

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

Office of Central Services

Purchasing Card Program Audit

May 2011



**David H. Van Dyke
County Auditor**

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THE PRINCE GEORGE'S COUNTY GOVERNMENT
Office of Audits and Investigations

May, 2011

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 of 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 handwritten signature in black ink, appearing to read "D. Van Dyke".

David H. Van Dyke, CPA
County Auditor

A handwritten signature in black ink, appearing to read "Lawrence E. Cain, Jr.".

Lawrence E. Cain, Jr.
Auditor-In-Charge

A handwritten signature in black ink, appearing to read "Mackenzie Lewis".

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Results In Brief

The Office of Central Services (OCS) administers the County's Purchasing Card Program (Program). The Program offers many benefits including the reduction of paperwork, prompt payment to vendors, and a more efficient purchasing experience for County agencies. This audit is the third review of the Program since its inception as a pilot program in January of 1997. We reviewed the Program in June of 1999 and in November of 2005. Although there were deficiencies noted and reported in each of the prior audits, we have observed gradual improvements in controls over the program, and management has concurred with most, if not all of the audit recommendations.

The Program Manual sets forth the applicable ethics and standards of conduct that Program participants are expected to comply with. The Program Manual itemizes certain control mechanisms that govern the usage of cards and the overall administration of the Program. In fiscal year 2009, the County expended approximately \$12 million in purchase card transactions.

A weak overall control environment and breakdowns in key internal control activities leaves the County vulnerable to the potential for fraudulent purchases, or other abusive or questionable purchases. As such, the emphasis on internal controls is critical for the continued effectiveness and credibility of the Program. Effective internal controls provide increased assurance that the individual transactions are for authorized purposes.

The following findings are addressed in our report:

- Non-compliance with Program Manual requirements in 7.0% of our sample reviewed. Deficiencies included inadequate documentation of receipts, lack of justification of purchases, split purchases, spending limits exceeded, sales tax included in the purchase costs, and competitive bids not being obtained.
- Travel approvals were not obtained from the Office of Management and Budget for 15 travel transactions, or 14.9 % of our sample.

- Program forms were not being used consistently by agencies to track and monitor purchases.
- There are inadequate controls over gift cards and food coupons.

Background

The Purchasing Card Program (Program) was initiated by the County in January 1997 as a pilot program, and is administered by the Office of Central Services. The Program was fully available to all County agencies in fiscal year 2000. As stated in the Purchase Card Program Manual (Program Manual) the purpose of the Program was to streamline and simplify the process of making small purchases. The Program reduces transaction costs, facilitates timely acquisition of materials and supplies, and automates data flow for accounting purposes. Further, it reduces the need to process vendor invoices and issue checks. It was designed as an alternative to a variety of processes including petty cash, check requests, and low dollar purchase orders.

The Program Manual sets forth the applicable ethics and standards of conduct that Program participants are expected to comply with. It also states that the cardholders are personally liable for any non-approved purchases incurred on a participant's card. Additionally, the Program Manual itemizes certain control mechanisms that govern the usage of cards and the overall administration of the Program.

The Purchasing Card Program is directed by the Purchase Card Program Administrator (Program Administrator), who is appointed by and reports to the Director of the Office of Central Services.

The Program Administrator acts as the County's representative to the financial institution that services the County's Purchasing Card Program. The Program Administrator also 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.

The Department Head or designee(s) is responsible for the implementation and administration of the Program within their respective agency. Their duties include: ensuring that all of their agency's participating staff are properly trained and familiar with all facets of the Program; that staff adhere to the rules in the Program Manual; appointing Agency Coordinator(s); providing oversight and control of the agency's program; reviewing all card activity for any Agency Coordinator(s); performing audits of purchase card activity within their department; and adopting and maintaining agency-specific Standard Operating Procedures (SOPs) designed to enhance the overall guidelines of the Program.

The Agency Coordinator(s) is appointed by the Department Head and is responsible for the day-to-day administration 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 Cardholder is required to attend training prior to issuance of the purchase card; complete and sign the Purchase Card Program Agreement; adhere to all Program rules and policies; and attend periodic rule revision meetings.

We conducted an audit on the Purchase Card Program in June of 1999 when the Program was first implemented as a pilot program and in November 2005. These reports included our audit findings and recommendations regarding agencies conducting semi-annual audits, cardholder spending limits, controls over card usage, split purchases, adequate documentation and records retention.

