

Internal Audit Report

**DEPARTMENT OF COUNTY ADMINISTRATION
OFFICE OF PURCHASING
PDQ CARD PROGRAM
APRIL 2016**

Office of the County Auditor





OFFICE OF THE COUNTY AUDITOR

Craig Glendenning, CPA
County Auditor

April 2016

The Honorable Members of the County Council
The Honorable Allan Kittleman, County Executive

Pursuant to Section 212 of the Howard County Charter and Council Resolution 22-1985, we have conducted an audit of the Department of County Administration, Office of Purchasing's PDQ Card Program. The body of our report presents our findings and recommendations.

Our audit disclosed that although policies and controls exist over the program, many purchases were not properly approved. Some cardholder spending limits were excessive, and some cardholders did not require cards. Most transactions tested were appropriate and documented, but a number of the purchases tested violated PDQ card guidelines, and others did not include required documentation. We made recommendations which we believe will improve the internal controls over the program.

Our findings have been reviewed with the Chief Administrative Officer and we have included the Administration's responses. We wish to express our gratitude to the Office of Purchasing for the cooperation and assistance extended to us during the course of this engagement.

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EXECUTIVE SUMMARY

We conducted a performance audit of the Office of Purchasing's (Purchasing) purchasing card program (known as the Procurement Directly and Quickly or PDQ card program). The objectives of our audit were to:

1. Determine if the policies and controls over the PDQ card program were adequate and that adequate program oversight existed to detect and deter inappropriate use of the PDQ card.
2. Determine if the use of the PDQ card was proper and in accordance with governing policies.
3. Ensure the County received the proper rebate based on PDQ card use and the County's contract with the bank.

Conclusions

Regarding our first objective, we found that Purchasing has established formal policies, procedures, and guidance over the program. The PDQ User's Guide is periodically updated by Purchasing for changes in procurement policy and other appropriate guidance. However, the audit found hundreds of transactions where purchases were not properly approved, or were not approved timely by supervisory personnel. We also found that cardholder spending limits were sometimes excessive based on actual cardholder use, and that a number of cardholders did not use their cards for extended periods of time. The audit disclosed that transaction approvers did not determine if goods and services purchased from contract vendors were purchased at contract prices.

For our second objective, we found that for the majority of transactions tested, the transactions were appropriate for County business and properly documented in SAP. However, the testing did disclose that a number of purchases tested violated current PDQ guidance (such as purchasing flowers and gift cards for prizes). We also found that for a number of PDQ transactions tested, documentation to support the transaction in SAP was either not included or was not sufficiently detailed to determine the propriety of the transaction. We also found that employees split purchases to avoid existing spending limits.

For the third objective, we found that the rebate received by the County for card use was proper.

BACKGROUND

The Department of County Administration, Office of Purchasing's purchasing card program, known as the PDQ card program, was established in 1997 to provide County departments and agencies more flexibility in making small purchases. It was also intended to significantly reduce paperwork and processing time for these types of transactions. The PDQ Card is designed to simplify the purchase of supplies and services with a cost of \$10,000 or less.

The PDQ card program is governed by written County policies and procedures, procurement law and a comprehensive user manual. These documents provide users with guidance and requirements on obtaining and using the PDQ card, reconciling monthly statements, and other information pertaining to the card (e.g., disputed transactions).

As of May 2015, Purchasing had issued 683 cards to 675 employees. For the period from June 6, 2013 to April 30, 2015, purchases made using PDQ cards totaled \$45,054,512 (a total of 100,249 transactions). For a list of all departments/agencies that used PDQ cards, see Appendix A.

The program is administered by the Procurement Card Administrator (PCA) in Purchasing. Each department/agency has an Agency Program Coordinator (APC) who serves as a liaison between cardholders and the PCA. Each department/agency also has one or more Approving Officials (AO) responsible for reviewing cardholder purchases each month. For more details on the review process and related responsibilities, see Appendix B.

FINDINGS AND RECOMMENDATIONS

Finding 1

Improper transactions were made.

We judgmentally selected eight departments/agencies and then judgmentally selected users from these departments/agencies for testing. For each user selected, we tested all transactions processed in August 2014, December 2014 and April 2015. We found several instances where improper purchases were made.

