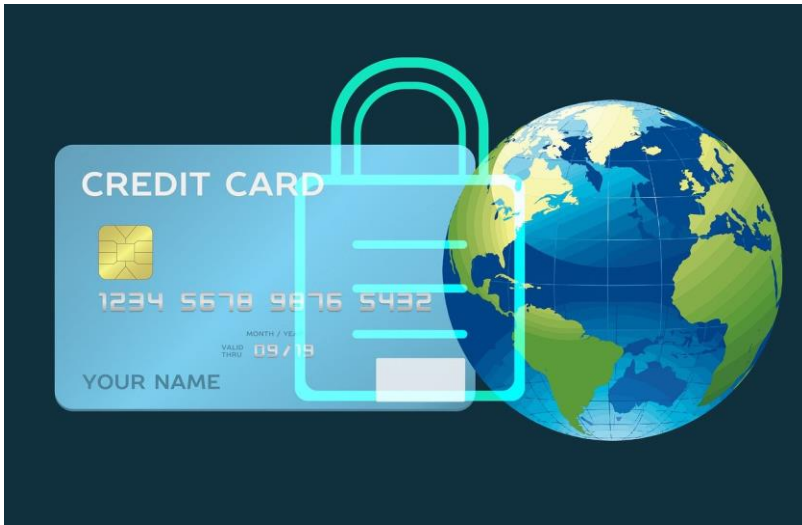




May 25, 2023

ANNUAL PURCHASE CARD PROGRAM REVIEW



Source: <https://pixabay.com/illustrations/online-secure-payment-card-credit-4533485/>

Project # 23-PCR-01

A Report to:

Commissioners:

Chair, Fausto R. Bayonet
Vice Chair, Regina Y. Speed-Bost
Howard A. Denis
Lynnette D. Espy-Williams, Esq.
T. Eloise Foster
Mark J. Smith

General Manager/CEO:

Kishia L. Powell


Office of the Inspector General


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Interoffice Memorandum

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

THRU: JON T. RYMER, INSPECTOR GENERAL 
OFFICE OF THE INSPECTOR GENERAL

THRU: MAXENE M. BARDWELL, ASSISTANT INSPECTOR GENERAL FOR AUDIT 
OFFICE OF THE INSPECTOR GENERAL

FROM: DAISY QIAN, AUDITOR 
OFFICE OF THE INSPECTOR GENERAL

DATE: MAY 25, 2023

**SUBJECT: OFFICE OF THE INSPECTOR GENERAL REPORT
ANNUAL PURCHASE CARD PROGRAM REVIEW**

EXECUTIVE SUMMARY

Background

In accordance with the Washington Suburban Sanitary Commission's (WSSC) Office of the Inspector General's (OIG) Fiscal Year 2023 Risk-Based Work Plan and the authority granted pursuant to Public Utilities Article ("PUA"), § 17-605 (a)(6) of the Annotated Code of Maryland, the OIG conducted an annual review of WSSC's purchase card transactions from August 1 through October 31, 2022 (three-month period ended October 2022). The OIG conducted the review in accordance with the Association of Inspectors General's *Principles and Standards for Offices of Inspector General, Quality Standards for Inspections, Evaluations, and Reviews*.¹

Purchase card transactions are governed by the WSSC Water's Commercial Purchase Card Program (P-Card Program), established in Chapter 6.15 of the WSSC Code of Regulations (Code) and specifically outlined in Chapter 6.20 of WSSC Water's Manual of

