



Interoffice Memorandum

May 13, 2020

## PURCHASE CARD PROGRAM COMPLIANCE REVIEW FOURTH QUARTER ENDED JUNE 30, 2019



**Project# 19-PCR-01**

**A Report to:**

**Commissioners:**

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Vice-Chair, T. Eloise Foster  
Fausto R. Bayonet  
Keith E. Bell  
Howard A. Denis  
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**Corporate Secretary:**

Sheila Finlayson

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### Interoffice Memorandum

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

**THRU:** ARTHUR A. ELKINS, JR., INSPECTOR GENERAL <sup>DS</sup>  
OFFICE OF THE INSPECTOR GENERAL <sup>AE</sup>

**THRU:** MAXENE M. BARDWELL, ASSISTANT INSPECTOR GENERAL FOR AUDIT <sup>DS</sup>  
OFFICE OF THE INSPECTOR GENERAL <sup>MS</sup>

**FROM:** JAMES A. WALL, JR., SUPERVISORY AUDITOR <sup>DS</sup>  
OFFICE OF THE INSPECTOR GENERAL <sup>JO</sup>

**DATE:** MAY 13, 2020

**SUBJECT:** **PURCHASE CARD PROGRAM COMPLIANCE REVIEW FOR THE FOURTH  
QUARTER ENDED JUNE 30, 2019**

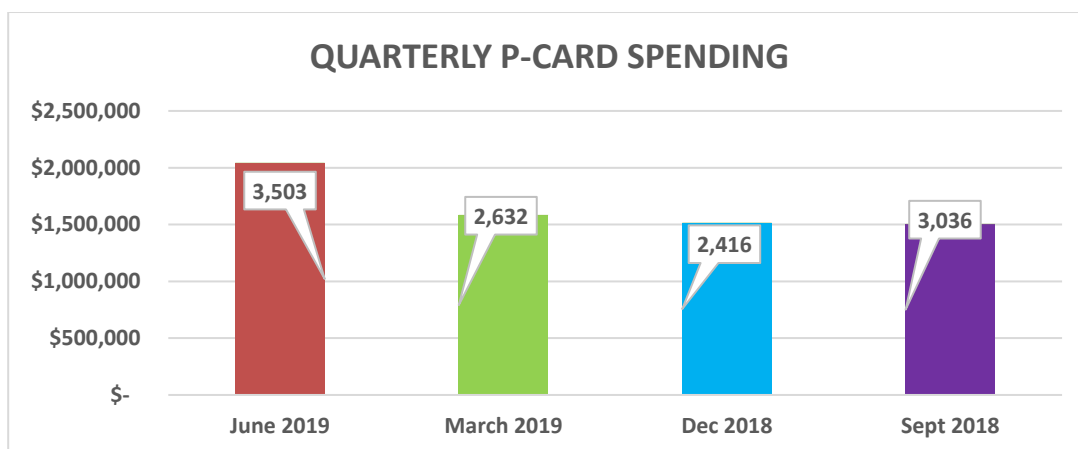
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#### ***SCOPE AND OBJECTIVE***