- Two of the eight departments we reviewed had PDQ charges for holiday parties in December 2014. Although the policies allow the use of PDQ for “special events,” it is unclear if holiday parties are considered as such.
- The Department of Citizen Services spent \$110 for gift cards for door prizes for County employees at their December 2014 holiday party. The Guide does not include this as a permitted use.
- In April 2015, flowers were purchased for Administrative Professionals’ Day at the Office of the Sheriff. The purchase of flowers is specifically prohibited by the Guide. The PCA contacted the employee who made the purchase, but did not receive a response.
- In August 2014, a piece of equipment with a cost of \$5,232 was purchased. This is a capital item, which should not have been purchased by the use of a PDQ card. Additionally, this item was not capitalized.
- In April 2015, an outside vendor was allowed to use a County employee’s PDQ card to make a purchase. The purchase was determined to be for a legitimate purpose, but PDQ cards should only be used by assigned card holders.

We recommend that the Administration establish a policy regarding holiday parties and what constitutes a special event. We also recommend that the use of gift cards as prizes be discontinued. Additionally, we recommend that departments be more diligent and follow the Guide when making purchases, and that purchases only be made by assigned cardholders. We further recommend that the capital item be capitalized in accordance with proper accounting practice. Finally, we recommend that the Administration pursue reimbursement from the employee who purchased the flowers which were specifically prohibited by the Guide.

Administration's Response:

The Administration concurs with this finding. Individual points are addressed below:

- **Holiday Parties:** The County does not have a policy regarding the use of County funds for holiday parties. Purchasing has requested additional information from the two departments regarding the holiday parties. The PDQ User's Guide allows food to be purchased for infrequent special events, with the permission of the Department Director. County Administration is considering whether "special events" include holiday parties.
- **Gift Cards for Citizen Services' holiday party:** The Administration is currently researching the County's usage of gift cards. Once the data is collected, the Administration will address the issue further. Please see finding 4 for more detail.
- **Flowers for Administrative Professional's Day:** Purchasing followed up on its original request for reimbursement, and the payment was made at the Cashier's Office on 3/22/16. The Cashier's Office receipt has been attached to SAP Document 100995924 to show that the reimbursement is complete.
- **Asset with a cost of \$5,232:** This item was a Bobcat angle broom attachment purchased by the Bureau of Utilities. The item cost was \$4,819, which was under the asset threshold of \$5,000, but the freight charge (\$412.75) pushed the value of the item over the threshold, and it should not have been paid by PDQ card. The PCA spoke with the cardholder to explain the situation, and on 3/22/16, contacted the Department of Finance to begin the process of capitalization. A copy of the email request to Finance was attached to SAP Document 100868556 on 3/22/16.
- **Outside Vendor Used County PDQ Card:** This employee was working for a County contract vendor as administrative support in the Bureau of Facilities. The issue was noted at the time, and the PCA counseled both the contract employee and cardholder about the improper use. Purchasing will remind cardholders that only County employees should use County PDQ cards.

Finding 2

Transactions were not always properly documented.

PDQ transactions were not always adequately documented in SAP. The PDQ User's Guide includes requirements to document transactions. These requirements include documentation that shows the items purchased, where the purchase was made and the cost of each item. This documentation is then scanned into SAP to support user transactions and County disbursements. Our testing disclosed that documentation was not always on file to support transactions. Specifically, for each user selected in our test noted in Finding 1, we tested all transactions processed in August 2014, December 2014 and April 2015. The testing and results are summarized in the table below.

Table Detail Transaction Testing – Documentation Problems					
Department	Employees Tested	Total Number of Transactions Tested	No Invoice	Invoice or Other Document Not Detailed	Incorrect Document
Police	9	352	6	1	3
Fire and Rescue Services	16	573	7	3	21
Citizen Services	15	431	2	8	1
Recreation and Parks	20	556	1	1	-
Central Fleet	10	1,364	1	10	5
DPW-Utilities	10	512	10	2	9
DPW-Facilities	10	908	13	40	-
Sheriff	7	133	12	3	-
Total	97	4,829	52	68	39

The test found that 52 transactions were not supported by an invoice or other permitted document indicating what was purchased. In 68 other instances, SAP included documentation to support the transaction but that documentation did not show details as to what was purchased. In the remaining 39 instances, the included documentation was not of a type permitted by the Guide (such as a packing list or price quote).

