of the 28 significant purchase card controls.

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.²

The *Controls over Assignment of Cards* table below shows that all of these controls have been documented by the County government.

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

X = drawn from written documentation

Source: OIG review of documentation, and County government responses to OIG.

Regarding the criteria for who may be assigned cards, the County requires only that a cardholder be “an employee . . . who normally procures goods and services or travels for the Department.”

² 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.

Cardholder Responsibilities

The Cardholder Responsibilities Controls are primarily related to the requirements of cardholders.

The following *Cardholder Responsibilities* table shows that all of these controls have been documented by the County government.

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

X = drawn from written documentation

Source: OIG review of documentation, and County government responses to OIG.

An applicant must attend a training session and sign a cardholder agreement signifying agreement with the program terms before receiving a card, which is issued in the name of Montgomery County and the cardholder.

The cardholder must retain all receipts and ensure that Maryland state sales/use taxes are not charged. Violations such as purchasing items for personal use, sharing the card with others, making split purchases (splitting a transaction into multiple ones to circumvent charge and credit limits), failing to timely reconcile transactions per the monthly statements to receipts, or failing to provide supporting documentation may lead to warnings, cancellation of the card, disciplinary action, and/or employment termination. Improper purchases may also lead to recovery actions by the County against the employee.

Purchase and Payment Controls

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

The County purchase card manual prohibits personal purchases. A personal purchase is identified as "anything that is not purchased for use and ownership by the County." The County government's purchase card manual identifies a small number of inappropriate purchases, including "[i]ndividual meals and beverages during work hours," alcohol, and "special occasion items." The excluded MCCs also provide some additional guidelines.

This is an important general principle to communicate to cardholders, but it does not necessarily provide sufficient guidance to enable cardholders to make decisions. Clear guidelines for what constitutes personal purchases would help approvers, as well as cardholders. The important issue is that government money is spent properly.

The following *Purchase and Payment Controls* table shows that all of these controls have been documented by the County government.

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

X = drawn from written documentation

Source: OIG review of documentation, and County government responses to OIG.

The County initially sets each cardholder's individual transaction limit at \$10,000 or lower, and the approved monthly limit is set as stated on the cardholder's application. Cardholders can have higher limits assigned, if the Purchasing Card Administrator and the Department Liaison approve. The County government's highest monthly limit is \$120,000 per month. The County government's highest transaction limit is \$50,000 per transaction.

The County government has multi-page lists of Merchant Category Codes³ (MCCs) tailored to each Department's needs. Blocked MCCs can be effective in preventing personal purchases,

³ 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.

such as alcoholic beverages and boat rentals, which the County government includes in its general list of blocked codes.

Several of these Purchase and Payment Controls rely on the reviews of Approvers. Approver reviews consist of reviews by another employee or a supervisor to determine whether the purchases were proper and whether the receipts and charges reconcile. The approvers are required to reconcile the cardholder's receipts and the card company's transaction records on the monthly statements, monitor whether the purchases were for business and not personal reasons, and make sure that no Maryland sales tax was paid. Montgomery County government 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.

Approver Workload

Finding 1: Some approvers are responsible for reviewing charges for a large number of cards, which may not allow card charges to be adequately reviewed.

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.

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.

The OIG determined the number of County government approvers assigned more than 10 cards to review. The following *Approvers with More Than 10 Cards to Review* table shows the approvers with responsibility for more than 10 cards, and the departments of their cardholders.

Approvers with More Than 10 Cards to Review	Number of Cards	Cardholder Departments
Approver 1	68	Fire & Rescue
Approver 2	35	Fire & Rescue
Approver 3	17	General Services
Approver 4	14	Police
Approver 5	11	Economic Development
Approver 6	11	General Services

Source: OIG analysis of data provided by the County government

Although six County government approvers had more than 10 cards to approve, and two had large numbers (68 and 35) of cards to review, these six approvers are only 4% of the County government's 155 approvers. The OIG calculated that the County government has on average 3 cards per approver, which is well below the recommended limit.

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 the County government 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).

Transactions per Approver

Another measure of workload is the number of transactions per approver. The *Transactions per Approver* table below shows the average number of transactions per card and per approver.

