

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



**Procurement Card Targeted Internal Control Review
Montgomery County Community Engagement Cluster**

July 31, 2024

Highlights

Why MCIA Did this Review

The Montgomery County Office of Internal Audit (MCIA) conducted a targeted internal control review of the Montgomery County Government's (the County) Community Engagement Cluster's (CEC) purchasing card (PCard) and employee expense functions (collectively, "review").

The Community Engagement Cluster (CEC) works to build stronger, more informed and inclusive communities. The Cluster is responsible for strengthening Montgomery County's commitment to civic engagement and community service by engaging residents, organizations, businesses, and other interest groups in County communities. The Cluster maximizes community assets – time, talents, and other resources – working collaboratively to address and resolve community issues.

The review was conducted by the accounting firm SC&H Group, Inc., under contract with MCIA.

July 2024

Procurement Card Targeted Internal Control Review:

Montgomery County Community Engagement Cluster

What MCIA Found

CEC's PCard functions include processes and internal controls to mitigate fraud risks.

However, opportunities exist to improve control design and operational effectiveness to mitigate those risks more effectively.

We identified five areas of improvement to strengthen controls and mitigate risks in the following areas:

1. PCard management and operations
2. Employee expense management and operations
3. PaymentNet information retention
4. Departmental PCard and employee expense policies and procedures
5. PCard and employee transactional analyses

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Objectives

This report summarizes the results of a targeted internal control review of Montgomery County's (the County) PCard and employee expense functions in the County's Community Engagement Cluster (CEC, or Cluster) (collectively, review). The review was performed by SC&H Group, Inc. (SC&H), under contract with the Montgomery County Office of Internal Audit (MCIA).

The review's objectives were:

1. Identify fraud risks, internal controls, and gaps within CEC's PCard functions.
2. Identify fraud risks, internal controls, and gaps within CEC's iExpense functions.
3. Evaluate CEC PCard and employee expense internal controls for design and operational effectiveness, and compliance with County policy.

Background

PCard Overview

The County's PCard Program (Program) is administered through Accounts Payable (Accounts Payable) within the Controller Division of the Department of Finance (Finance). The Program is managed by the PCard Administrator, a County Finance employee who reports to the Accounts Payable Manager.

The Program's purpose is to provide an efficient and effective method for purchasing and/or paying for small dollar goods and/or services to reduce paperwork and costs associated with processing vendor payments. The physical PCard is a JPMorgan Chase Bank (JP Morgan) Mastercard credit card, and is issued to individual cardholders or to a department (Department PCard). PCard transactions are recorded and administered in JPMorgan's PaymentNet system.

Employee Expense Overview

The County's employee expense program is administered through Accounts Payable (County Accounts Payable) within the Controller Division of Finance (County Finance). The program is managed by County Finance employees who report to the Accounts Payable Manager.

The program is facilitated through the iExpense application. iExpense's purpose is to provide an efficient and effective method for employees to obtain reimbursement for allowable expenses for local and non-local travel while on authorized County government business, and reimbursement of official business expenses incurred by County employees while carrying out official duties.

Montgomery County Community Engagement Cluster

The Community Engagement Cluster (CEC) consists of 106 employees and builds stronger, informed, and inclusive communities. The Cluster strengthens Montgomery County's commitment to civic engagement and community service by engaging residents, organizations, businesses, and other community groups. The Cluster maximizes communities' assets - time, talents, and other resources – working collaboratively to address and resolve community issues.

CEC is a combination of five Regional Services Centers, the Commission for Women, and the Office of Community Partnerships, which includes the Gilchrist Center, Volunteer Center, and Translations Unit, with each office/function having its own focus and expertise. The CEC shares administrative staff to support the administrative functions of the cluster.¹

¹ FY24 budget:

<https://apps.montgomerycountymd.gov/BASISOPERATING/Common/Department.aspx?ID=16D>

Regional Services Centers include the following:

1. Bethesda-Chevy Chase
2. Eastern Montgomery
3. Mid-County
4. Silver Spring
5. Up-County

Urban Districts include the following:

1. Bethesda
2. Friendship Heights
3. Silver Spring
4. Wheaton

The cluster functions in a decentralized manner, with certain personnel responsible for specific functions.