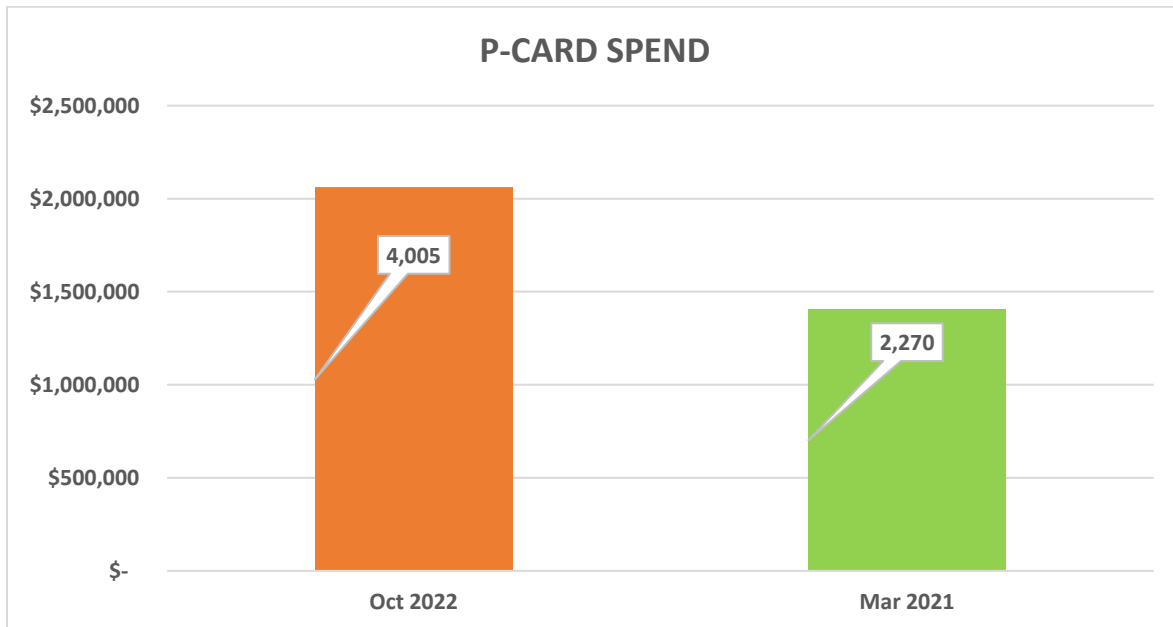
¹ See Association of Inspectors General's *Principles and Standards for Offices of Inspector General*, pgs. 33-42 (May 2014 (Revision)).

In March 2023, an independent external peer review was conducted of the OIG in accordance with the U.S. Government Accountability Office's *Generally Accepted Government Auditing Standards*, and a satisfactory rating was assessed.

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Standard Procedures (Manual). The P-Card Program is WSSC's method of streamlining the procurement process by permitting the acquisition of certain goods and services in an efficient and timely manner. All transactions must comply with WSSC's regulations, policies, procedures, and guidelines governing expenditures and purchases.² To manage the use of WSSC's P-Card both the Code and the Manual are used in conjunction with the supplemental WSSC Purchase Card Program Manual (P-Card Program Manual).³ The 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.

As shown in the chart below, there were 4,005 transactions totaling \$2,059,541 from August 1 through October 2022. This represents a 76% increase of 1,735 transactions when compared to the previous 2,270 transactions examined for the three-month period of January 1 through March 31, 2021, totaling \$1,402,852. The increase in P-Card transactions was primarily due to a rise in mobile equipment repair and travel-related account transactions.



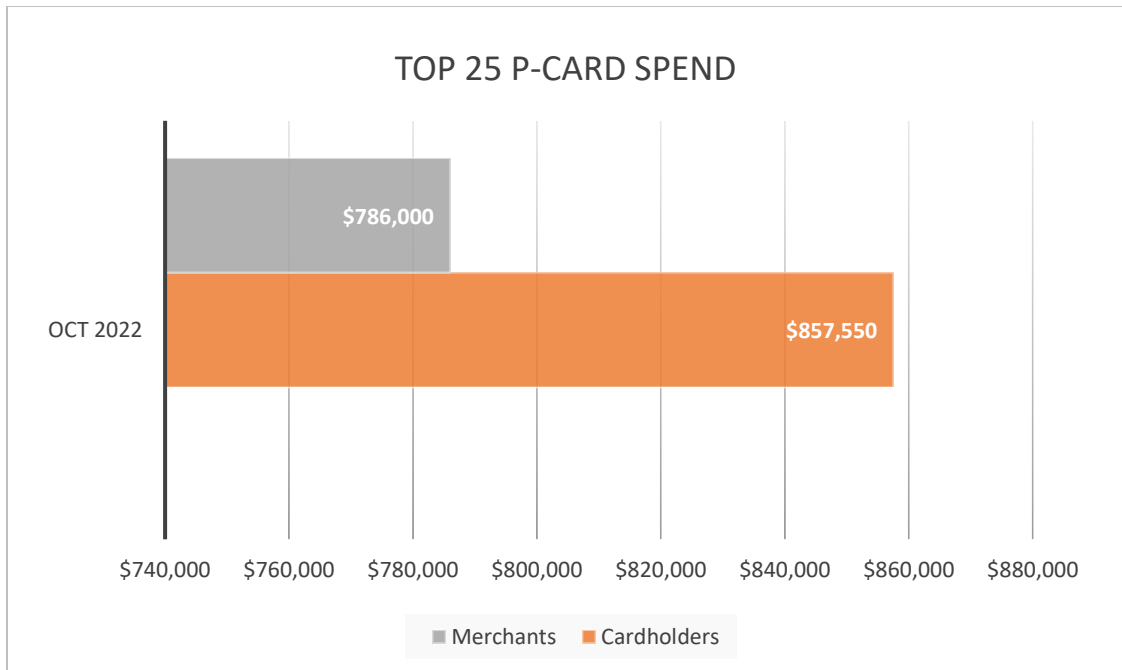
The top 25 cardholders accounted for 1,127 transactions, or 28% of the total transactions, and \$857,550, or 42% of the total P-Card dollars spent from August 1 through

² See WSSC Manual of Standard Procedures § 6.20.050 (a).

