

Final Report

# Purchase Card Policies and Procedures

*of the  
Washington Suburban Sanitary Commission*

Report # OIG-16-003

January 21, 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 Washington Suburban Sanitary Commission*

January 21, 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 for the Washington Suburban Sanitary Commission (WSSC).

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## Why We Did This Audit

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Purchase cards billed centrally were used for purchases by WSSC totaling approximately \$6.67 million total in fiscal year 2014.

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## What We Determined

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We issued no findings or recommendations. WSSC has either implemented or is in the process of implementing all 28 significant controls we identified as best practices. We initially determined that WSSC had not documented six of the 28 significant controls. While working on our audit, we provided WSSC the controls we identified and advised WSSC that certain controls were missing at WSSC. In response, WSSC advised us that WSSC would begin to document and/or implement four of the six controls (regarding who could receive cards, card expiration, central review for appropriateness of purchases, and regular audits).

We communicated two conclusions to WSSC regarding the two other missing controls (annual review of who should receive cards and the use of detailed transaction data). WSSC responded that WSSC staff was newly documenting and implementing an annual review of who should receive cards, and it is expanding the use of detailed transaction data.

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## Introduction

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Purchase cards billed centrally are used for many purchases at the Washington Suburban Sanitary Commission (WSSC), which had approximately \$6.67 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 WSSC.

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 WSSC. We issued no findings, recommendations, or other matters for consideration in this report.

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>

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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 ones WSSC identified in its policies and procedures. We provided the table to WSSC for review. We considered the responses and edited our table accordingly.

## Background

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WSSC was created under Maryland law and is governed by the Public Utilities Article of the Annotated Code of Maryland. WSSC has jurisdiction over the Washington Suburban Sanitary District and provides water and sewerage systems for Montgomery and Prince George's Counties, Maryland. The area served by WSSC encompasses over 950 square miles within Montgomery and Prince George's Counties, effectively representing 95% of the land area of both counties.

For Fiscal Year (FY) 2014, WSSC had an operating budget of \$698.8 million, a capital budget of \$742.2 million, and authorized positions of 1,717 (excluding the six commissioners). Fifteen percent of WSSC's operating funds (\$104.6 million) was allocated to salaries & wages, as was 3.2 percent of its capital funds (\$23.5 million).

In its Purchase Card Program Manual (Manual), WSSC states that it established its purchase card program in order to provide a more rapid turnaround on requisitions for low dollar/high volume goods and services. The Manual also states that the benefits of a purchase card program include eliminating traditional requisition cycle steps, reducing the number of invoices received and payment vouchers processed, ensuring timely delivery of products, and generating rebates.

In FY 2014, WSSC had 379 purchase cards. The OIG was advised that WSSC cardholders used purchase cards during FY 2014 for 11,053 transactions totaling \$6,670,676. This averaged \$17,601 per card for FY 2014.

WSSC received a rebate of \$48,968 for fiscal year 2013. The percentage of purchases rebated is based on overall spending and average per card transaction amounts.

## Reported Policies and Procedures

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We initially determined that WSSC had not documented six of the 28 significant controls we identified as best practices. While working on our audit, we provided WSSC the controls we identified and advised WSSC that certain controls were missing at WSSC. During the course of the audit, WSSC took actions as described below.

# Card, Cardholder, Purchase, and Payment Policies and Procedures

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## Controls over Assignment of Cards

The Controls over Assignment of Cards category addresses who is issued and holds purchase cards. The following *Controls over Assignment of Cards* table shows that WSSC has

<b>Controls over Assignment of Cards</b>	
Department Head or Supervisor approval required for issuance	X
Criteria for card issuance: Cardholder (CH) is an employee and does purchasing	X <sub>1</sub>
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 <sub>1</sub>
Inactive cards noted for possible cancellation	X
<small>X = drawn from written documentation                      X<sub>1</sub> = determined by discussions with or letters or emails from upper management; no additional documentation                      Source: OIG review of documentation, and WSSC responses to OIG.</small>	

documented all seven significant controls we identified.

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>

When WSSC provided documentation in response to the OIG’s request for policy and procedure documents at the beginning of the audit, WSSC did not provide written criteria regarding who is eligible to have a purchase card. Later, the OIG emailed WSSC the list of significant controls and asked if WSSC had any of these that we had not found in the documentation. In response, WSSC informed the OIG of policies that would be added to the next Manual, requiring that cardholders be fulltime employees who do purchasing for WSSC, and that cards expire and be reissued every 36 months.

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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.

**WSSC would benefit from annually certifying its list of cardholders and ensuring that all its procedures are documented.**

We pointed out to WSSC that WSSC did not require that each department annually review a list of cardholders and certify that the people on that list should have purchase cards. The WSSC General Manager/CEO responded that WSSC is instituting a new requirement that all WSSC executives annually review and certify the list of cardholders within their respective Teams/Offices that should have purchase cards. The General Manager/CEO wrote that WSSC management is committed to documenting all of its significant controls and ensuring their implementation.

