

Final Report

# Purchase Card Policies and Procedures

*of the  
Housing Opportunities Commission  
Of Montgomery County*

Report # OIG-16-005

February 2, 2016

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Montgomery County Maryland  
Office of the Inspector General



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# Report in Brief

# Purchase Card Policies and Procedures

*Housing Opportunities Commission  
of Montgomery County*

February 2, 2016

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## Background

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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 the Housing Opportunities Commission of Montgomery County (HOC).

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## Why We Did This Audit

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Purchase cards billed centrally for purchases by HOC totaled approximately \$2.15 million in fiscal year 2014. We analyzed the policies and procedures controlling the use of these payment mechanisms and related purchases.

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## Matters for Management Consideration

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

- 1) HOC would benefit from updating its policies and procedures related to purchase cards to ensure consistency with the actual intended use and control of the cards. Specifically, the HOC purchase card manual prohibits using the card for non-travel related expenses, even though these account for 98% of the purchase card dollars charged.
- 2) HOC would benefit from adding to the manual those controls over Assignment of Cards and Purchases and Payments that we identified as missing.
- 3) HOC should consider formally reassigning some of the Executive Director's approver responsibilities.

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Purchase cards billed centrally for purchases by the Housing Opportunities Commission (HOC) totaled approximately \$2.15 million 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 HOC.

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

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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 HOC.

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.<sup>1</sup>

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)

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<sup>1</sup> 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

We prepared a table showing the controls we identified, and indicated which ones HOC identified in its policies and procedures. We provided the table to HOC for review. We considered the responses and edited our table accordingly.

## Background

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In 1974, parallel State of Maryland and Montgomery County legislation was enacted to establish the Housing Opportunities Commission of Montgomery County, an independent County agency. Governed by a Board of seven Commissioners (the Commission) appointed by the County Executive and approved by the County Council, HOC is granted broad authority related to the provision of affordable housing and supportive services to low and moderate income families of Montgomery County. HOC is specifically granted the power to:

- Acquire land,
- Utilize federal and state housing subsidies,
- Make mortgage loans and rental subsidy payments,
- Make construction loans,
- Provide permanent mortgage financing,
- Purchase mortgages, and
- Issue bonds.

HOC's annual operating budget was \$229 million in FY2014, and it owns, manages, or administers over 14,000 affordable housing units.

HOC is largely dependent on the U.S. Department of Housing and Urban Development (HUD). For FY 2014, HOC's operating budget included \$93 million (40% of the operating budget) in Federal grants, including \$83 million in HUD Housing Choice Voucher Assistance payment; and \$8.6 million (4% of the operating budget) in Montgomery County grants. The County also guarantees up to \$50,000,000 in HOC debt. HOC's second major source of funding after the Federal government in FY 2014 was \$64 million from tenant income.

In the FY2014 operating budget, Personnel Expenses were \$38 million, which was 17% of the operating budget. That FY 2014 budget included 366 work years.

## *HOC's Purchase Card Program*

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In March 2007, the Commission authorized staff to use purchase cards on a limited basis, largely related to conference travel and miscellaneous departmental purchases requiring a purchase card for payment.

Making purchases without using purchase cards means missing the opportunities for rebates on these purchases.

In April 2011, the Commission approved expansion of the purchase card program, as part of an effort to automate and streamline the accounts payable process and earn rebates.

The Commission chose PNC Bank as its purchase card provider, after receiving five proposals. One proposal was from JPMorgan Chase Bank, whose proposal was attached to a consortium contract that included Montgomery County and Fairfax County, and which had a rebate tied to annual consortium spending. PNC bank was HOC's primary bank, and HOC staff had recommended that it be chosen as HOC's procurement card provider.

The memorandum from HOC staff to the Commission stated that each bank that responded to the Request for Proposals offered a virtual card product that used HOC's accounting system as the basis for vendor payment. However, staff noted that JPMorgan Chase was unable to provide any references that had implemented the specific process HOC wanted to use, and no members of the consortium were using that process.

Furthermore, HOC staff stated that if it were part of the consortium, "the Commission is required to spend \$5 million on an annual basis to receive any rebate under the consortium model," whereas PNC offered rebates "beginning with the first dollar spent."

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

<b>Cards and Charges</b>	<b>HOC</b>
Number of cards in 2014	15
Dollars charged in 2014	\$2,144,513
Average Dollars / card	\$142,968

Source: Information provided by HOC to the OIG.

In comparison to the programs of the County Government and its other independent agencies, HOC has the fewest number of purchase cards, with relatively high average spending per card. HOC's annual purchase card charges were among the lowest of the agencies. HOC's annual rebate in FY 2014 was \$28,715.

## Reported Policies and Procedures

HOC's actual use of the purchase card conflicts with the instructions outlined in the "PNC Bank Visa Purchasing Card Policies and Procedures" (purchase card manual), which prohibits non-travel related expenses. The *Purchase Card Charges in FY2014* chart below shows that for fiscal year 2014, 98% of HOC's purchase card usage is for non-travel related expenses, which are not addressed in the purchase card manual.

