Montgomery County, Maryland
Office of the County Executive
Office of Internal Audit

The County Government's Purchase Card Program

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Highlights

Why MCIA Did this Audit

The County Government's Purchase Card Program is designed to be a fast and flexible purchasing tool that provides an efficient and effective method for purchasing small dollar items. The cards are similar to personal credit cards except that the County pays the charges. The Purchase Card Program includes over 500 cardholders from 43 County departments. The County has procured over $9 million and $10 million of goods and services using purchase cards in FY 2010 and FY 2011, respectively. The Department of Finance is responsible for oversight and administration of this program. We reviewed policies and procedures related to Purchase Card Program activities.

What MCIA Recommends

MCIA is making seven recommendations to improve internal controls for adequate support, proper approval, and effective oversight of transactions in the Purchase Card Program. For example, we recommend the Director of Finance reinforce program policies and procedures with cardholders and enhance periodic program audits by Department Liaisons and the Program Administrator to provide additional assurance of compliance with policy requirements.

The County Government's Purchase Card Program

What We Found

The Department of Finance has generally established effective procedures and internal controls for the Purchase Card Program and they were largely being implemented as intended. However, in testing 297 purchase card transactions (267 selected using statistical sample and 30 judgmentally selected using data mining) we identified 59 purchases, or 20%, that were non-compliant with one or more of nine program requirements tested. In addition, we noted Finance could strengthen existing procedures and controls to help ensure that purchase card transactions comply with policies and that County funds are not subject to waste, fraud, or abuse.

We found the following areas where internal controls over the purchase card program need improvement; (1) retention of adequate supporting documentation, (2) evidence of proper review and approval by Transaction Reviewers, (3) inclusion and incorporation of all required procedures and practices in the Purchase Card Program policies, and (4) the assurance that consistent periodic compliance audits are performed by Department Liaisons and the Program Administrator.

We found 51 purchases, totaling approximately $24,310, which were missing or had inadequate evidence of the required approval by a designated Transaction Reviewer. The Transaction Reviewer's review of cardholder purchases and supporting documentation provides the basis for ensuring that purchases represent legitimate County expenditures and contain no Maryland Sales and Use tax. This observation results in an estimated exception rate[1] for this attribute between 14.1% and 24.9%.

In addition, we found weaknesses related to missing or inadequate supporting documentation and improper inclusion of sales tax. The lack of documentation to support a transaction represents an increased risk that the County's funds are not appropriately used. The improper inclusion of Maryland Sales tax in the purchase card transaction represents a misuse of County funds.

We also found that the Purchase Card Program policy manual requires revision to account for program changes and weaknesses discovered in the existing policies. Additionally, we concluded that periodic compliance audits performed by Department Liaisons and the Program Administrator, should be conducted more frequently, using a standardized approach, and reported in a formal manner to better ensure that necessary corrective action is promptly taken.

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[1] We calculated the exception rate based on statistical sample results.

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Objective

This report summarizes the work performed by Cherry, Bekaert & Holland, L.L.P. (CBH) in an internal audit of the Purchase Card Program administered by the Montgomery County Department of Finance (FIN). The scope of this engagement included purchase card transactions from Fiscal Years 2010 and 2011. The objectives of our audit were as follows:

- Review the policies and procedures for processing purchase card transactions.
- Assess whether the County's current policies and procedures provide adequate internal control over the Purchase Card Program.
- Determine whether purchase card transactions are processed in accordance with applicable County Policies and Procedures.
- Determine whether disbursements are properly authorized, safeguarded, and recorded.
- Compare the County's Purchase Card Program policies and procedures with that of industry best practices.

This internal audit report was performed in accordance with consulting standards established by the American Institute of Certified Public Accountants (AICPA) and generally, accepted government auditing standards (GAGAS) established by the Government Accountability Office (GAO), as appropriate. Our proposed procedures, developed to meet the objectives stated above, were reviewed and approved in advance by Montgomery County Internal Audit (MCIA). Interviews, documentation review, and fieldwork were conducted from March 2011 to October 2011.

Background

Program Overview
Montgomery County utilizes a purchasing card program as a means for departments to acquire more efficiently, certain products and services. Section 8.7 of the Montgomery County Executive Regulation 27-03AM[2], Procurement Regulations generally governs the purchase of goods and services with a credit or debit card. The Code of Montgomery County Regulations ("COMCOR") states that credit and debit cards may be utilized as authorized by the Director of Finance. As the individual charged with oversight and administration of the Purchase Card Program, the Director of Finance must designate the following:

    (1) Each person authorized to use the credit card.
    (2) The monetary limits for any single expenditure and class of expenditures that may be incurred under the credit card.
    (3) An itemization or description of all allowable purchases,
    (4) A statement of all limitations with respect to use of the card.
    (5) A statement of any limitations with respect to date of usage of the card or duration of authorization.

The program is Countywide with 504 active cardholders as of June 10, 2011[3], distributed across 43 County departments[4]. Effective January 1, 2011 the County's card provider changed from American Express to JP Morgan Chase Bank MasterCard. The County procured over $9 million and $10 million of goods and services using purchase cards in FY 2010 and FY 2011

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[2] Now incorporated in COMCOR §11B.00.01.08.7.
[3] Source - Cardholder Status report from Finance department dated 6/10/2011
[4] This only includes departments under the County Executive.

respectively. There were approximately 23,000 and 18,000 purchases transacted with purchase cards in FY 2010 and FY 2011 respectively. Annually, the County receives a rebate check from the Card Provider related to the prior year[5] purchase activity. The County received a rebate of approximately $25,000 and $23,000 for calendar years 2010 and 2009 respectively, or about 0.3% of all purchases. Table 1 presents the breakdown of purchase card activity by fiscal year and cardholders as of June 10, 2011 for the seven largest departments individually and all other departments in aggregate.

Table 1 - Summary of Purchase Card Activity

Department	Card Users[6]	FY 10		FY 11	
		Trans Count	Value	Trans Count	Value
Department of General Services	29	5,239	$3,308,583	4,003	$3,610,591
Department of Police	81	3,639	2,174,670	2,521	1,925,336
Fire and Rescue Service	44	1,229	441,269	1,206	798,310
Department of Health and Human Services	100	4,385	832,560	3,163	759,402
Department of Recreation	61	1,144	263,895	786	388,244
Department of Technology Services	7	617	226,964	576	321,083
Public Libraries	10	743	226,078	295	91,193
Other Departments	**172**	**6,333**	**1,617,974**	**5,518**	**2,054,030**
Grand Total - All Departments	**504**	**23,329**	**$9,091,991**	**18,068**	**$9,948,118**

Policies and procedures in place during FY 2010 and FY 2011

The *Montgomery County Purchasing Card Program - Policy and Procedure Manual*, revised August 2004 contains the current operating guidance related to the Purchase Card Program, including descriptions of the oversight responsibilities. The following table summarizes the roles of all program participants. The purchase card administrator in the Department of Finance maintains additional guidance in the form of emails and training slides. In addition in the program guidance, departments are encouraged to develop department level policies. Three departments provided copies of their policy for our review. The other four departments utilize the Countywide manual as the sole source of purchase card policies.

