

Prince George's County, Maryland
Office of Audits and Investigations

Office of Central Services

Purchasing Card Program Audit

September 2015



David H. Van Dyke
County Auditor

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THE PRINCE GEORGE'S COUNTY GOVERNMENT

Office of Audits and Investigations

September 2015

The County Council and County Executive
of Prince George's County, Maryland

We have conducted a performance audit of the

OFFICE OF CENTRAL SERVICES' PURCHASING CARD PROGRAM

in accordance with the requirements of Article III, Section 313, of the Charter for Prince George's County, Maryland. Our Report is submitted herewith.

We have discussed the contents of this Report with appropriate personnel of the Office of Central Services, and wish to express our sincere gratitude to them for the cooperation and assistance extended to us during the course of this engagement.

A blue ink signature of David H. Van Dyke, CPA.

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Results In Brief

The Budget and Finance Division of the Office of Central Services (OCS) manages the County's Purchasing Card Program (Program). This division is staffed by an Administrator that oversees the program with the assistance of agency coordinators. During fiscal year 2013, approximately \$11 million dollars was expended by the County utilizing purchase cards.

Given the amount of funds expended by the County utilizing the program, it is imperative that the related internal controls are operating effectively and efficiently. These internal controls should also provide reasonable assurance that the County's purchasing card program is being utilized for its intended purposes. The lack of sufficient controls could expose the County to potential misappropriation by employees and its vendors.

The following major findings are addressed in our report:

- Established monthly and single transaction purchasing limitations were exceeded. Furthermore, purchasing activities reveal circumstances where purchases were split to circumvent the single transaction limitation. **(Repeat finding from prior audit report dated May 2011).**
- Several policy and procedure concerns dealing with the lack of uniformity between the OCS and agency standard operating procedures (SOPs) and the failure to incorporate current operating practices into written SOPs.
- The lack of adequate approval for purchase card transactions. **(Repeat finding from prior audit report dated May 2011).**
- The execution of several prohibited purchase transactions. Some of which include utility bills, employee gifts, vehicle parking/moving violations, heating oil, and the supplementation of previously made orders.
- Several purchase transactions contained missing, incomplete or inaccurate information and/or supporting documentation. The failure to provide this information/documentation lead to the following situations:
 - Misclassification of purchase card transactions;
 - Failure to identify term and sole source purchases and related information;
 - Lack of adequate business justification for purchases;
 - Lack of adequate justification for sole source purchases;
 - Purchases lacking supporting documentation; and
 - Failure to secure required competitive quotes for purchases.**(Repeat findings from prior audit report dated May 2011).**

- Failure of the Program Administrator to adequately monitor the purchasing card program in accordance with established approved written procedures.
- The establishment of an Agency coordinator in violation of policy and procedures.

Internal control activities are an important part of an agency's ongoing planning, implementation, and review of programs and services. They are essential for effective and efficient operations and proper accountability of County resources. For this reason, several recommendations for improving internal controls are made throughout this report.

Background

The Budget and Finance Division of the Office of Central Services (OCS) manages the County's Purchasing Card Program (Program). The Program is an important and powerful tool in the County's procurement system intended to simplify the Purchasing and Accounts Payable functions to provide prompt payment to vendors and a more efficient purchasing experience for County agencies. Purchase cards are used to facilitate and automate the payment process to reduce costs and the need to process vendor invoices and issue checks. The Program requires a strong internal controls system to prevent misappropriation, theft, waste, or abuse, of County resources.

The OCS developed a Purchasing Card Program Manual that establishes ethics and standards of conduct for Program participants and also outlines internal controls that govern the use of purchase cards and the administration of the Program. The Program is directed by the Program Administrator who is appointed by and reports to the Director of the Office of Central Services (OCS). The program is facilitated by J. P. Morgan (Chase Bank) using an online electronic system called PaymentNet.

The Program Administrator acts as the County's representative to the financial institution that services the Program. The Program Administrator helps to develop and enforce policies and procedures pertaining to the Program; reviews and approves agency's requests for purchase cards; helps develop and implement an appropriate training program for County personnel participating in the Program; and is responsible for the general oversight, monitoring, and auditing of the Program.

Each agency Director is responsible for the implementation of the Program within their respective agency. The Directors' duties include: adopting, maintaining and requiring compliance with agency-specific Standard Operating Procedures (SOPs)

and those outlined in the Program Manual; appoints and directs the Agency Coordinator(s); informs Agency Coordinator(s) and Program Administrator of agency Purchase Cardholders who are terminated, transferred, demoted or have a change in status; returns to the Program Administrator all purchase cards for Purchase Cardholders who fail to comply with Program policies and procedures; conducts an annual physical count of all purchase cards issued to the agency and provides an inventory to the Program Administrator; ensures retention of all files and documents related to the agency's purchase card activity; and responds to requests for Program inquiries and compliance comprehension.

The Agency Coordinator(s) is appointed by the agency Director and is responsible for the day-to-day administration and management of the Program at the agency. They ensure that all agency participants are trained and provided with a Program Manual; document the review of all monthly reports and transactions relative to the Program; investigate and report in writing any questionable and/or inappropriate purchase card activity to the Department Head and the Program Administrator; and annually inventory all cards assigned to the agency and submit a report to the Program Administrator.

The Purchase Cardholder (Cardholder) is the sole individual responsible for the security of the purchase card(s) placed in their possession. The Cardholder is required to attend training prior to use of the purchase card; complete and sign the Purchase Card Program Agreement and Delegation of Procurement Authority; adhere to all applicable Program policies and procedures; reconcile purchase card transactions using the PaymentNet system; and immediately notify the proper individuals if the purchase card is lost, stolen or used in an inappropriate manner.

Objective, Scope, & Methodology

The purpose of this audit was to: (1) assess the adequacy and design of established written and/or documented policies and procedures over purchase card transactions; (2) determine if existing controls are operating effectively and in accordance with applicable policies and procedures ensuring the accuracy of purchased card transactions; and (3) identify factors inhibiting satisfactory performance and recommend corrective action.

To conduct this audit we reviewed applicable County Administrative Procedures, and the OCS operating procedures. We interviewed staff members from the OCS and respective user agencies. We then obtained a download of purchase card transactions from the PaymentNet system for fiscal year 2013, and utilized these transactions in the selection of various audit samples. These samples were then compared to supporting documentation based upon testing attributes. We reviewed monitoring controls to ensure that they were operating correctly. We also verified the accuracy of purchase card expenditures reported on the financial statements.