The following provides a summary of the CEC PCard and iExpense transaction data for the scope period of the review (7/1/2022 through 9/30/2023):

1. 566 PCard transactions resulting in a total spend of \$163,422.
2. 267 iExpense transactions resulting in a total spend of \$17,554.

CEC PCard and Employee Expense Functions

CEC PCard Functions

CEC operates as a combination of various decentralized groups. However, the department PCard program is managed by the Program Manager within the Business Management Team (BMT). The Program Manager operates as the PCard Liaison (referred to as PCard Liaison throughout) for CEC, supporting CEC employees with card requests, usage and reconciliation of individually assigned and CEC PCards, monitoring of transactions, and adjustments to and cancellations of PCards. The PCard Liaison also works with the PCard Administrator to ensure CEC is meeting County PCard requirements.

PCard Setup

Individual employees, or CEC management, may determine the need for a new PCard within CEC. A PCard Application is completed for both individual and CEC/department PCards. The application includes pertinent information about the custodian of the card, the requested card limits (single transaction and monthly spend limits) and the required merchant category codes (MCCs). The application is approved by the appropriate Director² and provided to the PCard Liaison.

The PCard Liaison completes the PCard Liaison Form on the County's SharePoint site and attaches a copy of the application. The PCard Liaison Form was developed by the PCard Administrator and serves as the main request document for new PCards, adjustments to cardholder accounts, and suspension and/or termination of individual cards. The PCard Administrator utilizes the submitted form to request a new card from JP Morgan. Once the new card is received, the PCard Liaison and cardholder are notified.

² County policy requires requests for new PCards to be approved by the applicable department Director. Due to CEC's structure, there are multiple individuals who have the authority to approve a new PCard.

Cardholders are required to attend training on the appropriate use of a PCard and sign a Cardholder Agreement, acknowledging their understanding of their responsibilities related to the use and reconciliation of a PCard, prior to issuance.

PCard Usage and Reconciliation

Once issued and activated, cardholders can utilize a PCard to make purchases that support the day-to-day business of the Cluster. Cardholders are expected to make purchases in line with County PCard policies, maintain adequate supporting documentation for all purchases made, and reconcile transactions within PaymentNet in a timely manner. CEC, cardholders are assigned a transaction approver, who is responsible for reviewing and approving all reconciled transactions in PaymentNet monthly.

If a CEC/department PCard is being utilized, the custodian of the card also maintains a Department PCard Log, which monitors the issuance of the card to individual employees and details individual transactions made during the month. The custodian is responsible for aggregating all transaction support and reconciling transactions within PaymentNet.

PCard Limit Adjustments

Cardholders may identify the need for a temporary or permanent adjustment to a single transaction and/or monthly spending limit while utilizing a PCard. Requests for adjustments are communicated to the PCard Liaison, who submits a PCard Liaison Form to the PCard Administrator. The PCard Liaison specifies the type of adjustment (e.g., temporary or permanent) and the new limit amount(s). The PCard Administrator reviews the request, updates the cardholder profile within PaymentNet, and notifies the cardholder and PCard Liaison once complete. Temporary adjustments are entered into PaymentNet for a set period of time and will automatically revert back to the previous limit(s) once the expiration date has passed.

PCard Suspensions/Terminations

A PCard may be suspended or terminated due to noncompliance with County policies, determination that a business need no longer exists to require a PCard, or an individual leaving the County. When the need for a suspension or termination is identified, the PCard Liaison completes a PCard Liaison Form and notes the action to be taken and the effective date of the suspension/termination. The PCard Administrator processes the action once the form is received and notifies the PCard Liaison of its completion.

In the event a suspension or termination is processed by the PCard Administrator or Accounting Manager during the performance of monthly monitoring procedures, the PCard Administrator communicates the account status change to the cardholder and PCard Liaison and indicates procedures for reinstatement of the card.

CEC Employee Expense Functions

Employees within CEC make purchases for business purposes that require reimbursement through iExpense. When an employee incurs an expense, they complete an Employee Expense Request for Authorization, a template utilized by CEC to detail aggregate expenses for a given period. Employees must document the purchase, date, amount, and business purpose for each expense and attach a receipt for each individual expense.

