

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

Office of Central Services

Purchasing Card Program Audit

November 2005



**David H. Van Dyke
County Auditor**

TABLE OF CONTENTS

	<u>PAGE</u>
Letter of Transmittal	
Purchasing Card Program Audit Report.....	2-19
Procurement Card User Agency Pre-Audit Questions.....	Appendix A
Summary of Findings – FY2004 Transactions.....	Appendix B
Spending By Agency FY 2004.....	Appendix C
Purchase Request Form (PRF).....	Appendix D
Agency Responses.....	Appendix E

November 2005

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.

David H. Van Dyke, CPA
County Auditor

Stephen J. McGibbon, CPA, CIA
Associate County Auditor

Results In Brief

The Purchasing Card Program (Program) offers many benefits including the reduction of paperwork, prompt payment to vendors and a more efficient purchasing experience for County agencies. However, 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 of October 2004, the use of purchasing cards have increased in the dollar amount spent and the number of transactions by 163 percent and 98 percent respectively, since its first complete year of use in fiscal year 2000. 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.

During our testing of the Program we found widespread non-compliance with the audit requirements for the Program which call for semi-annual audits by each participating agency, and periodical audits by the Purchase Card Program Administrator. We also discovered that policies and procedures did not adequately address how spending limits should be determined for assigned cardholders. Instead, spending limits were often set at the maximum allowed even though it was more than needed for certain agencies. We found cards that were assigned to agencies that were under-utilized (used less than once a month), or assigned to individuals that were no longer employed by the County. In addition, we discovered that the span of control of personnel responsible for oversight of cardholders' usage was beyond their capacity to manage. Our audit also revealed incidents where records needed to support cardholder's purchases were not retained or did not support the amount charged by the vendor.

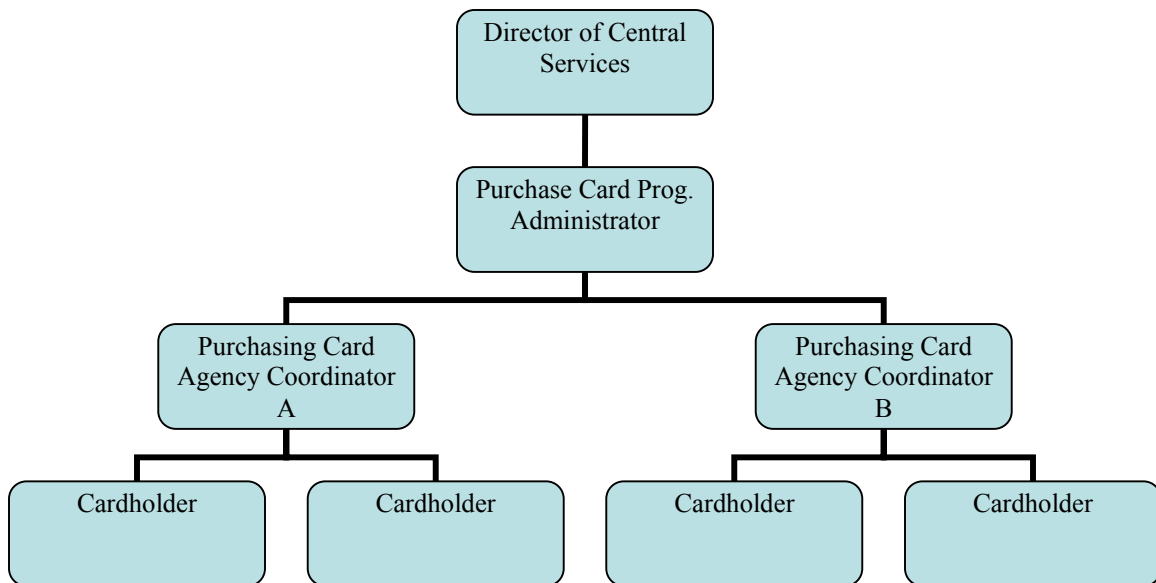
The oversight controls of the Program are not a County-management priority and, as a result, are not being enforced. Oversight is a critical element for the success and the integrity of the Program and we have therefore made several recommendations for its improvement throughout this report.

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 deployed (or at least 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 Central Services. Figure 1 depicts an overview of the management structure of the Program.

Figure 1: Purchase Card Program Management Structure

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 purchase card requests; 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) who is also a cardholder; performing audits of purchasing 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 take an annual physical count of all cards assigned to agency and submit inventory to Administrator.

The Cardholder should attend training prior to use of card; sign the Purchase Card Program Agreement; adhere to all program rules and policies; and meet on a scheduled basis to keep abreast of rules.

The purpose of this audit was to (1) assess the adequacy and performance of designed control activities, (2) determine adherence to policies and procedures, and (3) identify factors inhibiting satisfactory performance and recommend corrective action.

Scope Limitation

In conducting our audit of the County's purchase card activity, our efforts were impaired due to the unavailability of certain requested information. In October 2004, we made the first of several requests of the Program vendor, Bank One, for an electronic data file of all procurement card activity for the Prince George's County program for fiscal years 2003 and 2004. Bank One did not provide the requested electronic data. This hampered our ability to conduct certain data mining procedures that could highlight potential problem activity that would warrant further examination. We had to rely on OCS to provide us with the information they had available – a development that compromised the independence of the source data, and provided us with less information than we requested. Although OCS provided us with an electronic copy of the fiscal year 2004 activity, the agency was not able to provide us with all the procurement card activity for fiscal year 2003.

