

Final Report

Purchase Card Policies and Procedures

*of the
Montgomery County Revenue Authority*

Report # OIG-16-002

January 20, 2016

Montgomery County Maryland
Office of the Inspector General



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Report in Brief

Purchase Card Policies and Procedures of the *Montgomery County Revenue Authority*

January 20, 2016

Background

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

Why We Did This Audit

Centrally billed cards are used for many purchases in the County government and independent County agencies. Revenue Authority employees are issued three types of credit cards: Chase, Sam's Club, and Home Depot. This analysis only considers the Chase credit cards. The Revenue Authority charged \$231,121 to its Chase credit cards in fiscal year 2014. We analyzed the policies and procedures controlling the use of this payment mechanism and related purchases.

What We Found

Some of the Revenue Authority's credit card policies and procedures are not documented, and its Purchase and Payment Controls could be improved. Revenue Authority management informed us that the current credit card program does not provide some of the advantages of some purchase card programs, such as Level 3 detailed transaction data and blocking of Merchant Category Codes.

What We Recommend and Other Matters for Consideration

1) The policies and procedures in the CEO's memo to the OIG should be formalized in a written document that is provided to cardholders. 2) The Revenue Authority should document and implement certain Purchase and Payment Controls identified as missing in the table displaying these controls.

We also suggest that the Revenue Authority explore switching from the current credit card to a purchase card in order to obtain the ability to block purchases from specified Merchant Category Codes and to obtain Level 3 detailed transaction data.

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Introduction

Credit cards billed centrally are used for many purchases by the Montgomery County Revenue Authority (Revenue Authority), which had \$231,121 in credit card charges in fiscal year 2014. The County government and the six independent County agencies we reviewed charged approximately \$50 million total on purchase or credit 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 or credit 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 or credit cards are necessary. Our audit was intended to determine the extent to which such policies exist and procedures are required at the entities for which the Montgomery County Code assigns us certain responsibilities.

This report addresses the control policies and procedures at the Revenue Authority.

Our audit was conducted in accordance with *Government Auditing Standards* issued by the U.S. Government Accountability Office and *Principles and Standards for Offices of Inspector General* issued by the Association of Inspectors General.

Objectives, Scope, and Methodology

The objectives of the Office of the Inspector General (OIG) audit were to:

- Determine the policies and procedures and related internal controls over purchases using credit 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 credit card policies and procedures of the Revenue Authority. The Revenue Authority does not have purchase cards; it has credit cards. In many respects, the cards are similar. There are some characteristics of purchase cards that are not shared by the credit cards used by the Revenue Authority: (1) purchase cards typically require payment in full each month. (Revenue Authority senior management informed us that the Revenue Authority never carries a credit card balance and always pays in full every month), (2) purchase cards enable blocking of purchases from specified Merchant Category Codes, and (3) purchase card issuers provide detailed transaction data (Level 3 data).

Revenue Authority employees are issued three types of credit cards: Chase, Sam’s Club, and Home Depot. This analysis only considers the Chase credit cards, as the others have a more limited use.

We requested credit card policies and procedures, laws and regulations from the County government and the independent County agencies. In addition, we looked at examples of recommended practices in the Federal Government and in the State of Maryland.¹

From these materials, we identified 28 significant controls over purchase or credit cards. We grouped these controls into four categories for the purposes of our analysis:

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

- The Maryland Comptroller’s purchase card policies and procedures
- The U.S. Government Charge Card Abuse Prevention Act of 2012, applicable to the federal government
- U.S. Office of Management and Budget policies and procedures in Circular No. A-123, Appendix B (2009)
- U.S. Government Accountability Office audit guides from 2003 and 2008
- U.S. Gen’l Services Admin., 2004 “Guide for Purchase Card Oversight” and 2003 “Guide to Best Practices”
- Federal Deposit Insurance Corporation, Office of the Inspector General Report No. AUD-14-007
- The U.S. Department of Agriculture Cardholder’s Guide
- The Council of the Inspectors General on Integrity and Efficiency’s audit framework

- 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 the Revenue Authority identified in its policies and procedures. We provided the table to the Revenue Authority for review. We considered the responses and edited our table accordingly.

Background

The Revenue Authority, created in 1957, manages the County’s nine public golf courses and the Montgomery County Airpark. The Revenue Authority also issues bonds to raise capital, acquire land or other property, and finance County construction. In Fiscal Year 2014, the Revenue Authority’s expenses were \$18,747,307.

The *Cards and Charges* table below indicates the Revenue Authority’s number of credit cards and the dollars charged on them in 2014.

Cards and Charges	Revenue Authority
Number of cards in 2014	25
Dollars charged in 2014	\$231,121
Average Dollars / Card	\$9,245

Source: Information provided by the Revenue Authority to the OIG.

A typical benefit from the use of purchase or credit cards is the receipt of rebates. Unlike the County government and most other entities we reviewed, the Revenue Authority receives points rather than rebates. The Revenue Authority has used the points to order gift cards to use as incentives for employees, and most of these gift cards were given out during training sessions as prizes for correct answers. As of June 2015, the Revenue Authority had accumulated and not yet redeemed in excess of 500,000 points, which is worth approximately \$5,000. During the course of this review, the Chief Financial Officer informed the OIG that in the future the Revenue Authority will use these points to obtain credits on its credit card bills.

