

FREDERICK COUNTY, MARYLAND
Procurement Card Transactions

PERFORMANCE AUDIT REPORT
For the period July 1, 2021, through June 30, 2023
Report # 23-06



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PROCUREMENT CARD TRANSACTIONS
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INDEPENDENT AUDITORS' REPORT AND EXECUTIVE SUMMARY

Interagency Internal Audit Authority
Frederick County, Maryland

Frederick County Government Interagency Internal Audit Authority (IIAA) engaged CliftonLarsonAllen LLP (CLA) to conduct a performance audit of the Frederick County Procurement Card (P-Card) program. Our audit scope covered the period of July 1, 2021, through June 30, 2023. We conducted our audit in accordance with *Governmental Auditing Standards* issued by the Comptroller General of the United States.

The Frederick County Government (FCG) contracts with JPMorgan Chase Mastercard® as its Procurement Card provider. The County Executive of Frederick County, Maryland has permitted the use of Procurement Cards (P-Cards) to procure small dollar purchases. The P-Card may be used by authorized employees to procure allowable goods and services.

Our audit objectives are to review P-Card transactions in the context of seven key testing categories including whether transactions were in compliance with policy and procedure guidelines established by FCG, whether purchases were in excess of procurement thresholds, to determine if P-Cards related to terminated employees were appropriately deactivated in a timely manner, to determine if P-Cards related to employees who were transferred were properly adjusted for account string codes and approval paths, to evaluate temporarily suspended accounts and the notification process for reinstating them, to assess if cardholders with no recent transaction history possess a business case for continued card retention, and to analyze cardholders who have been identified as in violation of P-card policy for the purpose concluding whether P-Card rights were removed.

A summary of findings are as follows:

| Finding # | Area | Finding |
|-----------|--------------------------------------|--|
| 1 | Procurement Card Transaction Testing | There were two instances in which the Procurement Rules & Regulations were not followed for purchases exceeding \$2,500 or \$10,000. |
| 2 | Procurement Card Transaction Testing | There were 245 violations of the Office of Procurement and Contracting's PCard Policies and Procedures. Additionally, there were 26 instances where the purchasing department was unable to provide a signed cardholder agreement. |

Interagency Internal Audit Authority
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| Finding # | Area | Finding |
|-----------|--------------------------------|---|
| 3 | Account Suspensions | Suspended accounts and documented compliance violations appear to be low. Five accounts were suspended by the Office of Procurement and Contracting in fiscal year 2023. Additionally, there were eleven compliance violations in fiscal years 2022 and 2023. There were three instances where the Office of Procurement and Contracting notified a cardholder of a compliance violation but did not officially issue a compliance violation. |
| 4a | Cardholder Transfer Testing | The Office of Procurement and Contracting was unable to provide a listing of cardholders that transferred departments between fiscal year 2022 and fiscal year 2023. |
| 4b | Cardholder Transfer Testing | Accounts related to four cardholders who transferred departments were closed but the cardholder was still listed as "Active" on the FY 2023 cardholder listing. |
| 4c | Cardholder Transfer Testing | One cardholder was promoted but never received a new procurement card related to his new position. However, the employee was listed as active on the FY 2023 cardholder listing. |
| 5 | Review of Terminated Employees | Four employees included on the terminated employees list were also listed as "Active" on the FY 2023 cardholder listing. Additionally, there were 3 instances in which the number of days between employee termination and account closure in the JPMorgan system was significant, totaling 101 days, 542 days, and 35 days respectively. |
| 6 | Overall | Lack of annual refresher training on Pcard policies and procedures for all procurement card holders and designated approvers. |

Interagency Internal Audit Authority
Frederick County, Maryland

Key recommendations are as follows:

1. Implement annual training sessions to ensure users are well-informed about all policies and procedures, as it's evident that there's a lack of awareness among users.
2. Introduce a tracking mechanism to monitor the collection of supporting documents, requiring them to be provided within 30 days of month end to maintain thorough documentation to support compliance.
3. The Office of Procurement and Contracting should conduct a test of a sample of monthly cardholder packets to ensure documentation has been provided and is appropriate. This test should be conducted within 90 days of receipt to ensure timely and thorough oversight.
4. Ensure timely communication regarding compliance violations to relevant parties, particularly in cases where there's no support or non-compliant items are identified, to address issues promptly and effectively.

We included responses from FCG after each finding in the finding, recommendations, and management's responses section.