Table 2 - Purchase Card Program Roles[7]

Party	Responsibility
Montgomery County Department of Finance	Responsible for the Countywide contract administration of the Purchasing Card Program: • Designate a Purchasing Card Administrator who shall function as the Contract Administrator and the County liaison between the operating departments and Card Provider; • Issue overall policy guidance; and • Pay Card Provider for all purchases (net of credits) made by participating departments.

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[5] Source: Program Administrator, period represents January – December.
[6] This information shows active cardholders as of June 10, 2011.
[7] Source: *Montgomery County Purchasing Card Program - Policy and Procedure Manual*, revised August 2004.

Party	Responsibility
Purchasing Card Administrator	• Responsible for the proper setup and maintenance of each Purchasing Card. • Post related operating department charges and credits for returned item or posting errors to the County's automated accounting system.
Department Head	• Approve requests for employee purchase cards • Set credit limits and other restrictions on cards • Assign Department Liaison and Transaction Reviewer
Department Liaison	Responsible for the fiscal oversight of the department's Purchasing Card Program by: • Monitoring the issuance of cards, • Ensure prompt reconciliation of periodic statements, and • Request reports to document the results of the Program.
Transaction Reviewer	Responsible for the validity of each transaction under his/her review by reviewing the: • Legitimacy of the transaction, • Accuracy of the accounting code, and • Proper documentation to support the transaction.
Cardholder	Employee authorized by a department to be the single user of a County purchase card. Cardholders must: • Ensure the card is used for legitimate County business related purposes, • Maintain the card in a secure location at all times, • Not allow other individuals to use the card, and • Ensure that Maryland State sales/use tax is not charged.
Record Keeper[8]	Employee designated by the Department Head to be responsible for recordkeeping and reviewing transactions of a Cardholder to ensure each transaction is: • Initiated by the Cardholder, • Supported by adequate documentation, and • Contains appropriate accounting code.

Scope and Methodology

We performed our review of the Purchase Card Program in two phases. Phase I consisted of project planning with limited testing and Phase II involved substantive testing over a substantial group of transactions. The results of the procedures performed in Phase I were used as the basis for developing the approach for Phase II testing. As part of Phase II testing, we performed data mining procedures in addition to our detailed testing to identify additional instances of noncompliance with policies. We designed our testing to provide coverage over the departments with the largest volume of transactions. The following departments were involved in this audit:

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[8] The Record Keeper can be the same person as the Cardholder, but cannot be the same person as the Transaction Reviewer.

Table 3 - Breakdown of Departmental Testing

Department	Phase I	Phase II
Department of General Services (DGS)	✔	✔
Department of Police (POL)		✔
Department of Health and Human Services (HHS)	✔	✔
Fire and Rescue Service (FRS)	✔	✔
Department of Recreation (REC)		✔
Public Libraries (LIB)		✔
Department of Technology Services (DTS)		✔

Our scope of work for detailed testing was limited to purchase card transactions from the period of July 1, 2009 to June 30, 2010 (FY 2010) and July 1, 2010 to April 30, 2010 (FY 2011). The scope of work performed for data mining testing was limited to purchase card transactions from the period of July 1, 2009 to June 30, 2010 (FY 2010) and July 1, 2010 to June 30, 2010 (FY 2011).

Sampling Methodology for Phase I Testing – Data Source

The Finance Department provided us electronic files of purchase card transactions which occurred during FY 2010 and FY 2011 by purchase card vendor (American Express or JP Morgan Chase), for the time periods described in our scope above. The data files contained the data fields listed in the following table.

Table 4 - Data Fields in Transaction Reports

Transaction Date	Merchant Category Code	Cardholder Name
Transaction Amount	Department	Transaction Description
Merchant Name	Approval Information	

Sampling Methodology for Phase I Testing – Sample Design and Selection

The Phase I sample criteria were selected after we considered the inherent level of risk, volume, and value of card purchases by County departments for FY 2010 and July 1, 2010 to April 30, 2011. We selected transactions for testing from both periods in order to evaluate internal controls effectiveness during both fiscal years. A sample size of 60 transactions and nine requests (application, cancelation, modification) from the three County departments with the most purchase card activity was selected for Phase I testing. Based on the approach established for the Phase I sample, the following sample criteria were used to select transactions for testing:
- 30 FY 2010 transactions distributed across DGS, HHS, and FRS
- 30 FY 2011 transactions distributed across DGS, HHS, and FRS
- Nine requests (application, cancelation, modification) from DGS, HHS, and FRS

There were 20 transactions selected per department, half from each FY 2010 and FY 2011. There were six requests (application, cancelation, modification) per department across both fiscal years.

Methodology for Phase I Testing – Approach

We reviewed Purchase Card Program policies and procedures and conducted interviews with Finance staff responsible for management and administration of the program in order to gain an understanding of the process as well as to identify internal controls in place in the existing process. We also conducted interviews with individuals from other County departments involved in the Purchase Card Program. For a listing of interviews conducted, see Appendix A.

We tested program requirements contained in the purchase card manual. For each purchase card transaction we reviewed whether the transaction: (1) was made by an authorized user, (2) was properly approved by reviewer, (3) was supported by adequate documentation, (4) was supported by complete and accurate documentation, (5) did not include Maryland State Sales and Use Tax, (6) did not purchase contracted services from 1099 vendors[9] (unincorporated service providers), and (7) did not include goods or services considered to be a personal purchase or cash advance.

Phase I Testing – Outcomes

The results of testing for Phase I indicated that the internal controls over the Purchase Card Program were not consistently functioning as designed. We noted exceptions in the areas of proper approval and adequate documentation. See Appendix B for complete testing results.

Industry Best Practices

As part of Phase I, we reviewed reports from other jurisdictions and organizations for related purchase card findings, recommendations, and best practices. We obtained reports from multiple sources such as the Association of Local Government Auditors (ALGA), Association of Government Accountants (AGA), and Government Accountability Office (GAO). We considered the information obtained from these reports during the development of the Phase II testing approach and the reporting process, including the development of recommendations.

Sampling Methodology for Phase II Testing – Sample Design and Selection

We selected the Phase II sample items in order to test whether the internal controls over purchase card transactions have been implemented and are operating as designed. Based upon the results of the Phase I testing, we determined that selecting a statistical sample would be the most effective means of testing the population of purchase card transactions. The details of the Phase II sample design are:

- *Purchase card transactions* - we selected a statistical sample for Phase II from a population of 27,110[10] transactions, amounting to $13,647,324, with an assumed error rate of 3% (based on our results in Phase I), a precision goal of 5% and a confidence level of 97%.
- *Purchase card requests* - we selected 21 requests (application, cancelation, modification), distributed across the seven departments with the largest transaction volume for the period tested. Table 3 has a listing of the departments tested.