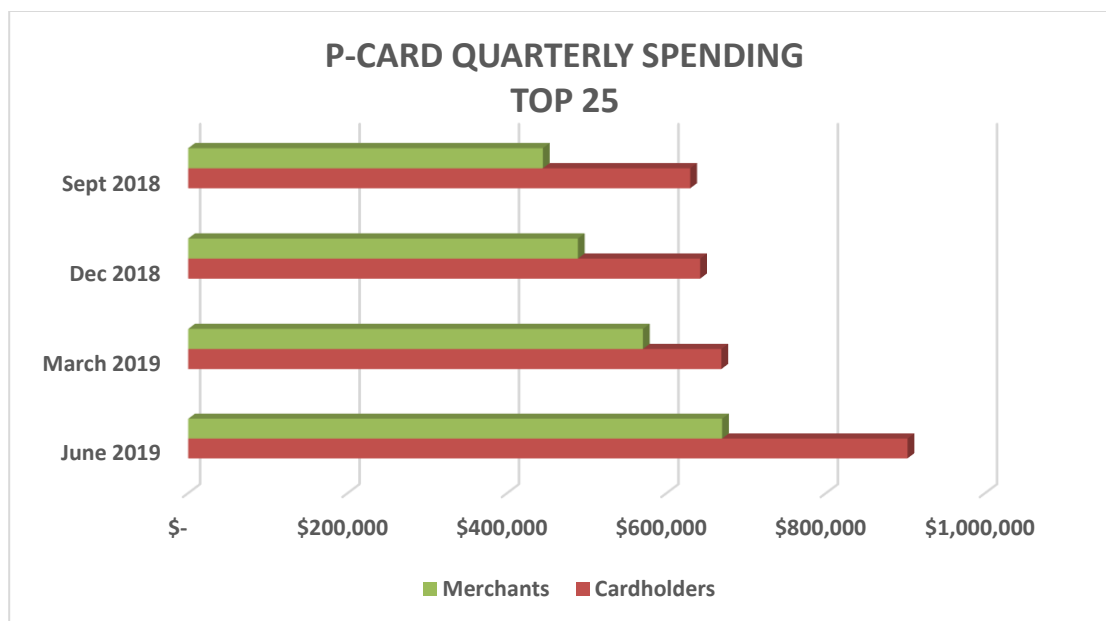
In accordance with the approved Fiscal Year 2019 Risk-Based Audit Plan, the Washington Suburban Sanitary Commission's (WSSC) Office of the Inspector General (OIG) examined purchase card transactions for the fourth quarter ended June 30, 2019. Purchase card transactions are governed by the WSSC's Purchase Card Program (P-Card Program), set forth in Chapter 6.20 of WSSC's Manual of Standard Procedures (Manual). The P-Card Program is also subject to WSSC's Procurement Regulations in Chapter 6.15 of the Code of Regulations (Code). Both the Manual and the Code are supported by policies and guidelines that provide further details about the execution of the P-Card Program. The Procurement Office's Operations & Administration Division (Procurement Office) oversees the P-Card Program, and the day-to-day responsibilities are assigned to the P-Card Specialist.

During the fourth quarter ended June 30, 2019, there were 3,503 transactions totaling \$2,042,018, which is an increase of 871 transactions compared to 2,632 transactions for the third quarter ended March 31, 2019, totaling \$1,581,864.

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The top 25 cardholders accounted for 1,060 transactions or 30% of the total transactions, and \$902,475 or 44% of the total P-Card dollars spent during the fourth quarter ended June 30, 2019. Active cardholders purchased items from various merchants, and the top 25 merchants accounted for \$669,710 or 33% of the total dollars spent by cardholders. The number of cardholder transactions totaled 627 or 18% of the total number of P-Card transactions among the top 25 merchants.



The OIG developed audit procedures and tests to identify instances of fraud, waste, and abuse. The scope for this quarter focused on internal policies and procedures, extended credit limits, and possible charges from terminated employees. Other substantive testing procedures included verifying proof of purchase and determining whether moveable assets were classified properly. The OIG also expanded audit procedures to include certain Level 3 data, which is analysis of detailed transaction data. The OIG examined the merchant spend analysis, declined transactions, multiple vendors with common addresses, common addresses among WSSC employees and vendors, high dollar volume purchases from obscure vendors, and split transactions. The limited procedures will provide sufficient evidence to accomplish the overall objective to validate P-Card management controls and identify risk-related areas of P-Card Program noncompliance.

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To accomplish these tests, the OIG auditors downloaded quarterly information directly from the JP Morgan Chase & Co. credit card 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. For the quarter ended June 30, 2019, the OIG auditors sampled 38 cardholders that had 320 transactions totaling \$182,716.

## ***CONCLUSION***

During this quarterly review, the OIG noted three issues, which may circumvent established controls and pose some risk to the P-Card Program. The issues related to non-compliance with small purchase policies, non-compliance with policies on computer related purchases, and non-compliance with restrictions on P-Card usage were found. The three issues received a **Low** risk rating for less significant efficiency/effectiveness internal control issues. Management's responses are expected to address and resolve each within 6 to 12 months.

## ***ISSUES***

### **Issue #1: Non-compliance with Small Purchase Policy**

***Risk Rating: Low***

The OIG identified two transactions where a cardholder's P-Card purchases were not in compliance with the Procurement Office's Small Purchase Policy (SP Policy) effective at the time of the transactions. That SP Policy stated, in part, "the small purchase limit is currently set at purchases above \$5,000.00 up to \$100,000.00 and that at least three quotes must be obtained from prospective suppliers." The two separate transactions were used to buy furniture for the Brighton Dam conference center. The P-card transactions occurred on June 4, 2019, for \$30,551.72 and June 11, 2019, for \$33,390.07, totaling \$63,941.79. The cardholder and their respective manager requested and received a higher limit authorization from the P-Card Specialist to proceed with the transactions.