The request is submitted to an employee's manager, who reviews for reasonableness and provides the documentation to the BMT Program Manager for final review. The Sr. Executive Administrative Aid within BMT enters all expenses into iExpense, and the BMT Program Manager approves expenses once entered.

Employees are reimbursed following final approval of individual expense reports within iExpense.

Scope and Methodology

The review was performed in accordance with the Statement on Standards for Consulting Services (SSCS) issued by the American Institute of Certified Public Accountants (AICPA). The scope focused on the following:

1. PCard and iExpense processes within CEC, including:
 - a. PCard Setup: PCard application review and approval, PCard training and refresher training, cardholder agreements, PCard system entry
 - b. PCard Usage: Transaction review and approval, monthly reconciliation, departmental card, inappropriate usage, and resolution
 - c. iExpense Usage: Reimbursement review and approval, transaction reimbursement, inappropriate usage, and resolution
 - d. Transaction Comparison: Comparison between PCard and iExpense transactions
 - e. PCard Termination and Cancellation: PCard cancellation, cardholder profile review
2. Transaction period: 7/1/2022 through 9/30/2023
3. County policies:
 - a. County Finance Accounts Payable Policy (County AP Policy)
 - b. Purchasing Card Program Policy and Procedure Manual (PCard Manual)
 - c. Administrative Procedure 1-2, Non-Local Travel Guidelines and Related Reimbursement
 - d. Administrative Procedure 1-5, Local Travel Guidelines

The review was performed in accordance with the Statement on Standards for Consulting Services (SSCS) issued by the American Institute of Certified Public Accountants (AICPA). The scope focused on the following:

4. PCard and employee processes within CEC, including:
 - a. PCard Setup: PCard application review and approval, PCard training and refresher training, cardholder agreements, PCard system entry
 - b. PCard Usage: Transaction review and approval, monthly reconciliation, departmental card, inappropriate usage, and resolution
 - c. iExpense Usage: Reimbursement review and approval, transaction reimbursement, inappropriate usage, and resolution
 - d. Transaction Comparison: Comparison between PCard and iExpense transactions
 - e. PCard Termination and Cancellation: PCard cancellation, cardholder profile review
5. Transaction period: 7/1/2022 through 9/30/2023
6. County policies:
 - a. Purchasing Card Program Policy and Procedure Manual (PCard Manual)
 - b. Administrative Procedure 1-2, Non-Local Travel Guidelines and Related Reimbursement
 - c. Administrative Procedure 1-5, Local Travel Guidelines

Process Understanding and Fraud Risk Assessment

SC&H began the review by conducting a fraud risk assessment (risk assessment) of the County's CEC PCard and employee expense functions, which included the following procedures:

1. Reviewed documentation related to CEC's PCard and employee expense functions.
2. Conducted interviews/walkthroughs with CEC to understand and document their current PCard and employee expense functions.
3. Prepared a fraud risk and control matrix (RCM) that included:
 - a. Fraud risks/scenarios related to PCard and employee expense functions.
 - b. Internal controls designed to mitigate the fraud risks.
4. Identified gaps in internal controls (i.e., where risks were not mitigated by controls).
5. Prepared a fieldwork test plan to test internal controls identified during the risk assessment, and evaluate departmental policies and procedures.

Fieldwork

Fieldwork consisted of testing the operational design and/or effectiveness of internal controls identified during the risk assessment, and evaluating process alignment with related policies and procedures.

Sample Selection

SC&H provided CEC with requests that included documentation needed to satisfy the test plan including:

1. PCard and iExpense report populations with transactions from 7/1/2022 to 9/30/2023 to select test samples. Upon receipt, SC&H selected test sample transactions using judgmental and random selection methods.
2. Supporting documentation for each selected sample (e.g., invoices, receipts, etc.)

Internal Controls Testing

SC&H performed sample based internal control test procedures to evaluate CEC's PCard and employee expense functions related to the following:

1. PCard setup and training
2. PCard monitoring
3. PCard transaction processing
4. PCard usage and reconciliation
5. PCard termination and cancellation
6. Employee expense usage

Compliance Testing

SC&H performed sample-based test procedures to evaluate compliance between CEC's PCard and employee expense functions and County policies.