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[9] Due to limitations of the Card Provider's system, vendors subject to 1099 reporting may not be used with the program, and purchases from these vendors using purchase cards are prohibited.
[10] This is the number of transactions from the seven largest departments for the period 7/1/09-4/30/11, the total number of transactions for this period for all departments was 37,743.

- *Data mining* - we selected an additional sample of 30 transactions specifically identified for detailed testing using various data mining techniques which are described in the next section.

The sample selection resulting from application of the Phase II sample criteria described above is summarized in Table 5. The resulting purchase card transaction sample contained 267 purchases from the seven departments with the largest transaction volume for the period tested. The resulting request (application, cancelation, modification) sample contained 21 requests, three from each of the departments listed. The data mining sample resulted in 30 purchases from the seven largest departments.

Table 5 - Summary of Sample Distributions

Department	Phase II	Request	Data Mining
Department of General Services	82	3	7
Department of Police	63	3	14
Department of Health and Human Services	72	3	1
Fire and Rescue Service	21	3	3
Department of Recreation	12	3	2
Department of Technology Services	9	3	2
Public Libraries	8	3	1
Total Transactions Tested	**267**	**21**	**30**

We determined that data mining[11] would be an effective means of identifying additional transactions to review for instances of noncompliance with policies and procedures. We utilized data mining techniques described in Government Accountability Office (GAO) guidance to generate additional testing selections. The data mining selections are not, and were not intended to be, representative of the population. Instead, we judgmentally made selections based on the results of several predefined analysis methods. We analyzed usage trends and patterns of cardholders, departments, and vendors to select sample items. The items selected were tested using the same attributes used in the Phase II detailed testing (transaction testing). The following list represents some, but not all, of the data mining criteria used:
- Cardholders - with largest volume of activity
- Vendors - with the most purchases
- Transactions - largest dollar value
- Patterns - analysis of trends
- Credit limit - analysis of cardholder credit limits

Methodology for Phase II Testing – Approach

For each purchase card transaction we determined whether the transaction: (1) was made by an authorized user, (2) was properly approved by reviewer, (3) was supported by adequate documentation, (4) did not include Maryland State Sales and Use Tax, (5) did not purchase contracted services from 1099 vendors (unincorporated service providers), and (6) did not include

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[11] Data mining refers to the process of discovering patterns and relationships in large data sets using various database techniques. The goal of this process is to extract meaningful information from a data set to be used in subsequent decision-making and analysis.

goods or services considered to be a personal purchase or cash advances. Our testing did not include the confirmation of the physical placement of assets purchased using a purchase card.

For each purchase card request (application, cancelation, modification) we determined whether the request: (1) contained all necessary information and was complete, (2) was approved by required individuals, (3) was supported by all required documentation, and (4) was processed in a timely manner[12].

Results

Our review found that the purchase card policies and procedures established by Finance contain internal controls designed to ensure program compliance. However, we identified several areas in need of additional improvements or enhancements including documentation retained to support purchases, documentation of transaction approval, and guidance contained in the program manual. Of the 297 items tested (transaction and data mining), we identified 59 purchases, or 20%, that were non-compliant with one or more of nine program requirements tested. Alternatively, out of a possible 1782[13] total exceptions, we identified 63 exceptions, approximately 3.5%, from Phase II transaction testing and data mining testing.

The following tables provide a summary of the exceptions noted during testing. Table 6 and Table 7 provide a summary of all exceptions by test attribute from the purchase card transaction and data mining samples. We have abbreviated the table related to data mining to display only the exceptions; no exceptions were noted in testing of other attributes. We did not observe any exceptions based on Phase II testing of application, cancelation and modification requests.

Transaction Testing (267 items):
Table 6 - Summary of Exceptions from Phase II Transaction Testing

Attribute Tested	DTS	DGS	FRS	POL	HHS	LIB	REC	Total Exceptions	% Exceptions Per Attribute[14]	Total Exception Amount[15]
A- *Authorized user*	0	0	0	0	0	0	0	**0**	0%	$0
B- *Transaction approval*	0	8	3	30	9	0	1	**51**	19%	$24,310
C- *Adequate documentation*	1	0	1	1	1	0	0	**4**	1%	$3,158
D- *Sales tax*	1	0	1	1	3	0	0	**6**	2%	$27
E- *1099 vendors*	0	0	0	0	0	0	0	**0**	0%	$0
F- *Personal purchases*	0	0	0	0	0	0	0	**0**	0%	$0

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[12] This attribute only applied to cancellation requests.
[13] This was calculated by multiplying the total items tested (297) in Phase II transaction and data mining testing by the number of attributes (6) tested, 297 x 6= 1,782.
[14] This was calculated by dividing the number of exceptions for each attribute by the total number of sample items tested (267) for each attribute.

Total Exceptions	2	8	5	32	13	0	1	61	

Data Mining Testing (30 items):
Table 7 - Summary of Exceptions from Data Mining Testing

Attribute Tested	DTS	DGS	FRS	POL	HHS	LIB	REC	Total Exceptions	% Exceptions Per Attribute[16]	Total Exception Amount[17]
B- *Transaction approval*	0	1	0	0	0	0	1	**2**	**7%**	**$3,315**
Total Exceptions	**0**	**1**	**0**	**0**	**0**	**0**	**1**	**2**		

Attribute A - *Authorized User* – Transaction was made by an authorized user

Attribute B - *Transaction Approval* – Transaction was properly approved by reviewer

Attribute C - *Adequate Support Documentation* – Transaction is supported by adequate documentation as described in the Purchase Card Manual

Attribute D - *Maryland State Sales Tax* – Transaction does not include Maryland State Sales and Use Tax

Attribute E - *1099 Vendors* – Transaction does not purchase contracted services from 1099 vendors (unincorporated service providers)

Attribute F - *Personal Purchase* – Transaction does not include goods or services considered to be a personal purchase or cash advance

The following two tables summarize the exception rate we observed for each department. Table 8 and Table 9 provide the count and value of exceptions by department

Table 8 - Count of Exceptions by Department (Sample and Data Mining)

Dept.	Items[18] Tested	Items with Exceptions	% of Items with Exceptions
DTS	11	1	**9%**
DGS	89	9	**10%**
FRS	24	3	**13%**
POL	77	32	**42%**
HHS	73	12	**16%**
LIB	9	0	**0%**

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[15] The exception amount for Attributes A-C and E-F is the total transaction amount and the exception amount for Attribute D is the amount of sales tax improperly included in the transaction.

[16] This was calculated by dividing the number of exceptions for each attribute by the total number of sample items tested (30) for each attribute.

[17] The exception amount for this attribute is the total transaction amount.