³ See 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); see also 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).

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October 2022. Active cardholders purchased items from various merchants, and the top 25 merchants accounted for \$786,000, or 38% of the total dollars spent by cardholders. The number of cardholder transactions totaled 1,191 or 30% of the total number of P-Card transactions among the top 25 merchants. The following chart illustrates the top 25 cardholders' transactions.



Objective

The objective of this review was to determine compliance with WSSC's P-Card policies as outlined in its regulations, standards, and procedures. The OIG also developed review procedures and tests to identify instances of fraud, waste, and abuse.

Scope and Methodology

The review's scope included P-Card transactions from August 1 through October 31, 2022.

To achieve the review's objective, the OIG performed several tasks, including the following:

- Reviewed relevant regulations, policies and procedures, card user guidelines, and internal documentation to determine applicable criteria for the review;
- Interviewed personnel from the Procurement Office, Office of Supplier Diversity & Inclusion, and Materials Management Division to obtain information and an understanding of associated processes;

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- Reviewed transactions that exceeded the assigned credit limits to verify whether the higher limit requests were prepared, reviewed, and approved before the purchase;
- Performed tests to ascertain if cardholders followed the P-Card split transaction policy;
- Performed testing procedures to determine whether any vendors had the same addresses as employees;
- Conducted tests to verify compliance with the P-Card policy that restricts the use of cards by terminated employees;
- Reviewed higher dollar purchases to ascertain accuracy and validity;
- Extracted a selected sample of P-Card transactions from the entire population using data analysis software to verify proof of purchase, determine whether capital movable assets were correctly classified, and examine whether tax was exempted when applicable; and,
- Performed analytical testing to examine any noticeable anomalies.

The *Quality Standards for Inspections, Evaluations, and Reviews* require the OIG to adequately plan the review and obtain sufficient, competent, and relevant evidence to afford a reasonable basis for inspection, evaluation, and review of findings and conclusions. Accordingly, the evidence obtained provides a reasonable basis for our findings and conclusions based on the scope and objectives.

Conclusion

Overall, the review disclosed that WSSC's P-Card program was in compliance with policies as outlined in its regulations, standards, and procedures. Additionally, the OIG did not detect any instances of fraud, waste, or abuse during the review period.

The following two areas warrant improvement:

- Higher limit request forms were not consistently obtained; and
- Inconsistent adherence to the approval process.

The OIG commends the Chief Procurement Officer for complying with the P-Card Program Manual and WSSC Code of Regulations when reviewing and approving P-Card payments for the continuation of essential WSSC services. The P-Card Specialist is also recognized for the timely review of transactions for potential splitting and the provision of necessary warnings when split transactions are identified.

FINDINGS, MANAGEMENT RESPONSES, AND ACTION PLANS

Finding 1: Higher Limit Request Forms were not Consistently Obtained

Risk Rating: **MEDIUM**

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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 Officer." To effectuate such requests, the Procurement Office has created a higher limit request form to be submitted and approved by the Chief Procurement Officer.

During this review, the OIG found that higher limit request forms were not consistently obtained when making purchases above P-Card transaction limits. The OIG reviewed 38 transactions that were greater than or equal to \$5,000, totaling \$349,129.76. Out of the 38 transactions reviewed, 18 purchases required approved higher limit request forms. The OIG discovered that 7 out of the 18, or 39% of purchases, totaling \$60,800.78, did not have an executed form. Furthermore, this finding is a repeat occurrence. In the last review, 2 transactions totaling \$15,547, did not have an executed higher limit request form.

The Procurement Office evaluates cardholders' business needs and determines whether to approve permanent increases in cardholders' spending limits. However, spending limit evaluations and adjustments are not documented for future reference. According to Procurement Office management, 4 out of 7, or 57% of the undocumented cardholder spending increases, totaling \$30,233.11, occur when cardholders ask that temporary spending limit requests above the limits established for their employment positions be made permanent. Although the Procurement Office is conducting evaluations before increasing temporary cardholder spending limits permanently, the P-Card Program Manual does not provide documented steps for requesting, evaluating business needs, or permanently increasing cardholders' spending limits.

Additionally, the P-Card Specialist reports that 3 out of 7, or 43% of the unaccounted for executed higher limit request forms, totaling \$30,567.67, is due to difficulty locating approved higher limit request forms within the current P-Card record-keeping system.