We recommend that Purchasing remind all users of the Guide’s requirement regarding appropriate documentation to support all PDQ transactions. Additionally, the requirements for approvers should be reinforced with the training recommended in Finding 11.

Administration’s Response:

The Administration concurs with this finding. In May 2015, the SAP Team updated PDQ reconciliation workflow so that a PDQ document cannot be saved without an attachment. While this does not guarantee that the attachment will include every related receipt, it has made missing receipts much less common. The PCA conducts monthly and annual reviews of a selection of PDQ purchases. Missing or undetailed receipts are brought to the attention of the Departmental APC and Approving Official; if the receipt can be found, the department adds it to the document in SAP. Please note that a Missing Receipt form is made available to cardholders who can’t find a receipt; inclusion of this form as part of the SAP documentation is acceptable. Purchasing will remind all users that every transaction must be supported with an appropriate receipt. Please see the Administration’s response to Finding 11 for further detail on training, as it relates to this recommendation.

Finding 3**Transactions were not always properly approved.**

Our test of credit card transactions disclosed that these transactions were not always properly approved in SAP by supervisory personnel. Our review of internal controls and transaction testing disclosed the following:

- Cardholders approved their own transactions. Proper segregation of duties requires that someone independent of the cardholder approve the cardholder's transactions and thus reduce the opportunity of misappropriation of funds. Our review of all transactions processed from May 2014 to April 2015 disclosed 32 instances involving 10 County employees in which cardholders approved their own transactions. These 32 instances included 303 transactions totaling \$244,000.
- User transactions were approved by subordinates instead of by a supervisor. Our review of procedures and controls at ten County departments/agencies disclosed that at three, current practices allow employees to approve their supervisor's transactions in SAP. This practice allows the superior to use his or her position to influence the judgment of a subordinate and creates the opportunity for misappropriation of funds.
- In one instance, representing seven transactions, the transactions were approved by an employee who did not have approval authority for PDQ transactions in SAP. This employee had approval authority for other types of transactions within SAP, but did not have sufficient knowledge of the PDQ process.

We recommend that Purchasing, working with the Department of Technology and Communication Services, ensure that PDQ card transactions can only be approved in SAP by appropriate supervisory personnel. We also recommend that the training provided by the PCA reinforces why this is not an acceptable practice.

Administration's Response:

The Administration concurs with this finding. The PCA has already worked with the SAP Team to test various scenarios in the SAP workflow to ensure that only assigned approvers or Business Area Managers can approve PDQ documents. As of January 2016, SAP will no longer allow approval by the cardholder who made the charges, approval by the same person who reconciled the PDQ document, or approval by any employee without PDQ approval authority in SAP (i.e., Business Area Managers). The Administration will continue to reinforce the importance of obtaining proper approval.

- Subordinates approving a Supervisor's purchases: This occurred in three departments.
 - Sheriff's Office: It is not appropriate for the CAO to approve an elected official's charges. County Administration is considering whether elected officials (the Sheriff and the State's Attorney) should have PDQ cards at all.
 - Citizen Services: the Fiscal Manager approved documents for the Deputy Director. Purchasing has already talked with the department about this issue, and the workflow has been adjusted so that the Deputy Director's PDQ documents will go to the Deputy CAO for approval from now on.
 - Fire & Rescue: the Fiscal Manager approved documents for the current Fire Chief during the transition between the former Chief's departure and the current Chief being named Chief. As soon as he became Chief, the department requested that the CAO approve his PDQ documents, as with any other Director (attached). Also, a Battalion Chief approved PDQ documents for another Battalion Chief who was actually his supervisor. The PCA spoke with the department on 3/15/16 to discuss the situation, and adjusted SAP workflow so that the Battalion Chief's documents will now go to the Chief for approval.

Finding 4
Gift card purchases could not be readily tracked. Some were used as employee compensation and were deemed to be inappropriate. These gift cards should have been included in the employees' compensation and appropriate taxes should have been withheld.

