

GO COMMITTEE #4  
June 23, 2016

## MEMORANDUM

June 21, 2016

TO: Government Operations and Fiscal Policy (GO) Committee

FROM: Linda Price, <sup>LP</sup> Legislative Analyst

SUBJECT: Briefing – Inspector General’s Report – Purchase Card and Policies and Procedures for County Agencies

The Government Operations and Fiscal Policy Committee will receive a briefing from the Office of the Inspector General (OIG) on the recent series of reports, *Purchase Card Policies and Procedures*. The Capstone Report summarizing the reports for County Government and the six County Agencies is attached at © 1- 22. The Inspector General has prepared a presentation, which is attached at © 23-38.

Those expected to participate in the briefing include:

- Edward Blansitt, Inspector General
- Mollie Habermeier, Assistant Inspector General

### BACKGROUND

In FY14, purchase card transactions accounted for over \$50 million in Montgomery County Government and the six County agencies. Each of these entities have purchase card policies and procedures to ensure that purchases are appropriate. The objectives of the 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; and
- identify any opportunities for improvement.

In order to conduct the study, OIG requested copies of purchase card policies and procedures, laws and regulations from each of the entities. They also reviewed examples of federal government and State of Maryland recommended practices. Between January 7 and March 16, 2016, OIG finalized the *Purchase Card and Policies and Procedures Capstone Report* and individual reports for County Government and the following County agencies: Maryland-National Capital Park and Planning Commission (M-NCPPC); Revenue Authority; Washington Suburban Sanitary Commission (WSSC);

Montgomery College; Housing Opportunities Commission (HOC); and Montgomery County Public Schools (MCPS).<sup>1</sup>

## **FINDINGS & RECOMMENDATIONS**

The OIG identified 28 significant controls recommended for inclusion in purchase cards policies and procedures. The controls fall into four overall categories that were identified. These categories include: assignment of cards; cardholder responsibility; purchase and payment; and monitoring. County entities either had these controls documented in their policies and procedures or the presence of these controls could be determine by discussions with or emails from upper management within the entities. In some instances the controls are not present.

### **1. Controls over assignment of cards**

This control category addresses which employees are issued and hold purchase cards. The OIG considered seven controls in this category. The table at © 9 provides details on which entities have implemented these controls.

- Department head or supervisor approval required for issuance
- Criteria for card issuance: employee does purchasing
- Cards reissued/expire at least every 36 months
- Card cancelled/collected within one pay period of cardholder departure
- Purchase card administrator notified of terminated cardholder
- Department certifies list of cardholders annually
- Inactive cards noted for possible cancellation

### **2. Cardholder responsibility**

This control category addresses the requirements of cardholders. The OIG considered six controls in this category. The table at ©11 provides details on which entities have implemented these controls.

- Cardholder trained before receiving card
- Cardholder signs agreement
- Repeated missing receipts may result in card loss
- Monthly reports required from cardholder
- If failure to reconcile, card may be suspended
- Late submission of reports has consequences

### **3. Purchase and payment**

This control category addresses restrictions on and reviews of purchases. The OIG considered thirteen controls in this category. The table at ©12 provides details on which entities have implemented these controls.

- Department Liaison or approver trained before cardholder gets card
- List of example disallowed items provided to cardholders
- List of example allowed items provided to cardholders
- Limits & restrictions applied at point of sale monthly limit
- Transaction limit

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<sup>1</sup> See <http://www.montgomerycountymd.gov/oig/igproduct.html> for full reports for all County entities.

- Merchant Category Code (MCC) restrictions
- Approver required to review monthly
- Approver or cardholder must retain receipts
- Gift card log/records kept; or no gift cards allowed
- Approver/Supervisor reconciles receipts to transactions
- Approver/Supervisor reviews for legitimate charges
- Purchase card Administrator/Finance reviews usage for appropriateness

#### 4. Monitoring

This control category relates to central administrators auditing and reviewing purchases. The OIG considered two controls in this category. The table at ©17 provides details on which entities have implemented these controls.

- Performs regularly scheduled audits/reviews of purchase card use
- Performs regularly scheduled data analysis using Level3 data to detect inappropriate card use. Level3 data provides information on the individual purchase made on each card, instead of just the vendors who sold the items (see © 20-21). Currently, Level3 data is only provided by approximately 40% of U.S. merchants.

#### Recommendations

Each of the County entities were provided with information on which controls were missing in their documentation. The OIG has made three recommendations for ongoing areas for improvement.

##### 1. *Improve Documentation*

While many of the controls identified by OIG are documented. In a few instances, policy and procedure manuals should be updated to be clearer and provide more guidance for purchase card users.

##### 2. *Manage approver workload*

Approvers are key for reducing the risk of fraudulent and improper purchases. They review and approve cardholder purchase card charges. The General Services Administration's (GSA) Guide for Purchase Card Oversight recommends that approvers have between 4 and 10 cards, generally 7 cards, and monthly transactions should not to exceed 50.

##### 3. *Improve auditing and use of Level3 data*

Many County entities could increase use of Level3 data, especially as the information becomes more available. Additionally, many entities have documented that central administrators can monitor and audit purchase card transactions. However, the OIG has identified that most of the entities could make more extensive use of their authority to audit purchase card use more regularly.

OIG has noted that many of the entities have begun to take measures to recognize and begin filling in gaps in documentation and practices that existed between their documented controls and the list of significant controls OIG identified. County Government and Agency responses to their individual reports are attached at © 39-50.

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RECEIVED  
MONTGOMERY COUNTY  
COUNCIL

Final  
Report

# Purchase Card Policies and Procedures

*of the*

*Montgomery County Government  
and Independent County Agencies*

## *Capstone Report*

Report # OIG-16-008

March 16, 2016

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Montgomery County Maryland  
Office of the Inspector General



Report  
in Brief

Purchase Card  
Policies and Procedures

*of the Montgomery County Government and  
Independent County Agencies-Capstone Report*

March 16, 2016

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**Background**

We developed and issued reports addressing 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. Drawing from authoritative sources, we identified 28 recommended significant controls over purchase cards.

We developed tables showing the significant controls we identified, and indicated which ones were specified in the County government's and each independent agency's individual policies and procedures. Early versions of the tables were provided to each agency for review and discussion. In most cases management took the initiative to recognize and begin filling any gaps in documentation and practices that existed between their documented controls and the list of significant controls we provided.

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**Why We Did This Audit Capstone Report**

Purchase cards billed centrally at the Montgomery County government and each of the Independent County agencies are used for many purchases supporting their functions and totaled over \$50 million in fiscal year 2014. Each entity adheres to policies and procedures unique to that entity. This report summarizes and develops information from each of the entity reports.