Supplemental Testing

SC&H evaluated alignment with processes and procedures by reconciling the following:

1. CEC PCard and employee expense internal controls
2. Department-level policies and procedures
3. County-level policies and procedures

Validation

The preliminary test results were compiled and presented to CEC Management and the IA Manager.

Findings and Recommendations

Results

We appreciate the assistance and cooperation from members of CEC and County Finance during this review.

The review yielded five findings with six supporting recommendations. These findings and the recommendations are presented to help strengthen CEC's PCard and employee expense functions, and their related internal controls.

Cross-Cutting Finding: As noted below, County policies set forth specific requirements and guidance for departments to manage their employee PCard and expense operations. However, departments are expected to develop and implement supplemental criteria and processes specific to that department's organization and operations, to support County requirements and guidance. These department-specific criteria, sometimes in the form of internal controls, offer departments operational flexibility, while maintaining compliance and mitigating related risks. The audit determined that CEC lacked department-specific documented policies and procedures in the areas reviewed as part of this audit. As noted below, because CEC operates as a combination of various decentralized groups, this decentralization could present additional risks of inconsistent operations and challenges in complying with County policies, without such documented policies and procedures.

Finding 1: PCard management and operational procedure findings

BACKGROUND

During the scope of the audit period, the County's PCard protocol was governed by the following:

1. Montgomery County Maryland Purchasing Card Program Policy and Procedure Manual, effective March 31, 2017 (PCard Manual)³

Departments are expected to align their specific departmental PCard management and operations, so they comply with the PCard Manual.

The following provides excerpts from the PCard Manual specific to where exceptions were identified; review/approval, documentation management, documentation retention, required training, violation monitoring, and termination or cancelation.

PCard Manual

Section II.A Card Setup

II.A.1: The Department Head signature approval delegates transaction authority to the Cardholder.

IIA.2: The Purchasing Card Administrator reviews the application for completeness and submits application to JPMorgan Chase Bank via the JPMorgan Chase Bank PaymentNet Reconciliation system.

³ The County currently operates under the new PCard Manual, "Purchasing Card Procedure Manual" effective January 1, 2024. However, the scope of the review predated the new PCard Manual's effective date, so its requirements were not formally evaluated.

Finding 1: PCard management and operational procedure findings

IIA.5: Upon receipt of the Purchasing Card from JPMorgan Chase Bank, the Purchasing Card Administrator will conduct a training session with the Cardholders prior to issuing the cards.

Section II.B Cardholder Eligibility

II.B.5: Issuance of a Purchasing Card is limited to employees who sign a Cardholder Agreement (Attachment B) in the presence of the Purchasing Card Administrator, and who will be subject to personnel discipline procedures in the event of abuse or failure to comply with established guidelines.

II.B.6: By signing the Cardholder Agreement, the Cardholder acknowledges an understanding of the intent of the program and agrees to comply with all guidelines of this Manual.

Section II.H Roles and Responsibilities

II.H.1: The Cardholder must 1) Ensure the Purchasing Card is used for legitimate Montgomery County business related purposes only and that appropriation authority exists for the purchase. 2) Maintain the Purchasing Card in a secure location at all times. 3) Not allow other individuals to use the Purchasing Card – For Cardholder who has a Record Keeper - review and verify on the JPMorgan PaymentNet Reconciliation system that all transactions listed are the Cardholder's. 4) Ensure Maryland state sales/use tax is not charged."

II.H.1: The Cardholder retains all receipts, charge slips, Cardholder reports, transaction summaries, and vouchers for audit by internal and external audits unless the Cardholder is assigned this responsibility. Receipts and other documentation for purchases are to be maintained for seven years of which three years are onsite.

II.H.3: The Department Liaison must receive training before any employees in the department will receive a Purchasing Card. The Department Liaison can also be a Cardholder, Transaction Approver, or Record Keeper.

II.H.4: Approve and reconcile vendor receipts to the transactions listed on the JPMorgan Chase Bank PaymentNet Reconciliation system at least monthly and indicate their approval of the charges online and by signing and dating the Statement of Account (Attachment C) that is printed by the Cardholder from his/her account on the JPMorgan Chase Bank PaymentNet Reconciliation system.

II.H.5: Reconciling JPMorgan Bank's bill to JPMorgan Chase Bank PaymentNet Reconciliation system online and to the transaction totals posted to Montgomery County Maryland's accounting system.