[18] The number of "items" refers to the number of purchase card transactions tested.

Dept.	Items[18] Tested	Items with Exceptions	% of Items with Exceptions
REC	14	2	14%
Total	297	59	20%

Table 9 - Amount of Exceptions by Department (Sample and Data Mining)

Dept.	Amount of Items Tested	Amount of Items with Exceptions[19]	% of Amount with Exceptions
DTS	$2,977	$224	8%
DGS	237,376	10,686	5%
FRS	32,672	585	2%
POL	72,899	16,894	23%
HHS	19,654	1,864	9%
LIB	2,161	0	0%
REC	2,933	733	25%
Total	$370,670	$30,987	8%

Based on our testing results we identified internal control weaknesses in six areas.

1) *Purchase Card Transaction Approval – Lack of Evidence of Review and Approval of Purchase Card Transactions by Designated Transaction Reviewer*

The following instances of lack of evidence of review and approval were noted:
- Thirty-two (32) transactions from the statistical sample did not have evidence of a Transaction Reviewer's approval in the electronic system (card provider interface) or in the documentation provided in support of the transaction. Twenty-one employees from three departments entered into these transactions.
- Two transactions from the data mining testing did not have evidence of a Transaction Reviewer's approval in the electronic system (card provider interface) or in the documentation provided in support of the transaction. Two employees from two departments entered into these transactions.
- Sixteen (16) transactions were missing any type of required approval documentation. The departments indicated that these transactions were approved verbally. The program manual does not describe verbal approval as an acceptable alternative to electronic or written approval. Twelve employees from two departments initiated these transactions.
- Three transactions, each of $250 or less, from FRS did not have evidence of approval. This department has a practice of only requiring approval for all purchases over $250. According to a cognizant Department of Finance official, Finance did not exempt FRS

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[19] The Amount of Items with Exceptions is calculated as the sum of the transaction amounts for each transaction containing one or more exceptions.

from the approval requirements established in the program manual. During FY2010 and FY 2011, FRS had 1,635 purchases totaling approximately $123,000 that were individually valued less than $250.

According to the *Montgomery County Purchasing Card Program - Policy and Procedure Manual,* the Transaction Reviewer must, at least monthly, indicate their approval[20] of the charges by initialing and dating the Transaction Summary that is printed by the Cardholder from his/her account on the American Express @Work CPC Reconciliation system [JP Morgan Chase Bank PaymentNet Reconciliation System]. The policy also states, "this manual approval process may be replaced by an online approval procedure as soon as [the provider's] online approval feature is available and ready to be used." In March 2009, the program administrator notified all cardholders, reviewers and liaisons that the online approval feature would be required starting in April 2009.

Based on our discussions with the program administrators and department liaisons, there are situations which may require the Transaction Reviewer's approval to be documented outside of the electronic system. These situations could arise if a transaction has not been approved in the system by the date that the Department of Finance finalizes the monthly cycle. Once the cycle is finalized, the approval can no longer be entered into the system because that period becomes locked and the approval feature is no longer accessible. If this occurs, the Transaction Reviewer must document their review and approval of those transactions either on the physical copy of the support or through email correspondence.

The Transaction Reviewer's review of cardholder purchases and supporting documentation is a critical internal control activity in the purchase card process. The review provides the basis for ensuring that purchases represent legitimate County expenditures, contain no Maryland Sales and Use tax, and are supported by adequate documentation.

Based on the 51 exceptions[21] noted in the sample related to transaction approval (Attribute B), we have projected the results on to the total population sampled of 27,110 items. The percentage of the 267 sample transactions that failed this attribute was 19.1%. As a result, we estimate the true failure rate, with a 97% confidence level, for this attribute to be between 14.1%and 24.9%. The following table contains the details of the projection over the population sampled from the top seven departments. See Appendix C for a complete summary of the two projections we made.

Table 10 - Projection of Finding 1

	Estimated Error Rate in Population Sampled	**Projected Transactions with Errors**
Upper Limit	24.9%	6,750
Lower Limit	14.1%	3,823

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[20] With the new card provider's system in place effective 1/1/2011, approval is expected to be indicated online in the system.

[21] The exceptions noted during data mining tested are not included in the error rate calculation because it is only appropriate to include items related to the statistical sample in a projection of results.

2) *Purchase Card Transactions – Transaction Supporting Documentation was Missing, Inadequate or not Readily Accessible for Review*

We noted the following regarding supporting documentation for purchase card transactions:

- Four purchases totaling approximately $3,158 did not have adequate support. Four employees from four departments made these purchases. Examples of inadequate support observed include the lack of an itemized receipt and support which did not describe items purchased.
- Nine purchases totaling approximately $6,600 initially had no documentation support provided during fieldwork. Finance provided us with supporting documentation six months after the initial request. Four employees from two departments made these purchases.

The *Montgomery County Purchasing Card Program - Policy and Procedure Manual* states:
- "Each transaction on the purchasing card must be supported by itemized receipt or other acceptable means of documentation that verifies the date of purchase, the vendor or merchant name, each item purchased and the price of each item."

- "The Cardholder or assigned Record Keeper must retain all receipts, charge slips, card member reports, transaction summaries and vouchers for audit by internal and external audits unless Transaction Reviewer is assigned this responsibility. Receipts and other documentation for purchases are to be maintained for seven years of which three years are onsite."

Noncompliance with either requirement is described in the manual as an egregious violation, which can potentially result in cancellation of the card, termination of employment, and/or criminal prosecution. At a minimum, the cardholder will receive a warning and may be required to attend additional training.

Based on the four exceptions noted in the sample related to purchase card transaction supporting documentation (Attribute C), we have projected the results on to the total population sampled of 27,110 items. The percentage of the 267 sample transactions that failed this attribute was 1.5%. As a result, we estimate the true failure rate, with a 97% confidence level, for this attribute to be between 0.3% and 4.1%. The following table contains the details of the projection over the population sampled from the top seven departments. See Appendix C for a complete summary of the two projections we made.

Table 11- Projection of Finding 2

	Estimated Error Rate in Population Sampled	Projected Transactions with Errors
Upper Limit	4.1%	1,112
Lower Limit	0.3%	81

3) *Inappropriate Cost - Sales Tax not Properly Excluded from Purchases*

We found four purchases (Attribute D) which did not properly exclude Maryland State Sales tax. The four transactions were made by four employees from three departments and collectively included Sales tax of approximately $27. The Transaction Reviewer did not detect the inclusion of the sales tax. Two transactions did not contain adequate documentation to determine whether sales tax was included or excluded from purchase. According to the *Montgomery County Purchasing Card Program - Policy and Procedure Manual*, the cardholder is responsible for ensuring that Maryland State Sales tax is not charged on qualifying purchases, which are purchases made in the state of Maryland that require merchants to collect and remit sales tax. The County is exempt from paying Maryland State Sales/Use tax. The improper inclusion of Maryland Sales tax in the purchase card transaction represents a misuse of County funds. As described above, we did not project the observed exceptions related to Sales tax across the population sampled.

