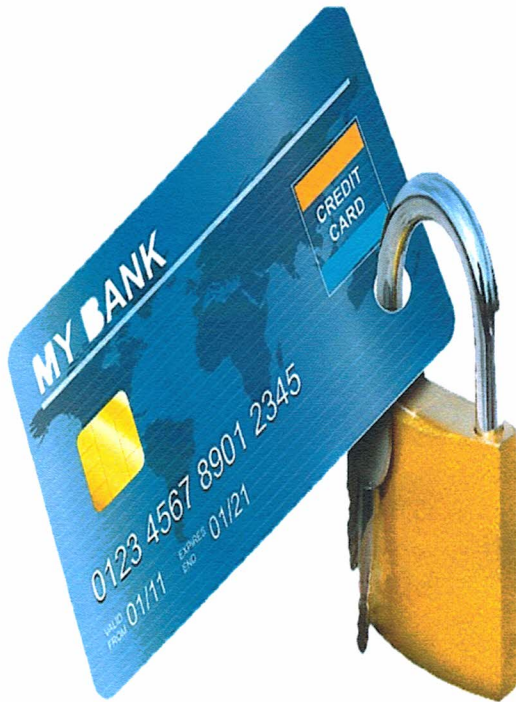




October 13, 2021

PURCHASE CARD PROGRAM COMPLIANCE REVIEW THIRD QUARTER ENDED MARCH 31, 2021



Project # 22-PCR-01

A Report to:

Commissioners:

Chair, Keith E. Bell
Vice Chair, Howard A. Denis
Fausto R. Bayonet
T. Eloise Foster
Chris Lawson

General Manager/CEO:

Carla A. Reid

Corporate Secretary

Julianne M. Montes De Oca, Esq.

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Interoffice Memorandum

TO: CAPRECIA POOLE-WILLIAMS, CHIEF PROCUREMENT OFFICER
PROCUREMENT OFFICE

THRU: ARTHUR A. ELKINS, JR., INSPECTOR GENERAL ^{DS} *aa*
OFFICE OF THE INSPECTOR GENERAL

THRU: MAXENE M. BARDWELL, ASSISTANT INSPECTOR GENERAL FOR AUDIT ^{DS} *MS*
OFFICE OF THE INSPECTOR GENERAL

FROM: DAISY QIAN, AUDITOR *DQ*
OFFICE OF THE INSPECTOR GENERAL

DATE: OCTOBER 13, 2021

SUBJECT: OFFICE OF THE INSPECTOR GENERAL
MANAGEMENT MEMORANDUM
PURCHASE CARD (P-CARD) PROGRAM COMPLIANCE AUDIT
REVIEW FOR THE THIRD QUARTER ENDED MARCH 31, 2021

EXECUTIVE SUMMARY**Background**

In accordance with the Fiscal Year 2022 Risk-Based Audit Plan, the Washington Suburban Sanitary Commission's (WSSC Water's) Office of the Inspector General (OIG) examined purchase card transactions for the quarter ended, March 31, 2021. Purchase card transactions are governed by the WSSC Water's Purchase Card Program (P-Card Program), as set forth in Chapter 6.20 of WSSC Water's Manual of Standard Procedures (Manual) and further established by Chapter 6.15 of the WSSC Code of Regulations (Code). Both the Manual and the Code are used in conjunction with the supplemental WSSC Purchase Card Program Manual (P-Card Program Manual) approved by the Chief Procurement Officer or their designee.¹ The

¹ See WSSC Manual of Standard Procedures § 6.20.030 (b) (advising that the P-Card Program Manual should supplement the P-Card standard procedure); see also WSSC Procurement Department's Forms and Documents, P-Card Manual (July 6, 2020), http://wsscconnect.wssc.ad.root/wps/myportal/wssc-home/team_pages/procurement%20office/p-card%20guidelines/pcard%20forms%20and%20documents/ (last visited September 14, 2021); WSSC 6.15.090 (b)(6) (stating that subject to the approval of the General Manager/Chief Executive Officer the Chief Procurement Officer shall establish written procedures for the execution of contracts for the procurement of goods and supplies, services . . . such procedures shall include policies, instructions, and/or guidelines).