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**What We Found and Recommended**

We made findings and recommendations and noted other matters for consideration for some of the entities. These appear in the individual reports. As of the time we completed our review, most of the entities are now addressing the significant controls to some extent. However, the three areas that need continuing attention are the annual certification, the review of approver workload, and monitoring of purchase transactions.

# Table of Contents

- Report in Brief..... 1
- Introduction..... 5
- Objectives, Scope, and Methodology..... 5
- Background..... 7
- Controls..... 10
  - Controls over Assignment of Cards..... 10
  - Cardholder Responsibilities..... 12
  - Purchase and Payment Controls..... 13
    - Approver Workload..... 15
  - Monitoring and Level 3 Data..... 18
  - Controls Summary and Conclusions..... 19
- Chief Operating Officers' Responses..... 20
- Appendix A: Level 3 Data..... 21

## Introduction

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Purchase cards billed centrally are used for many purchases in the Montgomery County government (County government) and independent County agencies. The County government and the six independent County agencies we reviewed charged approximately \$50 million total<sup>1</sup> on purchase cards in fiscal year 2014. Each entity adheres to policies and procedures unique to that entity.

This report summarizes and develops information from each of the entity reports. It presents comparative information across entities, and it provides more background information on certain points.

In a purchase card transaction, even in a very large one, it is possible for the requisition, selection, purchase, receipt, and payment steps of a purchase to be performed by a single individual. Policies and procedures are necessary to ensure that such purchases are appropriate. 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.

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.

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<sup>1</sup> The Maryland-National Capital Park & Planning Commission is a bi-county Commission. This figure includes Prince George's County. The remainder of this report focuses on the Montgomery County and Central Administrative Services parts of M-NCPPC and does not address the Prince George's County part, unless noted.

The scope of our audit included examination of the purchase card policies and procedures of the following entities:

- Housing Opportunities Commission (HOC) [View Report](#)
- Maryland-National Capital Park & Planning Commission (M-NCPPC) [View Report](#)
- Montgomery College (College)<sup>2</sup> [View Report](#)
- Montgomery County government (County government) [View Report](#)
- Montgomery County Public Schools (MCPS)<sup>3</sup> [View Report](#)
- Montgomery County Revenue Authority (Revenue Authority)<sup>4</sup> [View Report](#)
- Washington Suburban Sanitary Commission (WSSC) [View 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>5</sup>

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<sup>2</sup> Montgomery College has two types of cards that are centrally charged: purchase cards for travel, and purchase cards for other types of purchases.

<sup>3</sup> MCPS used American Express cards when we began this review, and finished replacing them with MasterCard in November of 2014.

<sup>4</sup> Montgomery County Revenue Authority employees are issued three types of cards: MasterCard, Sam's Club, and Home Depot. This analysis only considers MasterCard cards, as the others have a more limited use.

<sup>5</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

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

We made findings and recommendations and noted other matters for consideration for some of the entities.

## Background

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

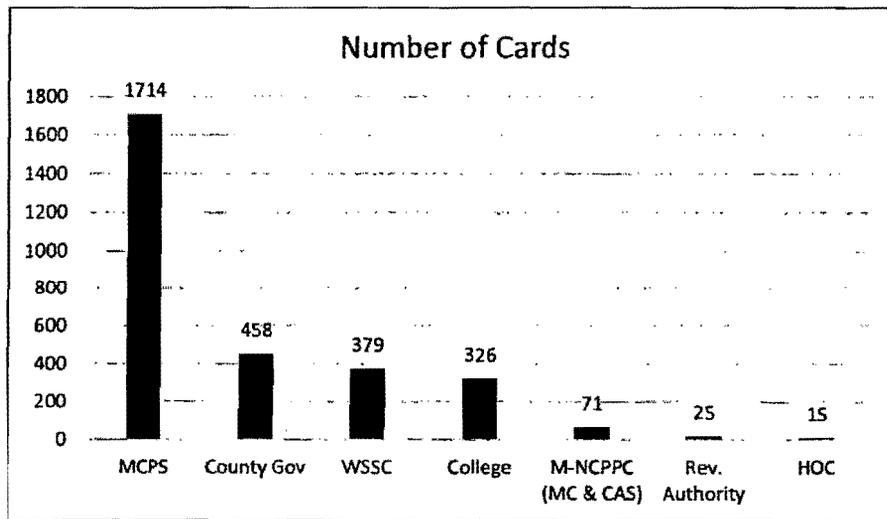
An additional benefit to the use of purchase cards is the receipt of rebates. For example, information provided by the County is that its 2014 calendar year rebate was \$209,480, a rate of 1.516%. M-NCPPC, the County Government, and MCPS belong to a consortium of local government entities using JP Morgan MasterCard. The percentage of purchases rebated to these entities is based on total consortium purchases, and how quickly payments are made to JP Morgan, per individual contract.

The seven entities each employ purchase cards in different ways. There is variation in the types of goods and services purchased, the types of people who are issued cards, and the amounts expected to be charged. For example:

- Some cards are used as a method of payment for purchases that flow through the purchase order system (in addition to Single Use Accounts,<sup>6</sup> which are not strictly “purchase cards” as included in this review).
- One entity’s cards are normally limited to \$500 per transaction while others have initial limits that are much higher: \$10,000 and \$5,000.
- Some recurring monthly expenses and some purchases under contract are charged to purchase cards.
- One entity dedicates purchase cards for particular types of purchases and purposes, so individual cardholders have multiple cards.
- At one entity, certain types of cards are used by senior staff only, while at another, senior staff members are not assigned cards, but cards are assigned to their staff.

We began this audit in 2014 and collected data from the entities for fiscal year 2014. The following charts display this data, with the entities ordered according to the number of their purchase cards, in descending order.

The following chart shows the number of purchase cards used by each entity we reviewed.