4) *Policy and Procedures – Weaknesses in Purchase Card Program Policy and Procedure Manual*

The *Montgomery County Purchasing Card Program - Policy and Procedure Manual, revised 2004* that was effective during our review does not contain guidance related to several activities performed by program participants. The Finance Department has been planning or working on revising and updating the manual since switching card providers to incorporate the practices implemented since 2004, but an updated version of the policy has not been prepared and issued. Finance predicts that they will issue the revised policy by January or February 2012. Finance distributed Interim guidance to the departments via email as notification of minor policy changes. The following activities are not included in the formal guidance for the program:

- Guidance describing the circumstances when handwritten approval is acceptable and what evidence of approval must be retained. Handwritten evidence of the Transaction Review approval of transactions is accepted when the Transaction Reviewer's approval is provided after the card cycle has closed. We determined that handwritten approval was, at times, documented as a signature or initial on the: cardholder's transaction summary page, supporting invoice from vendor, or included in attached email correspondence indicating approval was provided.
- Requirement that the electronic system be used to document Transaction Reviewer approval. The *Montgomery County Purchasing Card Program - Policy and Procedure Manual* states, "The approval process may be replaced by an online approval procedure as soon as the American Express's online approval feature is available and ready to be used". The online approval capability has been in place and required since April 2009.
- Inclusion of purchase card transactions, such as payment of fines and penalties, deemed as unauthorized or inappropriate uses of County funds by the program administrator. The *Montgomery County Purchasing Card Program - Policy and Procedure Manual* describes unauthorized use as, "Use of the purchasing card for personal purchases except for reasonable, customary and minor personal expenses that are described in Section I.G.3.a of the manual and purchases in excess of the limit authorized by the policy. A specific listing of the transactions not allowable is not included in the manual.
- Guidance regarding the use of purchase cards to make payments for established procurements such as purchase orders and contracts and what additional supporting

documentation should be included for transactions of this nature. Our test sample included transactions related to existing purchase orders or contracts. For example, one transaction reviewed involved making a monthly payment on a contract for an annual software subscription valued at approximately $200,000. Based on our review, we determined that the supporting documentation for this item indicated a purchase order number and after further inquiry, we ascertained that this purchase did relate to a valid purchase order and executed in accordance with the County's procurement regulations.

- Reference made to the current purchase card provider, JP Morgan Chase Bank (effective January 1, 2011). Due to the change in companies, all references to the card provider or systems and processes used by the provider were inaccurate.
- Guidance related to specific requirements for how quickly departments should be prepared to respond to documentation requests. Two departments could not provide us with the required support for purchases in a timely manner. For example, as mentioned earlier, it took the Department of Finance six months after our initial request to provide us with supporting documentation for nine transactions from two departments. This delay points to a weakness in controls designed to ensure retention of adequate documentation to support all transactions. The existing policy includes requirements for how long departments must retain documents but does not contain guidance on the availability of the documents. For instance, there are no guidelines describing expectations for how accessible transaction supporting documentation should be. More specifically, there is no guidance that prescribes what is a reasonable time for a department to comply with a program documentation request made by internal or external reviewers. Other entities have such policies. For example, the Defense Contract Audit Agency (DCAA) has established a policy for auditors[22] requiring that requested documents should be provided within one week, unless the request relates to a voluminous amount of data or information that is stored off-site.

5) *Policy and Procedures – Weaknesses in Department Purchase Card Policies and Procedures*

Departmental purchase card policies do not contain sufficient guidance and information related to the department's purchase card users and activity. We noted that three of the seven departments tested have established departmental policies for purchase cards. The other four departments utilize the Countywide manual as the sole source of purchase card policies. The purchase card manual allows departments to develop and implement departmental policies and procedures related to the Purchase Card Program as a supplement to the Countywide manual. We determined the following weaknesses in departmental policies:

- There is no guidance describing the method to document transaction approval when it is not possible to approve the transactions in the electronic system. There are situations that require approval be documented outside of the electronic system. When those situations occur, departments resort to documenting the review and approval of those transactions either on the physical copy of the support or through email correspondence. However, we did not find guidance in which department formally noted the authorized approval methods beyond the online documentation.
- Insufficient guidance related to the retention of purchase card documentation to ensure documentation is still accessible after employee departure, employee absence or change in employee Purchase Card Program responsibilities. When we requested supporting

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[22] DCAA MRD 08-PAS-042(R), *Audit Guidance on Denial of Access to Records Due to Contractor Delays*, December 19, 2008.

documentation from the departments, we found that several departments were not able to locate the supporting documentation for purchases we selected. Ultimately, the Department of Finance was able to provide us with the supporting documentation six months after the initial request. In some cases, the departments had difficulty locating documentation as a result of employees, who were Cardholders, Record Keepers, or Transaction Reviewers, leaving the department and employees who were out on extended sick leave. The *Montgomery County Purchasing Card Program - Policy and Procedure Manual* states, "the Cardholder or assigned Record Keeper must retain all receipts, charge slips, card member reports, transaction summaries and vouchers for audit by internal and external audits unless Transaction Reviewer is assigned this responsibility. Receipts and other documentation for purchases are to be maintained for seven years of which three years are onsite." While this observation is similar to observation noted in finding four regarding the lack of guidance at the County level, departments which have specific guidelines should also ensure that retention procedures are properly aligned with department operations.

6) *Internal Controls – Improvement Needed in the Design and Implementation of Periodic Reviews*

We could not determine the sufficiency of periodic reviews of purchase card transactions performed by the Department Liaisons and Program Administrator. There is no specific guidance describing what documentation should be retained as evidence of the performance, results, or follow up of reviews and monitoring conducted by Department Liaisons and the Program Administrator to ensure compliance with program policies. Periodic compliance audits represent an important means of detecting instances of noncompliance. A well-defined testing and reporting process would provide the individuals responsible for program oversight with specific, measurable, and timely information related to the effectiveness of internal controls over program activities. Using this information, management could ensure that corrective actions, if needed, are developed and implemented commensurate to observed program weaknesses.

The Purchase Card Program manual states "Accounts Payable, the Department Liaison, and the Purchase Card Administrator may perform periodic compliance audits of the policies and procedures of the Purchase Card Program…cardholder reports, and other required documentation." Furthermore, there is no formal guidance describing how frequently departmental audits are conducted, what audit procedures are performed, and how the results are reported.

The Department of Finance does not have formal written procedures describing how frequently Program Administrator audits are to be conducted, what audit procedures are performed, and how the results are reported. Based upon discussion with the Finance personnel, we established that the Program Administrator does perform monthly reviews of certain purchase card transactions. The Administrator targets the monthly review on unusual transactions, sales tax, and internet purchases. The Administrator maintains documentation of these reviews.