A scope limitation may reduce the assurance that the auditor may have that a program is operating effectively, ethically, and efficiently. This scope limitation impacted the timeliness and potentially the conclusions formed on this audit assignment. As such, the resulting findings and comments that follow are based on the limited data that was made available that we were able to examine.

Scope & Methodology

To conduct this audit, we obtained all purchase card activity for fiscal year 2004 from the Office of Central Services, and selected a judgmental sample of agencies to examine (see Table 1). From that sample of agencies, we then selected a random sample of transactions for further examination. We also interviewed senior procurement management officials and reviewed operating procedures and other documents related to the program. We conducted a survey with each selected agency to gain a more specific understanding of how each agency was utilizing the program.¹ (See Appendix A for a sample of the survey questionnaire.) Additionally, we have compiled a summary of all our findings by agency in Appendix B.

¹ The Office of Central Services (OCS) did not receive a survey questionnaire since the administration of the overall program resides with this agency and since the intent of the questionnaire was to determine how well program requirements were communicated to, and practiced by, user agencies. Additionally, we conducted our audit entrance conference with OCS and solicited most of the pertinent information during that meeting and received their purchasing card operating procedures as an outcome of that meeting.

Table 1: Sample of Agencies Selected for Testing

Item #	Agency Description	No. of Transactions in FY 2004	Dollar Amt. of Transactions in FY 2004	Avg. Dollar Amt. of Transactions in FY 2004
1	Police Department	2,207	\$1,403,013	\$636
2	Fire/EMS Department	4,128	\$3,714,609	\$900
3	Office of the Sheriff	675	\$227,887	\$338
4	Health Department	4,742	\$2,551,716	\$538
5	Dept. of Soc. Services	396	\$243,911	\$616
6	Off. of Central Services	11,136	\$4,717,827	\$424
7	Dept. of Public Works & Transp	3,807	\$1,678,751	\$441
8	Dept. of Environ. Resources	2,739	\$813,133	\$297

Source: Information provided by the Office of Central Services

Weakness of Control Environment

As evidenced throughout this report, County-management has not fostered a strong internal control environment for the purchase card program. Since the inception of the pilot program in January 1997, the County's program has grown significantly without the attendant emphasis on implementing the controls necessary that would ensure that cards are used for appropriate and non-abusive purchases.

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

"Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management." (GAO/AIMD-00-21.3.1, November 1999)

Additionally, in the Government Finance Officers Association 2005 edition of the GAAFR (or Blue Book), it states the following about the need for an effective control environment:

“When management believes that internal control is important to achieving its goals, and it communicates that view to employees at all levels, internal control is likely to function well. Conversely, if management views internal control as unrelated to achieving its objectives, or as an obstacle to that purpose, this attitude almost certainly will be communicated to staff at all levels, despite official statements or policies to the contrary.”

It is important for management to understand their responsibility in setting the “corporate culture” as it relates to good internal control practices and the agencies adherence to those practices. Although we observed that written policies and procedures were developed by the Office of Central Services for the purchase card program, there was much less emphasis placed on ensuring that agencies complied with those written policies and procedures. (See an example of this is in the section immediately following: Non-Compliance with Audit Requirements.) Management control is concerned with those policies and procedures, their implementation, the reporting of results, and any subsequent revision of the plans. In addition, the lack of emphasis on establishing a good control environment was also demonstrated by the risky “span of control” conditions currently existing in the Program – as discussed later. If the internal control *environment* is not strengthened, then their will be breakdowns in the various internal control *activities*.

Non-Compliance with Audit Requirements

The participants of the Purchase Card Program are not in compliance with official requirements that semi-annual and other periodic audits be conducted.

The Purchase Card Program Manual sets forth the following requirement:

“To ensure the continued success of the Purchase Card Program... Each Department Head will be

responsible for performing semi-annual audits on purchases made by their cardholders.”

It further states that:

“In addition, the Administrator will conduct regularly scheduled audits of the Department’s purchase card program.”

It is our belief that these required semi-annual audits, as well as, the periodic audits by the Purchase Card Program Administrator are a necessary component of this program to ensure the integrity of the program and compliance with its requirements. As discussed later, the span of control problems being experienced by certain agencies and the Program Administrator’s function already reduces the level of oversight needed for program transactions. When these required audits are also neglected, then there exists a condition of minimal oversight of the Purchasing Card Program. There was approximately \$19 million spent in this program in FY04 (see Appendix C). Minimal oversight over this level of expenditure is unacceptable.

During our fieldwork we saw no evidence that these audits were being conducted, at the various agency sites.

We recommend that the Director of Central Services commences a process to determine the reason why agencies are not complying with the semi-annual audit requirement, and why the Program Administrator is unable to comply with the periodic audit requirement. The Director should then draft a plan to resolve this problem and ensure that this important oversight function will be performed at each County agency, and report back to the County Auditor by April 1, 2006.

Spending Limits of Cardholders

During the course of our examination, we noted that policies and procedures which set forth transaction and spending limits are inadequate.

Although the Purchase Card Program Manual does establish transaction limits (100 per day and 200 a month)

and spending limits (\$5,000 per single transaction, and \$25,000 per month), not every cardholder needs to have these upper limits. The limits should be set by determining the intended use of the assigned card. Instead, there were many instances where limits were generally set at the maximum amount permitted.

