

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



**Procurement Card Targeted Internal Control Review
Department of General Services**

May 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) Department of General Services (DGS) purchasing card (PCard) and employee expense functions (collectively, review).

DGS proactively serves the diverse business and service requirements of all County departments, providing a single point of government-to-government service, enabling departments to successfully complete their respective missions and, thereby, adding value to the services performed by Montgomery County to county residents.

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

May 2024

Procurement Card Targeted Internal Control Review:

Department of General Services

What MCIA Found

DGS'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 four areas of improvement to strengthen controls and mitigate risks in the following areas:

1. PCard management and operations
2. PaymentNet information retention
3. Departmental PCard and employee expense policies and procedures
4. 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 Department of General Services (DGS) (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 DGS's PCard functions.
2. Identify fraud risks, internal controls, and gaps within DGS's iExpense functions.
3. Evaluate DGS 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 P-Card 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 P-Card). 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 Department of General Services

DGS consists of approximately 170 full-time equivalent (FTE) employees and proactively serves the diverse business and service requirements of all County departments, providing a single point of government-to-government service, enabling departments to successfully complete their respective missions and, thereby, adding value to the services performed by Montgomery County to county residents.¹

The department is organized and operated through nine divisions/office, as follows:

1. Director's Office
2. Office of Contract Management
3. Division of Central Services

¹ FY24 budget:

<https://apps.montgomerycountymd.gov/BASISOPERATING/Common/Department.aspx?ID=36D>

4. Division of Facilities Management
5. Division of Fleet Management Services
6. Division of Building Design and Construction
7. Office of Planning and Development
8. Office of Energy and Sustainability
9. Office of Real Estate

DGS's PCard and employee expense functions are administered through its nine division/office management teams, including Department Head, Division Chief, and/or Division Designee with PCard processes being administratively managed by the Department's PCard Liaison.

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

1. 1,935 PCard transactions resulting in a total spend of \$864,268.
2. 613 iExpense transactions resulting in a total spend of \$53,649.

DGS PCard and Employee Expense Functions

DGS PCard Functions

DGS operates as nine different divisions/offices within the department, with multiple department PCard Liaisons. The PCard Liaisons (referred to as PCard Liaison throughout) for DGS, support DGS employees with card requests, usage and reconciliation of individually assigned and DGS PCards, monitoring of transactions, and adjustments to and cancellations of PCards.

PCard Setup

Individual employees, or DGS management, may determine the need for a new PCard within DGS. 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 Director 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.

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. 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. DGS cardholders are assigned a transaction approver, who is responsible for reviewing and approving all reconciled transactions in PaymentNet monthly.

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 Accounts Payable (AP) Manager during the performance of monthly monitoring procedures, the PCard Administrator/AP Manager communicates the account status change to the cardholder and PCard Liaison and indicates procedures for reinstatement of the card.

DGS Employee Expense Functions

Employees within DGS 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 DGS 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 a designated administrative support team member for final review. The administrative support team member who reviews an employee's expense request is assigned based on the division/office of the employee entering the expense and could include a Management and Budget Specialist, Administrative Specialist, and/or Accountant Auditor Supervisor. The Administrative support team member enters all expenses into iExpense and 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 DGS, 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. 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 DGS PCard and employee expense functions, which included the following procedures:

1. Reviewed documentation related to DGS's PCard and employee expense functions.
2. Conducted interviews/walkthroughs with DGS 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 the 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.

Internal Controls Testing

SC&H performed sample-based internal control test procedures to evaluate DGS'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 DGS's PCard and employee expense functions and County policies.

Supplemental Testing

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

1. DGS 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 DGS Management and the IA Manager.

Findings and Recommendations

Results

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

The review yielded four findings with four supporting recommendations. These findings and the recommendations are presented to help strengthen DGS'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 DGS lacked department-specific documented policies and procedures in the areas reviewed as part of this audit. As noted below, DGS does not have a central point of accountability for its PCard and iExpense programs; instead relying on each division/office to administer these programs. This operational structure 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)²

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; Cardholder setup, documentation management and retention, and termination or cancelation.

PCard Manual

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

² 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

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."

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.