The purpose of this audit was to (1) follow-up on the implementation status of our November 2005 audit recommendations; (2) assess the adequacy and performance of designed control activities; (3) determine adherence to policies and procedures; and (4) identify factors inhibiting satisfactory performance and recommend corrective action.

Although there were deficiencies noted in each of the prior two audits, we have observed gradual improvements in controls over

the program, and management has concurred with most, if not all of the audit recommendations.

Scope & Methodology

To conduct this audit, we obtained purchase card transaction records for fiscal year 2009 from the Office of Central Services which totaled \$12 million, and selected a judgmental sample of transactions from 22 agencies to review (see Schedule 1). We selected a sample of 1,326 purchases totaling \$1.8 million for examination. We interviewed senior procurement management officials and reviewed the Program Manual and other documents related to the Program. We interviewed agency level staff to gain a more specific understanding of how each agency was utilizing the Program and determined whether there was compliance with Program Manual procedures.

During our audit, we also determined that four agencies used the purchase cards to purchase gift cards and food coupons through grant programs and for County authorized purposes. We reviewed these transactions and the related procedures to ensure the gift cards and food coupons were adequately controlled and accounted for since these items are equivalent to cash.

We additionally reviewed purchase card purchases used for agency and staff training purposes to ensure that the training was applicable to County and staff functions and met Program Manual requirements.

Procedural Compliance

During our current audit, we found that action has been taken by the Office of Central Services to implement our November 2005 audit report recommendations. However, we found various instances where Program Manual procedures and/or requirements were not being complied with.

We found more than seven, or 5.4%, instances where no final hotel receipts or airline boarding passes were attached to final purchase card payment requests. In these instances only hotel and airline

confirmations were attached to the payment requests; final costs for the flight/hotel were not documented. In 11 instances there were no receipts or invoices on file to document the purchases or there were no purchase card receipts on file. The Program Manual requires that sales receipts and other supporting documentation are maintained for each purchase. We also found 15, or 14.6%, instances where the Office of Management and Budget travel approvals were not attached to individual travel requests in the agencies' cardholders' file. The Program Manual requires that travel plans be pre-approved by the Office of Management and Budget to ensure travel is appropriate and within budget and travel guidelines.

We found ten instances where sales tax was included in purchase card purchases. County purchases are exempt from Maryland sales tax. If there is an exception to this requirement, documentation should clearly explain the exception. The Manual directs cardholders to provide the merchant with the County's tax exempt code.

A purchase over the \$5,000 limit exception was discovered. The purchase also was split into two purchase card purchases less than \$5,000 and paid to the same merchant on the same day. We also discovered that one individual was assigned two purchase cards and expended over \$25,000 within a month which exceeds the maximum limit requirement for one individual. The Program Manual stipulates that a single transaction shall not exceed \$5,000; a transaction is defined as one or more items purchased at the same time on the same bill. It further stipulates that the purchase of a single item that exceeds \$5,000 cannot be split between several card transactions to circumvent purchase card limits.

We found 11 instances of card purchases in which there was no documentation showing that competitive bids were obtained or an explanation for an exception to the Program Manual requirements. The Program Manual requires that two competitive bids be obtained for purchases between \$500 and \$1,000 and three bids for purchases over \$1,000 to \$5,000.

The Government Accountability Office's (GAO) publication addressing standards for internal controls states:

"Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. All documentation and records

should be properly managed and maintained.” (GAO/AIMD-00-21.3.1, November 1999)

Without the supporting documentation, an independent verification of the authorization for the transaction, the price paid for the item(s), as well as the description and quantity of the item(s) purchased, is hindered. The required review by the agency’s Purchasing Card Agency Coordinator is also obstructed.

Additionally, lack of approvals, incorrect exemption of sales tax, exceeding purchase limits, split purchases and not obtaining bids could lead to funds being expended unnecessarily. All of the previously mentioned findings increase the risk of purchase card misuse.

1. **We recommend** that the Office of Central Services Program Administrator take the following actions:
 - a. Reiterate to agency heads or agency Program designees the importance of strict compliance with the Program Manual requirements especially in regards to the findings discussed in this report;
 - b. Ensure agency heads or agency Program designees conduct more comprehensive reviews of purchase card purchases to ensure compliance with Program Manual requirements;
 - c. Conduct more frequent reviews of agency Program activities to ensure compliance with the Program Manual with emphasis on periodic audit compliance. The Program Administrator should ensure corrective actions have been taken by the agency to correct the audit findings; and
 - d. Institute additional training for agency coordinators and/or agency cardholders to enhance compliance with the Program Manual.