We observed that the Manual did not provide criteria to guide agency officials in setting the appropriate transaction, daily, and monthly spending limits for their selected cardholders. In addition, we also observed that a number of individuals have multiple credit cards – presumably their needs exceeded the single card spending limit of \$25,000 per month.

In setting transaction and spending limits, agencies should make their determination based on an analysis of agency needs and/or historical spending patterns. Card limits which are higher than that warranted by an agency's usage will pointlessly increase the County's exposure to potentially fraudulent, improper, and abusive purchases. Conversely, card limits which are less than needed result in "split-transactions"; i.e., making multiple payments to pay one invoice or even failure to pay a vendor promptly.

Furthermore, the Manual fails to address the appropriateness of using credit cards to make multiple purchases from a single vendor that aggregates to a large annual dollar amount. Purchases of this type were traditionally made using a blanket purchase order. Permitting credit card purchasing in this manner has the potential both to understate an agency's ongoing financial obligation and to increase the total amount of credit an agency must authorize for its cardholders.

We recommend that the Program Administrator require agencies to conduct a review of their cardholder usage, including an analysis of each cardholder's daily and monthly transaction history, and then adjust transaction and spending limits to be more in line with usage patterns.

We also recommend that the Office of Central Services review their current policy of issuing blanket purchase orders only when requested by the agency, and establish an expenditure threshold above which blanket purchase orders should be issued in lieu of multiple credit card purchases.

(If large dollar levels of purchases are made via credit card – presumably in compliance with a term contract award – there may be a failure to provide actual procurement feedback for contract extensions and future bid estimates.)

Controls over Card Utilization

There is no guidance provided to assist Department Heads or their designees in determining the number of cards that they should assign-out within their agency.

During our audit, we observed that 27 cards had little (less than 10 transactions) or no activity for FY04. We also observed 14 instances where existing accounts were on file for individuals that were no longer employed by the County. Additionally, most of these infrequently used cards had spending limits set at the maximum.

The issuance of cards should be carefully monitored, and a continual reassessing of the need and justification for issued cards are essential tools in controlling the County's exposure in this program. A determination should be made to ascertain whether their activity justifies their continued assignment. Due to change in duties, transfers to other divisions, or other reassignments, the need for an existing card may need to be cancelled. Canceling inactive or low usage purchase cards in a timely manner, is an important control mechanism for the purchase card program.

We recommend that the Director of Central Services require the Program Administrator to conduct an immediate analysis of the usage of all purchase cards and follow-up with user agencies on the need for cards that were used less than ten times during the past fiscal year or the latest twelve month period available. Additionally, a similar analysis should be conducted every twelve months thereafter.

We recommend that the Director of Central Services develop written procedures to formalize the above recommendation, and to provide guidance to user agencies on when a purchase card would be an appropriate tool for an agency to obtain for their small purchases.

Program Administrator and Coordinators Span of Control

During our review, we noted that the span of control assigned to the Purchase Card Program Administrator and to certain Agency Coordinators was unmanageable (see Table 2). Additionally, there are no standard operating procedures available at the agencies that adequately address the span of control range that is appropriate in order for employees to effectively perform their duties.

As an example of the apparent unmanageability of the program, we requested that the Purchase Card Program Administrator and Bank One independently provide us with a listing of purchase card accounts and cardholders, including agency information and credit limits. According to information provided by Bank One, 324 credit cards were active as of December 3, 2004. According to information provided by the Purchase Card Program Administrator, there were only 256 credit cards in use as of September 2004. Our office was able to determine that there were at least 46 additional cardholders with July 2004 through August 2004 transactions. This data discrepancy is troubling, and indicates that the operational demands are likely overwhelming the ability of the Purchase Card Program Administrator's office to adequately maintain records and provide appropriate fiscal oversight.

In order to provide reasonable assurance that program expenditures have adequate oversight and review, the number of cardholders assigned to an Agency Coordinator must be maintained at a level which will allow him/her to effectively supervise the usage of the assigned cardholders. It should also be noted that some cardholders have multiple cards assigned to them. If the number of cardholders assigned to an Agency Coordinator is beyond their capacity to supervise and conduct a detailed review of their activity, then it makes the program more susceptible to inappropriate purchase transactions. This is most applicable to agencies that have a high volume of transactions, e.g. the Office of Central Services, the Fire/EMS Department, and the Health Department.

Table 2: Agency Coordinators' Span of Control

Agency	Agency Coordinators	# of Cards Used in FY04	# of Active Card-holders in FY04	# of FY04 Transactions	\$ Value of FY04 Trans.
Police Department	1	12	5	2,207	\$1,403,013
Fire/EMS Department	1	22	13	4,128	\$3,714,609
Office of the Sheriff	1 ^A	6	5	675	\$227,887
Health Department	1	71	71	4,742	\$2,551,716
Dept. of Social Services	1 ^A	1	1	396	\$243,911
Off. of Central Services	3 ^B	58	46	11,136	\$4,717,827
Dept. of Public Works & Transp.	2	41	41	3,807	\$1,678,751
Dept. of Env. Resources	1	32	30	2,739	\$813,133

A – The same person who serves as the Agency Coordinator is also serving as the Department Head's designee, thus further reducing oversight of purchase card transactions and eliminating the intended segregation of duties required in the Program Manual. This is mitigated somewhat, by the low volume of transactions carried-out by this agency.

