

Final Report

# Purchase Card Policies and Procedures

*of the  
Montgomery County Public Schools*

Report # OIG-16-006

February 25, 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

*of the*  
*Montgomery County Public Schools*

February 25, 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 review addresses the control policies and procedures for the Montgomery County Public Schools (MCPS).

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## Why We Did This Audit

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Purchase cards billed centrally at MCPS totaled approximately \$7.1 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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## What We Found

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We found that MCPS Internal Audit's purchase card audits cover only the cards associated with the Internal Activity Funds, which are approximately 45% of the purchase cards. The Division of Controller reviews transaction data for all cards each month related to sales tax paid, card limits exceeded, and required approvals, but only reviews supporting documentation for a small non-statistical sample of transactions. We also identified a number of approvers who could potentially be overburdened.

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## What We Recommend

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We recommend that MCPS increase the scope of its Internal Audit Unit's annual work plan to include all (not only IAF) purchase cards. The Internal Audit Unit should integrate compliance audits with systematic data analyses, using Level 3 detailed transaction data, to detect inappropriate card use.

We also conclude that MCPS would benefit from regularly reviewing the workload of approving staff and making any appropriate adjustments.

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Purchase cards billed centrally are used for many purchases at the Montgomery County Public Schools (MCPS), which had \$ 7.1 million in purchase card charges in 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 MCPS.

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 Montgomery County Public Schools and the Montgomery County Board of Education.

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)

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

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<sup>1</sup> We considered the following guidelines, laws, and reports:

- 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

## Background

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MCPS operates a County-wide system of public schools for students from pre-kindergarten through high school. The MCPS system encompasses 204 schools and other educational facilities.<sup>2</sup> The elected Board of Education (BoE) determines educational policy and appoints a superintendent of schools.

Educational funding for MCPS is provided by Montgomery County from its general revenues, and funds received from state and federal sources for general school aid and specific purpose grants.

For Fiscal Year (FY) 2014, MCPS had a \$2,225,421,052 total operating budget, and a capital budget of \$250,205,000.<sup>3</sup> The salaries & wages of its 21,244 authorized positions accounted for 67% (\$1,487,352,882) of MCPS' budget.

MCPS had 1,714 purchase cards as of July 28, 2014, and its payments for purchase card charges totaled \$7,100,016 in fiscal year 2014.

Each card's activity is charged to a specific MCPS expenditure account for a school or office. MCPS schools have separate cards for instructional materials, textbooks, media center materials, special education, special education materials, and Independent Activity Funds (IAFs). IAFs are associated with individual schools and are used to finance the recognized extracurricular activities of the students, other approved student activities, such as field trips, and approved curricular expenses, such as consumables for specific classes. The data provided by MCPS to the OIG show that 767 purchase cards are linked to school IAFs. The remaining 947 purchase cards are linked to 62 different cost centers.

In its Purchasing Card User's Guide, MCPS indicates it implemented the Purchasing Card Program to replace a variety of processes, including employee reimbursements, petty cash, advance checks, and certain purchase orders. The program was designed to streamline the process for making low-dollar purchases that are necessary for MCPS operations, and is stated

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<sup>2</sup> For School Year 2013-14, MCPS included 133 elementary schools, 38 middle schools, 25 high schools, 5 special schools, 1 technical career high school, 1 environmental education center, and 1 alternative education program.

<sup>3</sup> Montgomery County FY14 Operating Budget and Public Services Program FY14-19.

to be the preferred method of procurement for all small purchases that are not on a bid list and cost \$100 or less.

An additional benefit to the use of purchase cards is the receipt of rebates. In the Fall of 2014, MCPS joined a consortium of local government entities that use JPMorgan Chase MasterCard.<sup>4</sup> The percentage of purchases rebated to these entities is based on total consortium purchases. According to MCPS, it received \$20,044 in rebates during its first four months as a JPMorgan Chase consortium participant. MCPS stated that it received rebates of \$13,000 in March 2010, and \$15,000 in November 2011, when it used American Express purchase cards. MCPS advised us that it received no rebates between November 2011 and January 2015.

## Finding, Recommendation, and Other Matter for Consideration

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MCPS has documented all of the 28 significant purchase card controls identified by the OIG.