Section II.I Purchasing Card Maintenance and Closure

II.I.2: The Purchasing Card Administrator is required to close an account upon notification by the Department Liaison, Cardholder or Cardholder's supervisor for items 1) Transfers to a different department, 2) Moves to a new job in which a Purchasing Card is not required, and 3) Terminates employment, and upon notification by auditors or any other related persons for items 4) Commits a violation as listed in Section I.G., or 5) Violates the Purchasing Card Program Policy and Procedure Manual or violates the provisions of the Purchasing Card Agreement.

Finding 1: PCard management and operational procedure findings

Section I.D Purchasing Card Oversight

I.D.5: The Transaction Approver is responsible for the validity of each transaction under his/her review. The Transaction Approver monitors the legitimacy of the transaction, the accuracy of the accounting code, makes sure no MD Sales Tax is charged and ensures proper documentation is kept and is easily accessible to support the transaction in the JPMorgan Chase Bank PaymentNet Reconciliation system. The Transaction Approver approves the transactions online & signs off on the Statement of Account. If for any reason the Transaction Approver is unable to have access into the JPMorgan Chase Bank PaymentNet Reconciliation system to approve, The Transaction Approver must make sure all the transaction receipts match with the transactions on the Statement of Account for the cycle, printed and signed by the Cardholder. Signs & gives the reason why he/she could not approve the transactions in the JPMorgan Chase Bank PaymentNet Reconciliation system.

FINDINGS

SC&H identified the following exceptions related to the above County policies, organized by PCard process/category:

New cardholder setup and trainings

1. 1 of 5 cardholder profiles: Evidence of proper review and approval for the PCard application was not maintained. (Section II.A.1, Section II.A.2)
2. 1 of 5 cardholder profiles: Evidence of training sign-in sheet for the cardholder was not maintained. (Section II.A.5, Section II.H.3)
3. 1 of 5 cardholder profiles: Evidence of a completed cardholder agreement was not maintained. (Section II.B.5, Section II.B.6)

PCard transactions

1. 8 of 60 PCard transactions: Supporting documentation for the transaction was insufficient. The supporting documentation did not include one or more of the criteria for transaction support, including transaction date, purchase amount, vendor name, etc. (Section II.H.1)
2. 1 of 60 PCard transactions: Tax was charged for the transaction. (Section II.H.1, Section I.D.5)
3. 2 of 3 months with identified outstanding transactions: Evidence of transaction approval for months that had been identified as being overdue from the prior month period was not provided. (Section II.H.4 and II.H.5)

Terminated and suspended cardholders

1. 2 of 2 cardholder profiles: The PCard Liaison Form evidencing the closure of the card profile was not provided. (Section II.I.2)

Operational, risk-based findings

The PCard Manual presents specific definitions of requirements and guidance for departments to manage their PCard operations. However, there are supplemental criteria departments are expected to build into their own processes and operations, to support the requirements and guidance. These criteria, sometimes in the form of internal controls, offer departments operational flexibility, while maintaining compliance and mitigating related risks. SC&H identified the following exception related to internal operations:

1. There is no department card log maintained for transactions completed through the departmental cards evidencing check out, planned purchases, and return.

Finding 1: PCard management and operational procedure findings

RISKS

1. Lack of evidence to support new cardholder setup and training criteria could result in:
 - a. Unauthorized PCard users and usage.
 - b. PCard users making purchases without being fully aware of the requirements and protocol.
2. Lack of 1) completely and accurately documented and maintained PCard transactional documentation, 2) evidence of proper reviews and 3) alignment with the PCard Manual could result in:
 - a. Unauthorized and inappropriate charges.
 - b. Inaccurately charged transactions (e.g., the inclusion of sales tax).
3. Lack of timely reviews and approvals of transactions could result in not detecting inappropriate purchases.
4. Lack of evidence to support closing cards in a timely manner could result in opportunities for unauthorized charges; either by the suspended user or someone with access to the PCard.
5. Lack of procedures to control who can use departmental cards, and lack of transparency regarding who has used the cards could result in unauthorized and inappropriate charges.

Limited Sampling and Extrapolation Considerations

The above exceptions include testing a limited sample of transactions and samples. CEC should take into consideration if exceptions were extrapolated across the entire population of transactions and activity. While the full population has not been tested to confirm the exact percentage and value of exceptions, the risk and financial impact to CEC and the County could be of greater significance.

