

Final Report

# Purchase Card Policies and Procedures

*of the*

*Maryland-National Capital  
Park and Planning Commission*

Report # OIG-16-001

January 7, 2016

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Montgomery County Maryland  
Office of the Inspector General



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# Report in Brief

# Purchase Card Policies and Procedures of *M-NCPPC*

January 7, 2016

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## Background

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We reviewed the purchase card policies and procedures of the Montgomery County government and six independent County agencies for which the Montgomery County Code assigns the Office of the Inspector General certain responsibilities. This report addresses the control policies and procedures at the Maryland-National Capital Park & Planning Commission (M-NCPPC).

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## Why We Did This Audit

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Purchase cards billed centrally to M-NCPPC are used for many purchases supporting Montgomery County related functions (over \$5.0 million total in fiscal year 2014). We analyzed the policies and procedures controlling the use of these payment mechanisms and related purchases.

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## What We Determined

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We issued no findings or recommendations. We initially concluded that M-NCPPC might benefit from annually reviewing its cardholders and confirming that these people should have purchase cards. We communicated this to M-NCPPC, and in response, M-NCPPC advised us that M-NCPPC will incorporate this process into its procedures.

M-NCPPC Internal Audit staff completed 42 purchase card audits between September 2012 and September 2015 (including audits of Prince George's County related purchases). It is not clear to us whether this level of effort devoted to purchase card audits is either sustainable or desirable for future years.

After we informed M-NCPPC in November of 2015 of our conclusion that M-NCPPC might benefit from, in lieu of performing so many audits, conducting systematic data analyses using Level 3 detailed transaction data to detect inappropriate card use, the Chief Internal Auditor wrote that M-NCPPC Internal Audit is implementing a pilot program that involves the continuous review of Level 3 data.

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## Introduction

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Purchase cards billed centrally are used for many purchases at the Maryland-National Capital Park and Planning Commission (M-NCPPC), which had approximately \$5.0 million in purchase card charges in fiscal year 2014. The County government and the six independent County agencies we reviewed charged approximately \$50 million total on purchase cards in fiscal year 2014.

During our audit, we considered the following elements of a purchase:

1. The requisition of a good or service by an individual who identifies a mission related or business need.
2. The purchase and selection processes that:
  - evaluate available goods and services that satisfy the need
  - evaluate the range of costs
  - make the selection
  - place the order
3. The receipt of the good or service, confirmation of receipt, invoice and payment processes.

In large procurements these steps are typically separated among several individuals, thereby providing a safeguard against possible errors. In a purchase card transaction, even in a very large one, it is possible for these steps to be performed by a single individual. Accordingly, policies and procedures to ensure the appropriate purchases and payments with the use of centrally billed purchase cards are necessary. Our audit was intended to determine the extent to which such policies exist and procedures are required at the entities for which the Montgomery County Code assigns us certain responsibilities.

This report addresses the control policies and procedures at M-NCPPC.

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

# Objectives, Scope, and Methodology

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

- Determine the policies and procedures and related internal controls over purchases using purchase cards, including those that are not formally documented.
- Identify any opportunities for improvement.

In our reviews of the County government and the six independent agencies, we identified in some cases issues that we determined did not rise to the level of a “Finding”, because they did not represent significant deficiencies requiring immediate management attention and thus our formal recommendation for action. Nonetheless, we did believe it was appropriate to address those issues and what would be appropriate management responses in what, in this set of reports, we have termed “Other Matters for Consideration”.

The scope of our audit included examination of the purchase card policies and procedures of M-NCPPC. We issued no findings, recommendations, or other matters for consideration in this report.

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

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

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

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

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

## Background

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M-NCPPC was established in 1927 and is governed by the Code of Maryland. The Commission is bi-county with jurisdiction over Montgomery County planning and parks and Prince George's County planning, parks, and recreation. The five Commission members from Montgomery County make up the Montgomery County Planning Board and the five members from Prince George's County make up the Prince George's County Planning Board.

M-NCPPC's mission is to manage physical growth and plan communities; protect and steward natural, cultural and historic resources; and provide leisure and recreational experiences. Within M-NCPPC, Montgomery County (MC) has a Department of Parks, Prince George's County (PGC) has a Department of Parks and Recreation, and both Montgomery County and Prince George's County have Departments of Planning. Combined, the MC and PGC park system currently contains over 64,000 acres which are composed of stream-valley parks, large regional parks, neighborhood parks and park-school recreational areas.

M-NCPPC had a total operating budget of \$470,965,953 for fiscal year 2014 (FY 2014). The FY 2014 operating budget for MC's share of this was \$146,431,595. This included funds allocated for the Central Administrative Services (CAS) part of M-NCPPC. The CAS had a total budget of \$14,532,541.

In FY 2014, MC had 933.1 full time equivalents budgeted and PGC had 1,360.9 budgeted. CAS had 128 full time equivalents, which were included in MC and PGC's numbers. The total number of personnel full time equivalents is 2,294.