During the review, the OIG requested copies of any and all quotes from suppliers related to the P-Card purchases, but neither the cardholder nor the cardholder's manager provided any quotes related to the specific transactions. Based on e-mail exchanges between personnel from the General Counsel's Office (GCO), General Services Department (GSD), and the Procurement Office, management relied on a standardization form signed on October 16, 2017 by the former GSD Director. A standardization form is used "to make purchases from one source that can provide homogenized furniture that is interchangeable while maintaining similarity and quality." The standardization form was used to purchase furniture specifically for the 9<sup>th</sup> floor renovation at WSSC's headquarters, and it did not state any use for other future purchases. A new standardization form for the Brighton Dam conference room was not prepared or executed. The former General Services Director communicated to the OIG that the standardization form dated in October 2017 for the 9<sup>th</sup> floor renovation was valid for five years, and that it could be used for the new purchases made in June 2019 for the Brighton Dam conference room. The OIG could not confirm if there was a set term for a standardization form pursuant to WSSC's Code of Procurement Regulations and Manual of Procedures.

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**Recommendation for Operations & Administration Division**

The OIG recommends that management comply with the SP Policy and that enhancements be made to the standardization form to include (1) an approving signature section from the Procurement Office; and (2) an expiration date to specify the time limit for the approval or authorization of the purchase. If cardholders do not comply with the SP Policy, similar transactions could lessen competition and decrease fairness among potential vendors.

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

In 2017, the General Services Division (GSD) obtained three quotes for the purchase of office furniture. GSD and Procurement performed a cost analysis. GSD selected Bialek as the vendor to provide Herman Miller Office Furniture. A standardization form was completed by GSD. A contract was executed by Procurement. The Chief Procurement Officer (CPO) and General Services Director who were involved in these decisions are no longer employees of WSSC. As noted by the Office of the Inspector General (OIG), the standardization form had no expiration date, and was not signed by the CPO.

In late Spring 2019, GSD identified a need to purchase office furniture for Brighton Dam. As noted in the previous paragraph, standardization on Herman Miller Furniture occurred in 2017. In May 2019, Procurement initiated a plan to develop a solicitation that expanded GSD's ability to procure additional Herman Miller Furniture items that were not included in the 2017 contract. Two known challenges existed with the request to purchase furniture for Brighton Dam: (1) the lead time for order fulfillment and, (2) lead time for solicitation and contract execution.

Considering the challenges, GSD submitted two higher limit requests to purchase Herman Miller Office Furniture for Brighton Dam. The higher limit requests were approved by the CPO designee on June 4, 2019 and June 6, 2019. Quote 1 dated June 3, 2019 was for the Brighton Dam conference room, and was in the amount of \$30,551.72. Quote 2 dated June 4, 2019 was for Brighton Dam workstations, and was in the amount of \$33,390.07. The challenges described above, the actions taken, and Procurement's intent to solicit for Herman Miller Furniture were shared with the OIG in October 2019, as there was also an immediate need to procure office furniture for the OIG's new office.

Procurement continued its efforts to solicit for the standardized Herman Miller Office Furniture. A solicitation was issued on November 5, 2019. Two vendors responded; one vendor was deemed non-responsive. A contract was awarded to Bialek and the contract was executed on December 23, 2019.

For the reasons described above, Procurement disagrees with this finding. Standardization occurred in 2017. Understandably and noted, a time-bound standardization and a mechanism to re-authorize standardization may be reasonable on the standardization form. However, it would be impractical to arbitrarily set a fixed expiration time for standardization without taking into consideration a product's lifecycle as it will vary greatly (e.g. 5 years vs. 30 years). Corrective actions are under consideration to include: 1) a signature block for the Chief Procurement Officer or designee and 2) a period of standardization that would be based on a product's lifecycle or a reasonable time limit that is within the Commission's best interest.

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***Management's Implementation Date: Management will update the standardization form by June 5, 2020.***

**OIG Comment**

Management's action is responsive to the intent of the recommendation. The issue will remain open for reporting purposes until the OIG verifies the implementation of the corrective action plan pertaining to the standardization form and policy.

**Issue #2: Non-compliance with Guidelines on Computer Related Purchases**  
***Risk Rating: Low***

The OIG found that some cardholders did not comply with the guidelines on computer related purchases (Computer Guidelines). Cardholders are required to obtain approval from the Information Technology (IT) Department prior to using their P-Cards to purchase computer software and/or hardware equipment. The OIG found 23 non-compliant purchases of computer hardware and software equipment totaling \$8,975, whereby the cardholder did not obtain prior approval from IT. The purchases were made by 16 different cardholders from 17 different vendors.