County agencies are authorized to use purchase cards to pay for employee certification training courses, conferences and other critical core training related costs such as hotel accommodations, airfare, food and other costs.

During fiscal year 2009, purchase cards were used for County training related costs for 1,488 transactions totaling \$444,563. During our audit, we reviewed the training cost transactions for 12 agencies to determine whether Program Manual procedures were complied with. We reviewed 106 transactions totaling \$91,419, or 20.6% of the total County purchase card travel costs.

We found similar instances of the previously discussed findings:

- There were no receipts or invoices for seven charges;
- In two instances there was no explanation of what the training was for or who received training;
- No supporting documentation at all for one charge;
- One purchase record was for items that were not training related; and
- There were five charges that were training related but charged to incorrect accounts.

Although the number of deficiencies for training charges is low, the findings further emphasize the need for the implementation of the recommendations previously discussed.

Purchase Card Justification/Monitoring

During our audit, we found 54 instances, or 43.1%, where agency purchase card purchases did not include documentation to justify how the purchases related to County business. The practice of recording a brief explanation of why the purchase was necessary is helpful in aiding the agency Program Coordinators during their monthly reconciliations and the Office of Central Services during their periodic audit reviews by clarifying what may or may not appear to be a questionable purchase.

- 2. We recommend** that the Director of the Office of Central Services require all Program cardholders to provide a brief

explanation justifying their purchase as to how it relates to Prince George's County business.

The Purchase Request Authorization Form and the Purchase Card Reconciliation Form are used by agency cardholders to record purchase transaction data, bids and approvals; and monthly reconciliation of purchase card charges. We found that these forms were inconsistently used by agencies and/or were incomplete. For uniformity, consistency and training purposes, the method of recording and reconciling purchase card transactions should be consistent throughout all County agencies.

3. **We recommend** that the Director of the Office of Central Services direct the Program Administrator to require that only standardized purchase card forms be used for all County purchase card transactions and that these forms be completed fully and accurately. Any exception to this requirement would require a written statement from the agency's department head justifying the exception and approved by the Purchasing Card Program Administrator.

Gift Cards/Food Coupons

During our audit of the fiscal year 2009 County purchase card purchases, we noted that four County agencies were purchasing gift cards and food coupons. We reviewed the procedures and internal controls governing the purchase of gift cards and food coupons at the Health Department, Department of Social Services, Department of Family Services, and the Department of Public Works and Transportation.

We learned that these gift card and food coupon purchases were primarily grant funded and used as an incentive to encourage County citizen participation in the grant funded activity. The gift card and food coupon incentive purchases were authorized under the grant requirements and were governed by the County's Program Manual; however there are no written procedures for the handling, distribution and storing of the gift cards and food coupons.

Since the purchase of gift cards and food coupons replaces the use of cash for program incentives, internal controls over the use of gift card and food coupon purchases should be controlled in the

same manner as cash transactions. Cash transactions are highly susceptible to misuse.

4. **We recommend** that the Director of the Office of Central Services, in cooperation with the Director of Finance, revise the County's Program Manual to include specific internal controls over the handling and the processing of gift cards and food coupons.

The DPW&T uses County purchasing cards to purchase food coupons from various vendors and were paid with County general fund monies. The food coupons are provided to employees who work more than 11 hour shifts during snow storms and other emergencies as per union contract agreements. The unused food coupons purchased are secured in a safe until distribution, and are controlled by management.

We found that there were no records maintained on the total number of food coupons stored on hand. We reviewed the unused food coupons and determined that 888 food coupons were on-hand as of May 25, 2010 with a value of \$8,880. The Department purchased \$19,000 and \$110,600 in food coupons during fiscal year 2009 and fiscal year 2010, respectively.

Adequate records should be maintained related to food coupons for the entire process for tracking, controlling and monitoring purposes to prevent loss or theft.

Since food coupons can be exchanged for food, the same as you would exchange cash for food, its monetary value should be treated the same as any cash transaction and should be well documented, tracked and controlled from initial purchase through final exchange. Our interview with the DPW&T staff revealed that no written policies or procedures exist to govern the agency's food coupon program.