Recommendation 1.1

CEC should develop and document internal processes and controls to help ensure all PCard related operations are effectively performed, completely and accurately supported, and aligned with the PCard Manual. CEC should consider organizing these processes as they are stated in the PCard Manual to align with specific PCard operational activity.

Recommendation 1.1 considers that CEC may need to develop new processes and controls. When doing this, CEC should align with the County's new PCard Manual, "Purchasing Card Procedure Manual" effective January 1, 2024.

Refer to Finding 4 for additional policy and procedural finding and recommendation content.

Finding 2: Employee expense management and operational procedure findings

BACKGROUND

During the scope of the audit period, the County's expense reimbursement protocol was governed by the following:

1. Montgomery County Administrative Procedure 1-2, Non-Local Travel Guidelines and Related reimbursements (AP 1-2)
2. Montgomery County Administrative Procedure 1-5, Local Travel Guidelines (AP 1-5)

Departments are expected to align their specific departmental employee expense management and operations, so they comply with AP 1-2 and AP 1-5.

Finding 2: Employee expense management and operational procedure findings

The following provides excerpts from AP 1-2 and AP 1-5 that reference management and operational requirements specific to where exceptions were identified; employee reimbursements and supporting documentation for completed transactions.

AP 1-2

Supporting Documentation

Paragraph 3.4: Documentation will include amount, nature, and business purpose of the expenditure, written authorizations, and supporting analysis required under this Administrative Procedure. All expenditures incurred, regardless of how paid or reimbursed, must be supported by original vendor invoices or receipts, except as noted below. Summary credit card receipts or statements must be accompanied by original detailed invoices/receipts (such as hotel folio, detailed restaurant receipt, etc.).

Paragraph 3.7: An employee must submit an accounting for travel expense incurred on a Travel Expense Voucher (TEV Form 1003) to the Department head for approval.

AP 1-5

General: County and Private Vehicles

Paragraph 4.4: Users of private vehicles will be reimbursed at the mileage rate and effective date shown on the Federal Government's General Services Administration's website for privately owned vehicle mileage reimbursement rates located at the website currently displayed at www.gsa.gov/mileage. Users of private vehicles will be reimbursed at the mileage rate and effective date shown on the Federal Government's General Services Administration's website for privately owned vehicle mileage reimbursement rates located at the website currently displayed at www.gsa.gov/mileage.

Paragraph 4.5: Users of County vehicles are reimbursed for out-of-pocket expenses (gas, oil, repairs, and other vehicle expenses) only if it is impractical to be serviced at a County garage facility. Receipts and invoices are required. Users of County vehicles are reimbursed for out-of-pocket expenses (gas, oil, repairs, and other vehicle expenses) only if it is impractical to be serviced at a County garage facility. Receipts and invoices are required.

Paragraph 4.6: Expenses not covered in this administrative procedure are to be listed, supported by receipts, and submitted for reimbursement via direct voucher. Expenses not covered in this administrative procedure are to be listed, supported by receipts, and submitted for reimbursement via direct voucher.

Paragraph 5.0 Department Head will approve reasonable expenses incurred under the conditions as outlined in this Administrative Procedure.

FINDINGS

SC&H identified the following exceptions related to the above County policies, organized by employee expense process/category:

iExpense Transactions

1. 18 of 60 transactions: Supporting documentation for the transaction was insufficient. The supporting documentation did not include one or more of the criteria for

Finding 2: Employee expense management and operational procedure findings

- transaction support, including transaction date, purchase amount, mileage support, etc. (AP 1-2 Paragraph 3.4, AP 1-5 Paragraph 4.4, and AP 1.5 paragraph 4.5)
2. 12 of 60 transactions: Mileage expenses did not agree with supporting documentation. (AP 1-2 Paragraph 3.4, AP 1-5 Paragraph 4.4, and AP 1.5 paragraph 4.5)
 3. 26 of 60 transactions: The Oracle transaction approval was not provided to validate the appropriateness of the transaction review and approval. (AP 1-2 Paragraph 3.7, AP 1-5 Paragraph 5.0)

Operational, risk-based findings

AP 1-2 and AP 1-5 present specific definitions of requirements and guidance for departments to manage their employee expense operations. However, there are supplemental criteria departments are expected to build into their own processes and operations, to support the requirements and guidance. These criteria, sometimes in the form of internal controls, offer departments operational flexibility, while maintaining compliance and mitigating related risks. SC&H identified the following exception related to internal operations:

1. 25 of 60 transactions: Oracle account coding was not available to validate the reasonableness of the coding.