Management's Responsibility for Internal Control

Internal control is a process, effected by people at every level of the organization, designed to provide reasonable assurance that the following objectives are being achieved¹:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting; and
- Compliance with applicable laws and regulations.

Management is responsible for establishing and maintaining an environment that sets a positive and supportive attitude towards internal control. When the importance of internal control is communicated to employees, particularly through management's own actions and beliefs, the process is more likely to function effectively.

A strong internal control environment is essential in minimizing operational risks and improving accountability which further helps an agency to achieve its mission.

We noted the following strengths in relation to the internal controls surrounding the Purchasing Card Program that we reviewed within the OCS:

- The OCS has detailed written policies and procedures in place governing the Purchasing Card Program.
- There are clear separations of duties outlined for Purchasing Card Program participants.
- There is an accountability system in place for noncompliance with Purchasing Card Program policies and procedures.
- There are numerous monitoring controls in place to ensure that policies and procedures are being followed.

We also observed internal control weaknesses surrounding the administration of the Purchasing Card Program that require management's attention. The following sections detail the items noted during our review.

¹ Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission, Copyright 1994

Purchase Card Limitation Violations

Audit testing revealed the following instances where purchase card transaction limitations were breached:

Split Transactions

There were 150 instances where transactions were identified as potentially being situations where individuals circumvented the single item transaction limit of \$5,000 by splitting the transaction into two or more smaller transactions. The criteria used to identify these potentially split transactions was whether they were initiated on the same day, by the same individual, utilizing the same vendor, and the total of the transactions exceeded the \$5,000 single transaction limit. A sample of 15 of the possible 150 instances was selected to determine if these occurrences actually represented situations where transactions were split to circumvent the \$5,000 limitation. A review of the sampled items revealed one (1) instance where a duplicate payment was processed (transaction was later refunded by the vendor) and six (6) instances were representative of situations where transactions were split to circumvent the \$5,000 single transaction limitation. If the sample results were to be extrapolated to the entire population it would suggest there are 60 instances where transactions were split to circumvent the \$5,000 single transaction limitation or 40% of the entire population.

Note: The audit sample tested was judgmentally selected, thus the extrapolation assumption mentioned is not statistically valid and was only mentioned for the purpose of potential exposure.

Monthly and Single Transaction Limits Exceeded

In FY 2013, there were 24 instances identified where a total of five (5) cardholders exceeded the monthly 30 day billing cycle limit of \$25,000. According to the OCS records, three (3) of the five (5) cardholders have two or more purchase cards issued to them. The OCS issues more than one purchase card to one individual in situations where their purchasing activity for their particular agency warrants multiple card usage. We also identified one transaction that exceeded the \$5,000 single transaction threshold.

Note: Some of the above instances were initiated by individuals that have more than one purchase card thus opening the potential for situations where limitations established (i.e. \$5,000 per transaction, \$25,000 per 30 day billing cycle) were not violated when applied to a specific purchase card. However, with the intent of each limitation being to control an individual's activity and not purchase card

activity, the identified instances are truly representative of violations of each established limitation.

The Office of Central Services Purchasing Card Program Manual, section V. C, states “Split purchases are prohibited. A split purchase is one in which the original purchase requirement for the same or related goods or services is deliberately broken into multiple smaller purchases which are made over a short period of time. A split purchase is created to circumvent a card’s single transaction limit. Requirements which are divided for other purposes, such as to accommodate accounting needs or to facilitate delivery to separate locations are also considered split purchases. Split purchases include the following types of transactions:

- Purchase of a single item costing more than \$5,000 (including shipping) with the purchase being divided (split) between several different card transactions
- Purchase of a group of items totaling over \$5,000 (including shipping) for a single purchase need. A single purchase need identifies a group of items that are similar enough in nature to be purchased from a single source and that are all known to be needed at the time of the first purchase transaction...”

The Office of Central Services Purchasing Card Program Manual, section V. E, states “\$5,000 is the maximum dollar amount a Cardholder is permitted to spend with his/her Purchase Card on a single transaction...\$25,000 is the maximum dollar amount a Cardholder is permitted to spend with his/her Purchase Card within a 30-day billing cycle...”

The primary reason for the instances where purchase card limitations were exceeded is the failure to follow policies and procedures and/or the lack of supervisory overview to identify these situations. While conducting audit fieldwork, discussions with various agencies revealed the following insights into the reasons for these violations:

- The need to procure goods and services in an expedited manner; and
- Emergency purchases that need to be made.

Failure to follow documented policies and procedures related to splitting transactions could lead to a high number of transactions being diverted from purchase order to purchase card processing. This occurrence would increase the volume of transactions being processed through the Purchasing Card Program thus compromising the intended nature of the program. Furthermore, this occurrence could potentially allow for a higher probability of noncompliance with other requirements such as approvals and bid submissions due to the expedited nature apparent in purchase card processing.

We recommend the following actions:

- 1(a)** The \$25,000 per 30 day billing cycle limitation should be revisited based upon the current practice of issuing more than one purchase card to one cardholder. Either the 30 day billing cycle limitation needs to be increased to accommodate single card usage to one individual cardholder or written policies and procedures need to be updated to incorporate the practice of multi-card issuance to one individual.
- 1(b)** Every effort should be made by agency coordinators and the OCS to ensure that transactions are within the established monetary limitations. These efforts should include the possible development of error reporting within the current purchase card system (PaymentNet) to identify these violations so that appropriate action can be completed.

Policy and Procedure Concerns

While conducting the Purchasing Card Program audit, we became aware of the following policy and procedure concerns:

- A memorandum dated July 1, 2010, that was drafted by the former Director of the Office of Central Services (OCS) and addressed to the former Fire Chief and the current County Fleet Administrator, exempts the Apparatus Maintenance (AMD) and Fleet Management (FMD) Divisions from having to complete an Agency Control Sheet (ACS) for transactions that are less than \$1,000.00. This exemption was granted due to the large volume of transactions and average transaction size within these divisions. The OCS representatives also mentioned that this exemption was granted to these divisions primarily to eliminate the requirement to obtain competitive bids given the volume of activity at these divisions. This exemption was incorporated into FMD's standard operating procedures (SOPs) but not into AMD's SOPs. However, granting this exemption indirectly obviates these divisions from providing pertinent information such as necessary approvals, business justification, and other information that is included on the ACS.
- An email dated September 12, 2011, drafted by the Health Department's Agency Coordinator to purchase cardholders, exempts certain transactions from having to be reviewed and approved by the Assistant Division Manager and the Health Officer. However, this exemption was never submitted to the OCS for approval and subsequent incorporation into the Health Department's SOPs.