Our review identified one Finding, makes one Recommendation, and identifies one Other Matter for Consideration.

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<sup>4</sup> The County Government and the Maryland-National Capital Park and Planning Commission are among the participants in this JPMorgan Chase MasterCard consortium.

*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>5</sup>

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

Controls Over Assignment of Cards	
Department 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	X
Inactive cards noted for possible cancellation	X

MCPS issues cards to permanent, full-time, or part-time employees of MCPS who have responsibility within their units for ordering supplies and services.

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 MCPS responses to OIG.

MCPS informed us that its procurement cards expire every 24 months.

During the annual certification process, the Controller’s office requests that principals and select staff complete a form indicating whether employees should continue to have cards.

An inactive card is cancelled unless a continuing need for the card is provided.

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<sup>5</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*

<b>Cardholder Responsibilities</b>	
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 MCPS responses to OIG.

MCPS documented all of the six controls we identify in the *Cardholder Responsibilities* table.

MCPS policies require cardholders to complete training before the issuance of a card.

MCPS policies also address the requirement for cardholders to submit monthly reports

reconciling receipts to purchases for review and approval by an Approving Official.

*Purchase and Payment Controls*

The Purchase and Payment Controls category addresses restrictions on and reviews of purchases and payments. The following *Purchase and Payment Controls* table shows the controls that MCPS has documented or that MCPS management stated were implemented.

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. Most MCPS approving officials are principals of schools.

The approvers are required to review and approve the reconciliation of 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

<b>Purchase and Payment Controls</b>	
Dept. Liaison or approver trained before CH gets card	X <sub>1</sub>
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 review	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 <sub>1</sub>
P-Card Admin/Finance reviews usage for appropriateness	X

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 MCPS responses to OIG.

make sure that no Maryland sales tax was paid. MCPS purchases are exempt from Maryland sales tax.

The purchase card manual states that purchase cards are for business use. Travel and entertainment expenses, including restaurants, are not allowed unless approved in advance.

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.

## Other Matter for Consideration

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MCPS would benefit from regularly reviewing the workload of approving staff and making any appropriate adjustments.

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' charges to review, or if an approver is not the appropriate person to be doing the reviewing, due to having many other important responsibilities.

### **Approval Responsibilities at MCPS**

MCPS terms the people who are ultimately responsible for approving charges "account owners." Examples of these are high school principals and Division Directors.

Many MCPS account owners receive assistance with their approval responsibilities: they designate staff members to perform approvals, once the Controller's office approves the designation. After a designee performs approvals, the task is complete and does not require involvement by the account owner. MCPS provided a list of the number of individuals at each location who perform approvals.

### **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 Department with the highest card to approver ratio was the Division of Maintenance, which had 159 active cards. The Division of Maintenance’s purchase card charges were over \$3 million in FY2014, out of a total of over \$7 million charged by MCPS. The Division of Maintenance had 12,071 card transactions in FY2014, out of a total of 45,634 for MCPS. The Division has two approvers and six dedicated staff members who review transactions on behalf of multiple cardholders. The six staff members collect the required information, such as receipts, from the cardholders.

The following *Approvers with High Numbers of Cards to Review* table shows the numbers of approvers with responsibility for high numbers of cards, and their departments. Division of Maintenance approvers are not included in the table below.

Approvers with High Numbers of Cards to Review*	Number of Approvers	Departments
More than 20 Cards to Review	4	Middle Schools High School
11-20 Cards to Review	34	High Schools Middle Schools Dept. of Transportation School Support & Improvement
Total with more than 10 cards to review	38	

\* Excluding the Division of Maintenance  
Source: OIG analysis of data provided by MCPS

### Transactions per Approver

Another measure of workload is the number of transactions per approver. MCPS had an average of 14 transactions per approver per month.

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

No department’s approvers at MCPS are responsible for reviewing more than 50 monthly transactions, on average, other than at the Division of Maintenance, where approvers have dedicated staff assistance, as described above. We reviewed the data on the number of cards per approver and on the number of transactions per approver, and noted that the approvers with high numbers of cards to review do not, on average, have more than 50 transactions to review and therefore may not be overburdened.