This report focuses on the MC and CAS parts of M-NCPPC. Unless otherwise stated, references in the remainder of the report to M-NCPPC are to MC and CAS.

The *Cards and Charges* table below indicates M-NCPPC’s number of purchase cards and the dollars charged on them in 2014.

Cards and Charges	M-NCPPC (MC and CAS)
Number of cards in 2014	71
Dollars charged in 2014	\$ 5,033,960
Average Dollars / card	\$ 70,901

Source: OIG analysis of Information provided by the M-NCPPC to the OIG.

M-NCPPC’s purchase card policy manual states that the use of purchase cards reduces the paperwork and costs associated with processing payments to individual vendors.

Another typical benefit from the use of purchase cards is the receipt of rebates. M-NCPPC receives significant rebates from its purchase card use. M-NCPPC, including Prince George’s County functions, received \$203,260 in rebates in FY 2014. This was distributed within the Commission based on spending. MC received \$88,984 in rebates, which was 1.6% of its purchases for that calendar year. CAS received \$4,738, which was 1.6% of its purchases in that calendar year.

M-NCPPC participates in a consortium of local government entities using JPMorgan Chase MasterCards. Participants include other entities in Montgomery County and other government agencies, including Fairfax County, Virginia. This consortium, which began in late 2010 in the midst of recession and belt-tightening, aims to yield better rebates for participating entities, allow for more consistency in purchase card programs, and promote greater use of purchase cards. The percentage of purchases rebated is based on total consortium purchases, not just one entity’s purchases.

# Reported Policies and Procedures

## Controls over Assignment of Cards

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

M-NCPPC documented six out of the seven controls we identify in the following *Controls over Assignment of Cards* table.

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

X = drawn from written documentation

Source: OIG review of documentation, and M-NCPPC responses to OIG.

M-NCPPC requires that a cardholder be permanent, fulltime, and represented by the merit system or collective bargaining agreements.

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



not sufficiently address the circumstances under which the food purchases would be appropriate.

A Commission Practice<sup>3</sup> provides guidelines for meal expenses, including meal expenses in the local area. Guidelines for meals mention either reimbursements or payments from petty cash and require Department Head approvals or detailed expense reports justifying the expense. Current purchase card controls could satisfy these approval and documentation requirements. However, the use of purchase cards as a payment method for meals or any other expenses discussed in the document is not addressed in the Commission Practice.

M-NCPPC has documented all 13 of the controls we identify in the following *Purchase and Payment Controls* table.

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

X = drawn from written documentation

Source: OIG review of documentation, and M-NCPPC responses to OIG.

<sup>3</sup> M-NCPPC Practice No. 3-10, "Expense Reimbursement for Travel, Meetings, and Conferences."

M-NCPPC initially sets each cardholder’s “credit limit” at \$5,000. Higher limits may be established on a case by case basis by the Purchase Card Administrator with approval by the Secretary Treasurer. M-NCPPC’s highest limit is \$50,000.

M-NCPPC uses Merchant Category Code<sup>4</sup> (MCC) restrictions. These provide automatic controls on cardholder purchases. Cardholders are assigned certain MCCs that are relevant to their roles and responsibilities. Office workers, tradesmen, and people whose jobs require travel have differing lists of allowed and blocked MCCs.

M-NCPPC includes vendors such as bars and pawnshops in its general list of blocked codes.

Approver reviews consist of reviews by another employee to determine whether the purchases were proper and whether the receipts and charges reconcile. At M-NCPPC, the employee doing the reviewing is referred to as an “Approving Official”. The Approving Officials are required to reconcile the cardholder’s receipts and the card company’s transaction records on the monthly statements, monitor whether the purchases were for business and not personal reasons, and make sure that no Maryland sales tax was paid. Reconciling receipts and monthly statements is an important control for detecting errors made by vendors. Examining whether purchases were not for personal reasons is an important control for detecting errors made by cardholders and unauthorized charges. M-NCPPC purchases are exempt from Maryland sales tax.

## Approver Workload

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Because the responsibilities of the approvers are an important part of the effectiveness of the Purchase and Payment controls, the number of cards for which an approver is responsible for review must allow the card charges to be thoroughly reviewed in a timely manner.

### Cards per Approver

The U.S. General Services Administration (GSA) states in its 2004 *A Guide for Purchase Card Oversight* that approvers in the Federal Government most commonly have between 4 and 10 cards to review. Whether a particular ratio is appropriate depends on the volume of card

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<sup>4</sup> A Merchant Category Code (MCC) is a categorization of the type of business the merchant is engaged in and the kinds of goods or services provided.

activity and the organizational structure. In 2003, the GSA recommended that approvers not be responsible for more than 7 cards.

MC and CAS both average well below the recommended maximum amount of 7 cards per approver; M-NCPPC overall has on average 1.7 cards per approver.