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 3 cardholder profiles: Evidence of a completed cardholder agreement was not maintained. (Section II.B.5, Section II.B.6)

PCard transactions

1. 1 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)

Terminated and suspended cardholders

1. 1 of 3 cardholder profiles: The PCard Liaison Form evidencing the closure of the card profile was not provided. (Section II.I.2)

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.

Finding 1: PCard management and operational procedure findings

- b. Inaccurately charged transactions (e.g., the inclusion of sales tax).
- 3. 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.

Limited Sampling and Extrapolation Considerations

The above exceptions include testing a limited sample of transactions and samples. DGS 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 DGS and the County could be of greater significance.

Recommendation 1.1

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

Refer to Finding 3 for additional policy and procedural finding and recommendation content.

Finding 2: 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. DGS 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. 7 of 8 profile changes (T1.3): DGS was unable to provide PaymentNet evidence for PaymentNet change forms with PCard administrators.
- 2. 5 of 8 profile changes (T1.3): DGS was unable to provide PaymentNet evidence for timeframes associated with temporary PCard changes.
- 3. 2 of 3 reconciliations (T4.1): DGS was unable to provide PaymentNet evidence for the date and time of approval.
- 4. 3 of 3 cardholder terminations/suspensions: DGS 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

Finding 2: PaymentNet information retention limitation

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 DGS management and those tasked with monitoring PCards.

Recommendation 2.1

DGS 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 3 for additional policy and procedural finding and recommendation content.

Finding 3: 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.

FINDINGS

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

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 3.1

DGS should develop, document, and implement policies, procedures, and trainings to formally document PCard and employee expense operations, and the roles/responsibilities of

Finding 3: Departmental PCard and employee expense policy and procedural limitation

stakeholders (e.g., PCard Liaisons, cardholders, approvers, etc.). Further, these policies and procedures should be consistent and align with County policies and procedures.

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

DGS does not have a central point of accountability for its PCard and iExpense programs; instead relying on each division/office to administer these programs. This operational structure could present the risk of inconsistent operations. To help mitigate this, DGS should ensure its implemented policies, procedures, etc. continue to be centrally administered (i.e., managed by the PCard Liaison). DGS should further ensure all policies, procedure, etc. are readily available and communicated to all DGS stakeholder to help mitigate inconsistent operations.

DGS 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 4: 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.

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 4.1

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 4.1 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

Finding 4: PCard and employee transactional analysis limitation

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 following departments for their review and comment:

- Department of General Services
- Department of Finance

Finance responded by acknowledging that they had implemented the additional internal controls in the form of reports and related monitoring procedures noted in Recommendation 4.1 above. DGS responded and concurred with the audit report findings. No changes were made in the final report based on the comments received.

APPENDIX A – Department Comments




DEPARTMENT OF GENERAL SERVICES

Marc Elrich
County Executive

David E. Dise
Director

May 28, 2024

TO: William Broglie, Internal Audit Manager
Office of County Executive

FROM: David Dise, Director 
Department of General Services

SUBJECT: Formal Comments – DGS P-Card Audit

As you know, DGS has been afforded the opportunity to provide FORMAL COMMENTS for inclusion in the final P-Card Audit report. Accordingly, please see below DGS comments related to Findings #1, #2, and #3 of the referenced audit.

Finding 1: P-Card management and operational findings.

Recommendation 1.1 - DGS should develop and document internal processes and controls to help ensure all P-Card related operations are effectively performed, completely and accurately supported, and aligned with the P-Card Manual. DGS should consider organizing these processes as they are stated in the P-Card Manual to align with specific P-Card operational activity.

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

Response: DGS concurs.

Finding 2: PaymentNet information retention limitation

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

Recommendation 2.1 - DGS 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

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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.

Response: DGS concurs.

Finding 3: Departmental P-Card and employee expense policy and procedural limitation.

DGS does not have formalized and documented policies and procedures related to how it conducts and manages PCard and employee expense operations throughout the department.

Recommendation 3.1

DGS 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.

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

DGS does not have a central point of accountability for its PCard and iExpense programs; instead relying on each division/office to administer these programs. This operational structure could present the risk of inconsistent operations. To help mitigate this, DGS should ensure its implemented policies, procedures, etc. continue to be centrally administered (i.e., managed by the PCard Liaison). DGS should further ensure all policies, procedure, etc. are readily available and communicated to all DGS stakeholder to help mitigate inconsistent operations.

DGS 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.

Response: DGS concurs.