Procedures should be established to ensure that the food coupon process is performed in a consistent manner and that adequate internal controls are in effect to prevent loss or fraudulent activity. Our audit revealed that the food coupon records are not reconciled periodically to ensure the accuracy of the number of coupons purchased, distributed and on-hand.

5. **We recommend** that the Director of the Department of Public Works and Transportation: a) establish written procedures for the food coupon program from coupon purchase through final

distribution; b) strengthen their internal control over the food coupon distribution process by maintaining a log of all food coupons on-hand; and c) require that the food coupon tracking records are periodically (at least quarterly) reconciled by a Division staff member who is not directly involved with the program.

Prince George's County Purchasing Card Program Audit

Office of Central Services Response to the Final Audit Report

The Office of Central Services has reviewed the findings, conclusions and recommendations of the Purchasing Card Program Audit Report issued by the Office of Audits and Investigations. We are pleased that the audit of the Purchasing Card program found no instances of user or program fraud. The Office of Central Services is in general agreement with these findings and have provided below our response to the findings and recommendations only to provide clarifications and mitigations where appropriate to define the circumstances by which the Purchasing Card program operates, and which directly affect the audit findings.

The Office of Central Services has made significant improvements to the Purchasing Card Program over the past years. However, we acknowledge that there are areas where further improvement can occur. We appreciate the work of the Office of Audits and Investigations and the opportunity to respond to any findings. We are committed to ensuring full management compliance with the policies and procedures of the Purchasing Card Program, and will make every effort to implement the recommendations to insure appropriate results.

Audit Findings

***Audit Finding 1:** Non-compliance with Program Manual requirements in 7.0% of our sample reviewed. Deficiencies included inadequate documentation of receipts, lack of justification of purchases, split purchases, spending limits exceeded, sales tax included in the purchase costs, and competitive bids not being obtained.*

Office of Central Services Management Response: Spending Limits - "A purchase over the \$5,000 limit was discovered." Controls are put in place through our software application to mitigate any cardholder exceeding their spending limit. It is in the very rare instance that a spending limit is exceeded outside of established controls. As confirmed by our banks relationship manager, this type of occurrence is a result of the way the credit card industry is designed to work. When a card is swiped, it sends transaction data to the processor (TSYS) and validates against card controls. If they fall within the Prince George's County limits, the transaction is authorized. If it does not, it is declined. If the card is declined, the merchant can still present the transaction for payment and if they do, it must be paid. It cannot be refused by their merchant bank or MasterCard or JP Morgan Chase. The fact is, this is a cardholder violation in some cases, not a program violation.

Not all of the regulations favor the merchant. The "check and balance" on this is the dispute process. Transactions with no matching authorization are very disputable. This is startling when we assume that the limits and controls are 100% effective (although extremely rare). There is no way to prevent this from occurring, beyond detection on the management side. In this particular instance the transaction that exceeded the spending limit controls was fully refunded within five business days of disputing the transaction with the bank.

Sales Tax Exemption - Since the 2005 audit we have made substantial progress in ensuring that cardholders present the County's tax exempt status to vendors in the state of Maryland.

We recognized that instances may still occur where a cardholder may be charged sales tax. In almost every instance, cardholders received a refund in the following billing cycle. Cardholders are aware that they are responsible seeking reimbursement for taxes charged and documenting the credit on their purchasing cards.

***Audit Finding 2:** Travel approvals were not obtained from the Office of Management and Budget for 15 travel transactions, or 14.9 % of our sample.*

Office of Central Services Management Response: This is an ongoing training issue. We continue to train cardholders on the appropriate forms of supporting documentation for travel including providing required travel approval from the Office of Management and Budget.

***Audit Finding 3:** Program forms were not being used consistently by agencies to track and monitor purchases.*

Office of Central Services Management Response: In 2010 we implemented the mandatory use of the Agency Control Sheet which is used to request approval for making purchases as well as the Purchasing Card Reconciliation Envelope which is used to file all supporting documentation each month. Implementing these forms countywide helps to track and monitor transactions uniformly.

***Audit Finding 4:** There are inadequate controls over gift cards and food coupons.*

Office of Central Services Management Response: This is an accounting reconciliation and transaction matching issue. We will work with the identified agencies as well as the Office of Finance to establish the proper policies, procedures and tracking system for purchasing gift cards and food coupons.