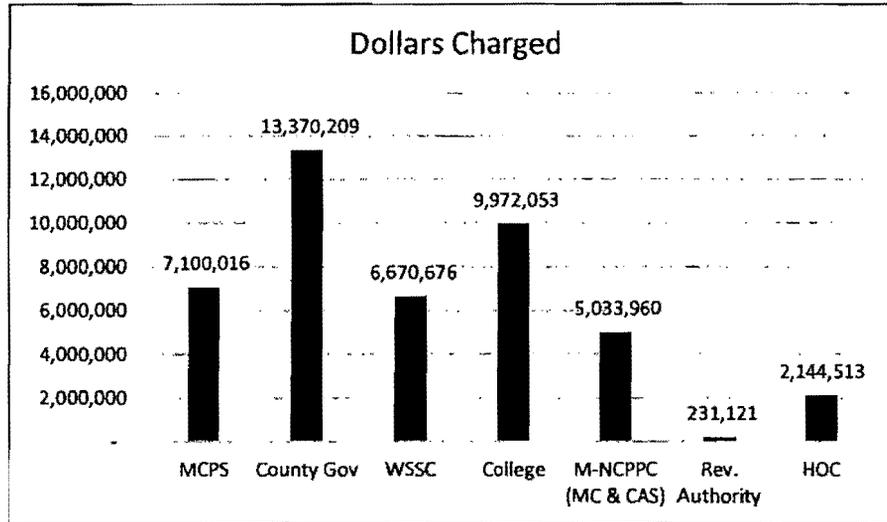


Source: OIG analysis of data provided by the entities.

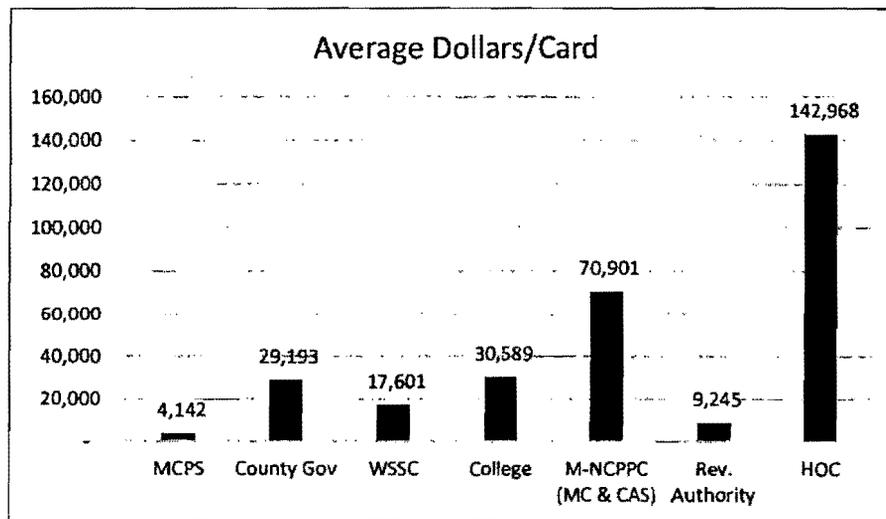
<sup>6</sup> The County government uses the purchase card system for Single Use Accounts, which are electronic, credit-card based payments that act like checks. In 2014, the County government had \$19,775,813 in charges for SUAs, and it earned a rebate of \$278,154 on these.



The following charts show the total dollars charged on purchase cards and the average dollars charged per card at the entities we reviewed.<sup>7</sup>



Source: OIG analysis of data provided by the entities.



Source: OIG analysis of data provided by the entities.

<sup>7</sup> The figures for HOC include vendor payments made through the purchase card system after purchase orders were approved.



## Controls

As previously stated, we developed tables showing the significant controls we identified, and indicated which ones were specified in the County government's and each independent agency's individual policies and procedures. Early versions of the tables were provided to each agency for review and discussion. We considered the responses and edited our tables accordingly. In most cases management took the initiative to recognize and begin filling any gaps in documentation and practices that existed between their documented controls and the list of significant controls we provided.

### Controls over Assignment of Cards

The Card Controls category addresses who is issued and holds purchase cards. The following table shows the Card Controls (7) we considered and whether each entity had them.

Card Controls	County Gov't	MCPS	M-NCPPC	HOC	College Purchasing	College Travel	WSSC	Rev. Auth.
Dept. Head or Supervisor approval required for issuance	X	X	X	X	X	X	X	X <sub>1</sub>
Criteria for card issuance: employee does purchasing	X	X	X	X	X	X	X <sub>1</sub>	X <sub>1</sub>
Cards reissued/expire at least every 36 months	X	X <sub>1</sub>	X	X <sub>1</sub>	X	X <sub>1</sub>	X <sub>1</sub>	X <sub>1</sub>
Card cancelled/collected w/in 1 pay period of Cardholder (CH) departure	X	X	X	X	X	X	X	X <sub>1</sub>
Purchase Card Administrator <sup>B</sup> notified of terminated CHs	X	X	X	X	X	-	X	X <sub>1</sub>
Department certifies list of CHs annually	X	X	-	-	-	-	X <sub>1</sub>	X <sub>1</sub>
Inactive cards noted for possible cancellation	X	X	X	-	X	X	X	-

Source: Entity responses to OIG.

X = drawn from written documentation

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

All of the entities had most of the above Card Controls. The control that was most often lacking was a cardholder certification process which involves having someone in each

<sup>B</sup> A Purchase Card Administrator is the person in the organization who serves as the central administrator for the purchase card program and serves as the agency's intermediary with the card provider.

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department annually review a list of cardholders in that department and certify that the people on that list should continue to have purchase cards.

All the entities have basic criteria for issuance: that the cardholder (1) be an employee and (2) make purchases. 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>9</sup> This issue should be given further consideration within each entity to focus on the employees for whom the benefits of the cards outweigh the risks and costs.

During the course of our audit, three entities informed us that they were implementing certification processes. The M-NCPPC Chief Internal Auditor advised us that M-NCPPC will incorporate a certification process into its procedures. The Procurement Director of Montgomery College informed us that the College would implement annual certifications of cardholders at the beginning of calendar year 2016. The WSSC General Manager/CEO informed us 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 continue to have purchase cards.

WSSC also informed the OIG of policies that would be added to WSSC's next purchase card 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>9</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 Responsibility category addresses the requirements of cardholders. The following table shows the Cardholder Responsibility Controls (6) we considered and whether each entity had them.

Cardholder Responsibility	County Gov't	MCPS	M-NCPPC	HOC	College Purchasing	College Travel	WSSC	Rev. Auth.
CH trained before receiving card	X	X	X	X	X	X	X	X <sub>1</sub>
CH signs Agreement	X	X	X	X	X	X	X	X
Repeated missing receipts may result in card loss	X	X	X	X	-	X	X	X <sub>1</sub>
Monthly reports required from CH	X	X	X	X	X	X	X	X
If failure to reconcile, card may be suspended	X	X	X	X	X	X	X	X
Late submission of reports has consequences	X	X	X	X	X	X	X	X

Source: Entity responses to OIG.

X = drawn from written documentation

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

Most of the entities had all of the above Cardholder Responsibility Controls.