CliftonLarsonAllen LLP

Baltimore, Maryland
June 18, 2024

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BACKGROUND

Frederick County Government (FCG) has permitted the use of Procurement Cards (Pcards) to procure small dollar purchases. The Pcard can be used by authorized employees to procure allowable goods and services to ensure faster delivery and substantially reduce the labor-intensive paper and administrative process involving issuing a purchase order. FCG has contracted with JP Morgan Chase Mastercard® as its Procurement Card provider. In fiscal year 2022 and 2023, there were 452 and 470, respectively active Pcard holders within FCG. In fiscal years 2022 and 2023, there were 34,414 and 37,580 Pcard transactions respectively as noted in Chart 1 below. This represents a 9.20% increase in the year to year quantity of transactions. The dollar amount of Pcard transactions totaled \$16,500,000 in fiscal year 2022 and \$17,300,000 in fiscal year 2023 as noted in chart 2 below. This represents a 4.85% increase.

Chart 1 - Number of PCard Transactions

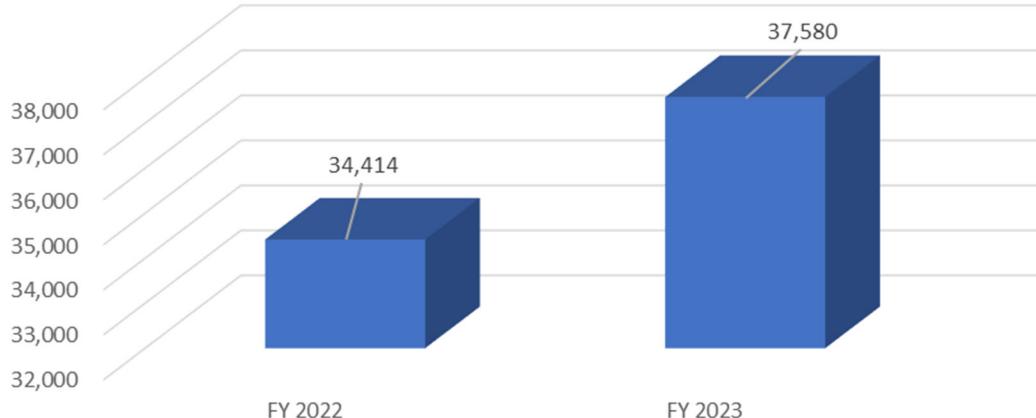


Chart 2 - Pcard Disbursements



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The Office of Procurement and Contracting is responsible for the procurement card program and have published the Pcard Policies and Procedures that all cardholders are to follow. The Pcard Policies and Procedures outlines roles and responsibilities, training, spending limits, employment changes, lost and stolen cards, sales tax information, use of cards including restrictions, compliance violations, disputed transactions, fraudulent transactions, deadlines, random audits and the PD230 transaction detail report (a reporting function in “INFOR”, the FCG financial reporting system).

OBJECTIVES, SCOPE AND METHODOLOGY

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) established by the U.S. Government Accountability Office (GAO). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

The objectives of the audit are as follows:

1. Gain an understanding of the Frederick County Government P-Card policies and procedures.
2. Evaluate the risks and internal controls identified.
3. Evaluate and test procurement card transactions on a sample basis, identifying instances where FCG procurement card policies and procedures were not followed, and identifying where controls may have been lacking or circumvented.
4. Test procurement card recipients for appropriate approvals, spending limits and participation in training.
5. Evaluate and test whether quotes for goods or services exceeding \$2,500 (until 12/25/2022) or \$10,000 (after 12/25/2022) were appropriately obtained. CLA selected and tested a sample of 120. CLA identified two transactions where quotes were not properly obtained.
6. Analyze procurement card transactions to identify whether procurement card purchases are also being submitted for personnel expense reimbursement by employees. CLA selected 40 monthly cardholder statements and compared to the reimbursement expense. No issues or findings were noted.
7. Ensure terminated employees procurement cards are appropriately deactivated in a timely manner. CLA selected 31 samples to be tested of the 78 employees on the terminated listing. CLA noted that 4 of the 78 employees listed as terminated were still listed as “active” on the cardholder listing. CLA noted that for 20 of the 31 samples tested, the cardholder account was not closed when the employee was terminated. Of those 20, there were 3 instances where the days between termination and account closure exceeded 100 days.