Average Transactions per Approver	County Government
Monthly transactions per card [A]	5.8
Cards per approver [B]	3
Transactions per approver [A x B]	17.4

Source: OIG analysis of data provided by the County government

The GSA recommended in 2003 that the number of monthly transactions per approver be no greater than 50. The County government had 17 transactions per approver, well below this limit, indicating that by this measure its approvers are not overburdened on average.

Recommendation 1

The County government should annually review approver workload, and based on that review add approvers and/or redistribute the workload among approvers.

Monitoring

Monitoring and Use of Level 3 Data

Finding 2: The County government does not perform regular audits of purchase card use. Although the Purchasing Card Administrator reviews declined transactions, high dollar transactions, and high risk transactions and checks for potential split transactions, the County government is not conducting complete regularly scheduled data analysis, including using Level 3 detailed transaction data, to detect possible inappropriate card use.

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 *Monitoring* table shows that the County government has not implemented the identified controls.

Monitoring	County Government
Performs regularly scheduled audits/reviews of purchase card use	-
Performs regularly scheduled data analysis using Level 3 data to detect inappropriate card use	-

Source: OIG analysis of information provided by the County government

Audits/Reviews of Purchase Card Use

We requested information from the County government evidencing its continuous monitoring of purchase card use. The County government provided a 2012 audit of the purchase card

program by the County's Office of Internal Audit. The County government did not provide documentation of outcomes of any regular audits. We are aware of no specific plans in the Department of Finance for regular comprehensive audits based on analysis of all purchase card transactions.

The County's policy and procedure manual states that the Purchasing Card Administrator is responsible for "Making periodic audits of card use and charges for appropriateness through the use of the JPMorgan Chase Bank PaymentNet Reconciliation system. Areas to monitor include, but [are] not limited to, compliance with Purchasing Card regulations and compliance with County regulations."

The County government provided examples of the Purchasing Card Administrator having noted approvers' failures to review transactions and examples of the Purchasing Card Administrator suspending a card. The Purchasing Card Administrator manually reviews declined transactions, high dollar transactions, and high risk transactions, such as electronics, food, large restaurant charges, catering, and PayPal, and checks for potential split transactions. Much of the effectiveness of this type of review is based on the judgment and experience of the individual. While the County currently has an experienced individual occupying this position, this may not always be the case. Department of Finance staff told us that the Department does not review transactions for appropriateness regularly, as it has not had the staff necessary for this. The Department of Finance only has one staff member solely dedicated to the purchase card program.

The efficiency and effectiveness of the monitoring program can be improved by employing a regularly scheduled analysis of purchase card transaction data using computer assisted audit techniques to objectively identify suspicious transactions.

Purchase Card Audit

One of the recommendations in the Office of Internal Audit's 2012 audit was for the Director of Finance to "[e]valuate and determine the staffing and resource needs in order for the Department Liaisons and Program Administrator to perform more extensive compliance audits to provide additional assurance of compliance with ... policy requirements. Based upon the evaluation results and resources available the Director should establish the nature, timing (frequency), and extent of these compliance audits."

The Director of Finance stated in response to this 2012 recommendation that he agreed with the benefit of more extensive audits, but that the Department would need more staff to perform them.

We agree with the recommendation that periodic compliance audits should be performed to test compliance with policies and regulations and determine whether controls are properly

implemented and functioning as intended. However, less labor intensive and regularly scheduled data analysis should also be performed.

As of the date of this audit, the Department of Finance provided no evidence that either compliance audits or regularly scheduled analysis of purchase card data are being conducted. In the absence of such reviews, it may not be possible to detect failure of purchase card controls resulting in possible inappropriate card use.

Department of Finance Audit of Invoices under \$10,000

In October 2014, the Department of Finance announced an audit, the objective of which was to ensure that adequate controls exist over processing of invoices under \$10,000 within each County department. The audits steps included:

- Examination of policies and procedures over invoice processing, (as well as relevant laws and regulations),
- Examination of invoices to ensure they contained appropriate information and supporting documentation. Tie invoice processing in the system with the actual invoice to ensure the invoice number, date and address and amount were accurately entered.
- Review of payments to ensure that Maryland State Sales and use tax was not included in the purchase total.
- Ensuring that invoices were authorized for payment by approval initial or signature of authorizing officer as noted on the invoice
- Examination of reimbursable employee expenses for authorization (including travel) and noted if travel expenses were necessary and reasonable to carry out County business.
- Other deficiencies noted related to control activity.