## Purchase and Payment Controls

The Purchase and Payment control category addresses restrictions on and reviews of purchases. The following table shows the 13 Purchase and Payment Controls we considered and whether each entity had them.<sup>10</sup>

Purchase and Payment Controls	County Gov't	MCPS	M-NCPPC	HOC	College Purchasing	College Travel	WSSC	Rev. Auth.
Dept. Liaison or approver trained before CH gets card	X	X <sub>1</sub>	X	-	X	X	X	-
List of example disallowed items provided to CHs	X	X	X	X	X	X	X	X <sub>1</sub>
List of example allowed items provided to CHs	X	X	X	X	X	X	X	-
Limits & restrictions applied at point of sale	X	X	X	X	X	-	X	-
Monthly limit	X	X	X	X	X	X	X	X
Transaction limit	X	X	X	X	X	X	X	X
Merchant Category Code (MCC) restrictions	X	X	X	X	X	-	X	-
Approver required to review monthly	X	X	X	X	X	X	X	X <sub>1</sub>
Approver or CH must retain receipts	X	X	X	X	X	X	X	X <sub>1</sub>
Gift card log/records kept; or no gift cards allowed	X	X	X	X	X	X <sub>1</sub>	X	-
Approver/Supervisor reconciles receipts to transactions	X	X	X	X	X	X	X	X <sub>1</sub>
Approver/Supervisor reviews for legitimate charges	X	X <sub>1</sub>	X	X	X	X	X	X <sub>1</sub>
P-Card Admin/Finance reviews usage for appropriateness	X	X	X	X <sub>1</sub>	X	X <sub>1</sub>	X <sub>1</sub>	X <sub>1</sub>

Source: Entity responses to OIG.

X = drawn from written documentation

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

Most of the entities had all of the above Purchase and Payment Controls.

<sup>10</sup> For the purposes of this chart, we coded three entries as X<sub>1</sub> that had text explanations in the individual reports: two activities that were performed by the Payables Department at the Revenue Authority (the reconciliation and retention of receipts), and one control (over gift cards) that was not applicable to the Montgomery College Travel Card.



### Automated Controls

Automated controls include dollar limits on individual transactions, monthly dollar limits, and blocked Merchant Category Codes. These limits and blocks can vary by cardholder and by Department. 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. For example, alcoholic beverages and boat rentals can be blocked.

Limits on individual transaction amounts and monthly spending limits can be undermined by cardholders splitting a large purchase into multiple smaller purchases.

### Central Reviews

Purchase card administrators or others in finance departments review charges for appropriateness, but these reviews tend to be reviews of samples. They are helpful, especially if approvers are not doing what they are required to do, but they do not replace the reviews required of approvers.

During the course of our audit, the WSSC General Manager/CEO advised the OIG that a centralized review for appropriateness of purchases was newly implemented with the creation of a P-Card Specialist position.

### Personal Purchases

All the entities' manuals state that purchase cards are for business use, and that the cards are not to be used for "personal purchases," which is typically the term used for purchases for the personal benefit of the employee or a third party. If guidance regarding these types of purchases is unclear, cardholders can make inconsistent and incorrect decisions about whether to use a purchase card for these.

The entities addressed this issue to varying degrees. One entity had very little guidance on this point. Some had detailed guidance in their administrative procedures governing travel reimbursements, but not in their purchase card guidance.

### Approvers

Approvers are key for reducing the risk of fraudulent and improper purchases. Commonly at organizations with purchase cards, an approver is an employee who reviews and approves a cardholder's purchase card charges. An approver is typically a person from the cardholder's department who is at a higher rank<sup>21</sup> than the cardholder. This makes it likely that the approver

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<sup>21</sup> However, when the cardholder is a Department Director or another high-ranking employee, a lower-ranked employee might be the approver, which can raise independence issues: if the cardholder is in a

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would be familiar with the cardholder's business activities and would understand whether specific purchases were in furtherance of those activities. Approver responsibilities are typically in addition to the approvers' regular job responsibilities.

After cardholders review their monthly transactions and provide their receipts, approvers are typically required to indicate whether the cardholder's receipts and the transactions reconcile, and whether the purchases were for business reasons and otherwise appropriate. These cardholder and approver reviews are important for detecting errors made by vendors, errors made by cardholders, and unauthorized charges.

## Approver Workload

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Even with well-designed review controls, the implementation of the controls will be poor if the approvers are overburdened and do not perform the tasks required of them. If approvers do less thorough reviews, do not do them as often as required, or do not do them at all, a purchase card program will be more vulnerable to fraud and improper purchases. Charges for various personal purchases could be erroneously paid, or a vendor could be paid an incorrect amount.

### *Cards per Approver*

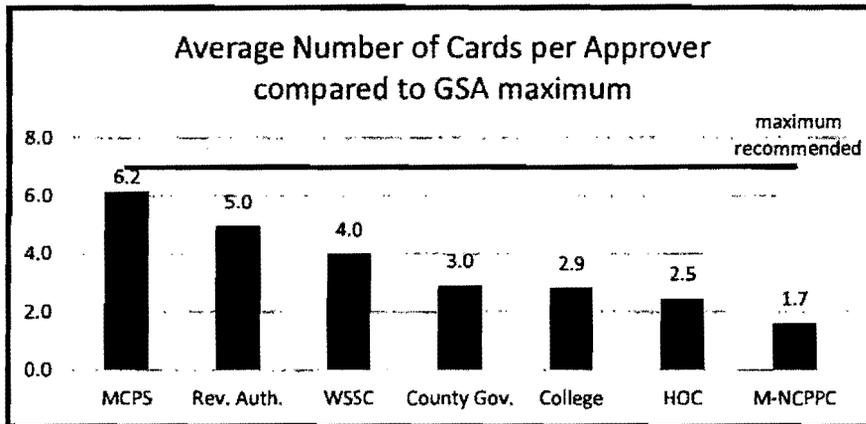
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The 2004 *Guide for Purchase Card Oversight* from the GSA states that the most common ratios of cards to approvers are between 4 and 10. Whether or not a particular ratio is appropriate depends on the volume of card activity and the organizational structure. In 2003, the GSA recommended that approvers not be responsible for more than 7 cards per month.

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superior position to the approver, the approver may be hesitant to question that cardholder's purchases.