B – There is an "Agency Coordinator" in (a) Facilities Operations & Maintenance, (b) General Services, and (c) Fleet Management Divisions.

A similar situation exists with the Program Administrator's office, in that it is not adequately staffed to perform a robust oversight function. The responsibility of the Program Administrator includes developing and enforcing policies and procedures for the program; review purchase card requests; develop and implement training programs; and monitoring, evaluating, and auditing the program. Currently, the Program Administrator has only one assistant, and as such, is unable to perform all the duties assigned to the position. The problem is aggravated because the Program Administrator performs other duties for the Office of Central Services, and therefore this task is only a part of his/her responsibility.

If this situation persists, it becomes readily apparent that there is a potential for many purchase card transactions to go unexamined each month. If the growth of this program continues, it exposes the County to an increasing risk of the use of public funds for inappropriate purchases. The Agency Coordinators are the first line of defense against improper purchases by the cardholders, and as such, this function should not be undermined.

We recommend that the Director of Central Services take steps to ensure that the Program Administrator function is not encroached upon by other agency responsibilities in order that the function may be carried out as intended in the Purchase Card Program Manual. If the removal of these other responsibilities does not provide the additional time needed to perform the Program Administrator duties, then consideration should be given to hiring additional staff for this function.

We further recommend that the Program Administrator develop policy that will address the span of control of Agency Coordinators which will increase the likelihood that these Agency Coordinators will have the capacity to conduct thorough reviews of their assigned cardholders' activity.

Agency Coordinator Positions not Commensurate with Level of Responsibility

During our audit, we noted that the grade and organizational position of the Agency Coordinators varied significantly at the different agencies. In some instances (at four of the eight agencies we reviewed) we noted that the Agency Coordinator responsibility was assigned to a paraprofessional or an entry-level position (grades 17-21), while in other instances it was assigned to a senior-level professional or managerial position (grades 24 and above).

The duties of the Purchasing Card Agency Coordinator as set forth in the Purchase Card Program Manual include investigating and reporting in writing any questionable or inappropriate purchase card activity; counsel employee(s) making inadvertent transaction or processing errors; and

recover purchase cards from employees who misuse or abuse rules.

When this responsibility is assigned to a low level position, it effectively reduces the oversight of the program as a clerical position often lacks the authority associated with the assigned responsibilities of the Agency Coordinator duties, and may be reticent in challenging questionable purchases made by higher level staff. As previously mentioned, Agency Coordinators serve as the first line of defense against improper purchases in the Purchasing Card Program.

Currently, there is no guidance provided by the Office of Central Services that would instruct participating agencies on what level or type of positions are suitable to effectively carry out the Agency Coordinator responsibilities.

We recommend that the Office of Central Services issue guidance to the user agencies on the staff level that is suitable to carry out the responsibilities set forth in their procedures, and further, establish policy that hold these employees accountable for their duties through position descriptions and performance evaluation.

Term Contracts not Being Utilized by Participants

Our test procedures also revealed several instances where improper purchases resulted, in that, cardholders did not buy from a mandatory procurement source.

The Purchase Card Program Manual states that:

“The Cardholder “must” refer to the County’s Term Contract list of purchase of all supplies first.”

It further states:

“Prince George’s County Government will receive the best overall value when current County term contractors are used.”

Term contracts were intended for repetitive purchases for similar goods that have widespread applicability to most County agencies.

We noted several instances where purchases that should have been made from a vendor on the County's term contract list, were made from other vendors. In one instance – the towing of County vehicles – a large volume of purchases were made without a contract, because the old term contract was never extended or re-bid.

Agencies had a difficult time in obtaining an updated contract list. In speaking with agency officials, we were told that they do not receive a revised term contract list and as such are left to figure out which vendors to buy these products from.

During our testwork, we observed that copies of term contracts were generally not available with the transaction files. When we discussed this observation with the cardholders, they frequently could not produce a copy of the term contracts that presumably was the basis for their purchase.

We recommend that the Director of Central Services maintains a current listing of term contract vendors and distributes this list on a quarterly basis to all County agencies. Additionally, this current listing should be made available in an electronic format and the supporting contract documents (or suitable abstracts with terms) should be available as read-only (e.g., PDF) files for cardholders to access.

Split Purchase Transactions

As we conducted our audit procedures, we also discovered several incidents of split transactions.

Split purchases occur when a cardholder splits a transaction into more than one segment to avoid the requirement to obtain competitive bids for purchases (other than those covered by an existing term contract) over the \$500 limit, or to avoid the established credit limit for that cardholder

for a transaction amount, a daily transaction limit, or a monthly transaction limit.

The Purchase Card Program Manual states that:

“Items exceeding the authorized dollar limit on a single purchase card may not be “split” into components by using multiple single purchases to achieve the purchase of a “whole” item. It is a violation of the Purchase Card Program policy to split transactions on a single card or multiple cards to make a whole transaction.”

If purchases are not done in compliance with the County’s procurement procedures and cardholders split their purchases, it effectively allows purchasers to exceed their spending authority and increases the liabilities of the County. Persistent split purchases by cardholders with a particular vendor, may indicate the need for a different procurement method (ex. a blanket purchase order) which may result in a more advantageous costing or pricing arrangement for the County.