*Cardholder Responsibilities*

Cardholder responsibilities address the requirements to participate in the WSSC Purchasing Card Program. WSSC documented all six controls we identify in the *Cardholder Responsibilities* table.

<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 WSSC responses to OIG.

*Purchase and Payment Controls*

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

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. WSSC’s purchase card manual does not address meals, except somewhat unclearly in the context of travel.

Several of these Purchase and Payment Controls rely on reviews by approvers. Approver reviews consist of reviews by another employee to determine whether the purchases were

<b>Purchase and Payment Controls</b>	
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 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
P-Card Admin/Finance reviews usage for appropriateness	X <sub>1</sub>

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

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

proper and whether the receipts and charges on the monthly statements reconcile, and to make sure that no Maryland sales tax was paid.

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.

WSSC documented all the 13 controls we identify in the *Purchase and Payment*

*Controls* table.

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.

The WSSC manual states that there should be no approver with more than 10 cards to approve. This policy is consistent with U.S. General Services Administration recommendations.

WSSC has set \$4,999 as the transaction limit and \$25,000 as the monthly limit for its cardholders, although higher limits may be approved by the Chief Procurement Officer. The cardholder responsible for laboratory procurements such as supplies, machine calibrations, and equipment has been given a \$50,000 monthly limit.

We advised WSSC that WSSC’s documentation does not indicate that there is a central review for appropriateness of purchases. The WSSC General Manager/CEO advised the OIG in November 2015 that a centralized review for appropriateness of purchases was newly implemented with the creation of a P-Card Specialist position.

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## Monitoring and Use of Level 3 Data

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Central administrators can periodically review purchases. Regularly scheduled monitoring can detect errors made by vendors, errors made by cardholders, or unauthorized charges. It can also detect lapses in the implementation of controls. The following *Monitoring* table shows whether WSSC has implemented the identified activities. We initially determined that WSSC did not perform either of the two activities in the table, but after we informed WSSC of these determinations, WSSC implemented the first one and expanded the second one.

Monitoring	
Performs regularly scheduled audits/reviews of purchase card use	X
Performs regularly scheduled data analyses using Level 3 data to detect inappropriate card use	X1

X = drawn from written documentation

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

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

### Audits/Reviews of Purchase Card Use

We requested information from WSSC evidencing its continuous monitoring of purchase card use. WSSC instituted a quarterly audit program, including data analysis, during the course of the OIG's audit.

WSSC provided four audit reports reviewing the P-Card program: a February 2003 Procurement Card Program Audit; a November 2004 Integrity Review of Procurement Card Transactions; a December 2012 Procurement Card Operations Audit; and a July 2014 Quarterly Purchase Card Review.

### 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, referred to as “Level 3” data. The customer can obtain this data for purchases made through the larger credit card providers, such as MasterCard, Visa, and American Express 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

Source: OIG review of information from credit card providers.

Maryland’s Office of Legislative Audit (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. 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.

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.

We asked WSSC about its monitoring programs and whether it uses Level 3 data. We were initially advised that the data is available from a limited number of merchants, but that WSSC does not analyze Level 3 data.

**WSSC could benefit from using Level 3 detailed transaction data, in conducting its data analysis, in order to detect possible inappropriate card use.**

After we informed WSSC in November of 2015 of our conclusion that WSSC did not use Level 3 data in its data analysis, the WSSC General Manager/CEO advised us that WSSC employed some aspects of Level 3 data analysis, and that effective with its Fiscal Year 2016 First Quarter P-Card Report to the Chief Procurement Officer, the WSSC Internal Audit Office will incorporate all aspects of Level 3 detailed transaction data into its data analysis.