Note: Audit testing analysis was modified to give consideration for the above mentioned policies.

Term Contracting List

- Cardholders are allowed and encouraged to make purchases from vendors that are included on the County's term contracting list. This list includes all vendors who have a current negotiated contract agreement with the County for a specific type of work. The current OCS Purchasing Card Program Manual refers to a contract tracking system that cardholders can utilize, with an issued user identification and password, to access the County's current contracted vendors. However, the OCS representatives mentioned that the reference in the current manual is incorrect and there is a PDF created list of contracted vendors that is currently being utilized. It was unclear as to when the transition from utilizing the contract tracking system to the PDF list occurred. Furthermore, a review of the current contracting list revealed a document that isn't user-friendly due to the following:
 - The document is alphabetized by contract title instead of vendor name;
 - The contract titles listed aren't always intuitive or logically created; and
 - The PDF format document eliminates the ability to search for key words within the document.

Agency Standard Operating Procedures

- During a review of each agencies standard operating procedure (ASOPs) we noticed that two ASOPs (Circuit Court and the Department of the Environment, formerly the Department of Environmental Resources) allowed cardholders the opportunity to purchase gift cards. Although we did not identify any gift card purchases, gift cards are strictly prohibited from being purchased according to the OCS Purchasing Card Program Manual.

The Office of Central Services Purchasing Card Program Manual, section I., states that "The Purchase Card Program is not intended to avoid or bypass appropriate payment procedures. Rather, the Purchase Card Program complements the already existing processes." Furthermore the manual states, "The Prince Georges County, Maryland (the County) Purchasing Card Program is intended to streamline and simplify the Purchasing and Accounts Payable functions."

The Office of Central Services Purchasing Card Program Manual, section III. C, states that one of the duties and responsibilities of the OCS Program Administrator is to "develop and enforce County-wide policies and procedures governing the Purchase Card Program" and to "oversee, monitor, evaluate the Purchase Card Program for compliance comprehension."

The Office of Central Services Purchasing Card Program Manual, section IV. A, states "Each County Agency that participates in the Purchasing Card Program is required to develop, update/review and adhere to its own Agency Standard

Operating Procedures (ASOP) as required. Development of internal control procedures is delegated to the agency because procedures may vary significantly from agency to agency, based on each agency's organization and procurement needs..... A copy of the ASOP must be transmitted to the Program Administrator immediately upon completion. The Agency Coordinator shall transmit to the Program Administrator all subsequent updates or modifications to the ASOP.”

The Office of Central Services Purchasing Card Program Manual, section V. A, states “The purchase of gift cards, gift certificates, food gift cards, money orders, cash advances, or any other cash like instrument is strictly prohibited from being purchased using the purchase card.”

The OCS and/or Agency representatives failed to evaluate the implications of changes to the Purchasing Card Manual standard policies and procedures with respect to exemptions that were granted to certain agencies. The OCS and Agency representatives failed to follow proper protocol with respect to updating their specific policies and procedures. Further, the OCS representatives did not factor in the user friendly aspect when deciding to develop the County's contracting list.

The failure of the OCS to properly evaluate the decision to exempt the Fleet Management and Apparatus Maintenance Divisions from providing an ACS for purchase card transactions under \$1,000 could potentially lead to these transactions being completed without adequate approvals, business justifications, and other information that is captured in an ACS.

The failure of the OCS and other agencies to properly update policies and procedures could lead to policies and procedures being practiced without the appropriate approval, and outdated policies and procedures being followed.

The failure of the OCS to construct a user-friendly tool to help all agencies readily identify vendors who have a current negotiated contract agreement with the County could discourage the usage and/or lead to user error. This occurrence could potentially lead to situations where purchases are made at prices higher than negotiated agreements, thus costing the County.

The allowance of gift card purchases incorporated in the two ASOPs could potentially lead to inappropriate usage by cardholders. Furthermore, allowing gift cards to be purchased could mask the actual usage of the purchase card activities.

We recommend the following actions:

2(a) The OCS revisit the ACS exemption granted to the Fleet Management and Apparatus Maintenance Divisions to evaluate its impact on other needed information that is captured by the ACS such as approvals, account coding, business justifications, and the use of term vendors.

2(b) The OCS and all Agencies follow policies and procedures when implementing changes to their agency specific policies and procedures. This practice would include seeking appropriate approval and formally updating current policies and procedures in light of approved changes.

2(c) The OCS remove the obsolete on-line County term contracting listing. Furthermore, changes should be made to the format and/or operation of the County's current term contracting list. These changes should be made to promote a more user-friendly utilization of the listing by County agency cardholders.

2(d) The allowance of gift card purchases incorporated in the two ASOPs should be removed to conform with the policies and procedures mentioned in the OCS Purchasing Card Program Manual.

Inadequate Approval for Purchase Card Transactions

Audit testing revealed the following instances where purchase card transactions lack the appropriate approvals:

General Transactional Approvals

A judgmental sample of 855 purchase card transactions were selected to verify that adequate written approval was received by the cardholder prior to the execution of the purchase. The results of audit testing revealed that 379 of 855, or 44%, of transactions lacked adequate approval. All approvals must be documented on the agency control sheet (ACS) for each purchase card transaction. Examples of inadequate approval include instances where transactions either lack the required signatures or signatures were received after the execution of the purchase.