We recommend that the Director of Central Services communicate to Agency Coordinators their responsibility in conducting a thorough review of their assigned cardholders, including their responsibility to detect split purchases, before authorizing payment for cardholders’ transactions.

Rebate Management

Our audit also revealed that policies for rebate management were nonexistent. There were no policies and procedures in place to ensure that annual bank rebate remittances were properly calculated, and no monitoring of rebate trends over the years. Whatever incentive payments the bank remitted to the County at the end of the year was assumed to be correct.

The County can earn incentive rebates based on the following: its net annual purchase volume; the promptness of County payments to the bank; and the dollar value of the average transaction size. Although the County has a general prompt payment policy, it does not written policy

that takes advantage of the specific prompt payment incentives set forth in the Purchasing Card Agreement.

Good internal controls over rebate remittances would require that County staff should independently calculate the amount due to the County, and be able to monitor the amounts the program has collected over the years. It should also determine how rebates, once received, should be used, and guide the program on how to appropriately take full advantage of the available incentives.

We recommend that the Director of Central Services implement procedures that would ensure that all rebates received by the bank are recalculated for accuracy and that the Purchasing Card Program takes advantage of available rebate incentives.

Improper Document Retention/Support for Purchase Card Transactions

During our examination, we noted several instances where supporting records were not available for certain purchases including food and travel related purchases.

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)

Additionally, the County's Purchase Card Program Manual states:

“Forward the... supporting attachments and monthly bank statements... to your Agency Coordinator. Include a written explanation of any missing documents or exceptions to normal policy.”

The manual's document retention instruction also requires that agencies maintain supporting documentation for a

period of seven years, and that the current and prior year's records be available at the agency for review. The information that we requested was for transactions that occurred in FY04 and should have been available for review, but agency staff informed us that they could not locate the documents.

Additionally, we noted certain instances where the invoices supporting payments made did not agree to the amount paid. This was prevalent in the sample transactions selected for towing services.

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.

We recommend that the Director of Central Services reiterate to Department Heads and their appropriate staff the importance of complying with the Program Manual's purchase support documentation requirement and its document retention policy, and remove participants from the program who continue to neglect these requirements. {Note 1: This will only be detected if the periodic audits discussed earlier are taking place. If not, the entire oversight control process is degraded.}

{Note 2: We have provided a sample Purchase Request Form (see Appendix D) that may be used by a cardholder to document the authorization and solicitation steps taken to initiate a purchase, as well as, the receipt of goods and services.}

APPENDIX A

PROCUREMENT CARD:
USER AGENCY PRE-AUDIT QUESTIONS

1. Please provide us with the name, phone number, and title of your (1) Purchasing Card Agency Coordinator and your (2) Department Head “designee”, if applicable (see Purchase Card Program Manual, page 5).
2. Please provide us of a list of all Cardholders, as well as their credit limits (Dollar limit of transactions per day/month). If a Cardholder has more than one MasterCard assigned to him/her, please explain.
3. Describe the internal review process used by your agency in approving requests for new cards, including assignment of credit limits assigned to each cardholder.
4. Please provide us with your agency-specific Standard Operating Procedures (SOP’s) pertaining to the Procurement Card Program, as required by the Purchase Card Program Manual (see page 5).
5. Please provide this office with a copy of your most recent internal audits performed by the Department Head designee and/or the Agency Coordinator, as required by §6.6 of the Purchase Card Program Manual (see page 13).
6. Do you utilize the Control Mechanisms available to you for your Purchase Cards? Specifically, have you requested that your authorized Merchant Category Codes (MCC) be limited in scope and consistent with the intent of your agency’s use of the Purchase Card?
7. Given the intended limitations on the use of the card, are you monitoring and enforcing the restrictions and documentation requirements on purchasing transactions such as (1) food purchases, restaurant expenses, and grocery store purchases, (2) Computer or Communications hardware, software, supplies, or services, (3) recurring purchases which are in excess of \$5,000, and (4) multiple same-vendor purchases just below the \$5,000 limit (potentially “split” transactions, as described in §6.6 of the Purchase Card Program Manual (see page 10)?
8. How does the Agency Coordinator gain access and distribute/make Cardholders aware of existing County Term Contracts (reference §4.0 of the Purchase Card Program Manual (see page 18)?
9. Has your agency requested Purchasing Card authorizations for use in making travel reservations (see §7.0 of the Purchase Card Program Manual)? If so, has this endeavor been successful?
10. If a cardholder needs to make repetitive purchases under a master contract (awarded by OCS or State, GSA, etc.) has your agency attempted to obtain a special-condition MasterCard for larger payments, if the vendor would prefer to be paid in this fashion?
11. Describe any internal processing steps taken by your agency to ensure that reasonable efforts are made to ensure separation of duties take place in the Purchase Card buying and “payment” process (i.e., separation of duties between the purchase request, purchase approval, documentation of the receipt of goods or service, and payment approval on the Pathway Net system).