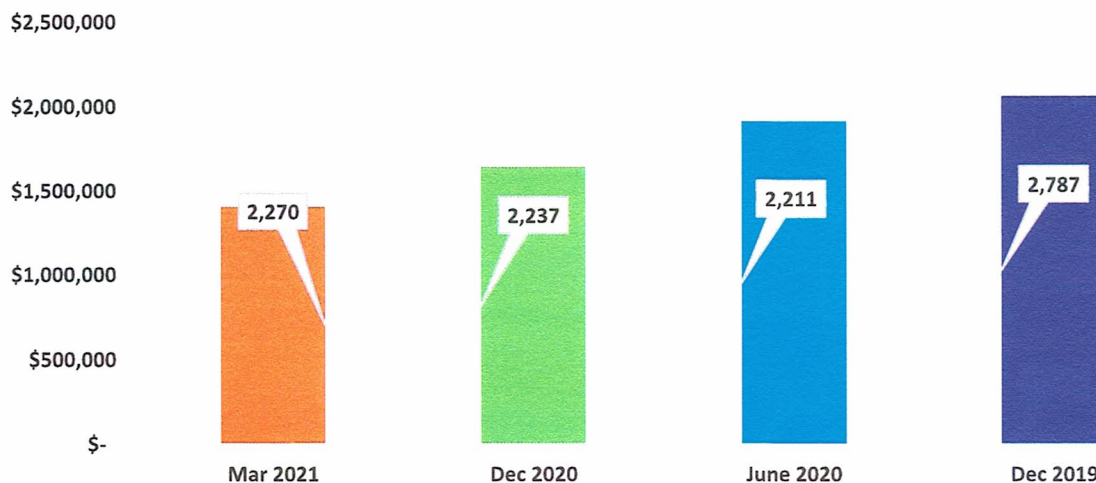
CAPRECIA POOLE-WILLIAMS, CHIEF PROCUREMENT OFFICER
PROCUREMENT OFFICE
OCTOBER 13, 2021
PAGE 2

Procurement Office's Operations & Administration Division (Procurement Office) oversees the P-Card Program, and the day-to-day management responsibilities are assigned to the P-Card Specialist.

The OIG conducted the audit in accordance with the International Professional Practice of Internal Auditing and the Generally Accepted Government Auditing Standards, except for the peer review requirement.

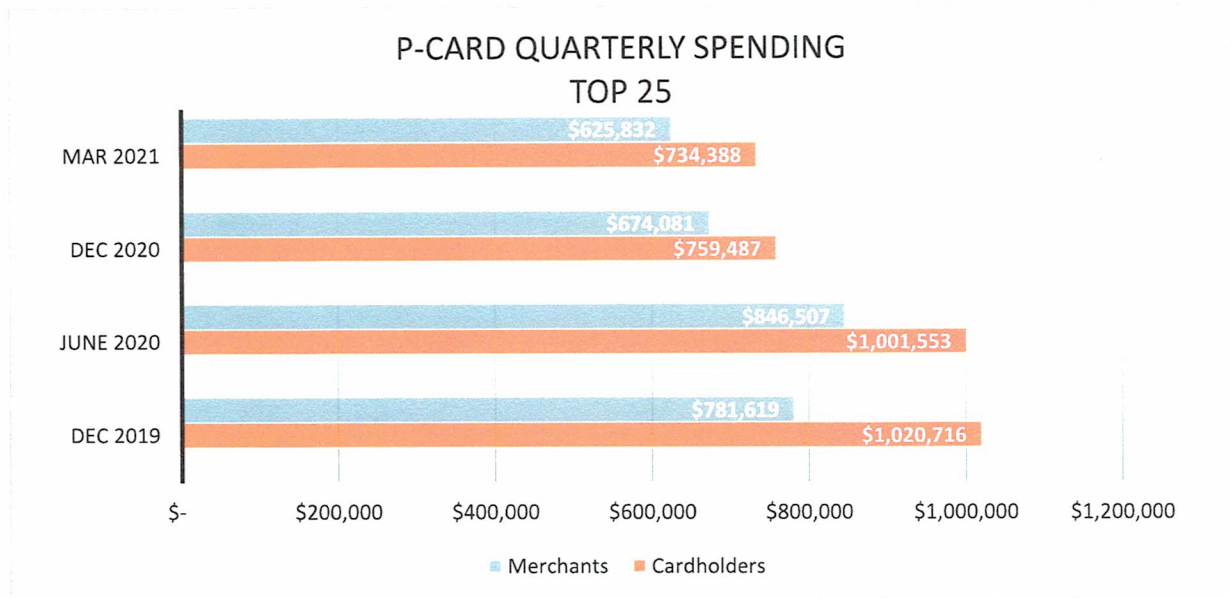
During the quarter ended, March 31, 2021, there were 2,270 transactions totaling \$1,402,852, which represented an increase of 33 transactions compared to the previous 2,237 transactions recorded for the second quarter ended, December 31, 2020, totaling \$1,640,904.