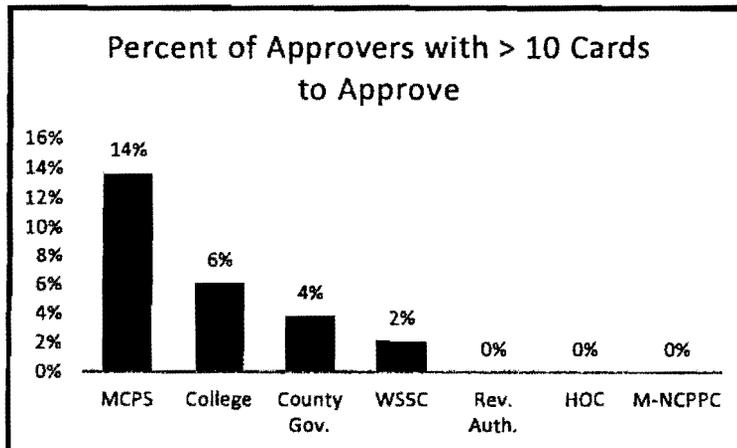
The following chart shows the average number of cards per approver at each entity.



Source: OIG analysis of data from the entities.<sup>12</sup>

The average number of cards per approver at all the entities was below the 2003 GSA recommendation of a limit of 7. However, there were individual approvers with high numbers of cards to review.

The following chart shows, for each entity, the percent of approvers with more than 10 cards to approve.



Source: OIG analysis of data provided by the entities.

<sup>12</sup> MCPS Division of Maintenance approvers are not included, because they have assistance from staff dedicated to this function.

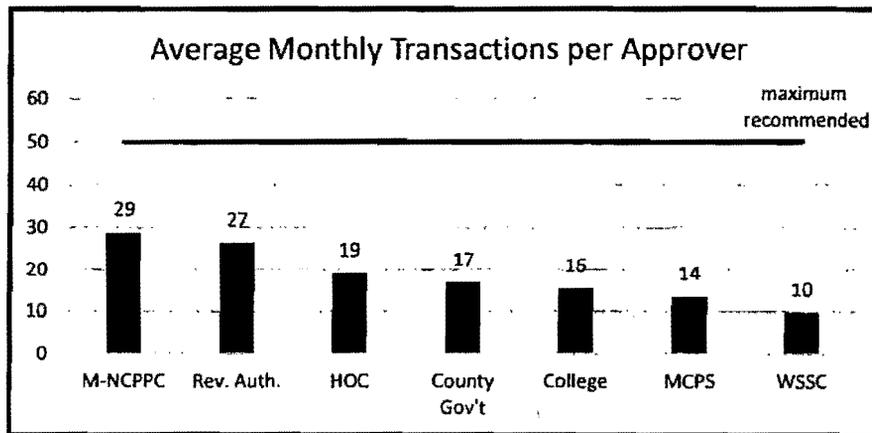
Individual cases would need to be reviewed to determine whether the particular approvers with high numbers of cards to review were reviewing cards with few charges, thus reducing the burden.

WSSC already had a policy in its manual addressing approver workload before we began this audit. During the course of our audit, the College's Procurement Director informed us that in 2016, the College would implement a process to delegate back-up approvers for those approvers identified as having high numbers of cards to review.

Several of our Findings, Recommendations, and other matters for consideration were about approver workloads. Approver workloads can be managed by applying the principle that the number of cards an approver is responsible for reviewing should be reasonable, so the approver can review card charges in a timely manner. The assignments of cards to approvers with more than 10 cards to review should be regularly reviewed to determine whether these people are overburdened. (The Federal Audit Executive Council recommends annual evaluations of the number of cardholders and approving officials).

#### Transactions per Approver

The GSA recommended in 2003 that the number of monthly transactions per approver be no more than 50. The following chart shows that the number of transactions per approver at all the entities is below this number.



Source: OIG analysis of data provided by the entities.

All of the entities are on average well below the limit of 50 recommended by the GSA. This indicates that, on average, their approvers are not overburdened. However, there may still be individual approvers who have higher than the recommended number of transactions to review each month.

## Monitoring and Level 3 Data

### Monitoring

In addition to the above types of controls, central administrators can audit and review purchases. The following table shows the two Monitoring Controls we examined.

Monitoring	County Gov't	MCPS	M-NCPPC	HOC	College Purchasing	College Travel	WSSC	Rev. Auth.
Performs regularly scheduled audits/reviews of purchase card use	-	X <sup>13</sup>	X	X	-	-	X	X <sub>1</sub>
Performs regularly scheduled data analysis using Level 3 data to detect inappropriate card use	-	X	-	-	X	X	X <sub>1</sub>	-

Source: Entity responses to OIG.

X = drawn from written documentation

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

We requested information from the entities evidencing their continuous monitoring of purchase card use. Each entity provided documentation that its internal auditor or another in the organization has the authority to audit purchase card use regularly.

However, most of the entities could be making more extensive use of their authority to audit card use regularly, and most could benefit from using Level 3 transaction data<sup>14</sup> more extensively in conducting analyses to detect possible inappropriate card use.

### Data Analysis

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

<sup>13</sup> At MCPS, the Internal Audit unit audits only those cards associated with Independent Activity Funds, which are 45% of MCPS' cards. The Office of Controller also reviews documentation for small samples of monthly charges.

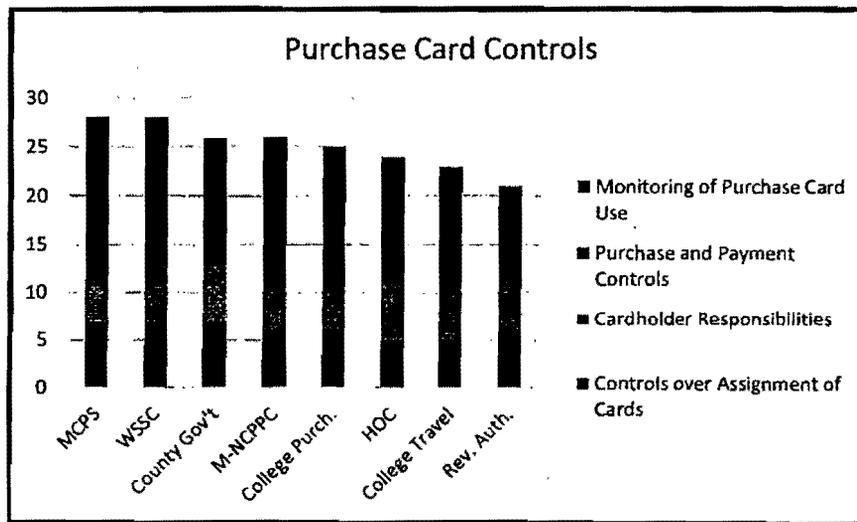
<sup>14</sup> Level 3 data is detailed transaction data. It includes data such as item descriptions, item quantities, and zip codes shipped to. See Appendix A for more information on Level 3 Data.