PURCHASING CARD PROGRAM AUDIT
SUMMARY OF FINDINGS
FY2004 TRANSACTIONS

Agencies Tested	number of test transactions:	dollar amt. of test transactions:	1		2				3		4		5		6		7		8			
			Legitimate		Purchasing Requirements				Documentation		Is payment full settlement of purch?		Was review/reconcil timely?		Was transactn(s) properly classified?		Were records centrally filed?		Were records located?			
			Govt. Business		Comp. Bid	Exist. Cnt./sole srce	Other-incl n/a	not-documented	Completed & Available		Tran. not "split"		Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
			Yes	No/Q?					Purch	A/P	Yes	No										
Dept. of Env. Res. (DER)	30	\$8,273.81	30		18	11	1	28	30	30		30		23	7			x		30		
Fire/EMS Department	40	\$116,063.34	40		38	2		40	9	38	2	40		39	1			x		40		
Health Department	33	\$90,627.42	31	2	1	21	3	8	23	31	30	3	33*	33				x		31	2	
Police Department	30	\$42,932.74	30		6	10	11	3	28	30	30		30					x		30		
Dept of Pub Wks & Transp	30	\$58,403.09	30		2	21	7		30	30	30		30					x		30		
Office of the Sheriff	30	\$20,402.91	30		2	11	13	4	26	29	30		30					x		30		
Dept. of Social Services	30	\$14,868.85	30		21	7	2	25	15	30			30					x		30		
OCS-Facilities Operation and Maintenance	33	\$54,941.50	33		8	15	10	23	22	28	5	33		33					x	32	1	
OCS – Fleet Management	50	\$56,884.30	50		23	16	11	39	50	46	4	50		50				x		50		
OCS – GSD + CAP + OC-main	30	\$30,533.67	26	4	17	9	4	18	20	28	2	30		24	6			x		20	10	
	336	\$493,931.63	330	6	11	188	94	43	280	266	320	16	303	33	290	46		7	3	323	13	
					3%	56%	28%	13%	83%	79%	95%	5%	90%	10%	86%	14%				96%	4%	

Review Categories:

- Government Business: Were we able to determine, with some degree of confidence, that the expenditure was related to governmental operations (Yes or No)? "No" indicates non-compliance.
 - Purchasing Requirements: Was the purchase made under (a) a competitive bid (>\$500), (b) an existing term contract or sole source purchase, (c) "other", including purchases not required to be bid (<\$500) or where not practical (e.g., food gift cards for snow removal workers), or (d) not documented (>\$500 with no bid documentation or term contract). Number of transactions under item (d) indicates non-compliance..
 - Documentation: Were records available so that we could determine the nature of the purchase and (a) the procurement method used, and (b) that a internal process supported the payment of the invoice. (number of transactions for which purchasing and payment records were documented). The difference between the no. of transactions tested and no. of transactions documented is a non-compliance issue.
 - Payment as "full-settlement": Was the credit card charge full payment of a vendor invoice (Yes), or (No) was the charge one in a series (two or more) credit card transactions to pay one invoice or purchase (i.e. "split-transaction")? "No" indicates non-compliance.
 - Timely reconciliation: based on the invoice and payment dates, was the invoice reconciled and paid promptly (within 30 days)? (Yes or No.) "No" indicates non-compliance or inability to determine compliance.
 - Transaction classification: Was the transaction charged to an appropriate fund-account-center? (Yes or No.) "No" indicates non-compliance.
 - Centrally filed: Were the Procurement Card transaction records filed in a central location, as required by the Purchasing Card Manual? (Yes or No.) "No" indicates non-compliance.
 - Location of Records: Regardless of location, was the agency able to provide the requested records? (Yes or No.) "No" indicates non-compliance.
- * Could not be determined.

APPENDIX C**PURCHASING CARD PROGRAM
SPENDING BY AGENCY**

<i>Item #</i>	<i>Agency</i>	<i>No. of Transactions in FY04</i>	<i>FY04 Purchase Card Expenditure</i>	<i>Avg. Expend. in FY04</i>
1	Board of Elections	176	\$ 60,474	\$ 344
2	Bd of License Comm	103	13,675	133
3	CCOP	18	3,696	205
4	County Council	1,315	329,812	251
5	Circuit Court	1,168	432,800	371
6	Dept of Corrections	1,575	821,896	522
7	Dept of Environ Res	2,739	813,133	297
8	Dept of Family Svcs	568	229,015	403
9	DHCD	59	89,606	1,519
10	DPW&T	3,807	1,678,751	441
11	Dept of Soc Services	396	243,911	616
12	Fire/EMS Department	4,128	3,714,609	900
13	Health Department	4,742	2,551,716	538
14	Human Rel Comm	179	71,514	400
15	OBRA	117	20,932	179
16	Off of Central Svcs	11,136	4,717,827	424
17	Office of Finance	303	93,439	308
18	Office of Homeland Sec.	180	110,021	611
19	OITC	428	353,472	826
20	Office of Law	240	50,415	210
21	OMB	130	19,980	154
22	OPLR	391	137,888	353
23	Off of the County Exec	539	251,024	466
24	Office of the Sheriff	675	227,887	338
25	Office of the States Attorney	715	246,979	345
26	Personnel Board	78	13,616	175
27	Police Department	2,207	1,403,013	636
28	Soil Conservation District	37	4,494	121
Total		38,149	\$ 18,705,596	\$ 490

APPENDIX E**Abstract of Purchasing Card Program Audit's Recommendations**
November 2005 Audit

The Office of Central Services (OCS) has reviewed the findings, recommendations and conclusions of the Purchasing Card Program Audit dated November 2005, issued by the Office of Audits and Investigations. The Office of Central Services is in general agreement with these findings. Provided below in our response are clarification and circumstances by which the Purchasing Card program operates. The Office of Central Services appreciates Audits and Investigations review and recognition of the program challenges. As stated in the *Results in Brief* section, paragraph three, of the audit document..."The oversight controls of the Program are not a County-management priority and, as a result, are not being enforced."