Special Supplemental Approvals

The purchase of certain goods or services requires additional prior written special approvals. These special approvals must be received by the Director of the Office of Information Technology (OIT) or his/her designee, the Deputy Chief Administrative Officer (DCAO) for the agency, and the Director of the Office of Management and Budget (OMB) or his/her designee prior to the purchase of computer hardware/software and communication supplies/services, food/catering and travel reservations (including conference registrations and memberships), respectively. We identified the following transactions where these special approvals were not received:

- **Computer Hardware/Software and Communication Supplies/Services**- 25 of 31, or 81%, of computer hardware/software and communication

supplies/services related transactions lacked prior written approval from the OIT Director or designee;

- **Food/Catering**- 28 of 58, or 48%, of food/catering related transactions lacked prior written approval from the agency's DCAO; and
- **Travel Reservations (including conference registrations and memberships)** - 29 of 42, or 69%, of travel related transactions lacked prior written approval from the OMB Director or designee.

The Office of Central Services Purchasing Card Program Manual, section VI. A, states “...Cardholders must obtain all appropriate approvals and certify that agency funds are available in accordance with the agency’s ASOP prior to making a purchase... The Purchasing Card Agency Control Sheet and other approval requirements must be completed and signed by the Agency Coordinator prior to any purchase being made.”

The Office of Central Services Purchasing Card Program Manual, section V. F, states “Cardholders must obtain prior written approval from persons indicated below before using the Purchase Card to purchase the following goods and services:

Good/Service	Approval Required From
Computer hardware or software and Communications supplies or services	The Director of the Office of Information Technology (OITC) or his/her designee
Food/Catering	The Deputy Chief Administrative Officer (DCAO) for the agency
Travel Reservations (hotel rooms, airline tickets, train tickets); Conference Registrations and Memberships	The Director of the Office of Management and Budget (OMB) or his/her designee

The failure of cardholders to follow policies and procedures and/or the lack of supervisory overview to identify situations where the necessary approvals were not received contributed to these inadequate approvals.

Failure to seek and obtain prior written approval for purchase card transactions could lead to unauthorized and potentially unnecessary purchases. Furthermore, this practice could promote an environment lacking accountability, which could lead to reckless and wasteful purchasing activity by cardholders.

We recommend the following actions:

3(a) The Program Administrator direct cardholders and agency coordinators to conduct a thorough review of purchase card transactions to ensure that the appropriate prior written approvals have been granted.

Prohibited Purchases

Audit testing revealed the following instances where prohibited purchases were made by cardholders:

- **Utility Bills-** There were four (4) instances where purchase cards were used to pay for utility bills (one (1) gas, one (1) water/sewer and two (2) telephone).
- **Gifts-** There were three (3) instances where purchase cards were used to pay for gift related items. These instances included two (2) floral arrangements for employees during the bereavement of a family member, and a \$2,700 grandfather clock for a retiring employee.
- **Parking/Moving Vehicle Violations-** There were seven (7) instances where purchase cards were used to pay for vehicle moving, toll, and parking violations. Vehicle violations such as these are the responsibility of the individual that operated the vehicle during the time of the violation. In three (3) of the instances the individual violators were terminated or retired before the fines were realized. In three (3) of the instances the violators were not identified thus nullifying the opportunity to seek reimbursement for the fine. There was one instance where the vehicle fine was incurred by a current employee; however reimbursement has not been sought from this individual.
- **Gasoline or Oil-** There were two (2) instances where purchase cards were used to pay for heating oil.
- **Previously Completed Orders-** There were six (6) instances where purchase cards were used to complete or supplement previously made orders. In most of these instances groups of invoices covering prior periods were paid with a single purchase card transaction charge.

The Office of Central Services Purchasing Card Program Manual, section V. A, mentions that a purchase card shall not be used to purchase utilities, gasoline or oil, and gifts, among other identified goods and services.

Administrative Procedure 640, section IV, A. (3) b. mentions the settlement of any fine or penalty imposed for traffic or other violations with respect to the use or operation of County owned vehicles is the responsibility of the individual operator concerned.

The Office of Central Services Purchasing Card Program Manual, section V. B, states "Using the Purchasing Card for the following purposes is strictly prohibited:

- To complete or supplement previously made orders
- To make purchases originally started with a different County procurement device (e.g., purchase order, payment request, blanket purchase order)
- Any purchases prohibited by the Cardholder agency's ASOP”

Purchase cardholders failed to follow policies and procedures coupled with the lack of supervisory overview to identify situations where prohibited transactions had occurred.

Failure to follow documented policies and procedures related to prohibited purchases could lead to purchases being made in conflict with the intended nature of the Purchasing Card Program. This occurrence could increase the likelihood of misuse and misappropriation of resources given that the identified prohibited uses lend themselves to being personal in nature.

4(a) We recommend the Program Administrator ensure that each agency coordinator and the appropriate approvers should thoroughly review purchase card transactions to identify any transactions that are prohibited. Once identified, the initiator of the transaction should be informed of the prohibitive nature of the purchase and the appropriate corrective action should be taken. With respect to the parking/moving violations the individual violators should be identified and reimbursement of vehicle fines should be requested.

Missing/Inadequate/Inaccurate Documentation and Information

Audit testing revealed the following instances where purchase card transactions lacked adequate documentation:

Missing/Incomplete Agency Control Sheet (ACS)

Most purchase card transactions require a completed ACS. A completed ACS provides pertinent information about the completed transaction such as approval signatures, account code classification, competitive bid and sole source information (if required), a description, date and amount of the purchase, vendor information, and the business justification. We reviewed a judgmental sample of 855 purchase card transactions. Our audit testing revealed that 43 of the 855 transactions, or 5%, lacked a required ACS to support the transaction.

An ACS has several sections that must be completed to support a purchase card transaction. Depending on the nature of the purchase, cardholders must also complete other applicable sections of the ACS. There were several instances where one or more of these sections were incomplete or inadequately completed. Some of the incomplete or inadequate information was as follows:

- A business justification is mandatory for all purchase card transactions. However, we identified missing or insufficient business justification statements for 101 of the 855, or 12%, of the purchase card transactions reviewed.
- We identified 114 transactions that were indicative of sole source purchases made by cardholders. Our audit testing revealed that 19 of 114 transactions, or 17%, failed to have the appropriate section of the ACS completed identifying that a sole source purchase was made and the justification for the sole source purchase.
- We identified 196 transactions that were made from vendors that have an existing term contract agreement with the County. Our audit testing revealed that 119 of 196 transactions, or 61%, failed to have the appropriate section of the ACS completed identifying that the purchase was made from a term contractor along with the applicable contract number and its expiration date.