As of November 6 2015, the Department of Finance had completed audits at 33 departments and offices. Some improper payments, including unauthorized purchases, State Sales taxes paid on an invoice, and disallowed meal expenses related to travel (many of the same types of payment problems purchase card controls are intended to detect) were identified and reported. Other deficiencies identified in the audit reports included various types of procedural errors such as incorrect invoice numbers entered in the system⁴. We calculated that overall, 17% of the invoices tested in the reports available were deficient.

The results demonstrate the value of such audits.

⁴ Correct invoice numbers are important for avoiding duplicate payments.

Data Analysis

Data analysis, in particular with the use of Level 3 data, is valuable for detecting purchases that should not have been made or billed. Level 3 data indicates which users may have mischarged particular items to their purchase cards, as it lists individual items purchased, not only the vendor who sold the items. Data analysis should employ computer assisted audit techniques.

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

The Maryland Office of Legislative Audits (Maryland OLA) stated in a March 2014 report that the majority of merchants do not yet provide Level 3 data, but still concluded that the data was readily available, easy to use, and provided significant information about purchases. The Maryland OLA recommended that the Maryland Comptroller require State agencies to regularly obtain and use Level 3 data and provide guidance to the agencies as to how the data can be used in their purchase card verification procedures.

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 states that detailed transaction reports with Level 3 data should be run monthly and compared to information provided by cardholders. The Comptroller's Office's Policy and Procedures Manual requires agencies to produce detailed transaction reports, conduct detailed reviews, and document the results.

The Comptroller's Office provides instructions for Maryland State agencies to conduct the following analyses:

- 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.

We asked the County government about its monitoring program and whether it uses Level 3 data. Department of Finance staff told us that they have Level 3 data available to them from some merchants, but they have not been performing analyses using it. The Montgomery County Controller indicated at a September 2014 training event that the County was considering using Level 3 data.

Recommendation 2

The County government should implement a program of audits of compliance with purchase card policies and regulations, integrated with regularly scheduled data analysis using Level 3 detailed transaction data. We believe this would be consistent with the spirit of the recommendation of the 2012 internal audit report.

OIG Analysis of County Data

Finding 3: The County government's purchase card manual appears not to reflect the County government's current business practices, in that the manual prohibits using the card for individual meals and does not address meals at meetings or after work hours.

At the OIG's request, the County government provided data on monthly purchase card transactions, including Level 3 data, for January through June 2015. Over the six-month period, \$7,078,656 net was charged.

The transactions appeared for the most part to be appropriate. Transactions totaling \$1,333,577 appear to have been appropriately declined, suggesting that controls worked in these cases. Common causes of the declinations were transactions exceeding the cardholder's limit, blocked merchant codes, and expired purchase cards.

We questioned some of the approved transactions, and we received explanations that were consistent with County criteria. There were other items that appeared questionable that we did not pursue, since a detailed examination of all suspicious transactions was outside the scope of this audit. Relative to the almost \$7.1 million in purchase card expenditures we reviewed, the dollar value of the transactions we thought questionable is quite small. Nonetheless, regularly scheduled analysis of purchase card data, consistent with Recommendation 2 above, is needed to detect possible inappropriate card use and failure of purchase card controls.

The data we reviewed included the following food charges:

Eating Places - Restaurants and Fast Food Restaurants , January through June 2015				
>=Lower Limit	<Upper Limit	# of Transactions	% of Transactions	Dollars
\$ -	\$ 20	84	13%	\$1,151
\$ 20	\$ 50	147	23%	\$5,054
\$ 50	\$ 75	80	12%	\$4,920
\$ 75	\$ 100	54	8%	\$4,760
\$ 100	\$ 150	94	14%	\$11,213
\$ 150	\$ 200	53	8%	\$9,294
\$ 200	\$ 250	24	4%	\$5,316
\$ 250	\$ 500	73	11%	\$25,676
\$ 500	\$ 1,000	28	4%	\$19,173
\$ 1,000	\$ 2,000	6	1%	\$9,221
\$ 2,000	\$ 4,000	6	1%	\$16,327
Total		649	100%	\$112,105

Source: OIG analysis of County data

As stated above, the County purchase card manual states that “[i]ndividual meals and beverages during work hours” are prohibited uses of the purchase card. Approximately 36 percent of the food transactions were for amounts less than \$50. These small transactions may have been for individual meals.