Tracking, managing, and monitoring P-Card spending is more challenging without supporting documentation provided by means of approved higher-limit request forms. Additionally, the inability to locate the approved forms could lead to challenges when monitoring, reporting, and reviewing P-Card transactions.

Recommendation 1: Revise the P-Card Program Manual

The OIG recommends the revision of the P-Card Program Manual to document the monitoring process, including record-keeping requirements and exceptions for any purchases above the P-Card transaction limits based on the cardholder's employment position. The revised Manual will help the P-Card Specialist obtain and maintain higher limit request forms.

The OIG also recommends strengthening monitoring activities to review the P-Card limits for active cardholders and regularly review all transactions greater than or equal to \$5,000 to

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identify instances where higher limit request forms were not obtained and take appropriate action to address the issue.

By taking additional monitoring actions, WSSC will improve its P-Card process and help reduce the risk of non-compliance with the P-Card policy.

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

The Procurement Office agrees with this recommendation and is consistently seeking ways to improve monitoring activities (e.g. leveraging reports and technology via JP Morgan's PaymentNet system to monitor P-Card utilization).

Worth noting, in the past WSSC Water has experienced challenges such as operational and mechanical issues which required critical repairs that were aided via the utilization of a P-Card. While \$5,000 may represent the transactional limit associated with the majority of P-Cards, there are cards that have limits greater than \$5,000, which may be based upon an employee's role or function in the organization. For example, a Superintendent or Manager at a water treatment plant may have a higher limit to ensure critical operations may be continued in the event of an emergency or potential equipment failure that could prevent the continuity of plant operations. Consequently, actions such as increasing spending limits for limited cards have been taken and will continue to ensure WSSC Water is able to meet our mission of providing safe and reliable water, while also ensuring our colleagues have what they need to meet that mission. Going forward the rationale in making such decisions to increase card limits will be documented on an updated higher limit form which will include both permanent and temporary limits.

Effective June 30, 2023, the Procurement Office will have an updated higher limit form and P-Card Manual. The updated Manual will include the following updates/clarifications: monitoring process, record-keeping requirements, and exceptions/rationales for any purchases above the P-Card transaction limits based on the cardholder's employment position.

Finding 2: Inconsistent Adherence to the Approval Process

Risk Rating: MEDIUM

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] ... expense report[s]." Further, under subsection 4(B), Disciplinary Guidelines of the P-Card Manual, a P-Card Specialist will investigate a transaction that has been identified as a potential abuse, misuse or violation of the P-Card Program and issue a notice of violation (NOV) to the user.

During the review, the OIG noted 64 P-Card transactions, totaling \$182,043.23, where approvers did not validate credit transactions in the J.P. Morgan Chase Bank System in

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accordance with the approval process identified in the P-Card Program Manual. The OIG found this to be a recurring issue, as the OIG found 19 P-Card transactions totaling \$39,173 were not validated in the previous review for the three-month period ended March 31, 2021.

According to Procurement Office management, the approvers did not timely approve the transactions in the bank system.

Unauthorized P-Card transactions increase the risk that such lack of adherence will not be detected and addressed timely. Ensuring the appropriate approval for transactions is an internal control authorization activity that will help to ensure adherence to the established procedures and reduce the risks associated with non-compliance.

Recommendation 2: Strengthen Monitoring Activities and Provide Additional Training

The OIG recommends the strengthening of WSSC Water's P-Card Program monitoring activities, including regular reviewing and identification of unauthorized P-Card transactions, as well as the issuance of NOVs when necessary. The OIG also recommends that additional training be provided to the cardholders and approvers to help ensure that they understand requirements and expectations of the P-Card Program. The strengthened monitoring control activities, along with the additional training mitigates the risks associated with non-compliance throughout the P-Card approval process.

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

The Procurement Office agrees with this recommendation. The P-Card Specialist and Procurement Office management have instituted automatic reminders, which are sent to both cardholders and approvers to reconcile and approve transactions on a monthly basis. Secondly, the P-Card Specialist will follow the disciplinary procedures set forth in the Purchase Card Program Manual Section 6.20.060. This entails continuing to issue verbal and written warnings to the appropriate stakeholders when transactions are not approved in a timely manner. The P-Card Specialist will also continue to send monthly email reminders to inform the approvers of the pending unapproved transactions in the bank system. Lastly, the current P-Card training materials will be updated and distributed to the cardholders and approvers by June 30, 2023.

cc: General Manager/CEO, (K. Powell)
Corporate Secretary, (J. Montes De Oca)
Deputy GM, External Affairs, (C. Bickham)
Chief Financial Officer, Acting, (L. Caroline-Powell)
Operations and Administration Division Manager, (K. Harley)
Disbursement Division Manager, (J.D. Noell)
Accounts Payable Section Manager, (P. Edward)
P-Card Specialist, (B. Haggins)