Type of Purchase Card Charges FY2014	Dollars	Percentage
Purchase Order	\$2,065,173	96%
Travel	\$38,127	2%
Other Small Expenses	\$41,214	2%

Source: Information provided by HOC (total varies from other reported total due to rounding error.)

The purchase card manual states that the card may not be used for any personal transaction and outlines a number of prohibited uses including:

1. Cash advances
2. Personal Items
3. Non-travel related expenditures

For 96% of HOC's FY2014 purchase card expenditures an accompanying purchase order, which has its own set of controls, was prepared. A purchase order is required for all purchases with the following exceptions:

- Petty Cash transactions
- Employee Reimbursements
- Direct Utilities, HOA fees, and tax payments

Under HOC's written policies and procedures, each cardholder is required to be given a copy of the purchase card manual, receive an oral review of the program, and sign an agreement prior to personally taking receipt of the card. Additionally, cardholders must review their statements, note errors, attach documentation of expenses (receipts/charge slips), and fill out employee expense forms for review by management.

HOC has a separate procurement manual which includes guidance regarding small purchases and the issuance of purchase orders. The manual states that to the greatest extent possible, purchase orders are issued through the purchasing office. This creates a separation between the purchase and the department receiving the goods or services. Additionally, when purchases are made by those outside of the procurement department, the authority to issue a

purchase order is closely monitored by the Chief Financial Officer, who is empowered to appoint designated buyers with limited authority. Designated buyers, like purchase card holders, are subject to training prior to making purchases.

While HOC's procurement manual is fairly detailed, it appears to be incomplete. Several sections in the table of contents are marked "future" and do not appear in the body of the text. These include several sections relevant to our review, such as sections governing the purchase of computer and office supplies, temporary services, printing, training, utility payments, office equipment, and changes in purchase orders. The manual was last revised in December 2005.

As the vast majority of purchases made with the purchase cards are made through a controlled purchase order process, the inconsistency of the manual with the use of cards does not necessarily increase risk.

After we asked HOC about the use of HOC's purchase card for travel and non-travel purposes, the HOC Chief Financial Officer wrote us that HOC would be revising its purchase card manual to reflect that non-travel charges are allowed.

## Other Matter for Consideration #1

The purchase card controls identified in the manual apply to all cards and transactions. HOC would benefit from updating its policies and procedures related to purchase cards to ensure consistency with the actual intended use and control of the cards. Specifically, the HOC purchase card manual prohibits using the card for non-travel related expenses, even though these account for 98% of the purchase card dollars charged.

*Controls over Assignment of Cards*

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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.<sup>2</sup>

The following *Controls over Assignment of Cards* table below shows whether HOC has documented the identified controls.

Controls over Assignment of Cards	HOC
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 <sub>1</sub>
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	-
Inactive cards noted for possible cancellation	-

X = drawn from written documentation

X<sub>1</sub> = determined by discussions with or emails from upper management; no additional documentation

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

HOC provided documentation showing that it has five of these controls. However, two controls were lacking: (1) a requirement that departments annually certify their listed cardholders, and (2) a requirement to note inactive cards for possible cancellation.

The purchase card manual requires that the cardholder be an employee who travels frequently. This requirement should be revised, as it is not consistent with current HOC practice, as most charges are not travel-related. The Commission authorized the issuance of purchase cards “to Division Directors and other staff as necessary for out of town travel”, and the Commission may wish to alter its authorization to be consistent with current practice.

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<sup>2</sup> 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 whether the HOC has documented the identified controls.

Cardholder Responsibilities	HOC
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 HOC responses to OIG.

HOC documented all of these controls.

### 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 following *Purchase and Payment Controls* table shows whether HOC has documented the identified controls.

Purchase and Payment Controls	HOC
Dept. Liaison or approver trained before CH gets card	-
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 <sup>1</sup>

X = drawn from written documentation

X<sup>1</sup> = determined by discussions with or emails from upper management; no additional documentation

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

HOC has documented twelve of these controls.

HOC's automated controls include dollar limits on individual transactions, monthly dollar limits, and blocked Merchant Category Codes<sup>3</sup>.

HOC's purchase card manual sets the monthly limit at \$1,750, and this was the monthly limit for eight of HOC's cards. However, the remaining 7 cards had limits over that amount. The highest limit was \$150,000, and the second highest was \$33,000.

HOC's Chief Financial Officer stated that for all employees with limits higher than outlined in the purchase card manual, there was a legitimate business reason. For example, one employee has a higher limit because he often arranges travel for groups of employees.

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<sup>3</sup> 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.