Some of the food purchases we identified were local transactions, such as at restaurants in Rockville and Gaithersburg. The County’s purchase card manual requires, if the documentation is unclear, that purchasers write the business purpose on the receipt and in the computer system for processing purchase card approvals. In many cases, the receipts we reviewed did not contain justifications or other explanations for individual meals purchased while not on business travel status. However, the business purpose was written in the computer system.

Under the County’s Administrative Procedures, we found meals addressed only within the Local and Non-Local Travel Guidelines⁵. These guidelines address reimbursements, not purchase card expenditures.

The Local Travel Guidelines permit reimbursement for the following meals: an evening meal in extenuating circumstances, with the approval of the Department head; a morning meal if the cost of lodging has been approved and the employee is on official business and has not been able to go home; and certain other meals at conferences and as approved by the Department head.

⁵ These are in Administrative Procedures 1-2 and 1-5.

In addition, the Local Travel Guidelines state the following:

"An employee's meal, while attending meetings or otherwise conducting County business, is not reimbursable unless the meal is:

- (1) specifically required or called for by the occasion or nature of the meeting or County business,
- (2) taken with individuals who are not part of the County Government, and
- (3) specifically approved by the Department head or designee.

When in the course of conducting County business it is clearly appropriate and justifiable that a meal be provided for official guests or visitors to the County, reimbursement of the employee's meal may be authorized by the department head or designee."

It is not clear how or whether these guidelines may apply to the purchases identified here that were made with purchase cards.

Management in the Department of Finance wrote us that the "County permits the regular small purchase of certain meals with the purchasing card. For example, small meal purchases are made by officials from the Departments of Health and Human Services and Recreation on behalf of clients and after-school children, respectively, as part of their programs. This would be consistent with the language in the AP [Administrative Procedure]. The purchasing card manual provision on personal meals was not intended to prohibit the purchase of individual meals for purposes such as in this example."

Recommendation 3

The County should update its purchase card manual related to food expenditures, possibly to consider guidelines for reimbursement of meal purchases at meetings and after work hours, which are in the County's administrative procedures for local and non-local travel.

County Government's Response

The Chief Administrative Officer's response to the final draft of this report is included in its entirety in Appendix A.

Appendix A: Chief Administrative Officer's Response



OFFICE OF THE COUNTY EXECUTIVE

Isiah Leggett
County Executive

Timothy L. Firestine
Chief Administrative Officer

MEMORANDUM

March 9, 2016

TO: Edward L. Blansitt III, Inspector General
FROM: Timothy L. Firestine, Chief Administrative Officer *Timothy L. Firestine*
SUBJECT: Response to Recommendations from OIG Audit Report on Purchase Card Policies and Procedures of the Montgomery County Government

Attached please find the Executive Branch response to the report on Purchase Card Policies and Procedures of the Montgomery County Government issued by the Office of Inspector General (OIG).

If you have any questions relating to the attached, please contact Joseph F. Beach, Director, Department of Finance, at 240-777-8870, or Karen Q. Hawkins, Chief Operating Officer, Department of Finance, at 240-777-8828.

Attachment

cc: Mollie N. Habermeier, Assistant Inspector General
Joseph F. Beach, Director of Finance

Chief Administrative Officer's Response

Attachment

**Executive Branch Response to Recommendations from
Audit of Purchase Card Policies and Procedures of the Montgomery County Government
Conducted by the Office of Inspector General (OIG)**

Dated March 2016

Recommendation 1 – Approver Workload:

The County government should annually review approver workload, and based on that review add approvers and/or redistribute the workload among approvers.