Our review of the purchase and use of gift cards, as permitted by County policy, disclosed the following:

- Gift card purchases often could not be readily identified in SAP. SAP did not include a unique expenditure code to identify gift card purchases. Rather, County departments and agencies charged such purchases to a number of other codes such as food purchases, household and office supplies and ground transportation. As a result, locating purchases of gift cards to review for compliance with policy and guidance was difficult. We could not specifically determine the amount of gift cards purchased by departments, but we were able to determine that such purchases exceeded \$20,000 in fiscal year 2015.
- Gift cards were used by some departments for employee incentives. This use is permitted by the Guide. However, usage of gift cards as employee incentives is a form of compensation above that which is provided for by the Office of Human Resources and the Employee Manual.
- Since the cards are being used as performance incentives, they are considered taxable income to the employee and are subject to Federal and State withholding. We did not find evidence of the cards being reported as income, nor of any withholding.

We recommend that a code be set up in SAP to specifically identify gift card purchases. We also recommend that the practice of using gift cards as employee incentives be discontinued. If the practice is not discontinued, we recommend that the value of gift cards used as employee incentives be reported to the Department of Finance so that it can be included in employee compensation and the appropriate amount of taxes can be withheld.

Administration's Response:

The Administration concurs with this finding. The Office of Purchasing will request that the SAP Team create a new G/L code for gift cards, and will make it clear to all departments that this code must be used for all gift card transactions. The PCA will review transactions to ensure that departments use the G/L consistently.

County Administration is considering when gift card purchases may or may not be appropriate. The PCA is currently surveying all departments for more information about when and why gift cards are purchased, how they are funded, and how they are documented. This information will be used to decide which types of gift card purchases will be allowed in the future. The new policy will be communicated to all users when a decision has been made; depending on the decision, a tax reporting policy will be put in place.

Finding 5

PDQ cardholders occasionally split purchases to avoid transaction spending limits.

Our testing disclosed that cardholders occasionally split transactions to avoid single transaction spending limits. The Guide states that the total amount of any purchase must be within the cardholder's single and monthly transaction limits. Large purchases may not be split to circumvent these limits. Our judgmental testing of 60 transactions from June 2013 to April 2015 which showed the potential for being split (such as the same vendor, amount and transaction date) found that 14 items tested were split purchases. For example, one cardholder made four identical purchases from a vendor on the same day totaling \$14,033 which exceeded the cardholder's single transaction limit of \$10,000.

A discussion with the PCA found that the PCA routinely runs reports of potential split purchase transactions for investigation and action, if appropriate. We noted that the Guide permits transactions above limits when buying from County contracted vendors. In our opinion, the purpose of limits is to control employee spending and the use of County contracts should not release a cardholder from these limits.

We recommend that Purchasing revise the Guide to state that cardholders must not split transactions regardless of the vendor.

Administration's Response:

The Administration concurs with this finding. We agree that cardholders should not “split” transactions, where the cardholder purposely makes a purchase over his transaction limit by paying in multiple swipes of the card.

The PCA will continue reviewing transactions on a monthly and annual basis to identify potential split purchases. We will continue to use our best judgement in determining whether a particular instance is a violation and encourage cardholders to reach out to the PCA for approval should they have any questions on how to proceed with a particular transaction. We will clarify guidance documents to ensure that cardholders understand what does and does not constitute a split.

Finding 6
PDQ card users erroneously paid Maryland state sales tax.

In our detail test of transactions, we found that users paid Maryland state sales tax in 37 instances totaling \$381.07. However, as noted in the Guide, the County is exempt from paying this tax.

We recommend that Purchasing periodically remind all PDQ card users of the prohibition on paying Maryland sales tax. We also recommend that the PCA review transactions to ensure that cardholders comply with the Guide, and require the cardholders to pursue reimbursement of erroneously collected Maryland State sales tax.