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

During the course of our audit, three entities informed us that they were increasing their use of Level 3 data. The M-NCPPC Chief Internal Auditor wrote that M-NCPPC Internal Audit is implementing a pilot program that involves the continuous review of Level 3 data. 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, the WSSC Internal Audit Office will incorporate all aspects of Level 3 detailed transaction data into its data analysis. MCPS informed us in December 2015 that its transition from another credit card to the JPMorgan Chase card was fully implemented, and the MCPS Division of Controller gathers Level 3 data using an online tool and reviews it.

### ***Controls Summary and Conclusions***

The following chart shows the entities' total controls.



Source: OIG Analysis of information provided by the entities.

As of the time we completed our review, most of the entities are now addressing the significant controls to some extent. However, the three areas that need continuing attention are the annual certification, the review of approver workload, and monitoring of purchase transactions.

## Chief Operating Officers' Responses

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We developed and issued reports addressing 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.

The chief operating officer of each entity provided a response to the individual entity report, which is contained in its entirety in Appendix A of each report.

[View the HOC Report Response](#)

[View the M-NCPPC Report Response](#)

[View the College Report Response](#)

[View the County government Report Response](#)

[View the MCPS Report Response](#)

[View the Revenue Authority Report Response](#)

[View the WSSC Report Response](#)

## Appendix A: 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.

<b>Selected Types of Data Available</b>		
<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
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 Office of Legislative Audits (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.



**Edward L. Blansitt III**  
Inspector General

51 Monroe Street, Suite 802  
Rockville, Maryland 20850  
240-777-8240

ig@montgomerycountymd.gov  
OIG Fraud Hotline: 240-777-7644  
www.montgomerycountymd.gov/oig

23

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# Purchase Card Policies and Procedures

*of the Montgomery County Government and Independent County Agencies*

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Government Operations and Fiscal Policy Committee

June 23, 2016

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Montgomery County Maryland  
Office of the Inspector General

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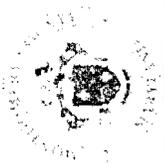




## Purchase Card Policies and Procedures

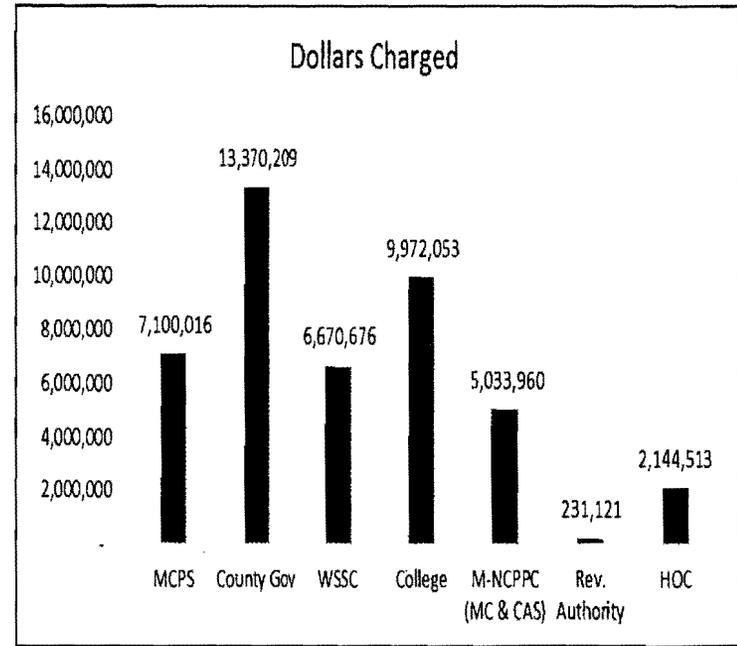
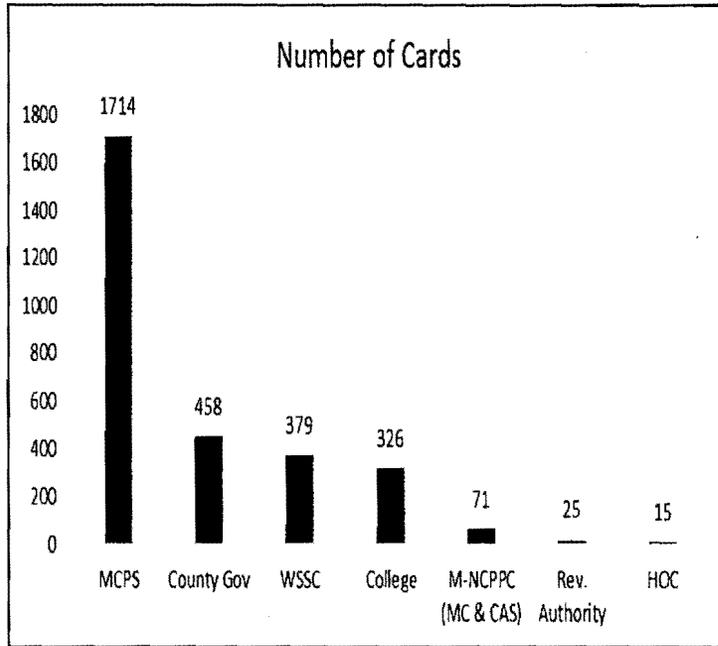
### Introduction

- County and entity charges were \$50 million in FY2014
- Benefits of purchase card use:
  - Reduced costs of processing
  - Rebates: 1.5%
  - All purchase steps can be performed by one person
- We examined purchase card policies and procedures of 7 entities



# Purchase Card Policies and Procedures

## Program Statistics



Note: Does not include Prince George's County part of M-NCPPC

Programs varied: # of cards per cardholder, who has cards, what is charged, \$ limits



## Purchase Card Policies and Procedures

### Purpose and Methods

- Purpose: Ensure entities have appropriate controls
- We identified 28 significant controls from Federal Government and Maryland practices. We looked to see if the entities had them.
  - Controls over the assignment of cards (7)
  - Cardholder responsibilities (6)
  - Purchase and payment Controls (13)
  - Monitoring (2)
- Early versions of our tables provided to each entity for review
- In most cases, management began adopting controls we indicated were missing