RISKS

Lack of 1) completely and accurately documented and maintained employee expense transactional documentation, 2) evidence of proper reviews and 3) alignment with the Montgomery County Administrative Procedures could result in unauthorized and inappropriate charges.

Limited Sampling and Extrapolation Considerations

The above exceptions include testing a limited sample of transactions and samples. CEC should take into consideration if exceptions were extrapolated across the entire population of transactions and activity. While the full population has not been tested to confirm the exact percentage and value of exceptions, the risk and financial impact to CEC and the County could be of greater significance.

Recommendation 2.1

CEC should develop and document internal processes and controls to help ensure all employee expense related operations are effectively performed, completely and accurately supported, and aligned with AP 1-2 and AP 1-5. AP 1-2 and AP 1-5 contents are not specifically presented as process based, and instead are documented as subjects/topics. CEC should incorporate and align the subjects/topics and their related criteria into the recommended internal processes and controls.

Refer to Finding 4 for additional policy and procedural finding and recommendation content.

Finding 3: PaymentNet information retention limitation

BACKGROUND

The PaymentNet system facilitates the PCard application, activation, profile changes, and deactivation (terminated or suspended) processes through inputs by departmental stakeholders.

FINDINGS

During test procedures, PaymentNet was unable to produce evidence to confirm existence of certain test attributes/criteria. CEC commented that the system maintains a limited number of transactions associated with a PCard profile.

SC&H identified the following exceptions related to the system information retention limitation:

1. 8 of 8 profile changes: CEC was unable to provide PaymentNet evidence for both permanent and temporary profile changes.
2. 2 of 2 cardholder terminations/suspensions: CEC was unable to provide PaymentNet evidence of card termination/suspension information to ensure timely cancellation/suspension of the cardholder account.

RISKS

Lack of availability of cardholder data, including changes to cardholder profiles, could result in cardholder activity and account information not being monitored timely or consistently. This could further lead to unauthorized changes being made to cardholder accounts or intended temporary changes to cardholder accounts not being effectively reversed, without the knowledge of CEC management and those tasked with monitoring PCards.

Recommendation 3.1

CEC should develop and document internal processes and controls to help ensure the maintenance of change evidence within PaymentNet is stored. When a change is made, the pertinent forms, support, and system evidence should be maintained for individual cardholders. If system updates are implemented in the future, procedures should be reevaluated to ensure there is not manual duplication of efforts and can be revised/eliminated as appropriate.

Refer to Finding 4 for additional policy and procedural finding and recommendation content.

Finding 4: Departmental PCard and employee expense policy and procedural limitation

BACKGROUND

The County has multiple policies to govern PCard and employee expense operations. These are referenced in the above findings and itemized below as follows.

1. Montgomery County Maryland Purchasing Card Program Policy and Procedure Manual, effective March 31, 2017 (PCard Manual)
2. Montgomery County Administrative Procedure 1-2, Non-Local Travel Guidelines and Related reimbursements (AP 1-2)
3. Montgomery County Administrative Procedure 1-5, Local Travel Guidelines (AP 1-5)

Departments are expected to align their specific departmental employee expense management and operations, so they comply with these policies and procedures.

Further, the policies and procedures present specific definitions of requirements and guidance for departments to manage their employee expense operations. However, there are supplemental criteria departments are expected to build into their own processes and operations, to support the requirements and guidance. These criteria, sometimes in the form of internal controls, offer departments operational flexibility, while maintaining compliance and mitigating related risks.

Finding 4: Departmental PCard and employee expense policy and procedural limitation

FINDINGS

As noted above, CEC does not have formalized and documented policies and procedures related to how it conducts and manages PCard and employee expense operations throughout the Cluster.⁴

RISKS

Lack of complete policies and procedures that align with departmental operations and Countywide requirements could negatively impact:

1. The establishment and performance of necessary activities performed consistently, efficiently, and effectively in a controlled and timely manner.
2. The ability to perform critical activities in the absence of the primary users.