Missing, Inadequate/Incomplete, Inaccurate Documentation and Information

There were several instances where the documentation and/or information provided were missing, inadequate/incomplete, or inaccurate. The specifics of these instances are as follows:

Supporting Documentation

- All purchase card transactions must be adequately supported. Our audit testing revealed that 62 of the 855 transactions, or 7%, lacked adequate documentation (i.e. invoice, receipt, etc...) to support the purchase. Some of the inadequate documentation presented were quotes, credit card statements or nothing at all.

Account Classifications

- All purchase card transactions must be coded to the appropriate general ledger account. Our audit testing revealed that 50 of the 855 transactions, or 6%, lacked the appropriate general ledger account classification based upon the nature of the goods or services being purchased.

Competitive Quotes

- In most instances cardholder purchases exceeding \$500 require the cardholder to obtain two (2) verbal or written quotes from vendors, and purchases exceeding \$1,000 requires three (3) written quotes. During our audit we identified 229 transactions where competitive bids were required to be obtained to facilitate the selection of the lowest price vendor for specific goods or services. Our audit testing revealed that 135 of the 229 transactions, or 59%, lacked the required documented verbal or written competitive quotes.

One practice that's being conducted at an agency was the granting of blanket purchase card approvals for various amounts to different vendors. These blanket approvals would give cardholders the pre-approval up to a certain amount to purchase goods from a particular vendor without having to obtain competitive quotes. These vendors were not included in the County's term contracting list and there was no explanation given for the exclusive nature of the approvals.

Sole Sourcing

- In certain justified situations cardholders are allowed to make sole source purchases from vendors without obtaining competitive bids. Additionally, these purchases can be made with selected vendors without referring to the County's term contracting list. In order to substantiate these sole source purchases cardholders must provide documented explanations to justify the need to make these exclusive purchases. During our audit we identified 114 transactions that were indicative of sole source purchases made by cardholders. Our audit testing revealed that 26 of the 114 transactions, or 23%, were sole source purchases made by a cardholder that either lacked an explanation to justify the sole source purchase or the explanation provided was not sufficient to justify the sole source purchase.

The Office of Central Services Purchasing Card Program Manual, section VII. , states, "Documentation is required for every purchase made using the Purchase Card. The required documentation must be kept with the printed monthly bank statements in which the transaction occurred and kept for seven years. All documentation must include, at a minimum, the following:

- **Monthly Bank Statement;**
- Completed and Approved Agency Control Sheet (which must have the required signatures for the period approval and business justification for the purchase);
- Original Itemized Receipt or one of these approved substitutions listed:
 - The invoice
 - A fax order form sent to the supplier
 - A Screen Print of the Internet order confirmation
 - A copy of an order form, the conference registration form etc.
 - The subscription order form, the conference registration form etc.
- Required **Quotes** and evidence of competitive bidding, if applicable;
- In the case of a rare lost receipt or unavailable documentation, the Missing Receipt Form which must include an authorized signature from the cardholder's immediate supervisor and Agency Coordinator;
- **Office of Management & Budget Approval**, if applicable, for travel is mandatory and must be filed with each travel transaction. The approval is a required form of documentation and a copy must be retained with the purchasing card records." [Underlined for emphasis]

The Office of Central Services Purchasing Card Program Manual, section VI. A, states “**The Purchase Card Agency Control Sheet and other approval requirements must be complete and signed by the Agency Coordinator prior to any purchase being made.**” [Underlined for emphasis]

The Office of Central Services Purchasing Card Program Manual, section V. H, states, “In the event a contracted vendor is not available or cannot provide the County with the best value for goods or services, the Cardholder must obtain competitive quotes for the goods or services.” Each particular agency has specific requirements that dictate the number of quotes needed depending on the dollar amount of the goods or services being purchased. The manual goes on to state, “Upon obtaining the appropriate number of competitive quotes, the Cardholder must select the vendor with the lowest quote. All of the competitive quotes must be documented and placed or attached to the Cardholder’s Agency Control Sheet file for compliance purposes. If there is only one commercial source (sole source) for the desired goods or services, the Cardholder must complete the Sole Source section on the Agency Control Sheet for compliance purposes.”

The Government Accountability Office (GAO) standards for internal controls (GAO/AIMD-00-21.3.1) states that:

“Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.”

The failure of purchase cardholders to follow policies and procedures and/or the lack of supervisory overview to identify situations where adequate information and/or documentation were not provided contributed to these situations.

The lack of documentation to support purchases could question whether documented policies and procedures are being followed. Furthermore, it could also question the validity of purchases made by cardholders.

The failure to properly classify transactions within the County’s accounting system could lead to an inaccurate representation of expenditures. This misrepresentation could cause incorrect decisions to be made by decision makers, with respect to the County’s resources, due to the usage of inaccurate expenditure information.

The failure to obtain competitive quotes and provide justification for sole sourcing could potentially lead to the County expending more money for goods and services than necessary. Furthermore, it could open up the possibility of purchases being directed to specific vendors for inappropriate reasons.

5(a) We recommend that the Program Administrator direct cardholders and agency coordinators to conduct a thorough review of purchase card transactions to ensure that the appropriate information has been included. Upon review, if there are any transactions that are lacking the appropriate information every effort should be made to obtain the necessary information. The privileges of cardholders that continually fail to provide the required documentation for competitive bids and sole sourcing should be evaluated and the appropriate disciplinary actions taken in accordance with the Purchasing Card Program Manual. We also recommend that the practice of issuing blanket purchase card approvals to non-contracted vendors without an explanation be discontinued.

Failure to adequately monitor and adhere to Purchasing Card Program Requirements

Program Administrator

According to the Purchasing Card Program Manual, monthly reviews of transactional data are conducted by the Program Administrator to ensure the continued success of the Purchasing Card Program. To facilitate this review, the Program Administrator would randomly select Cardholders and contact their Agency Coordinator to gather supporting documentation for review based on transactions posted to the monthly statement.