Administration's Response:

The Administration concurs with this finding. Each month, the PCA reviews all transactions for any instance of Maryland state sales tax paid over \$1. These transactions are brought to the attention of the Approving Official, and the cardholder is reminded to seek reimbursement from the vendor and to document their attempts. Since sales tax is often refunded to the card during the next billing cycle, many of the noted transactions may have been corrected later. A few vendors are known to have their charge processing equipment set up incorrectly, so that the transaction lists sales tax on the bank statement, but no tax is included on the receipt. The PCA checks for this error on a monthly basis and does not contact cardholders in this situation.

The Office of Purchasing intends to formalize the value threshold to \$2 or more. In cases where a cardholder is charged \$2 or more in Maryland sales tax, the cardholder will be told that they must seek reimbursement from the vendor. The transaction must be cleared within three months of the original charge. Maryland sales tax charges under \$2 will be spot-checked, with the PCA emailing cardholders to remind them of the requirement, although reimbursement will not be required.

Finding 7**PDQ transactions were not always approved in a timely manner.**

Our test of PDQ transactions at eight departments showed that AOs did not always approve the transactions in SAP in a timely manner. We found five occurrences (note that an occurrence represents an entire month's transactions for one cardholder) where the AO approved the transactions after the deadline established by Purchasing. Three of these occurrences were in the Police Department and two were in the Office of the Sheriff. Although these occurrences represented 1.7% of the overall population that we tested, they represented an occurrence rate of 11.1% in the Police Department and 9.5% in the Office of the Sheriff. Purchasing sets the deadlines at the beginning of each year and communicates them to all users and approvers via its monthly newsletter. Purchasing sets these dates so that the Department of Finance will have adequate time to complete its processing of PDQ transactions.

We recommend that Purchasing monitor compliance with reconciliation deadlines and take appropriate action as needed to ensure timely processing.

Administration's Response:

The Administration concurs with this finding. This issue has greatly improved since late 2013, when a review of approval rates showed that about 18% of documents were not approved on time. Since then, the PCA has worked closely with departmental staff and the Department of Finance to encourage reconcilers and approvers to improve this rate. Currently, only one or two documents per month are unapproved by the deadline, less than 0.5%. In many months, every document is approved on time. The Office of Purchasing will continue to monitor compliance with reconciliation and approval deadlines.

In conjunction with the Department of Finance, the PCA has instituted a new procedure to ensure that any unapproved documents are reviewed and approved by the proper supervisor after the monthly deadline. After the month is closed, the PCA will contact the Approver directly and request that they review the document and its attachments in SAP, and certify their review and approval by adding an SAP note to the document. This note will be viewable by anyone checking the document later, through the Notes and Attachments button.

Finding 8**PDQ cards were not always monitored for use.**

Our review of cardholder activity found that cardholders did not always use their cards. We reviewed cardholder use as of May 29, 2015 and found that 13 cardholders had never used their assigned cards, including 3 cards that had been issued for more than 6 months. In addition we noted that 7 cards had not been used in over a year and 30 other cardholders had not used their

cards in over 6 months. We were advised that cards should be deactivated by the vendor if not used for 12 months. However, we found that this function was not always performed by the vendor on a timely basis.

We recommend that Purchasing periodically monitor card activity for activity and determine the need for inactive cards. If cards are not needed, we recommend that Purchasing take action to terminate the cards.

Administration's Response:

The Administration concurs with this finding. The Office of Purchasing began addressing this issue in October 2015. At each department's annual compliance review meeting conducted by the PCA, a report of each cardholder's last transaction date is discussed with the APC. The APC is asked to share the information with the Director. We recommend closure of any accounts that have not been used in a year or more. The Director is asked to respond within a specified timeframe, and if no valid reason for keeping the account open is presented, the account is closed by the PCA.

Finding 9

Monthly transaction limits often significantly exceeded cardholder actual usage.

Cardholders with high monthly transaction limits frequently did not appear to require such limits. We reviewed monthly use for May 2014 through April 2015 for 25 judgmentally selected cardholders (26 total cards) with monthly limits of \$50,000 or more. Our analysis showed that 17 cardholders' actual use averaged less than 15 percent of their monthly limit, and 10 of these cardholders' use averaged less than 20 percent of their monthly limit. As a result, these excessive limits may expose the County to unnecessary risk if the cards are lost or stolen.