Non-Compliance with Audit Requirements

1. **We recommend** that the Director of Central Services commence a process to determine the reason why agencies are not complying with the semi-annual audit requirement, and why the Program Administrator is unable to comply with the periodic audit requirement. The Director should then draft a plan to resolve this problem and ensure that this important oversight function will be performed at each County agency, and report back to the County Auditor by April 1, 2006.

OCS RESPONSE

We are in partial agreement with this recommendation. OCS recognizes the importance of oversight over this function has a requirement in place that the Agency's conduct a semi-annual audit. The enforcement of this requirement has not been ensured due to the lack of resources. The annual review of the Agency's operating procedures were being conducted in March FY05 as part of the now vacant Budget Aide position and will continue once this position is filled (expected fill date January 2006). Currently the Program Administrator is unable to perform and review annual audits of agency's operations due to limited resources. The Program Administrator requested Agency's to submit a copy of their current Standard Operating Procedure over Purchasing Cards in July 05 and has worked with agency coordinators, division heads and Directors in the improvement of internal controls and efficiencies in their Purchasing Card Program. All agencies did not submit SOP's for Purchasing Card. After reviewing some of the agency submitted SOP's the Office of Central Services has incorporated the Agency SOP's in a County-wide Standard Operating Procedure for Purchasing Cards (issuance date January 2006) for distribution to all Agency and Division Heads. This document also will state that the semi annual audit requirement is due to the Program Administrator by December 31st and June 30th of the current fiscal year.

Spending Limits of Cardholders

2. **We recommend** that the Program Administrator require agencies to conduct a review of their cardholder usage, including an analysis of each cardholder's daily and monthly transaction history, and then adjust transaction and spending limits to be more in line with usage patterns.

OCS RESPONSE

Agencies are already required to conduct a review of cardholder usage per the Purchase Card Program Manual. We concur that a daily and monthly transaction history analysis be required of Agency Coordinators. Again, the lack of resources stymies the enforcement of this recommendation. It is current policy for the Purchasing Card Administrator to train all new Agency Coordinators in the aforementioned responsibilities and extend refresher training to any Agency Coordinator when needed. The Standard Operating Procedure document (January 06) states *"Daily and monthly review of cardholder usage including analysis of daily and monthly transactions and request an adjustment of spending limits to be more in line with usage."* as a function of the Agency Coordinator's responsibility.

3. **We also recommend** that the Office of Central Services review their current policy of issuing blanket purchase orders only when requested by the agency. There should be an expenditure threshold above which blanket purchase orders should be issued in lieu of multiple credit card purchases. If large dollar levels of purchases are made via credit card (presumably in compliance with a term contract award), there may be a failure to provide actual procurement feedback for contract extensions and future bid estimates.

OCS RESPONSE

We concur in principle with this recommendation. Current policy presumes that if the requirement for goods and services exceeds a \$25,000 annual threshold, that the commodity or service will be competitively bid and placed on a Term Contract. At the current time, there is neither the technology in place nor the analyst staff to monitor this recommendation. OCS agrees that high volume recurring requirements should be bid. To the extent of our resources we will formally implement this procedure and will request a position in our FY'07 budget to fully execute and track this procedure.

Controls over Card Utilization

4. **We recommend** that the Director of Central Services require the Program Administrator to conduct an immediate analysis of the usage of all purchase cards and follow-up with user agencies on the need for cards that were used less than ten times during the past fiscal year or the latest twelve month period available. Additionally, a similar analysis should be conducted every twelve months thereafter.

OCS RESPONSE

We are in partial agreement with this recommendation. The Purchasing Card Administrator (PCA) already conducts an immediate analysis of the usage of all purchasing cards. Follow-up is being completed with user agencies on the need for purchasing cards. Cardholder usage is currently evaluated yearly to ascertain the need for cardholders who use their card infrequently during the year. The in-frequent use was typically associated with seasonal or training only related purchases. We question the threshold provided of ten times during a fiscal year.

5. **We recommend** that the Director of Central Services develop written procedures to formalize the above recommendation, and to provide guidance to user agencies on when a purchase card would be an appropriate tool for an agency to obtain for their small purchases.

OCS RESPONSE

The Purchase Card program was implemented in 1999 as a pilot with little staffing. It has grown over time to an \$18,000,000.00 program and has replaced thousands of check issuances, and invoice processing. However, no staffing has been added to OCS to manage the program. The program is being handled on a day-to-day basis by the Agency's Budget Manager in addition to her other duties. In addition it is our understanding that no universal Standard Operating Procedure or Administrative Procedure has been issued to provide guidance to user agencies since program inception. The Standard Operating Procedure document (January 06) will provide a level of written procedures. In addition, we will develop a Administrative Procedure to govern the program.

Program Administrator and Coordinators Span of Control

6. **We recommend** that the Director of Central Services take steps to ensure that the Program Administrator function is not encroached upon by other agency responsibilities in order that the function may be carried out as intended in the Purchase Card Program Manual. If the removal of these other responsibilities does not provide the additional time needed to perform the Program Administrator duties, then consideration should be given to hiring additional staff for this function.