A judgmental sample of two months during fiscal year 2013 was selected to ensure that documentation was present to support completion of the monthly review for those months. Copies of Program Administrator emails were provided to the Auditor to substantiate periodic review requests and the results of the review for one of the two selected months. The Program Administrator revealed that a physical file of documents to support the completion of monthly reviews was not maintained. Correspondence for the review requests are sent via email and all information, review findings, and follow-up information are maintained as electronic records within the Program Administrator's Outlook mailbox. Audit testing was expanded as a result of the inability to produce documents for one of the selected months and it was determined that no documentation was maintained to support completion of a monthly review for August 2012, November 2012, April 2013, or May 2013. This may indicate a lack of retention of records to support initiation of an inquiry or the lack of completion of a monthly review during the aforementioned months. It was also noted that there are no documented policies to govern the retention time for these electronically maintained documents.

On an annual basis the Program Administrator conducts a procedural review that focuses primarily on the overall program's policy and procedure process and whether the Agency is adhering to them as required. A checklist of true/false

questions is required to be completed by each Agency Coordinator and each Cardholder, to facilitate the annual review. Each Cardholder places their completed checklist in a sealed envelope and forwards the envelope to their respective Agency Coordinator. The Agency Coordinator must send each Cardholder's sealed envelope, a copy of the Agency Standard Operating Procedures and their completed checklist to the Program Administrator.

A completed Procedural review checklist was requested for each of the 31 Agency Coordinators and 24 judgmentally selected Cardholders. A copy of each Agency's Standard Operating Procedures (ASOP) were also requested and reviewed. The Agency Coordinator for the Office of Central Services – Director's Office did not complete a procedural review checklist for the audit period. [The Agency Coordinator within the Director's Office serves an administrative function only. The Director's Executive Administrative Aide serves as the approver of purchase card transactions for employees within this division.] Two (2) of the 31 participating Purchasing Card Program agencies/divisions did not provide a signed and dated copy of their ASOPs to the Program Administrator in accordance with Procedural review procedures. Of the 29 ASOPs provided, eight (8) did not contain the signature of the Agency/Division Director/Manager.

Agency Director/Manager

Each Agency Director wishing to participate in the Purchasing Card Program (Program) must complete and sign an Agency Director's Statement of Responsibility form. The form requires the Director to acknowledge that they have read the Purchasing Card Manual and they are responsible for the Agency's appropriate use of the purchase card. A new form is to be completed and signed each fiscal year or when updates have been made to the Purchasing Card Manual, by each Agency Director participating in the Program.

Documentation was requested to support completion of an Agency Director's Statement of Responsibility form for each Agency participating in the Program. The Program Administrator failed to produce forms for three (3) of the 32 participating agencies. This could indicate that the form was not completed in accordance with policy or the Program Administrator failed to maintain the form. There was no evidence provided to preclude either circumstance.

Purchase Cardholders

Proposed Cardholders who have been assigned an Agency Coordinator must complete a Purchasing Cardholder Account Form. The form must be completed accurately, must obtain the Agency Director's signature, and must be submitted to the Program Administrator.

A judgmentally selected sample of 24 Purchasing Cardholder Account Forms was selected for audit testing. Of the 24 forms reviewed, audit testing revealed one (1) instance in which the Purchase Cardholder did not sign the form, two (2) instances in which the Agency Coordinator did not sign the form and six (6) instances where the forms were not signed (approved) by the appropriate personnel.

The Office of Central Services Purchasing Card Program Manual, section X. A, states “To ensure the continued success of the Purchasing Card Program and to meet the County’s audit requirements, a periodic inquiry of a Cardholder’s monthly transaction files must occur. The Program Administrator or his/her designee will randomly select cardholders and notify the Agency Coordinator to gather appropriate paperwork for review based on the transactions posted to the monthly statement.”

The Office of Central Services Purchasing Card Program Manual, section X. B, states “In addition to monthly inquiries, each agency is responsible for completing a Procedural Review. The Program Administrator will distribute to each Agency Coordinator the procedures and checklist for conducting a Procedural Review. The Procedural Review shall be initiated no later than December 31st of each year and must be submitted to the Program Administrator with a copy of the agency’s ASOP.”

The Office of Central Services Purchasing Card Program Manual, section III. D, states “Every Agency Director whose agency participates in the Purchasing Card Program is required to sign the Agency Director’s Statement of Responsibility form. This statement acknowledges that the Director has read the Purchasing Card Manual and is responsible for the agency’s proper use of the purchase card. The Agency Director is required to sign this form at the beginning of each fiscal year or when the Purchasing Card Manual has been updated or changed.”

The Office of Central Services Purchasing Card Program Manual, section IV. D, states “Agency Directors seeking issuance of a Purchasing Card must assign an Agency Coordinator to a proposed Cardholder. The Agency Coordinator must provide the proposed Cardholder with a Purchase Cardholder Account Form application to complete and return to the Agency Coordinator. Upon verification that the application is completed correctly, the Agency Coordinator must sign and obtain the Agency Director’s signature on the application and submit the signed original to the Program Administrator.”

The Program Administrator is not enforcing and requiring adherence to all County-wide policies and procedures governing the Purchasing Card Program. The Program Administrator is not holding individuals accountable for a lack of adherence to Program procedures. Proper documentation is not being retained to provide evidence of ongoing adherence to internal control policies and the performance of control activities.

Internal control activities are not being performed as required placing County resources at risk unnecessarily. The lack of accountability for compliance with Program policies and procedures creates a negative ethical tone which may interfere with the quality of internal control and may lead to unethical behavior. When required forms are not completed in their entirety, Management may not be able to hold employees accountable for their lack of understanding of policies and procedures or their failure to comply with Program internal control activities.

We recommend the following actions based upon each condition identified:

6(a) The Program Administrator must enforce policies and procedures governing the Purchasing Card Program in a consistent manner. Agency Coordinators and Cardholders must be expected to complete monthly periodic reviews and annual procedural reviews without exception. A lack of adherence should be documented in writing. This documentation provides evidence to determine when a pattern of noncompliance is created and may need to be referred for possible disciplinary action.

6(b) Documentation must be maintained that provides the auditor an opportunity to inspect evidence of ongoing adherence to internal control policies and the performance of control monitoring activities. The documentation should contain summary information for the transaction selected for review, supporting documentation for the transaction, documented evidence of review of the transaction by the Program Administrator and any written correspondence regarding the results of the review. The Agency Coordinator and Purchase Cardholder who initiated the transaction must also be required to document their understanding of the results of the review.