### Purchase Card Policies and Procedures

#### Controls over Assignments of Cards

Card Controls	County Gov't	MCPS	M-NCPPC	HOC	College Purchasing	College Travel	WSSC	Rev. Auth.
Dept. Head or Supervisor approval required for issuance	X	X	X	X	X	X	X	X1
Criteria for card issuance: employee does purchasing	X	X	X	X	X	X	X1	X1
Cards reissued/expire at least every 36 months	X	X1	X	X1	X	X1	X1	X1
Card cancelled/collected w/in 1 pay period of Cardholder (CH) departure	X	X	X	X	X	X	X	X1
Purchase Card Administrator notified of terminated CHs	X	X	X	X	X	-	X	X1
Department certifies list of CHs annually	X	X	-	-	-	-	X1	X1
Inactive cards noted for possible cancellation	X	X	X	-	X	X	X	-

*X indicates the control was present. X1 indicates the control was reported present, but not documented.*

*"-" indicates the control was not present.*





Purchase Card Policies and Procedures

Controls over Cardholder Responsibilities

Cardholder Responsibility	County Gov't	MCPS	M-NCPPC	HOC	College Purchasing	College Travel	WSSC	Rev. Auth.
CH trained before receiving card	X	X	X	X	X	X	X	X <sub>1</sub>
CH signs Agreement	X	X	X	X	X	X	X	X
Repeated missing receipts may result in card loss	X	X	X	X	-	X	X	X <sub>1</sub>
Monthly reports required from CH	X	X	X	X	X	X	X	X
If failure to reconcile, card may be suspended	X	X	X	X	X	X	X	X
Late submission of reports has consequences	X	X	X	X	X	X	X	X

29



## Purchase Card Policies and Procedures

### Purchase and Payment Controls

Purchase and Payment Controls	County Gov't	MCP S	M-NCPPC	HOC	College Purchasing	College Travel	WSSC	Rev. Auth.
Dept. Liaison or approver trained before CH gets card	X	X1	X	-	X	X	X	-
List of example disallowed items provided to CHs	X	X	X	X	X	X	X	X1
List of example allowed items provided to CHs	X	X	X	X	X	X	X	-
Limits & restrictions applied at point of sale	X	X	X	X	X	-	X	-
Monthly limit	X	X	X	X	X	X	X	X
Transaction limit	X	X	X	X	X	X	X	X
Merchant Category Code (MCC) restrictions	X	X	X	X	X	-	X	-
Approver required to review monthly	X	X	X	X	X	X	X	X1
Approver or CH must retain receipts	X	X	X	X	X	X	X	X1
Gift card log/records kept; or no gift cards allowed	X	X	X	X	X	X1	X	-
Approver/Supervisor reconciles receipts to transactions	X	X	X	X	X	X	X	X1
Approver/Supervisor reviews for legitimate charges	X	X1	X	X	X	X	X	X1
P-Card Admin/Finance reviews usage for appropriateness	X	X	X	X1	X	X1	X1	X1



### Purchase Card Policies and Procedures

#### Monitoring Controls

Monitoring	County Gov't	MCPS	M-NCPPC	HOC	College Purchasing	College Travel	WSSC	Rev. Auth.
Performs regularly scheduled audits/reviews of purchase card use	-	X*	X	X	-	-	X	X <sub>1</sub>
Performs regularly scheduled data analysis using Level 3 data to detect inappropriate card use	-	X	-	-	X	X	X <sub>1</sub>	-

\* At MCPS, the Internal Audit unit audits only those cards associated with Independent Activity Funds, which are 45% of MCPS' cards. The Office of the Controller also reviews documentation for small samples of monthly charges.

Level 3 data is detailed transaction data that includes what items were purchased, item quantities, and zip codes where an item was shipped.

The Maryland Comptroller's Office reported that Level 3 data is provided by approximately 40% of U.S. merchants.



## Purchase Card Policies and Procedures

### OIG Analysis of County Data

- We examined data provided by the County for January through June 2015.
- We found and notified management of
  - A charge of \$1,500 for 10 tickets to the Montgomery County Coalition for the Homeless Gala
  - Questionable meal expenses related to travel
  - Charges with no business purpose indicated on the receipt
- Relative to the almost \$7.1 million in purchase card expenditures we reviewed, the dollar value of the transactions we thought questionable is quite small.



## Purchase Card Policies and Procedures

### Recommendations

- Improve documentation 3 entities
- Manage approver workload 4 entities
- Improve auditing & use Level 3 data 2 entities



## Purchase Card Policies and Procedures

### Improve Documentation (a concern for 3 entities)

- One entity's P-Card manual needed to better address meals
  - Inconsistent with practice regarding individual meal purchases
  - Lacked guidance on meals at meetings or after work hours
- One entity provided less than 1 page of written guidance
- One entity's P-Card manual indicated the cards were only for travel, but 98% of the dollars charged were not travel-related

## Purchase Card Policies and Procedures

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### Approver Workload (a concern for 4 entities)

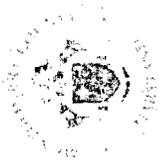
- Over-burdened approvers may not effectively perform reviews
- Limits recommended by U.S. GSA:
  - 7 cards per month
  - 50 transactions per month
- All entities were on average within these limits
- Some approvers were over these limits. Regular analysis of approver workload was recommended.



## Purchase Card Policies and Procedures

### Auditing and Using Level 3 Data

- We recommend periodic compliance audits covering the entire entity
  - Should be done by central administrators
- We recommend regularly scheduled data analysis, which is valuable for identifying purchases that should not have been made or billed.
- Most of the entities should make better use of Level 3 data
- Most of the entities are either using Level 3 data or indicated their intent to increase their use of it



## Purchase Card Policies and Procedures

### A Recent County Audit of Invoices under \$10,000

- Found problems that can also occur with purchase cards, and that card controls are intended to address:
  - unauthorized purchases
  - State sales tax paid
  - disallowed meal expenses related to travel
- Found incorrect invoice numbers entered
  - correct numbers help avoid duplicate payments

OIG calculated 17% of the invoices tested as deficient.



## Purchase Card Policies and Procedures

### Corrective Measures

During the course of our audit,

- 3 entities implemented certification processes
- 3 informed us they were increasing the use of Level 3 data
- 1 planned to require that cardholders be fulltime employees who do purchasing for work, and that cards expire every 36 months
- 1 implemented a centralized review for appropriateness of purchases
- 1 began delegating back-up approvers for approvers with high numbers of cards to review



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## Purchase Card Policies and Procedures

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**Questions or Comments?**

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Montgomery County Maryland  
Office of the Inspector General



## Appendix A: Executive Director's Response



THE MARYLAND-NATIONAL CAPITAL PARK AND PLANNING COMMISSION  
6611 Kenilworth Avenue - Riverdale, Maryland 20737

PCB15-43

December 23, 2015

To: Edward Blansitt, Inspector General  
Montgomery County

From: Patricia Colihan Barney, Executive Director *PC*  
Maryland-National Capital Park and Planning Commission

Re: Final Draft Report of the Maryland-National Capital Park and Planning  
Commission's Purchase Card Policies and Procedures

Thank you for providing your final draft of the Purchase Card Policies and Procedures of the Maryland-National Capital Park and Planning Commission and your consideration of our informal comments. The Commission appreciates your assistance in reviewing our Purchase Card Program, as we continually strive to ensure our programs promote fiscal accountability.