Recommendation 4.1

CEC should develop, document, and implement policies, procedures, and trainings to formally document PCard and employee expense operations, and the roles/responsibilities of stakeholders (e.g., PCard Liaisons, cardholders, approvers, etc.). Further, these policies and procedures should be consistent and align with County policies and procedures.

CEC should incorporate recommendations related to the other report findings into newly developed and implemented processes, procedures, and trainings.

CEC operates as a combination of various decentralized groups. Decentralization could present the risk of inconsistent operations. To help mitigate this, CEC should ensure its implemented policies, procedures, etc. continue to be centrally administered (i.e., managed by the Program Manager). CEC should further ensure all policies, procedure, etc. are readily available and communicated to all CEC stakeholder to help mitigate inconsistent operations.

CEC should ensure going forward that any changes in County policies are reflected in department policies, procedures, and trainings; and should periodically review the department policies, procedures, and trainings to ensure alignment with County policies.

Finding 5: PCard and employee transactional analysis limitation

BACKGROUND

During the scope period of the review, County Finance had in place, multiple monitoring procedures to review PCard transactions and employee expenses. These include monthly audits of both PCard and expense transactions for reasonableness and compliance with established policies and procedures.

FINDINGS

During the scope period of the review, County monitoring procedures did not include a formalized analysis and/or review of potential duplicate PCard transactions and expenses submitted by County cardholders. Per discussion with Finance, informal monitoring of potential duplicates is performed, but a formal process is not currently in place and consistently performed.

⁴ CEC provided an Administrative/Operating Procedure document titled “Finance – P-Card Internal Control Process” with a creation date of 2024 during the review. The document’s purpose is, “to specify requirements and procedures for processing actions for P-Card transactions” and outlines certain PCard processes/controls. CEC confirmed that this procedure document was in a draft status at the time of the review.

Finding 5: PCard and employee transactional analysis limitation

RISKS

Insufficient monitoring of various transactions may lead to opportunities for duplicate reimbursement being made to County employees for individual transactions and increases the risk fraud, waste, and abuse within the program.

Recommendation 5.1

Finance should formalize the monitoring procedures surrounding the review of potential duplicate transactions and determine a regular frequency to review transactions. Results of monitoring should be communicated to applicable cardholders and Department Liaisons and disciplinary action should be taken when appropriate.

Recommendation 5.1 Update

MCIA reported this finding to Finance during the review's preceding "Purchasing Card Administration Process and Spend Assessment", completed in October 2023.

Per discussion with County AP on April 16, 2024, the County has since implemented a system control in February 2024, through Diligent, to compare PCard and iExpense transactions. On a monthly basis, a system report is generated that compares expenses submitted through iExpense with approved transactions from PaymentNet. The comparison seeks to identify transactions from the same vendor, on the same date, for the same transaction amount. Transactions identified are reviewed by AP staff to determine if a PCard expense was also submitted for reimbursement through iExpense. In the event a duplicate transaction is identified, cardholders are required to reimburse the County for the total transaction amount and may have their PCard suspended or cancelled.

Comments and MCIA Evaluation

The draft final report was shared with the Community Engagement Cluster for its review and comment. CEC responded, acknowledging the findings, and stating that it would work to create the recommended policies associated with the audit report findings. No changes were made in the final report based on the comments received. CEC's response is included at Appendix A.

APPENDIX A – Department Comments



COMMUNITY ENGAGEMENT CLUSTER

Marc Elrich
County Executive

Jodi Finkelstein
Executive Director, CFW

Date: July 25, 2024

To: William Broglie, Internal Audit Manager

From: Jodi Finkelstein, Executive Director, Montgomery County Commission for Women

RE: Formal Comments on Draft Final Audit Report

Thank you for the opportunity to respond to the Audit Report for the Community Engagement Cluster (CEC) Procurement Card. The draft was reviewed by the CEC's Directors, as well as members of the CEC's Business Management Team.

We appreciate the work and effort conducted by your office and SC&H on this audit. We acknowledge the findings and will work to create the policies as indicated in the report.

We look forward to working with you again in the future.