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8. For transferred employees, verify procurement card supervisor approval paths and account string codes were changed appropriately and timely. CLA selected 24 samples for testing. Of these samples, there were 5 instances where the cardholder listing did not reflect the appropriate department and/or cardholder status.
9. Evaluate suspended accounts and the notification process of reinstating those accounts. CLA selected all 5 suspended accounts for testing.
10. Examine the procurement and contracting department procurement card auditing and administration procedures to evaluate whether procurement card transactions are appropriately tested and reconciled monthly.
11. Evaluate and test that cardholders appear appropriate by reviewing cardholders who do not utilize their card for long periods of time. CLA selected and tested a sample of 10 cardholders with long period of inactivity. No findings were noted.
12. Evaluate and test that employees who have been noted as not following procurement card policy and procedures are documented and procurement card rights are appropriately removed in accordance with procurement card policies and procedures. CLA selected all 11 compliance violations for testing.
13. For Objectives #3, 4, and 10; CLA tested a sample of 121 monthly statements and all transactions included in those statements. This was made up of 111 different cardholders. The total findings amounted to 281 instances of violations of the Office of Procurement and Contracting's PCard Policies and Procedures.

Our methodology and scope consisted of:

1. Reading the detailed FCG P-Card policies and procedures and evaluating the adequacy of the controls encompassed in the respective policies and procedures
2. Performing P-Card transaction testing concerning allowability and approval on a sample basis under a risk-based approach for FY22 through FY23. Transaction testing focused on the following areas:
 - Transactions outside of expectations based on data analysis trends.
 - Transactions that appeared to be outside P-Card Usage and Travel Policies and/or have a higher level of inherent risk of being non-allowable such as but not limited to those purchases relating to the following areas:
 - Entertainment Subscriptions
 - Brewery/Wineries, and other Alcohol Distributors
 - Social Media Charges
 - Restaurants
 - Gaming
 - Hotel Stays & Other Travel Related Purchases
 - Gift Cards
 - Payments to Individuals
 - Large dollar purchases in the context of procurement and contracting regulations to verify whether required quotes were obtained for expenditures
 - Transactions that appear to exceed spending limits
 - Transactions that include sales tax

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3. Reviewing P-Card transaction for appropriateness and compliance by obtaining supporting documentation and reviewing approvals related to purchases made by individuals who were documented as previously in violation of policy.
4. Testing employee transfers by reviewing the procurement card change form and comparing the form to current supervisor approval paths and account strings. Also tested for timeliness of the change.
5. Testing terminated employees by obtaining a list of terminations and determining whether they were removed from the active P-Card listing and whether deactivation was timely.
6. Assessing if cardholders with no recent transaction history possess a business case for continued card retention by inquiring with the appropriate personnel.

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FINDINGS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

Finding No. 1 – Unapproved Purchases

Per the procurement policy, any sole source purchase over \$2,500 (until December 25, 2022) or \$10,000 (after December 25, 2022) must be approved prior to purchase by the procurement supervisor and the agency must provide one quote from sole vendor in writing, requisition or p-card, insurance, SDAT and possible agreement. There were two transactions that exceeded these thresholds; however, the cardholders did not obtain the required approvals prior to purchase. Additionally, the Office of Procurement and Contracting did not note these as a compliance violation because the transactions were considered a valid sole source transaction.

- We recommend FCG Office of Procurement and Contracting enhance training and communication to the procurement card holders to ensure procurement policies are followed for individual purchases greater than \$10,000.
- We also recommend that proper support is maintained for transactions that are sole source in nature.

Management's Response

We agree with the recommendation of CLA. General procurement training has been made available on the County SharePoint and provided to all agencies by the Director and Supervisor of Procurement & Contracting. Purchase thresholds are covered in this training. All valid sole source purchases are assigned a project number with proper support and are signed by the Director or Supervisor of Procurement & Contracting. Annual P-card training has been developed and is in the process of being implemented and will be required by all cardholders and approvers, beginning in July 2024. The training will include updated Pcard policies and procedures. The Procurement & Contracting team will ensure the training includes necessary support required for sole source purchases on a Pcard.

Finding No. 2 – Monthly Cardholder Transactions

During our testing of monthly cardholder transaction testing, we noted the following violations of the Office of Procurement and Contracting's PCard Policies and Procedures:

1. There were 20 instances where the Office of Procurement and Contracting did not review/approve the cardholder monthly packets (PD230 Transaction Detail Report, all itemized invoices and receipts). However, per discussion with management, review was not required for the particular cardholders for the specific months as cardholder transactions are reviewed on a rotational basis. We are recommending that management continue with random monthly review testing on a rotational basis.
2. There were 60 instances where the Office of Procurement and Contracting did not perform their review of the monthly cardholder packets within 90 days of the statement date.
3. There were three instances where Office of Procurement and Contracting completed a review that was not dated; therefore, we could not determine whether the review was timely.
4. There was one instance where the approving official within a Division did not review/approve the cardholder monthly statements.