Conclusions

The Department of Finance has designed and implemented controls to ensure compliance with Purchase Card Program policies and procedures. We found that, for the most part, controls were being implemented as intended. However, our audit disclosed that weaknesses still exist and

controls need to be further strengthened. We believe that the recommendations described below will provide the Department of Finance and using departments an effective means of addressing the issues outlined in this report.

Recommendations

We are making seven recommendations to improve internal controls over the Purchase Card Program. CBH recommends that The Director of Finance

Reinforce to all employees involved in the Purchase Card Program:

1. Existing policies and procedures designed to ensure the retention of adequate documentation to support purchase card transactions.

2. Existing policies and procedures related to maintaining sufficient evidence of Transaction Reviewer's review and approval of purchase card transactions.

3. The County's tax exempt status, the transactions exempt from Maryland Sales taxes, and the required procedures to ensure sales tax is not included in purchases

The Director should also:

4. Evaluate and determine the staffing and resource needs in order for the Department Liaisons and Program Administrator to perform more extensive compliance audits to provide additional assurance of compliance with the above policy requirements. Based upon the evaluation results and resources available the Director should establish the nature, timing (frequency), and extent of these compliance audits.

5. Update and issue a revised purchase card manual to include updates for program changes and additions to strengthen policies. The following additional items should be addressed in the revised policy:
   a. Definition of costs considered inappropriate use of County funds, such as the payment of fines and penalties. Also, consider updating the policy language to include all specific transactions or payments the Program Administrator has deemed inappropriate.
   b. Guidance regarding documents required to identify a purchase card transaction as payment under a purchase order or contract. Require information such as the purchase order or contract number and documentation such as the purchase order or contract payment schedule be maintained to support the purchase card transaction.
   c. Parameters regarding accessibility of purchase card transactions and expectations as to a reasonable period within which departments should be prepared to provide documents in response to a request by internal or external reviewers or auditors.
   d. Guidance on performing audits or reviews of department purchases by Accounts Payable staff, the Program Administrator and Department Liaisons. Consideration should include details regarding reporting on the performance, results and follow up of compliance audits and reviews performed.
   e. Guidance related to the use and implementation of departmental preapproval policies and a requirement to retain evidence of pre-authorization/pre-approval. This includes

how pre-authorization or pre-approval procedures should be used and what specific documentation should be retained as evidence of pre-authorization or pre-approval.

  f. Guidance related to the requirement that Transaction Reviewer approval be indicated in the electronic system. If the electronic system is inaccessible, the guidance should describe how handwritten approval be documented so that proper evidence of the Transaction Reviewer's review and approval is retained.

  g. Reference to the current purchase card provider, JP Morgan Chase Bank, should be updated.

6. Review and approve, on a periodic basis, any separate policies related to the Purchase Card Program prepared by individual departments to ensure that these policies comply with overall program requirements in the manual. As an alternative, departments that develop incremental policies could be required to attest or certify that the policies comply with the Purchase Card Program policies. As part of this alternative, the Finance Department could consider enhancing its compliance audit procedures to review the departments' written procedures to ensure validity of the affirmation or certification regarding compliance with program policies.

7. Advise the Department Heads of those departments that have developed departmental policies for the Purchase Card Program to review and update these policies after the Department of Finance has issued a revised purchase card manual. The updates should focus, but not be limited to the following:

  a. Ensuring that department policies and procedures are in compliance according to the guidance contained in the revised Finance Department program manual

  b. Specifically detail procedures for maintaining information related to purchase cards within the department. There should be clear guidelines regarding who the assigned record keepers are for each cardholder. In addition, the list of assigned record keepers should be updated no less than quarterly, to account for turnover in the department.

Finance Comments and MCIA Evaluation

We provided the Department of Finance (Finance) with a draft of this report for review and comment on January 5, 2012. Finance responded with written comments on January 18, 2012. Finance concurred with five of the seven recommendations, and partially concurred with two of the seven recommendations. Some of the department's comments indicated disagreement with the implementation of the recommendations and the role of Finance in that process. Finance also requested that we modify the report to reflect the results of subsequent testing performed by Finance on items we describe in finding 2 of the report. Finance also suggested editorial or minor factual changes, and we have made the necessary changes. We have incorporated the written responses from Finance in the report at Appendix E.

Finance partially agreed with recommendation 4 and 5d by stating that they agreed that more formalized audits would be a beneficial component of the program. However, the department cites current staff limitations as preventing the full implementation of formalized audits and reports. As discussed in the recommendation, we wanted Finance to evaluate the departments current staffing and resources to determine how the department could proceed in implementing formalized audits and reporting. Finance has indicated it has performed an evaluation and determined that the Program Administrator and Department Liaison will be performing additional procedures in the short term. In addition, Finance has stated that it will address the need for additional resources as part of the annual budget process. Finance has started to address all facets

of our recommendation; we feel by the actions taken and indicated by Finance there is no disagreement with our recommendation.

Finance partially agreed with recommendation 5c by noting that our reference of DCAA procedures in the body of the report was not identified as a best practice for government or corporate environments. We included the reference to DCAA as an example of a standard that could be established.   Finance has agreed to institute a two-week response time for document request. We feel this timeframe is reasonable.

In regards to recommendation 5c and 5f, Finance obtained the documentation related to nine sample items for which we concluded that supporting documentation was missing as of the completion of our audit testing. Finance reviewed the documentation for compliance with the attributes listed in the results section. We revised the report to reflect that Finance provided us with the subsequent documentation and the results of their review. We did perform our own independent review and testing of the documentation provided by Finance. We concur with the results of Finance's testing except that we did not observe any exceptions related to attribute E, 1099 unincorporated service providers. We have revised the results described in the report to reflect the outcome of this testing.

Finance partially agreed with recommendation 6 that procedures should be implemented to ensure that department established P-card procedures do not conflict with Finance's P-card program policies. Finance maintains that it should not be responsible for reviewing department-level P-card policies and procedures. Instead, Finance indicates that they will enhance procedures designed to ensure compliance with P-card program policies (Finance policy). Although we contend that it would be more effective and efficient if Finance proactively reviewed department-level policies (i.e., a preventive control) instead of relying on compliance procedures to detect P-card policy violations (i.e., a detective control), we agree that management's proposed plan for addressing this recommendation, if properly implemented, should generally address the matters raised by the related audit findings.