Quarterly P-CARD SPENDING



The top 25 cardholders accounted for 628 transactions or 28% of the total transactions, and \$734,388 or 52% of the total P-Card dollars spent during the quarter ended, March 31, 2021. Active cardholders purchased items from various merchants, and the top 25 merchants accounted for \$625,832 or 45% of the total dollars spent by cardholders. The number of cardholder transactions totaled 574 or 25% of the total number of P-Card transactions among the top 25 merchants.

CAPRECIA POOLE-WILLIAMS, CHIEF PROCUREMENT OFFICER
PROCUREMENT OFFICE
OCTOBER 13, 2021
PAGE 3



Objective

The objective of the review was to determine compliance with WSSC Water's policies as set forth in its regulations, standards, and procedures. The OIG developed procedures and tests to identify instances of fraud, waste, and abuse.

Scope

This quarter's scope focused on policies and procedures, extended credit limits, and possible charges from terminated employees. Other substantive testing procedures included verifying proof of purchase and determining whether capital moveable assets were classified properly. The OIG examined the merchant spend analysis, declined transactions, multiple vendors with common addresses, common addresses among WSSC Water employees and vendors, high dollar volume purchases from obscure vendors, and split transactions. The limited procedures provided sufficient evidence to accomplish the overall objective to validate P-Card management controls and identify risk-related areas of P-Card Program noncompliance.

To perform testing, the OIG auditors downloaded quarterly information directly from the J.P. Morgan Chase & Company's credit card system (J.P. Morgan Chase Bank System) and imported the information into data analysis software. The OIG worked with the Disbursements Division to help research items and other issues related to compliance with the P-Card Program. The P-Card transactions under review are based on a three-month quarterly period. For the quarter ended, March 31, 2021, the OIG auditors sampled 33 cardholders that had 40 transactions totaling \$26,482.

CAPRECIA POOLE-WILLIAMS, CHIEF PROCUREMENT OFFICER
PROCUREMENT OFFICE
OCTOBER 13, 2021
PAGE 4

Conclusion

The OIG noted two issues, which may circumvent established controls and may present some risk to the P-Card program for the quarter ended, March 31, 2021. These issues relate to the inconsistent adherence to the approval process and the failure to obtain higher limit request forms.

ISSUES, MANAGEMENT RESPONSES, AND ACTION PLANS

Issue 1: Inconsistent Adherence to the Approval Process

Risk Rating: LOW

Condition:

The OIG noted nineteen (19) P-Card transactions totaling \$39,173, where the approvers did not approve credit transactions in accordance with the approval process in the Manual.

Criteria:

Section 6(A) of the P-Card Program Manual, states in part that a cardholder and their supervisor “will have a total of twenty (20) days to review and make any necessary changes [to approve the transactions on a cardholder’s expense report].”

Cause:

The OIG made inquiries to Procurement regarding the noted inconsistencies in the approval process and was not provided a specific reason as to why the cardholders’ supervisor did not follow the procedures.

Effect:

P-Card transactions without proper authorization may lead to the risk that P-Card abuses may not be detected and addressed in a timely manner. Ensuring appropriate approval is a critical internal control activity to ensure P-Card transactions adhere to the established procedures and reduce fraud.

Recommendation 1: Create Automatic Notifications & Enforce Compliance

OIG recommends the P-Card Specialist or WSSC management contact J.P. Morgan Chase & Company to create or turn on automatic reminders for transactions approaching the 20-day approval limit. The automatic alerts may ensure that the approvers are aware of the pending transactions that require review and approval.