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5. There were 19 instances where the division approving official review did not take place within 90 days of the statement date.
6. There were 26 purchases made that were unallowable per the Office of Procurement and Contracting's PCard Policies and Procedures as noted below:
 - a. There were 25 instances where the purchase card was used to purchase gift cards.
 - b. There was 1 instance where a purchase card was used to provide entertainment items for gifts and there was no acceptance form provided.
7. There were four instances where the monthly purchase card limit was exceeded. It should be noted that for some high use cardholders, total monthly purchases were in excess of the credit limit. However, Frederick County maintains a policy of remitting payment once a week to JPMorgan Chase. As such, the credit limit was never exceeded. This payment policy is unlikely to be modified as the county receives the benefit of significant rebates.
8. There were 122 travel policy violations noted as outlined below:
 - a. There were 36 instances where the meal per diem identified per the travel policy was exceeded. This included tips on meals.
 - b. There were 35 instances where the allowable uber tip of 15% per the travel policy was exceeded.
 - c. There were six instances where travel expense for someone besides the cardholder were paid.
 - d. There were 42 instances where travel expenses were upgraded (UberXL and early bird check-in). The cardholder should use the lowest reasonable fare for public transportation.
 - e. There were three instances where travel expenses were booked through a 3rd party website.
 - f. During conferences where meals were provided, Pcards were still used to purchase meals during hours where the conference was still in session.
9. There were several instances where cardholders failed to notify vendors of tax-exempt status. However, in each instance tested, the cardholder reimbursed the County for sales tax amounts.
10. There were 10 instances in which supporting receipt documentation was not available for purchase card transactions.

In addition, during our testing of monthly cardholder transaction testing, there were 26 instances where the Office of Procurement and Contracting was unable to provide a signed cardholder agreement.

We recommend Office of Procurement and Contracting employ the following remediation strategies:

- Enhance training and communication to procurement card holders on allowable and unallowable transactions, transaction limits, and the travel policy including pre-travel approvals and appropriate use of Pcards during travel periods, especially in the context of conference travel. This training should be conducted annually for both card users and their supervisors.
- Enforce that supporting documentation related to Pcard purchases is provided within 30 days on month end.

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- The Office of Procurement and Contracting should conduct a test of a sample of monthly cardholder packets to ensure documentation has been provided and is appropriate. This test should be conducted within 90 days of receipt to ensure timely and thorough oversight.
- Issue compliance violations when approval of transactions by the Division's Approving Official is not completed timely, per the Office of Procurement and Contracting's PCard Policies and Procedures.
- Enhanced monitoring and oversight over the purchase of gift cards on procurement cards, which is strictly prohibited. Training should identify clear guidelines and raise awareness about the prohibition of such practice and the potential consequences of non-compliance.

Management's Response

We agree with the recommendation of CLA. As noted in our response to finding #1, general procurement training has been made available on the County SharePoint and provided to all agencies by the Director and Supervisor of Procurement & Contracting. Travel training has also been incorporated into this general training as well as the importance of prohibited purchases such as gift cards. Annual Pcard training has been developed and is in the process of being implemented and will be required by all cardholders and approvers, beginning in July 2024. The Pcard Policy & Procedures has been updated to give cardholders 30 days after notice to submit delinquent statements or requested missing statement backup before their Pcard will be suspended. The Procurement & Contracting team will continue to implement review procedures on monthly Pcard transactions on a sample rotational basis and will set policy to have the tests/reviews completed within 90 days of the support due date.

Finding No. 3 – Suspension and Deactivations

Documented compliance violations and action taken to suspend accounts appear to be low and inconsistent in the context of the findings that have been noted in this report. Only five accounts were suspended by the procurement department in fiscal year 2023. Additionally, there were only 11 compliance violations documented in FY22-FY23. Suspended accounts and documented compliance violations are low particularly in relation to the number of potential violations noted in Finding No. 2. We also noted that out of 121 sample transactions tested, there were three instances where the Office of Procurement and Contracting identified a compliance violation and notified the cardholder of the compliance violation but did not write-up formal compliance violation to be documented.

We recommend the Office of Procurement and Contracting actively monitor cardholder activity and adhere to the Pcard Policies and Procedures, Section 10.0 Compliance Violations when a cardholder violates the policy.