Findings & Recommendations

We identified one Finding and make Recommendations, as follows.

Finding 1: Some of the Revenue Authority's credit card policies and procedures are not documented, and its Purchase and Payment Controls could be improved.

Reported Policies and Procedures

The Revenue Authority's documented policies and procedures for credit card use are limited to a one-page "Credit Card Use Policy." The Credit Card Use Policy lists the following six cardholder responsibilities related to credit card use that the cardholder is to accept and sign:

1. I am responsible for all charges that are placed on this credit card.
2. I will not leave the credit card at the facility for others to use.
3. The credit card is to be used only for MCRA purchases; using the card for personal expenses is not permitted.
4. Receipts for all items must be turned in each month. Original receipts will be signed and coded and provided to the main office along with other weekly paperwork. Copies of receipts must be provided to the office via fax or email within 2 business days of purchase.
5. If for some reason, I am missing a receipt, I will complete and sign a Missing Credit Card Receipt form.
6. Violation of the Credit Card Policy may result in disciplinary action up to and including termination of employment.

In response to our table of controls, on Feb. 25, 2015, the Chief Executive Officer created a memo addressed to the OIG asserting that the Revenue Authority employs the following additional 13 controls that reflect controls from the list that we sent:

1. No credit card is issued without the request of the Director of Golf, Director of Agronomy, Chief Executive Officer or the Chief Financial Officer.
2. Adequate criteria for issuance is that the individual is a Facility Manager, Superintendent, Director of Golf, Director of Agronomy, Chief Executive Officer or Credit Card Administrator.
3. Chief Executive Officer approves any changes to credit limits.
4. Chief Executive Officer reviews list of cardholders and credit limits annually.
5. Cards expire every 2 years.
6. Cards are collected and canceled at the time of employee termination.
7. The credit card administrator is notified of every termination.
8. The cardholder is trained at the time the card is issued.
9. The receipts are retained by the Payables Department along with the credit card statement itself.
10. Repeated missing receipts may result in revocation of the card (and disciplinary action up to and including termination of employment).
11. The Payables Department reconciles receipts to charges and notifies management of discrepancies.
12. The cardholder must sign a statement for a missing receipt(s) stating that it is for a legitimate business purpose and explaining its nature.
13. Upper level management reviews and signs off on their direct reports' charges each month.

No documentation of these controls beyond this memo was provided.

Controls over Assignment of Cards

The Controls over Assignment of Cards category addresses who is issued and holds purchase or credit cards. As more employees possess and use cards, the risks increase, as does the administrative burden. Thus, it is important that card issuance be focused on the employees who can most productively and responsibly make use of the cards. We found discussions of and examples of extensive criteria in the Federal and State government purchase card programs.²

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

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

X = drawn from written documentation

X₁ = determined by discussions with or emails from upper management; no additional documentation

Source: OIG review of documentation and Revenue Authority responses to OIG.

The Credit Card Use Policy did not address any of these seven controls. The CEO’s memo to the OIG indicated that the Revenue Authority had six of them, but no other documentation was provided.

Taken together, the Credit Card Use Policy and the memo from the CEO indicate that the Revenue Authority has appropriate controls over the assignment of cards. However, without documented policies and procedures, employees may not be aware of the controls and the requirements.

² For example, the Maryland Comptroller’s purchase card policies and procedures state that cards are limited to “employees who have not had personnel incidents which impact the use of the card.” The U.S. Department of Agriculture’s program guide states that only individuals who “have demonstrated that they are responsible and possess the required business acumen to be entrusted with a government purchase card” should be nominated to be cardholders.

Cardholder Responsibilities

The Revenue Authority’s written policies and procedures, alone, primarily address the Cardholder Responsibilities category.

The Cardholder Responsibilities category controls are primarily related to the requirements of cardholders. The following *Cardholder Responsibilities* table shows that four of the policies documented by the Revenue Authority’s Credit Card Use Policy are Cardholder Responsibilities controls. The CEO wrote the OIG that the Revenue Authority had the remaining two Cardholder Responsibilities controls but provided no other documentation of these.

Cardholder Responsibilities	Revenue Authority
CH trained before receiving card	X ₁
CH signs Agreement	X
Repeated missing receipts may result in card loss	X ₁
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

X₁ = determined by discussions with or emails from upper management; no additional documentation

Source: OIG review of documentation and Revenue Authority responses to OIG

Taken together, the Credit Card Use Policy and the memo from the CEO indicate that the Revenue Authority has appropriate Cardholder Responsibilities controls. However, without documented policies and procedures, employees may not be aware of the controls and the requirements.

Purchase and Payment Controls

Purchase and Payment Controls

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

The credit card policy states that the credit cards are for business use. This is an important general principle to communicate to cardholders, but it does not necessarily provide sufficient guidance to enable cardholders to make decisions about individual purchases that may have

substantial business and personal components, such as lodging and food. Guidelines for purchases such as travel, meal, and conference expenses would help approvers, as well as cardholders. The important issue is that government money is spent properly.