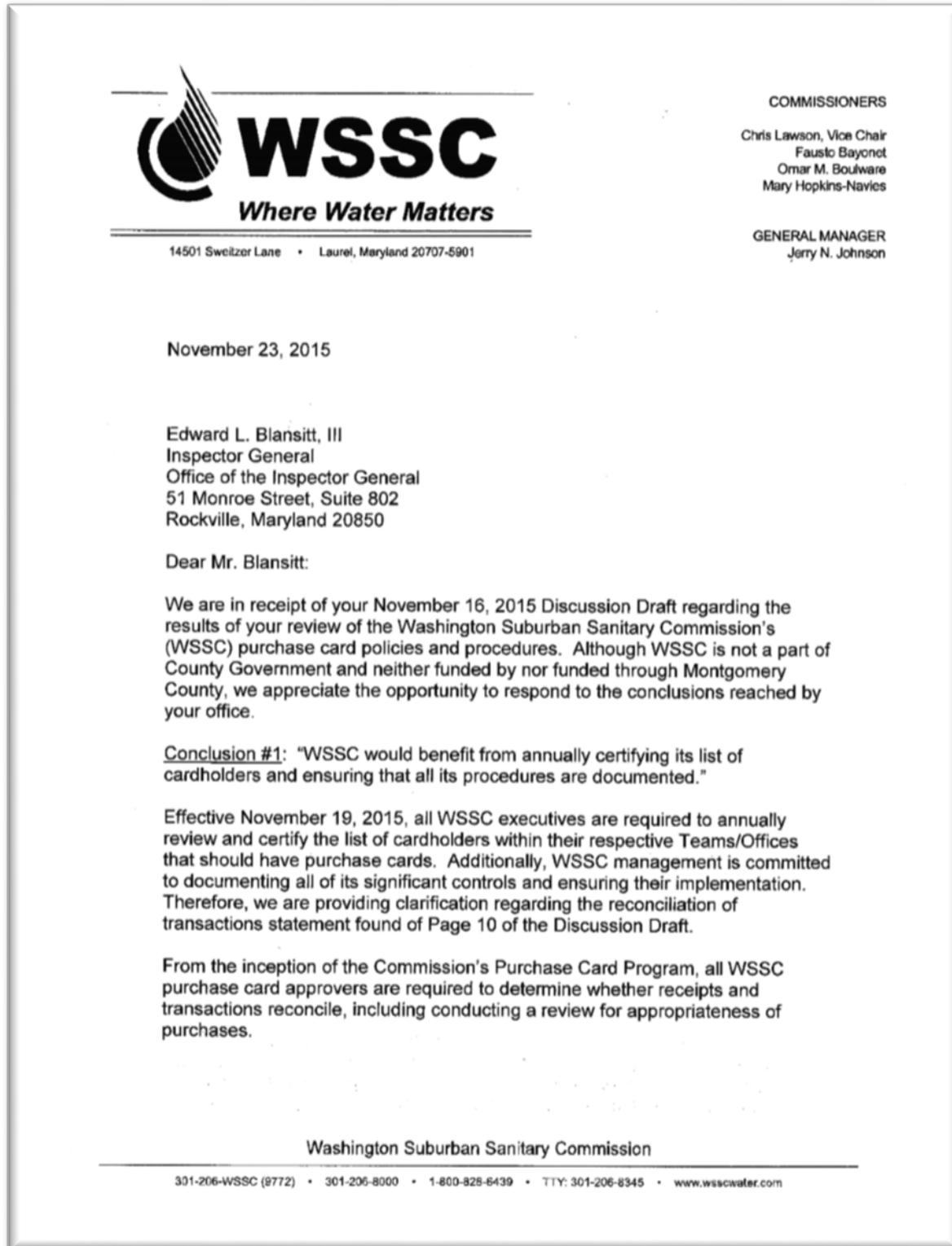
## WSSC's Response

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The response from the General Manager/CEO to the draft report is included in its entirety in Appendix A.

In November 2015, we communicated two conclusions to WSSC, which the General Manager/CEO cites in his response. In the final report, they are identified in bold text, but they are not identified as "Conclusions".

# Appendix A: General Manager/CEO's Response



Edward L. Blansitt  
November 23, 2015  
Page 2

As stated on Page 4 of the Purchase Card Program Manual, 1.0 Definitions Section, an approver is defined as "A senior leader or team member who is responsible for reviewing and approving a team member's P-Card purchases to ensure that the purchases are made in accordance with the P-Card Policy and Procedures and Procurement Manual." "The Approver is responsible for initiating administrative disciplinary penalty for misuse of the P-Card in accordance with P-Card and Human Resources policies." Page 15 of the Manual (Section A. Reconciling Monthly Expenses) specifies the reconciliation process used by cardholders and approvers.

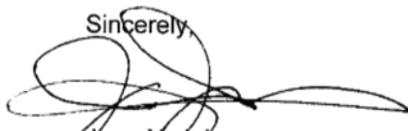
However, we are in agreement that the centralized review for appropriateness of purchases is newly implemented with the creation of the P-Card Specialist position. The associated P-Card policies and procedures have been updated to reflect this change.

Conclusion #2: "WSSC could benefit from using Level 3 detailed transaction data, in conducting its data analyses, in order to detect possible inappropriate card use."

The Internal Audit Office currently employs some aspects of Level 3 data analyses, i.e., reviewing split purchases and merchant spend analysis by line item. Additionally, effective with its Fiscal Year 2016 First Quarter P-Card Report to the Chief Procurement Officer, the WSSC Internal Audit Office will incorporate all aspects of Level 3 detailed transaction data into its data analyses.

Should you have any questions or require additional information, please do not hesitate to contact me or Ms. Maxene Bardwell, Director of Internal Audit.

Sincerely,



Jerry M. Johnson  
General Manager/CEO

cc: Vice Chairman Christopher Lawson and Commissioners, WSSC  
Maxene Bardwell, Director of Internal Audit, WSSC  
Gary Gumm, Interim Chief Operations Officer, WSSC  
David Malone, Chief Procurement Officer, WSSC