### Conclusion

Nonetheless, the assignments of cards to approvers with more than 10 cards to review should be regularly reviewed to determine whether these people are over-burdened. (The Federal

Audit Executive Council recommends annual evaluations of the number of cardholders and approving officials).

*Monitoring*

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**Monitoring and Use of Level 3 Data**

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**Finding 1:** MCPS Internal Audit’s purchase card audits cover only the cards associated with the Internal Activity Funds, which are approximately 45% of the purchase cards. The Division of Controller reviews transaction data for all cards each month related to sales tax paid, card limits exceeded, and required approvals, but only reviews supporting documentation for a small non-statistical sample of transactions.

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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 following *Monitoring* table shows that MCPS has implemented regular reviews of purchase card use, including Level 3 data.

Monitoring	MCPS
Performs regularly scheduled audits/reviews of purchase card use	X
Performs regularly scheduled data analysis using Level 3 data to detect inappropriate card use	X

X = drawn from written documentation

Source: OIG review of documentation, and MCPS responses to OIG

MCPS does not perform comprehensive audits of purchase card transactions. MCPS internal auditors audit purchase card transactions related to the schools’ IAFs, but they do not audit other purchase card transactions. There have occasionally been external audits of purchase card use, as described below, and the MCPS Division of Controller performs monthly pre-payment reviews and reviews of small non-statistical samples of purchases.

**Maryland OLA Audit:**

The Maryland General Assembly’s Department of Legislative Services Office of Legislative Audits (OLA) is required to audit the financial management practices of MCPS every six years.

The most recent audit publicly issued was in January 2009.<sup>6</sup> It “disclosed significant weaknesses in internal controls over the procurement card program” that included (1) a lack of monitoring over card usage and credit limits, (2) a lack of segregation of duties related to the issuance of cards, and (3) an assortment of transaction logs that either were not completed, not reviewed, or not approved. The audit also noted certain potentially questionable credit card purchases, and for certain employees, travel that was not approved in advance as required by MCPS policy.

MCPS management stated in its response to the 2009 OLA audit that Board of Education (BoE) travel would be approved in advance and expenses “well-documented as to the business purpose and nature of expenditures.” MCPS updated its Purchasing Card Guide after the completion of the OLA Audit.

### **BoE Commissioned review**

In April of 2014, the BoE President convened an Ad Hoc Committee for Review of Board Processes and Guidelines on Board Expenditures. The Ad Hoc Committee, charged with reviewing the BoE’s processes and guidelines regarding the use of credit cards and reimbursable expenses, consisted of the BoE President, the BoE Vice President and the Chair of the BoE Fiscal Management Committee.

The BoE President also asked the BoE General Counsel, with outside counsel from a law firm, to review Board members’ expenses for the two-year term. The law firm’s July 21, 2014 report stated that the guidelines in existence at the time led to inconsistencies and ambiguity and that “[i]n the absence of shared norms and expectations, Board members took different approaches in exercising their own judgment in determining whether an expense was related to their official duties.” The law firm recommended that the BoE members no longer have purchase cards, and it endorsed recommendations being considered by the Ad Hoc Committee.

In a July 28, 2014 memorandum to the BoE, the Ad Hoc Committee recommended that Board members “not have credit cards” and recommended the BoE’s handbook be revised regarding travel, meals, attendance at meetings, and other expenses. On that same date, the BoE voted to accept the Ad Hoc Committee’s recommendations. The BoE handbook was revised to include detailed guidelines on these matters.

Similarly, the Chief Operating Officer of MCPS issued guidelines for MCPS Executive Staff in September of 2014 regarding procurement cards and reimbursements for nonlocal travel, local

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<sup>6</sup> State of Maryland. General Assembly. Department of Legislative Services. Office of Legislative Audits. *Financial Management Practices Performance Audit Report, Montgomery County Public Schools*. January 2009. Web: <http://www.ola.state.md.us/Reports/Schools/MCPS09.pdf>. Last accessed 4 August 2015.

meals, and ticketed events. Purchase cards for Executive Staff have been cancelled and are not issued to Executive Staff.