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Management's Response

We agree with the recommendation of CLA. The Pcard Policy & Procedures has been updated to enhance suspension of cardholders 30 days after notification. Compliance Violations are outlined in the Policy & Procedures and have different requirements for First, Second and Third Offense. The Office of Procurement & Contracting will ensure to follow the Compliance Violation Procedures outline in the updated Policy & Procedures. Compliance Violations will also be discussed during annual required Pcard training.

Finding No. 4 – Transferred and Promoted Cardholders

During our testing of cardholder transfers, we noted the following:

- a. The Office of Procurement and Contracting was unable to provide a list of cardholders that transferred departments between fiscal year 2022 and fiscal year 2023. A list of transfers was obtained from Division of Human Resources.
- b. There were four employees who transferred departments and the Pcard accounts related to their previous positions were closed. However, the status of these accounts remained as "Active" on the FY23 cardholder listing.
- c. One employee was promoted, however, never received a new p-card related to his new position. The employee was still listed as "Active" on the FY23 Cardholder Listing.

We recommend the Office of Procurement and Contracting collaborate with the Division of Human Resources to ensure the Office of Procurement and Contracting is notified when changes are made to an employee's department/job. The Office of Procurement and Contracting should also maintain, monitor and continuously update the list of "Active" cardholders for employee transfers, promotions, and terminations. The Office of Procurement and Contracting should perform a self-review on a quarterly basis of the active procurement card listing against HR records to ensure all transfers and promotions are properly captured in the procurement card active listing.

Management's Response

We agree with the recommendation of CLA. The Office of Procurement & Contracting does not receive a list of employees that transfer agencies similar to the termination list. Internal processes have been updated to help quickly access information to ensure the Cardholder profile is updated accordingly

Finding No. 5 – Terminated Employees listed as Active Cardholders

Four employees included on the terminated employees list were also listed as "Active" on the FY23 cardholder listing as of June 30, 2023. This is an indication that P-Cards related to terminated employees are not being closed in a timely manner and that the County is exposed to unauthorized card use. Additionally, there were 20 instances in which the cardholder account was not closed in the JPMorgan system on or before the date of employee termination. There were also 3 instances in which the number of days between employee termination and account closure in the JPMorgan system was significant, totaling 101 days, 542 days, and 35 days respectively. Typically, the Office of Procurement and Contracting does not receive the term list until a day or so later. Weekends and holidays are also a factor in regard to when the termination list is received and reviewed. For 17 of these instances, the

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accounts were closed in JPMorgan chase within a few days of termination. However, in the 3 instances in which closure exceeded 30 days of termination, these accounts were missed in the initial review of the termination list.

We recommend the Office of Procurement and Contracting enhance collaboration efforts with the Division of Human Resources to ensure timely notification of terminated employees in order for the Office of Procurement and Contracting to promptly close the procurement card. We also recommend that Office of Procurement and Contracting develop multiple levels of review regarding review of the termination list so that new terminated employee is not overlooked in the context of Pcard account closure. At a minimum, the Office of Procurement and Contracting should perform a self-review on a quarterly basis of the active procurement card listing against HR records to ensure all terminated cardholders were properly removed.

Management's Response

We agree with the recommendation of CLA. The County would like to emphasize that there were no purchases made by any of the cardholders subsequent to their documented date of termination. We will continue to review termination lists provided by Human Resources to ensure accounts are closed and no further card use happens after date of termination.

Finding No. 6 – Insufficient Training

The Pcard Policies and Procedures indicates that Pcard training is required to be completed prior to the receipt of a procurement card and approving officials are only required to complete training modules associated with their role. However, findings noted in this report are a result of a failure to follow these policies and procedures.

The Office of Procurement and Contracting should invest in a comprehensive annual training program focused on Pcard policies, regulations, and requirements for all personnel involved in procurement and financial transactions. These training sessions should be tailored to address specific roles and responsibilities within the organization, ensuring that employees have the knowledge and skills necessary to effectively utilize Pcards while adhering to established policies and procedures. Additionally, the implementation of ongoing refresher courses and updated training materials will help reinforce understanding and promote a culture of compliance across the organization.

Management's Response

We agree with the recommendation of CLA. Annual Pcard training has been developed and is the process of being implemented through FCG Learn/ Trails. Training will be required of all cardholders and approvers and if not completed their Pcard will be suspended. The Pcard Policy & Procedures are available on Procurement & Contracting Sharepoint site for reference material. The County would like to emphasize refresher training is available at any time upon request from a cardholder, approver or Division Director.



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