We recommend that Purchasing review monthly transaction limits for cardholders with high transaction limits on a periodic basis. If actual usage does not justify the limits, we recommend Purchasing take action to reduce the limits to a more appropriate level.

Administration's Response:

The Administration concurs with this finding. The Office of Purchasing began addressing this issue in October 2015. As part of the review mentioned in Finding 8, the PCA also presents a report on the current monthly and single transaction limits for each card, as compared to the highest monthly amount spent in the past twelve months, and the highest single transaction in the last three months. Recommendations are made to lower or raise limits as appropriate. Directors have about a month to respond; if no response is received, the changes are made by the PCA

after the stated deadline. In some cases, Directors have counter proposed different limit changes, and the PCA discusses options and makes appropriate changes.

Finding 10

Duties over certain functions within the program were not adequate.

Although Purchasing has implemented a number of controls to ensure proper use of the PDQ card, our review disclosed that controls could be improved. Our audit found that:

- The duties over new PDQ cards were not segregated to prevent the possibility of misappropriation of the cards. Specifically, the PCA requested from the program vendor and received all new cards prior to distribution to the cardholder. Additionally, the PCA is responsible for reviewing employee's transactions. Without separation of these duties, the PCA could order and use a card without detection.
- Current practice allows employees to make payments directly to the PCA or department coordinators to reimburse the County for improper or personal card charges. This increases the chance of loss or misappropriation of these funds. Specifically, the PCA can retain the payment without detection.

We recommend that new PDQ cards be delivered directly to an employee independent of the PDQ function for subsequent delivery. We also recommend that all reimbursements be made directly to the Cashier, and that the employee submit the related cash receipt to the PCA to document that payment was made.

Administration's Response:

The Administration concurs with this finding.

- Segregation of duties over new PDQ Cards: The Office of Purchasing will begin to have a separate employee open new PDQ accounts, while the PCA continues to receive the new cards, set them up in SAP and other tracking systems, and distribute them to the departmental APCs. The employee opening new accounts will keep an activity log, and the PCA will keep a distribution log. Comparison of these two logs with new accounts in US Bank's online system will clearly show any discrepancies.
- Reimbursements made to the PCA: As of December 2015, the PCA no longer accepts reimbursements from cardholders for sales tax, accidental personal purchases, or other misuse. Instead, cardholders are directed to pay in person at the Cashier's Office, and to submit the Cashier's Office receipt to the PCA. The PCA will post the receipt and any related documentation as an attachment to the relevant SAP document, and provide a

copy to the department. The User's Guide and other guidance documents will be updated to reflect this change.

Finding 11

PDQ card approvers were not required to obtain training on the program.

Prior to receiving a PDQ card, an applicant must review the program guidance and pass an on-line PDQ Card Quiz (passing requires answering 18 of 20 questions correctly). In addition, current procedures require cardholders to receive refresher training every three years. However, Purchasing has not established any similar educational or test requirements for AOs. Although many AOs are also cardholders and would have received some relevant training, our analysis identified 42 AOs who were not cardholders. As a result, these individuals, who are responsible for approving user transactions in SAP, have not received formal guidance on their role and expectations in the program.

We recommend that Purchasing develop formal guidance for AOs similar to that developed for cardholders, including a quiz to provide assurance that these individuals understand their role and expectations as approvers.

Administration's Response:

The Administration concurs with this finding. The PCA and SAP team will strongly encourage the attendance of new approvers at the offered training. A how-to video produced by the SAP Team on the approval process is posted on the Intranet, but it covers only SAP mechanics. The PCA will write a new PDQ Approver's Guide, similar to the existing User's Guide. New approvers will be required to certify in writing that they read the Guide and understand their role and responsibilities.

Finding 12

Transaction approvers did not determine if cardholders received contract pricing when using PDQ cards with existing County contracts.

The Guide advises that cardholder's services and supplies should be obtained from contract vendors when practical. While our analysis of transactions showed that cardholders frequently did business with County contracted vendors, none of the departments we reviewed had procedures in place to determine if the County received the goods and services at contracted prices. We noted that the State of Maryland's Corporate Purchasing Card Program Policies and Procedures requires agencies to ensure cardholders are using State contracts when applicable. To help ensure the County receives contract pricing with two large vendors, Purchasing links all

PDQ cards issued to vendor payments systems that automatically link all purchases to contracted prices.