MCPS Regulation DIE-RA addresses travel and meal reimbursements, and in April 2015, during the course of our review, this was revised to state that “[u]nless preapproved by the superintendent of schools or the COO [Chief Operating Officer], MCPS only will reimburse employees for meal expenses incurred while on business travel. MCPS will not reimburse employees or other individuals with whom they meet, including Board members, other elected officials, or MCPS staff members, unless preapproved by the superintendent of schools or COO.”

### **MCPS Internal Auditor activity**

MCPS’ Internal Audit Unit (IAU) conducts financial and program audits of the IAFs, including the purchase cards associated with them. The IAU completed 83 audits of school IAFs during the 2013-2014 school year<sup>7</sup>.

IAU reviews activity only for the IAF purchase cards (of which there were 767 in FY 2014) - it does not audit transactions charged to any of the other 947 MCPS-issued purchase cards.

The OIG determined that 15 (18%) of the 83 audit reports found some deficiency with the purchase card activities related to those IAFs. Nine (11%) of the audit reports documented cardholders who had not met the monthly reporting requirement, through the omission of supporting receipts or cardholder signature, or failure to submit a report for approval. Eleven (13%) of the 83 reports documented deficiencies in the required monthly reviews by approvers, with two of those noted as a repeating deficiency. Ten (12%) of the 83 audit reports cited failures to obtain required pre-approval, with four of those noted as a repeating deficiency.

### **MCPS Division of Controller**

According to the MCPS Controller, the MCPS Division of Controller performs due diligence before making monthly payments, and MCPS purchase card monitoring has improved since MCPS changed purchase card providers in late 2014. MCPS can now better monitor across all data rather than looking at one school’s data at a time. Also, MCPS now receives detailed transaction data, known as “Level 3 data”<sup>8</sup>. The Controller stated that MCPS is still developing new review procedures, and that with more resources, the office could do more. Everyone in the Division of Controller who works on purchasing cards also has other responsibilities.

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<sup>7</sup> MCPS does not collect the IAF audits on a webpage or provide a simple way to search their contents. Instead, the audit reports are on individual school webpages, making reviews of these reports by people outside MCPS quite time-consuming, as there are over 200 individual schools in MCPS.

<sup>8</sup> See Appendix B for more information on Level 3 Data.

Documentation provided by MCPS indicated that purchase card transaction reviews were performed by the Division of Controller beginning in FY2015. In response to our July 2014 request for documentation of MCPS' program for controlling and monitoring purchase card usage, MCPS explained that the Internal Audit Unit reviews documentation in each of the schools during their Independent Activity Fund audits. As a result of a recent discussion, MCPS made us aware of the monitoring activities of the Division of Controller, described in the Division's "P-Card Desk Audit Procedures" dated February 13, 2015, and provided counts of transaction reviews the Division of Controller conducted in FY2015.

The Controller told us that recent changes in the purchase card review process included (1) employees lose card privileges if they do not perform the required online reviews and training, (2) training has been increased, and (3) the Controller and bookkeepers make site visits to schools not doing the reviews and approvals as required.

A brief description of the process follows.

### **Pre-payment Reviews**

The Division's "P-Card Desk Audit Procedures" indicate that every month, staff in the Division of Controller review data downloaded from JP Morgan. The data includes IAF and all other purchase card transactions. All transactions are reviewed to determine if sales tax was paid. A senior accountant analyzes whether cardholders made purchases beyond their monthly limits and transaction limits. The senior accountant also finds transactions that have not been reviewed or approved and contacts account owners regarding them.

### **Transaction Samples**

In addition, the Division of Controller reviews a small number of transactions from selected schools or locations each month: three elementary schools, two middle schools, two high schools, and two departments/special schools. As a result, elementary schools have some transactions reviewed once every three years; middle schools every 18 months; and high schools, special schools, and other locations once per year.

### **Selection of Samples**

Division of Controller staff visually review transaction data in a spreadsheet. Schools and locations are chosen each month based on transactions involving large dollar amounts, expenditures not coinciding with area of work, even dollar amounts (which could signify gift cards), multiple transactions for the same amount from the same vendor (which could signify split transactions), errors found previously, purchases of excluded items such as furniture, purchases that appear questionable upon a review of the Level 3 detailed transaction data, purchases from restaurants, and related concerns conveyed by MCPS Internal Audit.