The card with the highest limit, which was \$150,000, was issued to the HOC procurement officer. According to the Chief Financial Officer, “all purchases made with this card are supported by a purchase order, which is reviewed and approved by the appropriate supervisor, division director, or the Executive Director.” This process is the more typical procurement process, which has strong safeguards.

We could find no written policy regarding split purchases in the purchase card manual.<sup>4</sup>

## Other Matter for Consideration #2

HOC would benefit from adding to the manual those controls over Assignment of Cards and Purchases and Payments that were identified as missing in the preceding tables.

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### Approver Workload

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Approver reviews consist of reviews by another employee to determine whether the purchases were proper and whether the receipts and charges on the monthly statements reconcile. 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.

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. An approver may become over-burdened, and not perform thorough reviews, if an approver has too many cards or transactions to review, or is an executive official assigned oversight over multiple cards despite many other competing responsibilities.

#### Cards per Approver

GSA states in its 2004 *A Guide for Purchase Card Oversight* that the most common ratios of cards to approvers are between 4 and 10. Whether or not a particular ratio is appropriate

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<sup>4</sup> The HOC procurement policy does specifically prohibit split purchases but refers only to breaking up purchases to below the formal bid limit, which appears to be \$50,000.

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 per month.

While HOC averages 2.5 cards per reviewer, the Executive Director of HOC is responsible for reviewing 9 cards. This is slightly higher than the 2003 GSA recommendation, and may be burdensome, depending upon card usage. Given that the Executive Director has many important responsibilities, the assignment of these cards to him is a weakness, as the Executive Director's time would be better spent on other work.

### Transactions per Approver

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

Average Transactions per Approver	HOC
Average number of monthly transactions per card [A]	7.7
Average number of cards per approver [B]	2.5
Average number of transactions per approver [A x B]	19.3

Source: OIG analysis of data provided by HOC

The GSA recommended in 2003 that the number of monthly transactions per approver be no greater than 50.

HOC had on average 19 transactions per approver, well below this limit, indicating that by this measure its approvers are not overburdened on average.

If the 9 cards reviewed by the Executive Director had the average number of monthly transactions per card, 7.7, then the Executive Director would be reviewing 69 transactions per month, which is above the GSA range.

### Other Matter for Consideration #3

HOC should consider reassigning some of the Executive Director's approver responsibilities.

## Monitoring

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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 HOC has not implemented the identified controls.

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

X = drawn from written documentation

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

### Audits/Reviews of Purchase Card Use

We requested information evidencing HOC's continuous monitoring of purchase card use. HOC's purchase card manual states that the internal auditor has the authority to conduct "periodic operational and compliance audits."

HOC informed us that there have been "no audits or investigations specifically related to the use of purchase cards" and that "Purchase card activity is reported to the Commission quarterly."

HOC's Chief Financial Officer (CFO) informed us that the internal auditor reviews randomly selected receipts. HOC's internal auditor emailed us that he performs routine reviews, reviewing card activity every quarter, and informing supervisors and the CFO if there are issues. He emailed us copies of his workpapers for three reviews since December 2014.

HOC provided no documentation indicating that its internal auditor performs reviews specifically to determine if policies and procedures were followed.

### Data Analyses

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.

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.

While HOC has the ability to run reports to extract the Level 3 data, it does not. However, given the small number of purchase cards and the small size of its non-purchase order purchases, HOC's methods for auditing the propriety of the charges appear appropriate.

## Housing Opportunities Commission Response

The response from the Executive Director to the final draft report is included in its entirety in Appendix A.

In the response, HOC states that "Recent changes in federal regulations require that HOC amend its Procurement Policy to be in compliance with 2 CFR sections 200.317 through 200.326. In conjunction with the complete review, HOC will evaluate your report and its recommendations as we update the Procurement Policy and Purchase Card Program."

Nothing within the identified sections of the CFR is inconsistent with our report.

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# Appendix A: Executive Director's Response



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January 22, 2016

Edward L. Blansitt  
Inspector General  
Montgomery County Office of the Inspector General  
51 Monroe Street, Suite 802  
Rockville, Maryland 20850

RE: *HOC Response to Purchase Card Procedures of the Housing Opportunities Commission of Montgomery County Report*

Dear Mr. Blansitt:

Thank you for providing a thorough review of HOC's Purchase Card Procedures. HOC acknowledges that your office did not issue any findings or recommendations, but rather identified several areas for consideration.

Recent changes in federal regulations require that HOC amend its Procurement Policy to be in compliance with 2 CFR sections 200.317 through 200.326. In conjunction with the complete review, HOC will evaluate your report and its recommendations as we update the Procurement Policy and Purchase Card Program.

HOC appreciates the efforts of the Office of the Inspector General.

Sincerely,

A handwritten signature in black ink, appearing to be "Stacy L. Spann". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Stacy L. Spann  
Executive Director

cc: Mollie Habermeier, Assistant Inspector General  
Gail Willison, Chief Financial Officer, HOC  
James Atwell, Internal Auditor, HOC