We are encouraged that your review did not result in any formal findings, recommendations or other matters for consideration. However, as a result of the review, the Commission is implementing additional procedures that require the annual confirmation of all purchase cardholders. Finally, the Commission's Office of Internal Audit is implementing a program that involves the continuous review of Level 3 data, and will evaluate the effectiveness of the program over the next calendar year.

CC: Casey Anderson, Chair Montgomery County Planning Board  
Joseph Zimmerman, Secretary-Treasurer  
Adrian Gardner, General Counsel  
Renee Kenney, Chief Internal Auditor  
Stacey Pearson, Chief, Purchasing Division

## Appendix A: Chief Financial Officer's Response



### MONTGOMERY COUNTY REVENUE AUTHORITY

January 11, 2016

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

RE: Purchase Card Policies and Procedures

Dear Mr. Blansitt:

We thank the staff of the Office of the Inspector General (OIG) for their investigation and resulting report on our current credit card program.

As recommended by the OIG, the Montgomery County Revenue Authority (MCRA) has updated our cardholder agreement to include items in the CEO's memo to you dated 2-25-15.

As mentioned in the OIG report, the MCRA uses a credit card for its purchasing needs. This precludes the exercise of certain monitoring controls such as the blocking of merchant category codes and the level 3 data analyses to detect inappropriate card use. As recommended by the OIG, the MCRA is investigating the adoption of a purchase card for its card purchases. The investigation will include the cards now used by the County and outside agencies.

The MCRA has instituted the use of a gift card log to track its use of gift cards.

Thank you again for your helpful suggestions.

Sincerely,

A handwritten signature in cursive script, appearing to read "Michael J. Boone".

Michael J. Boone  
Chief Financial Officer

101 Monroe Street, Suite 110 • Rockville, Maryland 20850 • 301-762-9080, FAX 301-309-0652

# Appendix A: General Manager/CEO's Response



14501 Sweezor Lane • Laurel, Maryland 20707-5601

#### COMMISSIONERS

Chris Lawson, Vice Chair  
Fauzi Beyout  
Omar M. Bouwere  
Mary Hopkins-Norris

GENERAL MANAGER  
Jerry N. Johnson

November 23, 2015

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

Dear Mr. Blansitt:

We are in receipt of your November 16, 2015 Discussion Draft regarding the results of your review of the Washington Suburban Sanitary Commission's (WSSC) purchase card policies and procedures. Although WSSC is not a part of County Government and neither funded by nor funded through Montgomery County, we appreciate the opportunity to respond to the conclusions reached by your office.

Conclusion #1: "WSSC would benefit from annually certifying its list of cardholders and ensuring that all its procedures are documented."

Effective November 19, 2015, all WSSC executives are required to annually review and certify the list of cardholders within their respective Teams/Offices that should have purchase cards. Additionally, WSSC management is committed to documenting all of its significant controls and ensuring their implementation. Therefore, we are providing clarification regarding the reconciliation of transactions statement found on Page 10 of the Discussion Draft.

From the inception of the Commission's Purchase Card Program, all WSSC purchase card approvers are required to determine whether receipts and transactions reconcile, including conducting a review for appropriateness of purchases.

Washington Suburban Sanitary Commission

301-276-WSSC (8772) • 301-206-8000 • 1-800-826-8438 • TTY: 301-206-8345 • www.wsscwater.com

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.

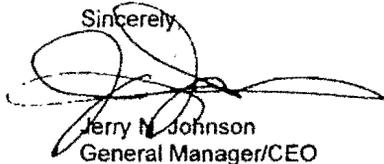
However, we are in agreement that the centralized review for appropriateness of purchases is newly implemented with the creation of the P-Card Specialist position. The associated P-Card policies and procedures have been updated to reflect this change.

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 N. 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



Office of the President

January 21, 2016

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

RE: Montgomery College Purchasing Card Program Audit

Dear Mr. Blansitt:

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

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

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

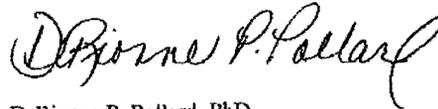
- The cardholder certification processes will be modified to an annual certification process.
- All existing cardholder accounts are being examined as to frequency of use and monthly account balances with the goal of reducing the overall number of purchase cards, to the extent that any modifications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

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

Mr. Edward Blansitt  
January 21, 2016  
Page 2

Thank you for your thorough review, report and guidance for improving the College's purchasing card program.

Sincerely,



DeRionne P. Pollard, PhD  
President

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

# Appendix A: Executive Director's Response



10400 Detrick Avenue  
Kensington, MD 20895-2484  
(240) 627-9400

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 read "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 Habermeyer, Assistant Inspector General  
Gail Willison, Chief Financial Officer, HOC  
James Atwell, Internal Auditor, HOC

# 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 MasterCard 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,

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



OFFICE OF THE COUNTY EXECUTIVE

Isiah Leggett  
County Executive

Timothy L. Firestone  
Chief Administrative Officer

MEMORANDUM

March 9, 2016

TO: Edward L. Blansitt III, Inspector General

FROM: Timothy L. Firestone, Chief Administrative Officer *Timothy L. Firestone*

SUBJECT: Response to Recommendations from OIG Audit Report on Purchase Card Policies and Procedures of the Montgomery County Government

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

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

Attachment

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

101 Monroe Street • Rockville, Maryland 20850  
240-777-2500 • 240-777-2544 TTY • 240-777-2518 FAX  
www.montgomerycountymd.gov

## Chief Administrative Officer's Response

Attachment

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

**Dated March 2016**

**Recommendation 1 – Approver Workload:**

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

**Executive Branch Response:**

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

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

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



## Chief Administrative Officer's Response

### **Recommendation 2 – Monitoring and Use of Level 3 Data:**

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

### **Executive Branch Response:**

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

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

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

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

## Chief Administrative Officer's Response

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### **Recommendation 3 – OIG Analysis of County Data:**

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

### **Executive Branch Response:**

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

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

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