OCS RESPONSE

The Director of Central Services cannot ensure the Program Administration function is not encroached with out the support of OHRM and OMB in recognizing the need for additional staff. OCS acknowledges that the Purchasing Card Administrator duties should be dedicated and more staff is required. Given the reality of our staffing, emphasis was placed on fraud identification, training, SOP development, compliance, spot review of bank statements and rebate incentives. The staffing covering this area was further reduced in May & June 2004 due to the loss of a Deputy Director, one contracted position and the reassignment of the Budget Manager's duties

7. **We further recommend** that the Program Administrator develop policy that will address the span of control of Agency Coordinators which will increase the likelihood that these Agency Coordinators will have the capacity to conduct thorough reviews of their assigned cardholders' activity.

OCS RESPONSE

We agree with this recommendation and this is directly linked in our response to #8. The Program Administrator currently trains all new Agency Coordinators on A/C responsibilities, offers refresher training and provides daily support for all Agency Coordinators when needed. In addition, further explanation of policy that addresses the span of control of Agency Coordinators is identified in the Standard Operating Procedure document (January 06).

Agency Coordinator Positions Not Commensurate with Level of Responsibility

8. **We recommend** that the Office of Central Services issue guidance to the user agencies on the staff level that is suitable to carry out the responsibilities set forth in their procedures, and further, establish policy that hold these employees accountable for their duties through position descriptions and performance evaluation.

OCS RESPONSE

We concur as stated previously in our response to #7. Through the Program Administrator's oversight over the Agency Coordinator function it has been determined that training and continued training often times is not enough to adequately address the lack of applied knowledge that should be inherent in a position of this nature. In addition, a recommendation to agency heads in Standard Operating Procedure (January 06), reads as follows.. "*The Agency Coordinator responsibility should be assigned to a level G18 or above.*" The Director of OCS will solicit the assistance of the Chief Administrative Officer in conducting a mandatory meeting of Agency Directors and Coordinators to review compliance, responsibilities and the new Standard Operating Procedure document.

Term Contracts Not Being Utilized By Participants

9. **We recommend** that the Director of Central Services maintains a current listing of term contract vendors and distributes this list on a quarterly basis to all County agencies. Additionally, this current listing should be made available in an electronic format and the supporting contract documents (or suitable abstracts with terms) should be available as read-only (e.g., PDF) files for cardholders to access.

OCS RESPONSE

OCS maintains a current listing of term contract vendors. This listing is distributed by the PCA to all new cardholders and to Agency Coordinators on a yearly basis. This listing is available in electronic and hard copy format. We concur with the recommendation to distribute on a quarterly basis.

Split Purchase Transactions

10. **We recommend** that the Director of Central Services communicate to Agency Coordinators their responsibility in conducting a thorough review of their assigned cardholders, including their responsibility to detect split purchases, before authorizing payment for cardholders' transactions.

OCS RESPONSE

We are in partial agreement with this recommendation. We agree that the responsibilities of the Agency Coordinator should be communicated to them in training and in written format. We also believe that these responsibilities be communicated from the Agency's Director level. We believe that proper oversight, necessary controls and the true success of the Purchasing Card programs needs to begin at the Director level within each agency. The responsibilities of the Agency Coordinator are further clarified in the Standard Operating Procedure document (January 06). The Director of OCS will communicate the need to Agency Directors for their consistent involvement.

Rebate Management

11. **We recommend** that the Director of Central Services implement procedures that would ensure that all rebates received by the bank are recalculated for accuracy and that the Purchasing Card Program takes advantage of available rebate incentives.

OCS RESPONSE

Currently rebate incentives are being taken advantage of monthly by ensuring payment is received by the bank within identified time thresholds. The current practice is to approve the bank request for payment within 24hours of receipt of invoice into our office. As a result of the dissatisfaction with Bank One, OCS researched the market for banking sources and is finalizing the agreement between JPMorganChase and the County. We decided to go with JPMorgan due to increased efficiencies in customer service and the availability of certain items including information over Rebate management.

Improper Document Retention/Support for Purchase Card Transactions

12. **We recommend** that the Director of Central Services reiterate to Department Heads and their appropriate staff the importance of complying with the Program Manual's purchase support documentation requirement and its document retention policy, and remove participants from the program who continue to neglect these requirements.

OCS RESPONSE

We agree with this recommendation in its entirety as stated in our response to #8. We are requesting the support of the Chief Administrative Officer. We agree that the Agency's should risk the loss of purchasing card privileges due to non-compliance.

{Note 1: This will only be detected if the periodic audits discussed earlier are taking place. If not, the entire oversight control process is degraded.}

{Note 2: We have provided a sample Purchase Request Form (see Appendix D) that may be used by a cardholder to document the authorization and solicitation steps taken to initiate a purchase, as well as, the receipt of goods and services.}

In conclusion we are pleased that the audit of the Purchasing Card program found no instances of fraud during the current span of this Program Administrator and the Office of Central Services. We are also pleased that the draft of our SOP is consistent with many of the findings and remedies of Audits and Investigation. Audits and Investigations acknowledges that insufficient resources are available to OCS and the PCA in administering this program and while no instances of fraud were apparent, the potential for fraud exists without additional resources. Finally we also understand the program will not be successful unless agency heads are required to be accountable for the success of the program as well.