The Revenue Authority only provided documentation that it has 2 out of the 13 controls in the following *Purchase and Payment Controls* table (marked with an "X"). The memo from the CEO indicated that the Revenue Authority has another 6 of these controls.

Purchase and Payment Controls	Revenue Authority
Dept. Liaison or approver trained before CH gets card	-
List of example disallowed items provided to CHs	X ₁
List of example allowed items provided to CHs	-
Limits & restrictions applied at point of sale	-
Monthly limit ³	X
Transaction limit	X
Merchant Category Code (MCC) restrictions	-
Approver required to review monthly	X ₁
Approver or CH must retain receipts	Retained by Payables Department
Gift card log/records kept; or no gift cards allowed	-
Approver/Supervisor reconciles receipts to transactions on the monthly statement	Done by Payables Department
Approver/Supervisor reviews for legitimate charges	X ₁
P-Card Admin/Finance reviews usage for appropriateness	X ₁

X = drawn from written documentation

X₁ = determined by discussions with or emails from upper management; no additional documentation

Source: OIG review of documentation and Revenue Authority responses to OIG.

Initially, the Revenue Authority only provided documentation that it has 2 out of these 13 controls [X entries in above table]. Subsequently, the memo from the CEO indicated that the Revenue Authority has another 6 of these controls [X₁ and text entries in above table].

³ The Revenue Authority has monthly charge limits ranging from \$1,000 to \$10,000.

The Revenue Authority indicated that neither approvers nor supervisors reconcile receipts to transactions per the monthly statement, but stated that this is done by the Payables Department. This is an important control for detecting errors made by vendors.

The Revenue Authority does not block transactions based on Merchant Category Codes.⁴ This is an important control for detecting errors made by cardholders, who might use their Revenue Authority credit card instead of their personal card when making a personal purchase. Revenue Authority senior management informed us that blocking Merchant Category Codes is not possible for its cards, because they are credit cards.

Monitoring

Monitoring Activities

The *Monitoring* table shows whether the Revenue Authority conducts the identified activities.

Monitoring	Revenue Authority
Performs regularly scheduled audits/reviews of card use	X ₁
Performs regularly scheduled data analyses using Level 3 data to detect inappropriate card use	-

X = drawn from written documentation

X₁ = determined by discussions with or emails from upper management; no additional documentation

Source: OIG review of documentation and Revenue Authority responses to OIG.

Audits/Reviews of Card Use

The CEO indicated to us that the Revenue Authority performs regular audits and/or reviews.

We requested information from the Revenue Authority evidencing its monitoring of credit card use. The Revenue Authority provided information that an employee was terminated for having made unauthorized charges, and it included documentation of those charges.

We commend the Revenue Authority for detecting and stopping these inappropriate charges. The unauthorized charges were made on two cards over a period of 17 months during 2007 and

⁴ 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. Blocks can be placed on purchases from certain types of stores, for example, bars and jewelry stores.

2008. The fact that many charges went undetected for a long period of time indicates that there had been a lack of timely monitoring. Senior management at the Revenue Authority informed us that monitoring has improved since that time.

Data Analyses

Data analysis, in particular with the use of detailed transaction data referred to as 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 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 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 Maryland Comptroller’s Office reports that Level 3 data is provided by approximately 40% of U.S. merchants.

The following *Selected Types of Data Available* table shows many, but not all, of the types of data available to purchase card administrators/monitors. Level 1 data is standard data provided on all purchase card transactions. Level 2 adds sales tax and other data. Level 3 adds item description, item quantity, and other information.

Selected Types of Data Available		
Level 1	Level 2	Level 3
Supplier name	Sales tax amounts	Ship to/from zip codes
Total purchase amount	Customer Accounting Codes	Discount amount
Transaction date		Freight/shipping amount
Merchant Category Code		Order date
Store location		Item description
		Item quantity
	Item total	
		Item codes
		Item unit cost

Source: OIG review of documentation from credit card providers.

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.

Revenue Authority senior management informed us that Level 3 data is not available to the Revenue Authority, because the Revenue Authority has credit cards, not purchase cards.

Recommendations

- 1) In order to provide more written guidance on its Controls over Assignment of Cards and its Cardholder Responsibilities controls, the policies and procedures in the CEO's memo to the OIG should be formalized in a written document that is provided to cardholders.
- 2) The Revenue Authority should document and implement certain Purchase and Payment Controls identified as missing in the table.

Other Matters for Consideration

The Revenue Authority might benefit from having purchase cards that allow it to use Level 3 data in its regular audits and reviews.

The Revenue Authority should explore switching from the current credit card program to a purchase card program similar to those used by the County Government and other independent County agencies in order to obtain such program advantages as the ability to block purchases from specified Merchant Category Codes and to obtain Level 3 detailed transaction data.

Revenue Authority's Response

The response from the Chief Financial Officer to the final draft report is included in its entirety in Appendix A. Nothing in the response caused us to alter our report.

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,

Michael J. Boone
Chief Financial Officer

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