In addition, OIG recommends that the P-Card Specialist follow the disciplinary procedures set forth in the Purchase Card Program Manual by sending verbal and written warnings to supervisors when transactions are not approved in a timely manner.

CAPRECIA POOLE-WILLIAMS, CHIEF PROCUREMENT OFFICER
PROCUREMENT OFFICE
OCTOBER 13, 2021
PAGE 5

Management Response and Action Plan (including anticipated due date):

The Procurement Office agrees with this finding. The P-Card Specialist and WSSC management requested J.P. Morgan Chase & Company turn on automatic reminders. Reminders are sent to both cardholders and approvers to reconcile and approve transactions on a monthly basis. Secondly, the P-Card Specialist currently follows the disciplinary procedures set forth in the Purchase Card Program Manual Section 6.20.060. This entails continuing to send verbal and written warnings to supervisors when transactions are not approved in a timely manner. Lastly, the P-Card Specialist will send monthly email reminders to inform the approvers of the pending unapproved transactions in the bank system.

Comment from the Office of the Inspector General

Management's action plan is responsive to the intent of the recommendation.

Issue 2: Failure to Obtain Higher Limit Request Forms

Risk Rating: LOW

Condition:

During the audit period, the OIG found two (2) transactions totaling \$15,547 that were authorized prior to obtaining a signed higher limit request form². Management has established a spending limit for each cardholder based on their employment position; and when a transaction is above that limit, a cardholder must complete a higher limit request form to obtain approval to initiate the transaction.

Criteria:

Section 2 (B) of WSSC's P-Card Program Manual, states in part that "purchases associated with emergencies, critical issues impacting WSSC operations, and higher limit requests must be approved by the Chief Procurement Office [through a higher limit request form]."

Cause:

The approved higher limit request forms were neither obtained nor filed before the noted purchases. The credit limits established in the J.P. Morgan Chase Bank System were overridden. According to the P-Card Specialist responsible for managing these transactions, the first exception was for the COVID-19 purchase of citron hygiene services, and the second exception was for emergency purchases.

² See WSSC Procurement Department's Forms and Documents, Higher Limit Request Form, http://wssconnect.wssc.ad.root/wps/myportal/wssc-home/team_pages/procurement%20office/pcard%20guidelines/pcard%20forms%20and%20documents/.

**CAPRECIA POOLE-WILLIAMS, CHIEF PROCUREMENT OFFICER
PROCUREMENT OFFICE
OCTOBER 13, 2021
PAGE 6**

Effect:

The overriding of internal controls to exceed credit limits prior to approval by managers or those charged with governance, may create risk(s) and increases the opportunity to commit fraud. According to the Government Accountability Office *Standards for Internal Control in the Federal Government*, fraud risk factors include opportunity.³ Further, opportunity is defined as “circumstances exist, such as the absence of controls, ineffective controls, or the ability of management to override controls, that provide an opportunity to commit fraud.”⁴

Recommendation 2: Improve Efforts to Monitor and Enforce Compliance

OIG recommends that the P-Card Specialist improve efforts to monitor and ensure compliance with the P-Card Program Manual and WSSC’s Manual of Standard Procedures to reduce the risks presented by the overriding of internal controls.

Management Response and Action Plan (including anticipated due date):

The Chief Procurement Officer agrees with this finding. Effective immediately, limits will not be adjusted without receipt of the proper approvals under any circumstances.

Comment from the Office of the Inspector General

Management’s action plan is responsive to the intent of the recommendation.

cc: General Manager/CEO, (C. Reid)
DGM for Administration, (J. Beach)
Chief Financial Officer, (P. Colihan)
Chief Strategy and Innovation Officer (T. Allen)
Operations & Administration, Division Manager, (K. Harley)
Disbursements Division Manager, (J.D. Noell)
Accounts Payable Section Manager (P. Edwards)
P-Card Specialist (T. Roland)

³ See *U.S. Government Accountability Office*. (September 2014). <https://www.gao.gov/assets/gao-14-704g.pdf> (last visited Sept. 13, 2021).

⁴ See *Id.*