Cardholders are required to submit an online IT Request Form to the IT Department for any computer-related purchases. If the items requested are not available, the IT Request Form is forwarded to the IT Compliance Review Manager for approval. If approved, the cardholder then submits the approved IT Request Form along with a completed P-Card IT Purchase Request Form to their manager or director for approval. The OIG requested copies of the approved IT Request forms, but they were not provided, and no explanation was given.

**Recommendation for Operations & Administration Division**

To increase awareness, the OIG recommends that the P-Card Specialist provide notice to cardholders and their approvers when there are exceptions to Computer Guidelines related to purchases of computer software and hardware equipment. If the Computer Guidelines are not followed, then cardholders may risk purchasing equipment already in inventory. Also, the equipment may not be properly tagged for inventory purposes.

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

Procurement agrees with 11 of the 23 transactions. The Merchant Category Code associated with the 11 transactions were blocked in light of this issue. Blocking prohibits IT purchases of both hardware and software; however, please note there are instances in which some items (e.g. keyboards, ink cartridges, etc.) may be classified in another category (e.g. office supplies) and is solely contingent on the codes the major credit card networks (e.g. Visa and Mastercard) assigned to the business. The items purchased in the other 12 transactions are permissible and classified as follows and; therefore, do not violate the policy: (1) office supplies (9 items), (2) electronics (1 item), and (3) equipment maintenance supplies (2 items) (see Exhibit A). Details of the aforementioned transactions are categorized in the attached table (see Exhibit B).



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Pursuant to the OIG's recommendation, the Procurement Office distributed a Memo on February 4, 2020, reminding all cardholders and their approvers of the P-Card Standard Procedure concerning IT hardware and software purchases (see WSSC Manual of Standard Procedures Title 6, Chapter 6.20). More specifically, the notice provides a list of examples illustrating hardware, peripherals, software and software subscription purchases that are prohibited without IT Department approval. Cardholders and approvers were also reminded that the purchase of these items without IT Department approval will result in a P-Card violation and possible suspension of P-Card privileges. Such guidance is also provided in the mandatory P-Card training each cardholder must complete. Lastly, cardholders and approvers were instructed to contact the Procurement Card Specialist for additional guidance (e.g. training) if necessary (see Exhibit C).

***Management's Implementation Date:*** Procurement distributed a Memo on February 4, 2020, reminding all cardholders and their approvers of the P-Card Standard Procedure concerning IT hardware and software purchases. Additional communications are sent as deemed necessary.

#### **OIG Comment**

Management's action is responsive to the intent of the recommendation. The issue will remain open for reporting purposes until the OIG verifies the implementation of the P-Card Standard Procedure and the transmission of additional communications regarding IT hardware and software purchases using the P-Card.

#### **Issue #3: Non-compliance with P-Card Restricted Transactions Guidelines**

***Risk Rating: Low***

The OIG identified two potential split transactions totaling \$6,426. Split transactions are covered under the P-Card Restricted Transactions Guidelines (Restricted Transactions) in the P-Card Program. Restricted Transactions do not allow cardholders to split a purchase to avoid the single transaction limit. "A split transaction is defined as making multiple payments to the same vendor, for the same type of items purchased on the same day or separating a transaction to avoid the single transaction limit of \$5,000.00." On April 26, 2019, a cardholder purchased work supplies from the same vendor in two separate transactions on the same day for \$3,450 and \$2,976.

#### **Recommendation for Operations & Administration Division**

The OIG recommends the P-Card Administration Team enforce Restricted Transactions Guidelines and research/investigate suspected split transactions noted in this report. When warranted, the P-Card Administration Team should issue notifications of violations to the cardholder. In addition, the OIG recommends the P-Card Administration Team require the approver to closely monitor proof of purchase documents/receipts to detect split transactions. The P-Card Administration Team is also encouraged to consider other strategic sourcing methods to help maximize purchase discounts and avoid split transactions. Split transactions may demonstrate fraudulent use of the P-Card and should be monitored on a consistent basis.

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

Procurement agrees with this finding. After further investigation, it was determined that this was the cardholder's third split transaction violation. In accordance with WSSC Standard Procedure 6.20.050, a P-Card Violation Memo was issued to the cardholder with a 90-day suspension of the cardholder's privileges. Further, subsequent training is required prior to P-Card privileges being restored for suspended cardholders.

***Management's Implementation Date:*** A 90-day suspension memo was issued to the cardholder on February 6, 2020.

**OIG Comment**

Management's action is responsive to the intent of the recommendation. The issue will remain open for reporting purposes until the OIG verifies the issuance of the 90-day suspension memorandum.

**Attachment**

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