6(c) A retention of record policy that governs the maintenance of the aforementioned documentation must also be created and should be in agreement with the Purchasing Card Program's overall retention of records policy.

6(d) The Program Administrator must obtain, review, and verify the accurate completion of all required forms under the Purchasing Card Program. The Program Administrator must pay careful attention to detailed information provided on each form and must ensure forms are properly dated and signed by the appropriate individuals.

Failure to update the Purchasing Card Program Manual in a timely manner

The Purchasing Card Program Manual requires the Agency Director to take an annual physical count of all Purchasing Cards issued within their agency and to submit an inventory to the Program Administrator. The Agency Director is also responsible for assigning a County employee to serve in a budgetary function to

perform Procedural Reviews on policies and procedures manually and online by agency Cardholders. Agency Coordinators and Cardholders may not be assigned to conduct the Procedural Review.

The Program Administrator was unable to provide the physical counts of all purchase cards issued to each agency and verified by each Agency's Director during fiscal year 2013. Through inquiry it was determined that annual physical counts of issued purchase cards are not conducted. The Program Administrator relies on the PaymentNet system to provide an accurate database of all purchase cards. A query can be requested and produced within the PaymentNet system at any given moment, which can be exported to Microsoft Excel and used to verify active purchase cards within each Agency.

Procedural reviews as outlined in the fiscal year 2013 Purchasing Card Program Manual are not being conducted as prescribed. Through inquiry it was determined that new procedures were developed for the procedural review process. Agency Directors are no longer responsible for assigning a County employee serving in a budgetary function to perform the procedural review. The Program Administrator is now responsible for conducting the procedural review and ensuring all County Cardholders complete the checklist forms satisfactorily for all participating agencies.

The Office of Central Services Purchasing Card Program Manual, section III. C, requires the Program Administrator to develop and enforce County-wide policies and procedures governing the Purchasing Card Program. The manual also states the Program Administrator must oversee, monitor, and evaluate the Purchasing Card Program for compliance comprehension.

The Government Accountability Office (GAO) Government Audit Standards (GAO/AIMD -00-21.3.1) Standards for Internal Control in the Federal Government states that:

“Information should be recorded and communicated to management and others within the entity who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities.”

The Director of the Office of Central Services (OCS) has failed to establish guidelines governing the requirement to timely update manuals containing policies and procedures for programs administered by the OCS. The Program Administrator is applying subjective judgment when making decisions regarding Program manual updates.

When updates to policies and procedures are not documented and published within program manuals in a timely manner, employees may not apply processes

in a consistent manner which may lead to the production of inconsistent or inaccurate program data.

7(a) We recommend the Director of the Office of Central Services establish a policy to require Program manual updates when substantial information has changed which will provide guidelines for consistent application of processes by County employees. Annual Procedural Review procedures must be updated and documented within the Purchasing Card Program Manual. Specific processes for conducting annual procedural reviews must also be documented in writing and must outline areas of responsibility for participating individuals. Timely updates provide clear guidelines for the assessment of Program compliance comprehension.

Agency Coordinator Assignment Violation

The Purchasing Card Program Manual requires each Agency participating in the Program to have an Agency Coordinator. The Agency Coordinator must be a County employee, employed at wage grade 18 or higher that is selected by the Agency Director to manage and administer the Purchase Card Program at the agency level.

A list of Agency Coordinators for the audit period was obtained from the Program Administrator at audit commencement. The Agency Coordinator names were then provided to a Personnel Analyst within the Office of Human Resources Management for confirmation of the Agency Coordinator's wage grade and supervisor. Of the 32 names provided one (1) Agency Coordinator was confirmed as employed at the County wage grade of 17 as an Administrative Aide within the Office of Central Services – General Services Division.

The Program Administrator revealed that the aforementioned Administrative Aide was temporarily assigned Agency Coordinator duties during the audit period. There was no indication given as to the intended duration of the assignment.

The Office of Central Services Purchasing Card Program Manual, section IV. C, states "Each Agency Director that participates in the Purchasing Card Program must select at least one Agency Coordinator. Agency Coordinators must be employed at the County's Wage Grade 18 or higher and must hold the position of, be supervised by and/or report directly to the Budget Coordinator for his/her agency."

Further the Manual authorizes the Program Administrator to develop and enforce County-wide policies and procedures governing the Purchasing Card Program.

Neither the Agency Director nor the Program Administrator adhered to internal controls as documented in the Purchasing Card Program Manual.

Failure to appoint an Agency Coordinator that is employed at wage grade-18 compromises established internal controls and may result in the inconsistent application of Program processes as a result of a lack of understanding.

8(a) We recommend that the OCS request that the Agency Director reassign the Agency Coordinator duties to an individual that is employed at a wage grade 18 or higher to be in compliance with the Purchasing Card Program Manual.



PRINCE GEORGE'S COUNTY GOVERNMENT

Office of Central Services

Rushern L. Baker, III
County Executive

Roland L. Jones
Director

Floyd E. Holt
Deputy Director

MEMORANDUM

TO: David H. Van Dyke, County Auditor
Office of Audits and Investigations

FROM: Roland L. Jones, Director
Office of Central Services

Floyd E. Holt, Deputy Director
Office of Central Services

DATE: June 4, 2015

RE: Office of Central Services Management Response
Re: Notification of Findings/Recommendations – Audit of Purchase Card
Program

The Office of Central Services has reviewed the findings, conclusions and recommendations of the Purchasing Card Program Audit dated October 2014, issued by the Office of Audits and Investigations. We are in agreement with many of these findings; however there are several that require clarification or explanations.

We acknowledge that there are areas where further improvement can occur and we are committed to ensuring full management compliance with the policies and procedures of the Purchasing Card Program. We appreciate the work of the Office of Audits and Investigations and the opportunity to respond to any findings. Every effort will be made or is being made to either implement the recommendations or otherwise put in place corrective actions to insure appropriate results.

We are pleased to provide the following information and response to the draft findings and recommendations. The attachment provides a detailed, point-by-point response to each of the proposed findings in the draft report.