We recommend that Purchasing require all approvers, at least on a test basis, ensure that cardholders are using County contracts when appropriate and are receiving contract pricing. Purchasing should consider adding guidance to the Guide and providing training as noted in Finding 11.

Administration's Response:

The Administration concurs with this finding. The Office of Purchasing will include this topic in the PDQ User's Guide, the forthcoming PDQ Approver's Guide, and other guidance documents. Cardholders will be reminded that they should verify contract prices before finalizing a transaction, and Approvers will be asked to validate prices on a random basis during the approval process.

Additional Comments

US Bank provides Level 3 transaction data, which is additional information captured and transmitted during the processing of a credit card transaction. For example, this data includes item descriptions, destination zip code and item quantity. It allows an agency to know more about what is being charged. We noted that the State of Maryland card program guidance includes a requirement to use Level 3 data to verify data reported by cardholders. Although the PCA does review Level 3 transaction data on a limited test basis to assist in determining the propriety of cardholder transactions, the Administration may want to consider following the State's lead and add a requirement to use Level 3 data to verify data reported by cardholders to the County's guidelines.

Our review and related testing of the PDQ card program noted that Purchasing has established a number of controls over the program. More specifically:

- The PCA performs monthly and annual reviews of PDQ transactions. We obtained and reviewed monthly reviews for two months in fiscal year 2015 and determined that the PCA properly and adequately reviewed transactions for questionable activity including non-compliance with the Policy and Guide. We also verified that the PCA completed annual reviews for the departments we reviewed during our audit.
- We tested new cardholders to determine if an application was on file, was properly approved and that the user successfully completed the PDQ Card Quiz prior to card issuance. These requirements are contained in the User's Guide. All cardholders tested were in compliance with the Guide requirements.

- In accordance with the County's contract with the vendor, the County receives an annual rebate based on contractually stated criteria. The rebate for calendar year 2014 (the most recent completed year as of our audit) totaled \$374,445. We reviewed the calculation of the rebate and determined that it was accurate. We also traced the rebate to posting in SAP.

AUDIT SCOPE, OBJECTIVES AND METHODOLOGY

We conducted a performance audit of the Office of Purchasing's PDQ card program. The audit included all transactions made for the period from June 6, 2013 to April 30, 2015.

We conducted our audit in accordance with generally accepted government auditing standards prescribed by the Comptroller General of the United States. Those standards require us to 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 we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of our audit were to:

1. Determine if the policies and controls over the PDQ card program were adequate and that adequate program oversight existed to detect and deter inappropriate use of the PDQ Card.
2. Determine if the use of the PDQ card was proper and in accordance with governing policies.
3. Ensure that the County received the proper rebate based on PDQ card use and the County's contract with the bank.

To accomplish our objectives, we met with Purchasing staff responsible for the card program to review formal guidance, operations and controls over the program. We also met with personnel from judgmentally selected County departments/agencies to review their procedures and controls. We obtained a detail file of all PDQ card transactions processed between June 6, 2013 and April 30, 2015 from Purchasing. We compared this file to data obtained from the PDQ card vendor and found our file to be complete and a valid source for testing. We performed detailed tests of transactions as well as other tests designed to ensure compliance with formal guidance.

Purchasing and department management are responsible for establishing and maintaining effective internal control. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