Executive Branch Response:

The County concurs with the OIG observation that the number of cards for which an approver is responsible for review must allow the card charges to be thoroughly reviewed on a timely basis. The County also agrees that the appropriateness of a particular approver to cardholder ratio depends on factors such as the volume of card activity and the organizational structure.

As noted in the report, the P-Card program already incorporates an annual review and certification of cardholders by department directors. The P-Card Administrator, during training of department liaisons, reviews the critical role of approvers – the scope and nature of their responsibilities – and the importance of approvers being able to fully execute their P-Card responsibilities. This is also reinforced regularly in conversations with the department liaisons.

The Department of Finance will evaluate the feasibility of providing cardholder activity statistics, by both cardholders and approvers, to department directors annually for their use in determining changes needed to assigned cardholders or approvers. Finance will also plan to work with departments whose approver workload may be excessive, based on factors such as non-timely reviews and non-compliance with program policies.

Recommendation 2 – Monitoring and Use of Level 3 Data:

The County government should implement a program of audits of compliance with purchase card policies and regulations, integrated with regularly scheduled data analysis using Level 3 detailed transaction data. We believe this would be consistent with the spirit of the recommendation of the 2012 internal audit report.

Executive Branch Response:

The County continues to agree with the benefits of more extensive audits, and is strongly committed to performing regular reviews, audits and additional formal monitoring of P-Card transactions.

To help accomplish this goal, the department has taken several actions since the 2012 audit:

- Temporary Resources – Finance was able to reallocate a part-time staff resource for a portion of 2014 and 2015 to perform more extensive reviews and monitoring of P-Card activity, but this reallocation was not sustainable.
- Contract Services – In 2014 and 2015, Finance conducted a proof of concept, and attempted to execute both a bridge contract and a non-competitive procurement for data mining services on our accounts payable and P-Card transactions including Level 3 data, but was unsuccessful in both attempts.
- In-House Reporting Tools – Ultimately, Finance and the Enterprise Resource Planning (ERP) office then began a project to internally develop Business Intelligence (BI) reports that would provide for the types of data analysis described in the OIG's report. The initial reports are being developed based on the P-Card data currently available in the Oracle system. Finance anticipates having initial reporting tools available for use in daily operations, by the beginning of FY17. Finance and ERP then plan on determining if additional fields of data from the P-Card system can be pulled into Oracle for expanded reporting capabilities. This phase will involve additional considerations such as data confidentiality.
- Permanent Resources – During late FY15 and into FY16, Finance has been working on reorganization opportunities designed to enhance the resources available for audits, reviews and compliance monitoring procedures, including those over the P-Card program policies and procedures, and its Level 3 detailed transaction data. Loss of several employees anticipated to staff these programs has impacted the timeframe to implement. We currently anticipate final decisions being reached and implementation to begin by the end of FY16.

Finance expects that full implementation of the last two initiatives described above, already in progress, will provide for a regular program of audits and some expanded data analysis using Level 3 detailed transaction data. To be able to most effectively and efficiently perform the type of regular data analysis recommended, Finance will also reevaluate data analysis tool options available in the industry, and any related procurement and/or budgetary actions required to acquire such tools.

Chief Administrative Officer's Response

Recommendation 3 – OIG Analysis of County Data:

The County should update its purchase card manual related to food expenditures, possibly to consider guidelines for reimbursement of meal purchases at meetings and after work hours, which are in the County's administrative procedures for local and non-local travel.

Executive Branch Response:

The County believes the purchase card manual reflects current business practices. The County also concurs that guidance in the manual related to food expenditures could be updated to be clearer.

The original P-Card manual language was drafted specifically taking into account both existing County policy including the Administrative Procedures referred to in the OIG report, and department operational and program requirements. While the Administrative Procedures generally communicate policy from the perspective of what is allowed, the P-Card manual over time was updated to help provide additional clarifying guidance regarding what was not allowed. This balance between the two, and the different perspectives, may have unintentionally resulted in areas that require additional clarification.

The Department of Finance will plan to identify and incorporate any additional clarifying guidance, taking into account existing guidance related to meal reimbursements in the local and non-local travel Administrative Procedures. Finance anticipates performing this work as part of an FY17 review and update of the purchase card manual