The Division of Controller requests supporting documentation for approximately four transactions per school or location. Item descriptions in the Level 3 data and the vendor type indicated by the MCC descriptions may be used in the selection of these transactions.

### **Level 3 Data**

When we asked MCPS about Level 3 data<sup>9</sup> on February 3, 2015, MCPS had recently converted to the JPMorgan Chase purchase card. At that time, MCPS officials indicated that MCPS had not yet requested, and thus did not review, Level 3 data. MCPS informed us in December 2015 that the JPMorgan Chase program was fully implemented, and the MCPS Division of Controller gathers Level 3 data using an online tool and reviews it.

We visited the MCPS Division of Controller in January of 2016 and saw the review of purchase card data, including Level 3 data, demonstrated.

We pointed out that the Level 3 data included zip codes of shipping destinations, which, using a computer, could all be searched to look for personal purchases shipped to employee addresses. The Controller said that was a good idea and that she might, for instance, search to see if anything was shipped outside Maryland, but that she does not have the staff time available.

We were advised that the Division of Controller does not have the resources to review whether every purchase was proper, so it only reviews a very limited sample of purchases for propriety. As a result, questionable purchases will only be detected if they appear in the samples reviewed.

The work being done by the Division of Controller is appropriate but limited. The analysis of data could be more automated and more comprehensive but would still require staff time to investigate anomalies. Internal auditors are in a better position to perform audit work such as this, as opposed to accounts payable staff in the Division of Controller, who are responsible for determining if items are appropriate for payment.

## **Recommendation 1**

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MCPS should increase the scope of its Internal Audit Unit's annual work plan to include all (not only IAF) purchase cards. The Internal Audit Unit should integrate compliance audits with systematic data analyses, using Level 3 detailed transaction data, to detect inappropriate card use.

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<sup>9</sup> For a discussion of Level 3 data, see Appendix B.

## MCPS' Response

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The Montgomery County Public Schools' Chief Operating Officer's response to the final draft of this report is included in its entirety in Appendix A.

# Appendix A: Chief Operating Officer's Response



**MONTGOMERY COUNTY PUBLIC SCHOOLS**  
MARYLAND  
www.montgomeryschoolsmd.org

February 19, 2016



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

Dear Mr. Blansitt:

Thank you for providing Montgomery County Public Schools (MCPS) with the opportunity to review and comment on the Office of the Inspector General Report, *Purchase Card Policies and Procedures of the Montgomery County Public Schools*. We share a mutual interest in ensuring a purchasing card program that has strong internal controls and procedures. The use of purchasing cards is a recognized best practice for sound fiscal management for procurement of necessary purchases that total \$100 or less, and our staff have continually enhanced our fiscal controls for this program, most recently through our participation in a consortium of local government agencies that use JPMorgan Chase MasterCards for procurement of small purchases.

We are pleased that, after extensive and thorough analysis, the Office of the Inspector General's audit found that MCPS has documented and incorporated into our practice all of the 28 significant purchase card controls that your research identified in its review of national and state guidelines and reports. We appreciate your recommendations to further enhance our purchasing card program, and we will take these recommendations into consideration as a part of our organizational commitment to ongoing continuous improvement.

Again, thank you for providing MCPS the opportunity to review and comment on the report and collaboratively working with us throughout the audit process.

Sincerely,

A handwritten signature in blue ink that reads "Andrew M. Zuckerman".

Andrew M. Zuckerman, Ed.D.  
Chief Operating Officer

AMZ:sro

Copy to:

Members of the Board of Education	Mrs. DeGraba
Mr. Bowers	Mrs. Lazor
Mr. Civin	Mrs. Regalia
Mrs. Chen	

Office of the Chief Operating Officer

850 Hungerford Drive, Room 149 ♦ Rockville, Maryland 20850 ♦ 301-279-3626

# Appendix B: 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, referred to 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. The credit card providers obtain Level 3 data electronically from many, but not all, merchants. The Maryland Comptroller’s Office, which administers the State government’s purchasing card program and coordinates monitoring for fraud, waste, and abuse, 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.

Maryland’s 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 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 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.