Audit Findings

Audit Finding 1: Purchase Card limitation violations

We agree that there is concern about limit violations, and split purchases. But with over 30,000 transactions annually, we believe the incidences are low. However, we do not believe extrapolation is a fair method of estimating the possible number of violations. Extrapolation is subject to great uncertainty and creates a high risk of producing meaningless results. In our

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"One Mission - One Team"

view, a split purchase is the "intentional" breaking down of a known requirement to stay within the cardholder's single purchase limit to avoid sending the requirement to the contracting office for award. Split purchases include: splitting requirements among merchants; splitting requirements among cardholders and splitting requirements over several days. We know that this does occur, but probably at a rate of less than one in 10,000 transactions.

1(a) The Policy Manual does not currently limit a cardholder to one card. However, based on your review, we will update the language to clarify that the \$25,000 maximum per billing cycle is per account not per cardholder. In addition, policies for multi-card issuance will be further defined and implemented. We will have a follow-up discussion with the Offices of Budget and Finance concerning whether it is practicable to increase the monthly card limits.

1(b) We concur. While we understand that one Agency presented Audits and Investigations with an unfounded and unsubstantiated explanation to justify a \$10,000 purchase, the policy is clear that the maximum single item purchase limit is \$5,000.

While the Purchasing Card software has a preset that prevents exceeding the monthly limit, we will discuss whether it is practicable to create error reporting to identify attempts to exceed the thresholds.

Audit Finding 2: Policy and Procedure Concerns

We concur with this observation. However, to understand the efficacy of the Purchase Card Program, one must understand its origin and purpose. During the 80s, many small merchants did not accept credit cards, and did not have cash flow for "net 30" payments. So many organizations employed what was known as a "Field Purchase Order". This was a type of purchase order used to expedite the acquisition of non-recurring goods and services necessary for operations. These usually had a fixed maximum dollar amount authorized so that costs could be controlled. The field purchase order was used, for example, to cover certain business expenditures that occurred unexpectedly (e.g., the breakdown of a vehicle in the middle of a delivery trip, a vehicle out of service that needed one "out of stock component", or a piece of boiler machinery needed to get a building Air Conditioning or Heating System back in service). These items needed to be handled in a timely manner without the delay of higher level approval so that normal business operations could continue.

This paper field purchase order was replaced in the early 2000s with a plastic charge card that allowed merchants to receive their money without delay. The system was piloted around Fleet operations because of the large volume of vehicles, numbers of parts, and inability to stock every component of a vehicle that might fail. Competitive bidding of these parts is impracticable because most are Original Equipment Manufactured (OEM), and involve a public safety vehicle out of service.

We were not aware of an undocumented Health Department practice of exempting certain transactions; however, it is not unreasonable to exempt certain medical processes, including medicines, or HIPPA processes. We will insure that certain of these exceptions are included in the Policy Manual update.

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David Van Dyke
June 4, 2015

2(a) We concur. We will work with Fleet to establish a method of documenting parts acquisition that does not result in an over laborious and burdensome process. We will insure that a new procedure is incorporated in the updated program manual.

2 (b) We concur.

2(c) We concur. Much of this will be replaced with new processes in the County's new Enterprise Resource Planning Software.

2(d) We concur. It has been removed from the Policy Manual. We will reinforce to Agencies that it be removed from their Agency Standard Operating Procedures as well.

Audit Finding 3: Inadequate Approval for Purchase Card Transactions

3 (a) We concur. We will transmit a notice to All Agency Directors and Program Coordinators of this Audit finding. We will include this finding in the retraining of all participants and will conduct a thorough review of the newly issued manual. Further, we will require that all participants sign a statement of acknowledgment of responsibility of the program manual.

Audit Finding 4: Prohibited Purchases

We have not heretofore considered telephones as a utility. Although use of the telephone can be considered part of the overall utility expense, in business, telephones are generally tracked separately in the general ledger as a technology. We do acknowledge that we have permitted telephone payments by Purchase Card. This seems to be an efficient method for Agencies to pay their cell phone bills. We will update the Manual to permit this. Gifts, parking violations, moving motor vehicle violations, and fuel purchases, are strictly prohibited. We will reinforce these violations of the Purchasing card Program.

4 (a) We concur. Using a Purchase Card to supplement a previously approved Purchase Order transaction would be a violation of the Procurement Regulations. We also agree that any motor vehicle violations should be the subject or reimbursement by the individual violator. Efforts will be made to track down those violators and seek reimbursement.

Audit Finding 5: Missing/Inadequate/Inaccurate Documentation and Information

5 (a) We concur. The Agency Control Sheet was implemented to streamline this process for program participants to document and record appropriate and authorized purchases. It is the responsibility of the Agency Coordinator to ensure compliance on the agency level. We will address this issue formally during refresher training of all participants. The Director of the Office of Central Services will communicate the need of consistent review and oversight of purchase card activity withing their respective agencies in writing to All Department/Agency Directors.

Audit Finding 6: Failure to Support/Adhere to Purchase Card manual Procedures

The construction of the Purchase Card Program sets out monitoring, verification, and random compliance review of program users. The popularity and growth of the program to more than 200 cardholders and over 30,000 transactions have made it impractical to monitor at the level desired. This requires that more responsibility under penalty of revocation, be placed on the Department Director, Card Administrator, and Cardholder. However, we agree to incorporate the observations and recommendations of the Auditors into the next upgrade of the Manual.

6 (a) We concur.

6 (b) We concur.

6 (c) We concur. We will work with the County Records Manager to determine the proper records retention schedule.

6 (d) We concur. A thorough review of the program manual and administrative procedures will be undertaken and additional procedures will be implemented to provide additional checks and balances for program compliance.

Audit Finding 7: Failure to update the Purchase Card Manual in a timely manner

We concur that at least annually, an inventory of all active cards be conducted. We will amend the Policy Manual to establish circumstances under which the manual will be updated. Although the manual currently requires annual update, we believe the program is mature enough, that the "Annual" mandate can be removed.

7 (a) We concur. We will amend the Policy to require that the manual will be updated when substantial changes in procedures or regulations occur.

Audit Finding 8: Agency Coordinator assignment violation

We concur. There was one instance in which an Agency Coordinator for a Division was unexpectedly placed on medical leave for what appeared to be an undetermined amount of time. A temporary replacement was approved that was County GS- Grade 17 and not the required County wage grade 18. This was an exigent circumstance, an only option, and the employee—a 30 year employee—was approved on a temporary basis.

8 (a) We concur. All reasonable efforts will be made to adhere to the minimum Grade 18 requirement.