Recommendation Responses

Procedural Compliance

We recommend that the Office of Central Services Program Administrator take the following actions:

- Reiterate to agency heads or agency Program designees the importance of strict compliance with the Program Manual requirements especially in regards to the findings discussed in this report.*

Office of Central Services Management Response: We concur. On June 28, 2010 a memo was sent to all Agency Heads attached to the revised FY11 Program Manual. Going forward we will implement an acknowledgement of receipt and understanding agreement for all Department and Agency Heads signature.

- Ensure agency heads or agency Program designees conduct more comprehensive reviews of purchase card purchases to ensure compliance with Program Manual requirements;*

Office of Central Services Management Response: We concur. In the Agency Coordinator Refresher Training, we will continue to train on the importance of daily monitoring and detailed review of transactions. The Director of Office of Central Services will communicate the need in writing to Department/Agency Heads for their consistent involvement and oversight within the respective agencies and request an annual meeting with all appropriate parties to review and discuss the specific years' program.

- *Conduct more frequent reviews of agency program activities to ensure compliance with the Program Manual with emphasis on periodic audit compliance. The Program Administrator should ensure corrective actions have been taken by the agency to correct the audit findings.*

Office of Central Services Management Response: We concur and will continue to perform annual reviews of cardholder accounts. We will also encourage Agency Heads to require Agency Coordinators to perform more frequent reviews of cardholder files for program compliance. Mandatory refresher training will be required for agencies with identified policy compliance violations.

- *Institute additional training for agency cardholders and/or agency cardholders to enhance compliance with the Program Manual.*

Office of Central Services Management Response: To the extent practicable based on resources, we will continue to offer refresher training for cardholder and Agency Coordinator's that are violator's of the policies and procedures.

Purchase Card Justification/Monitoring

- *We recommend that the Director of the Office of Central Services require all Program cardholders to provide a brief explanation justifying their purchase as to how it relates to Prince George's County business.*

Office of Central Services Management Response: We concur. In the FY11 Revised Program Manual we implemented and updated the Agency Control Sheet with a mandatory business justification statement that must be approved prior to any purchases being made.

- *We recommend that the Director of the Office of Central Services direct the Program Administrator to require that only standardized purchase card forms be used for all County purchase card transactions and that these forms be completed fully and accurately. Any exception to this requirement would require a written statement from the agency's department head justifying the exception and approved by the Purchasing Card Program Administrator.*

Office of Central Services Management Response: We concur. The FY11 Revised Manual implemented the mandatory use of a universal Agency Control Sheet and Purchasing Card Reconciliation Envelope. These are official purchasing card documents that are now standard across the County.

Gift Cards/Food Coupons

- *We recommend that the Director of the Office of Central Services, in cooperation with the Director of Finance, revise the County's Program Manual to include specific internal controls over the handling and processing of gift cards and food coupons.*

Office of Central Services Management Response: We concur that adequate controls for gift cards and food coupons are warranted. Some Departments use federal grant funds to procure gift cards for programs. These agencies have award letters that stipulate the management of the gift cards purchases and their function. We will work with other user agencies as well as the Office of Finance to establish the proper policies and procedures governing their use.

- *We recommend that the Director of the Department of Public Works and Transportation: a) establish written procedures for the food coupon program from coupon purchase through final distribution; b) strengthen their internal control over the food coupon distribution process by maintaining a log of all food coupons on-hand; and c) require that the food coupon tracking records are periodically (at least quarterly) reconciled by a Division staff member who is not directly involved with the program.*

Office of Central Services Management Response: We concur and will work with the agency as well as the Office of Finance to establish the proper policies and procedures for The Department of Public Works and Transportation. The Department of Public Works and Transportation uses general funds to procure food coupons for employees who work overtime during inclement weather. Employees are provided \$10.00 in food coupons for each 12 hour shift they work. Policies and procedures need to be established to monitor, track and manage the food coupons distribution and storage when not in use. We will work with the Office of Finance to establish the appropriate protocol for handling the food coupons.

In conclusion, we acknowledge that despite procedures to the contrary, some users attempted to circumvent the process. But in every instance identified the monitoring mechanisms in place caught the incident and corrected it. We will continue to work diligently to provide refresher training to both cardholders and Agency Coordinator's in areas to strengthen controls. We will work with the Office of Finance to establish specific policies and procedures for the purchase of gift cards and food coupons respectively.