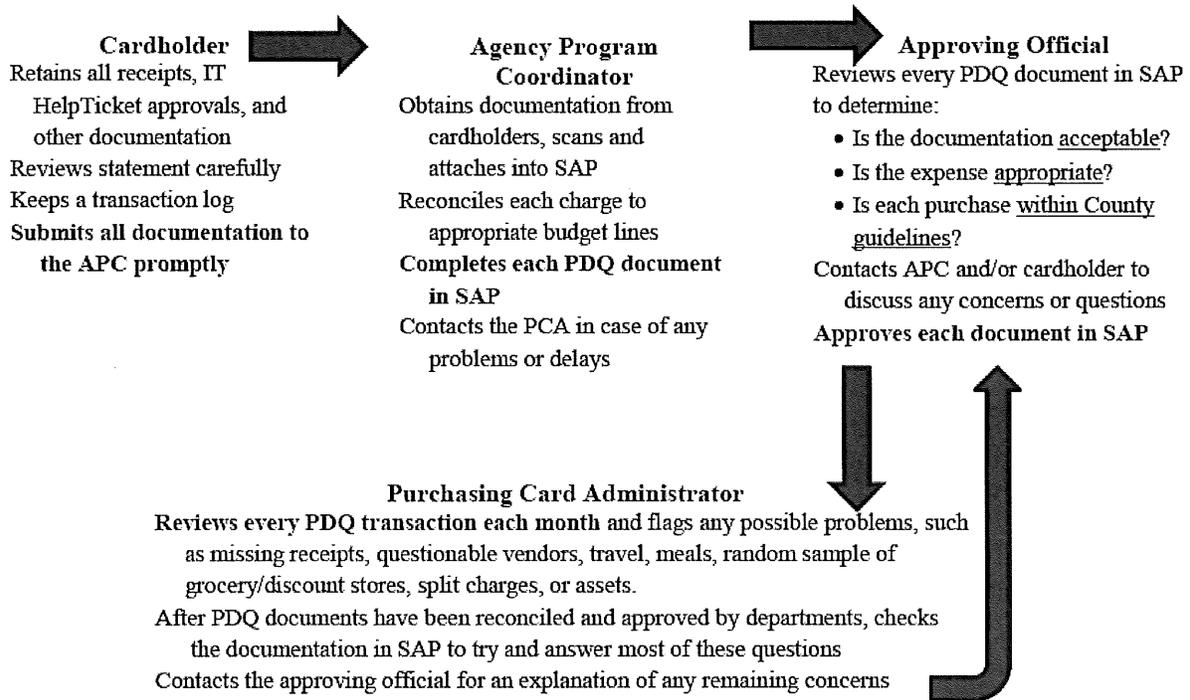
We conducted our field work from July 2015 to January 2016. Purchasing's responses to our findings and recommendations are included in this report.

Appendix A
PDQ Card Transaction Counts and Totals
June 6, 2103 to April 30, 2015

Department/Agency	Count of Transactions	Transaction Total
Board of Elections	503	\$ 164,438.16
Budget	11	1,155.88
Central Fleet	15,541	5,704,519.94
Circuit Court	836	262,934.63
Citizen Services	8,677	1,500,173.87
Corrections	1,825	1,948,285.86
County Administration	520	62,879.61
County Council/County Auditor	862	123,810.46
County Executive	328	103,714.53
DPW - Bureau of Engineering	1,626	444,539.99
DPW - Bureau of Environmental Services	2,125	1,807,654.54
DPW - Bureau of Facilities	10,215	7,061,908.48
DPW - Bureau of Highways	3,484	1,741,699.50
DPW - Bureau of Utilities	7,419	3,154,215.32
DPW Director's Office	439	64,864.59
DPZ	725	145,772.66
DTCS	2,090	1,453,426.55
Finance	943	127,658.97
Fire and Rescue	8,750	4,096,741.46
Health Department	2,930	1,621,570.52
Housing	273	49,535.11
Human Resources	428	108,384.67
Human Rights	363	61,735.22
Inspections, Licenses, and Permits	816	243,409.25
Office of Law	480	187,975.90
Office of Transportation	368	163,028.92
Orphans' Court	17	3,495.06
Police	8,372	3,650,019.38
Public Information	204	27,852.61
Purchasing	228	153,316.36
Recreation and Parks	16,162	8,180,807.54
Risk Management	175	26,305.64
Sheriff	1,123	292,917.80
State's Attorney	553	184,240.08
Univ. of Maryland Extension	382	29,215.50
Workforce Development	456	100,307.18
Grand Total	100,249	\$ 45,054,511.74

Departments highlighted in gray were selected for testing.

Appendix B PDQ Card Review and Approval Process



AUDIT TEAM

Edward L. Shulder, CPA
Deputy County Auditor

Stephen E. Peters, Jr., CPA
Audit Manager

James J. Meyd, CPA
Senior Auditor