Appendix A: Scope and Methodology

Interviews Conducted

We conducted an entrance meeting with the Finance Director, as well as other key personnel responsible for administration of the Purchase Card Program on March 22, 2011. The table below lists all of the personnel by title that participated in interviews during our audit of the Purchase Card Program:

Table 12 – Interview Listing

Position Title	Process Role
Department Liaison – Department of General Services	Responsible for the fiscal oversight of the department's Purchasing Card Program
Department Liaison – Department of Health and Human Services	Responsible for the fiscal oversight of the department's Purchasing Card Program
Manager III – Accounts Payable – Department of Finance	Responsible for review and approval of payments for goods and services to the County including supervision of Purchase Card Program
Purchase Card Program Administrator	Responsible for the administration and oversight of Purchase Card Program
Controller – Department of Finance	Oversees Accounts Payable, General Accounting and Payroll

Appendix B: Phase I Testing Results

Table 13 - Summary of Exceptions from Phase I Transaction Testing

Attribute Tested	FRS	DGS	HHS	Total Exceptions	Samples Tested Per Attribute	% Exceptions Per Attribute
Attribute A	1	0	1	**2**	**60**	**3.33%**
Attribute B	0	1	1	**2**	**60**	**3.33%**
Attribute C	0	0	1	**1**	**60**	**1.67%**
Attribute D	0	0	1	**1**	**60**	**1.67%**
Attribute E	0	0	0	**0**	**60**	**0.00%**
Attribute F	1	0	1	**2**	**60**	**3.33%**
Total Exceptions	**2**	**1**	**5**	**8**		
Total Samples	**20**	**20**	**20**	**60**		
# of Samples with Exceptions	**2**	**1**	**2**	**5**		
% of Samples with Exceptions	**10%**	**5%**	**10%**	**8%**		

Attribute A - *Transaction Approval*
- One transaction (approximately $5,000) from FRS did not have any approval (cardholder or manager) noted in the system transaction report from Amex or on the hardcopy support reviewed.
- One transaction (totaling approximately $100) from HHS did not have any approval (cardholder or manager) noted in the system transaction report from Amex or on the hardcopy support reviewed.

Attribute B - *Adequate Support Documentation*
- One transaction (approximately $32) from DGS consisted of a payment for an Ez-Pass toll violation. After subsequent discussion with Finance, it was determined that this does not represent an appropriate charge for the County.
- One transaction (totaling approximately $1,900) from HHS consisted of a payment for an Office Depot order. This transaction lacked adequate supporting documentation, as described in attributes above. We requested additional information from HHS management, but as of the date of this summary, we have not received.

Attribute C - *Complete and Accurate Support*
- One transaction (totaling approximately $1,900) from HHS consisted of a payment for an Office Depot order. This transaction had supporting documentation; however the support was not complete and accurate. The documentation provided was missing payment details, such as the dollar amounts for the items purchased. We requested additional information from HHS management, but as of the date of this summary we have not received.

Attribute D - *Maryland State Sales Tax*
- One transaction (totaling approximately $1,900) from HHS consisted of a payment for an Office Depot order. We could not determine if Maryland State Sales tax was appropriately excluded from the transaction. This was because this transaction was not supported by adequate documentation, as described in attributes above. We requested additional information from HHS management, but as of the date of this summary, we have not received.

Attribute F - *Personal Purchase*

- One transaction (approximately $150) from FRS included an iPhone AC charger, case, and car charger purchased from Best Buy. However, there was not enough documentation for us to determine that this was NOT a personal purchase. As part of Phase II, we will obtain explanations related to the nature and context of applicable transactions.
- One transaction (totaling approximately $1,900) from HHS consisted of a payment for an Office Depot order. We could not determine if the nature of the transaction was for a valid business purpose or a personal purchase, as described above. This was because this transaction lacked adequate supporting documentation, as described in attributes above. We requested additional information from HHS management, but as of the date of this summary, we have not received.

Table 14 - Summary of Exceptions from Phase I Requests Testing

Attribute Tested	FRS	DGS	HHS	Total Exceptions	Samples Tested Per Attribute	% Exceptions Per Attribute
Attribute A	1	0	0	**1**	**4**	**25.00%**
Attribute B	0	0	0	**0**	**9**	**0.00%**
Attribute C	0	0	0	**0**	**9**	**0.00%**
Attribute D	0	0	0	**0**	**5**	**0.00%**
Total Exceptions	**1**	**0**	**0**	**1**		
Total Samples	**3**	**2**	**4**	**9**		
# of Samples with Exceptions	**1**	**0**	**0**	**1**		
% of Samples with Exceptions	**33%**	**0%**	**0%**	**11%**		

Attribute A - *Request was Complete* – Request contained all necessary information and was complete

Attribute B - *Request Approval* – Request was approved by required individuals

Attribute C - *Adequate Support Documentation* – Request was supported by all required documentation

Attribute D – *Timeliness* – Request was processed in a timely manner

Appendix C: Summary of Projections

Table 15 - Projection of Sample Exceptions

Evaluation of a Sample	Finding 1 Lack of Approval	Finding 2 Inadequate Support
Sample Results:		
Items in universe	27,110	27,110
Sample size	267	267
Number of occurrences	51	4
Sample occurrence rate (%)	19.1%	1.5 %
Achieved precision limits (confidence specified):		
Specified confidence level (%)	97%	97%
Lower limit (%)	14.1%	0.3%
Upper limit (%)	24.9%	4.1%
Projected Exceptions:		
Lower limit (Quantity)	3,823	81
Upper limit (Quantity)	6,750	1,112

Appendix D: Finance's Responses to Purchase Card Review

DEPARTMENT OF FINANCE

Isiah Leggett
County Executive

M E M O R A N D U M

Joseph F. Beach
Director

January 18, 2012

TO: Larry Dyckman, Manager, Office of Internal Audit
              Offices of the County Executive

FROM: Joseph Beach, Director
              Department of Finance

SUBJECT: Finance Comment on P-CARD Program Draft Internal Audit Report Dated January 1, 2012

Finance's response to recommendations made on pages 15 – 16 are provided below. Please note that Finance's goal is to implement all recommendations, except those relating to annual certifications, by approximately March 31, 2012. For those improvements relating to annual certifications, we would intend to implement in conjunction with fiscal year-end 2012.

Finance agrees to send out a memorandum from the Director of Finance to department heads on a periodic basis (once each FY) to reinforce to all P-card holders, P-card approvers and P-card department liaisons to reinforce the following key topics (1-3):

1   **Agree** - Existing policies and procedures regarding the retention of adequate documentation for the P-card transactions.

2   **Agree** - Existing policies and procedures related to maintaining sufficient evidence of Transaction Reviewer's review and approval of the P-card transactions.

3   **Agree** - The County's sales tax exempt status for purchase made in Maryland or shipped to Maryland, and the required procedures to ensure sales tax is not included in purchases. See also comment below regarding accuracy of sales tax finding.

4   **Partially agree** – Finance does perform regular monthly reviews and audits of certain transaction attributes, as alluded to at a high level in the draft report. This audit of certain transactions involves selection of sample items, request for supporting documentation, and/or request for additional information, and involves review of such information and follow up with the department. For example, currently, the P-card administrator reviews on a weekly basis the P-card transactions for sales tax, high risk categories and

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reasonableness, and requests supporting documentation and clarification on any questionable charges. All related documentation is kept in folders by month. This review does not test all attributes covered by the internal audit, such as Attribute B, Transaction Approver, and is not documented in a formal report.