The OIG determined that neither MC nor CAS had any approvers with more than 10 cards to review. In fact, only one reviewer had more than five cards to review monthly.

### Transactions per Approver

Another measure of workload is the number of transactions per approver.

The GSA recommended in 2003 that the number of monthly transactions per approver be no more than 50. As MC approvers had on average 31.4 transactions per month to review, and CAS approvers had on average 10 transactions per month to review, both were well below this limit. MC and CAS approvers overall had an average of 28.9 transactions per month to reviews, also well below this limit. It appears that M-NCPPC's approvers are not overburdened.

### Monitoring

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In addition to the above types of controls, central administrators can audit and review purchases. Regularly scheduled monitoring can detect errors made by vendors, errors made by cardholders, and unauthorized charges. It can also detect lapses in the implementation of controls. The following *Monitoring* table shows which controls M-NCPPC has implemented.

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

X = drawn from written documentation

Source: OIG review of documentation, and M-NCPPC responses to OIG.

### Audits/Reviews of Purchase Card Use

We requested that M-NCPPC provide us documents evidencing monitoring of purchase card usage, including prior audits or results of investigations. M-NCPPC provided documentation that its internal auditors, the Purchase Card Administrator, and the Purchasing Division staff have the authority to audit purchase card use regularly. M-NCPPC also provided its most recent purchase card audit.

On its website, M-NCPPC provides results of multiple purchase card audits conducted by its Office of Internal Audit (OIA) in recent years. The OIA website contains results of 24 audits for Montgomery County and Central Administrative Services related to purchase card usage. Few of these audit reports contain findings and recommendations.

Data Analyses

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

In their oversight of purchase card use, the State of Maryland and some Federal government agencies have implemented the analysis of detailed transaction data, known as “Level 3” data. The customer can obtain this data for purchases made through the major credit card providers, 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.

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

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

Source: OIG review of information from credit card providers.

The Maryland Office of Legislative Audits (Maryland 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 Maryland OLA recommended that the Maryland Comptroller require State agencies to

regularly obtain and use Level 3 data and provide guidance to the agencies as to how the data can be used in their purchase card verification procedures.

The Maryland Comptroller's Office states that detailed transaction reports with Level 3 data should be run monthly and compared to information provided by cardholders. The Comptroller's Office's Policy and Procedures Manual requires agencies to produce detailed transaction reports, conduct detailed reviews, and document the results.

The Comptroller's Office provides instructions for Maryland State agencies to conduct the following analyses using Level 3 transaction data. These analyses are in addition to regular monthly reviews.

- Level 3 Data, Merchant Spend Analysis by Line Item – Review item descriptions. Non-level 3 transactions should also be reviewed. Remind the cardholders that detailed line item descriptions are available.
- Declined Transaction Report – Review reasons transactions were declined. Any attempts in excess of purchase or monthly limits or a blocked vendor could indicate a training issue or an attempt at misuse. Use this to determine patterns of potential abuse.
- Multiple Vendors at One Address – Determine (1) if more than one merchant is using the same address; (2) if the business is legitimate; (3) if the business is registered with the Secretary of State; (4) if the vendor is on a Statewide contract, and (5) if the location is consistent with the type of vendor.
- Employee Address and Vendor Address are the Same – Find any matches between employee addresses and vendor addresses, using employee address data from Human Resources.
- High Dollar Value of Purchase by One Cardholder from an Obscure Vendor – Sort data by largest charge to smallest, sort by cardholder, then look for obscure merchants. Research the merchant by asking the cardholder for more information, researching if the merchant is registered to do business in Maryland, and using an internet search engine.
- Purchases Structured to Avoid Transaction Limits (Split Purchases) Look for the same vendor with transaction amounts near the Cardholder's limit. Also check if multiple cardholders are involved. Look for when a large ticket item is split.

We asked M-NCPPC about its monitoring program and whether it uses Level 3 data. The Chief Internal Auditor wrote us that the Purchase Card Administrator periodically reviews Level 3 data, but that the data is not imported into M-NCPPC's accounting system. M-NCPPC determined that Level 3 data has a small business impact for the Commission, as only 26% of

the transactions in the year ending November 1, 2015 contained Level 3 data, and only 18.2% of purchase card spending had associated Level 3 data.

M-NCPPC Internal Audit staff completed 42 purchase card audits between September 2012 and September 2015 (including audits of Prince George's County related purchases). It is not clear to us whether this level of effort devoted to purchase card audits is either sustainable or desirable for future years.

After we informed M-NCPPC in November of 2015 of our conclusion that M-NCPPC might benefit from, in lieu of performing so many audits, conducting systematic data analyses using Level 3 detailed transaction data to detect inappropriate card use, the Chief Internal Auditor wrote that M-NCPPC Internal Audit is implementing a pilot program that involves the continuous review of Level 3 data.

## M-NCPPC's Response

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The response from M-NCPPC's Executive Director 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: 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   
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