This recommendation, and #5d, appears to focus on a more formalized audit structure and reporting mechanism, although reference is made to evaluating the staffing and resource needs to perform more extensive compliance audits. While we agree that more formalized audits such as Internal Audit has performed would be a beneficial component of the program, we are currently not staffed to perform this type of audit and issue more formalized reports. There is a cost benefit of such auditing procedures, and since current staffing levels preclude a more formalized audit approach, Finance intends to implement enhanced review and audit-focused procedures to focus on the attributes tested as part of this audit.

Finance preliminarily anticipates that we will be enhancing these procedures in the future by the following: P-card administrator will be running reports to identify cardholders and approvers who have not performed electronic reviews of the transactions and will provide this information to the P-card Department Liaison. The Department Liaison will be required to provide back scanned copies of receipts and signed and dated Statement of Account.

As noted above, performing a more formal audit of and reporting on the P-card program, similar to what Internal Audit has done, will require additional staffing and we are currently not adequately staffed to perform a formal audit. We agree with the benefit of performing more extensive audits in the future if there are sufficient staffing and resources available. Finance will address requests for such resources as part of the annual budgeting process.

5a   **Agree** - Finance will update the manual to incorporate and expand on written guidance already communicated to departments on: costs considered inappropriate use of County funds such as payment of fines and penalties.

5b   **Agree** - Finance will update the manual to incorporate written guidance already communicated to departments that the P-card should not be used to make payments for items on purchase order. Language will be added that departments may use the P-card for PO or contract related purchases only if a prior written approval has been obtained from the Accounts Payable Manager, which documents the process to be used to communicate such payments and relieve the PO/contract balance in the system.

5c   **Partially agree and with subsequent information** – Finance notes that the example organization provided on page 13 that incorporates a policy on response to audit requests is the Defense Contract Audit Agency (DCAA), an organization whose core mission is audits. No other examples were provided to suggest that this is best practice or

*This is now Results section #2

recommended in a government or corporate environment. Finance agrees to add to the P-card manual additional language stating that requests for P-card related documents should be made available to Finance and or to the auditing entity within a two week period, unless an expedited request is required by Finance, or an extension is requested in writing by the department and approved in writing by Finance.

It should also be noted that Finance has obtained documentation for the nine sample items totaling $6,600 where no documentation was able to be provided by the department in time for completion of the audit report. Based on Department of Finance review of the documentation, Attributes A, C, D and F were met; Attribute B was met for three instances (not met for six instances) and attribute E was met for seven instances (not met for two instances).

As a result, the total number of exceptions (table 6, page 7) decreased from 109 to 63 for all departments and across all attributes: For attribute A (authorized user) the number of exceptions decreased from nine to zero. For attribute C (adequate documentation) the number of exceptions decreased from 13 to 4. For attribute D (sales tax) the number of exceptions decreased from 15 to six and for attribute F (personal purchases) the number of exceptions decreased from nine to zero.

These results also would have had the following impacts:

1. There would have been no exceptions relating to missing documentation in Results section #1, page 10.
2. In Appendix C, Summary of Projections (Table 15, page 20) the number of occurrences for inadequate support would have been four instead of 13 and the projected exceptions would have been a range of 81 to 1,112 instead of 651 to 7,076.

We would request that the auditors consider modifying their report to acknowledge that ultimately all documentation was provided to Department of Finance, and to reflect the impact this would have had on Tables 6 and 15.

5d   **Partially Agree** - See response to # 4 above.

5e   **Agree** - Finance will include language in the P-card manual regarding departments which have additional policies regarding the P-card program. Departments may only maintain policies and procedures which are more stringent than program policies, but they cannot maintain policies and procedures which contradict or nullify the P-card policies contained in the P-card manual.

5f   **Agree with subsequent information** - Finance will include in the P-card manual additional guidance on the P-card transaction approval process. Approvers who are not able to perform electronic approvals must use the Statement of Account form to document paper sign off to show their review and approval of the transactions and the

associated receipts. However, we would note that of the 54 exceptions in Table 6, page 7, for Attribute B, Transaction Approval, 37 of those transactions actually contained Transaction Reviewer or Department Liaison electronic approval in the P-Card system. This may have been information that was inadvertently omitted from, or unclear in, original documentation provided to the auditors. If this information had been available at the time of the audit, the exceptions in Table 6, page 7, and in Table 15, Appendix C, page 20, for Attribute B would have been 17 instead of 54. The projection of sample exceptions for Attribute C would therefore have been 949 to 2819 instead of 4,094 to 7,076.

5g   **Agree** - Finance has already updated references in the updated draft P-card manual to the new provider (JPMorgan Chase).

6   **Partially agree** – Finance disagrees that it should take responsibility, either broadly based or on a sampling basis in conjunction with a certification process, for review (and implied or explicit approval) of individual department-level policies and procedures that by policy in the updated P-card manual (as noted above) will not be allowed to contradict program policy. We believe this would be similar to requiring Accounts Payable to review department-level policies and procedures over non P-card payments that go above and beyond what is required as established in the Oracle system (ie, if a department decides they want two preliminary manual approvals over a payment before the preparer and approvers process the payments in the Oracle system). This could also be seen as similar, though not exactly the same, as requiring the Procurement Office to review and approve department-level policies and procedures over direct purchase transactions that are not subject, by policy and regulation, to Procurement oversight. We do agree that departments should be permitted to have their own policies and procedures, but we do not agree that the review and approval of such policies is the only mechanism to ensure they do not conflict with the P-card program.

We believe that alternative procedures, designed to ensure compliance with P-card program policies *even if* departments establish their own *additional* policies and procedures, would be appropriate. Finance will be enhancing our review of documentation for compliance with P-card policies through the additional planned procedures referred to in response to recommendations 4, 5a, 5b and 5f. As noted in the audit report, Finance also intends to implement an annual certification from the P-card Department Liaisons and/or Department Directors. This signed certification would address whether the department has additional incremental policies and procedures, whether the department procedures conflict with the P-card manual provisions, and would require affirmation that the department is adhering to the outlined responsibilities assigned to them in the P-card manual. The testing procedures referred to earlier in the response, including enhanced procedures that Finance intends to implement, will help determine if department certifications are accurate, and will identify exceptions to the P-card program policies that would result from departmental policies that conflict with the P-card program.

7 **Agree** - Finance will send out from the Director of Finance a memo to all Department Directors to review and update any departmental manuals or procedures to ensure they have incorporated any changes and updates that Finance has made to the existing P-card manual.

Copies: Karen Q. Hawkins, Chief Operating Officer, Department of Finance
Laleh Shabani, Accounts Payable Manager, Department of Finance
Sanjay Jhangiani, P-Card Administrator