

Performance Audit Report

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**State Corporate Purchasing Card Program**

Additional Data Analysis Techniques Should Be Employed to Strengthen  
Program Integrity

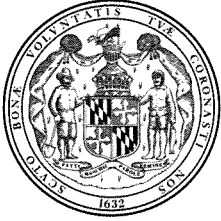
March 2014

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**OFFICE OF LEGISLATIVE AUDITS**  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

March 26, 2014

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Annapolis, Maryland

Ladies and Gentlemen:

We conducted a performance audit of the State's Corporate Purchasing Card (CPC) Program to identify additional transaction review techniques that could improve the integrity of the Program. For fiscal year 2013, State CPC purchases totaled \$260 million.

The Comptroller of Maryland – General Accounting Division (GAD), which oversees the Program, has established certain policies and practices to help ensure that CPCs are used for appropriate purposes. However, GAD had not required State agencies to use L-3 data to assist them in monitoring their cardholders' purchasing activities.

Unlike the data provided in typical credit card billing statements, L-3 data contain detailed descriptions of the items purchased. Such data can facilitate a review of purchases to determine whether the purchases appear to be for legitimate business activities. Although a thorough review of purchasing activity and related documentation by cardholder's supervisors would help ensure the propriety of the purchases, our past audits have shown that this review does not always occur. Furthermore, even a diligent and thorough review of support for purchasing card purchases may not detect inappropriate card uses that are concealed by the creation of fictitious invoices. Although L-3 data is not furnished by all merchants, using the data when it is available would enable reviewers to detect these situations.

Our examination of the L-3 data for CPC transactions from December 2009 to January 2012 resulted in the identification and investigation of four cardholders who made inappropriate purchases which, based on our investigation as well as the investigations of the agencies involved, totaled approximately \$255,000. In all four cases, the cardholders were ultimately convicted for their actions. In each situation, a more diligent review of cardholder activity by supervisors could have identified the inappropriate

purchases, or at least could have raised suspicions regarding the nature and frequency of the items purchased. Nevertheless, had the affected agencies used L-3 data to supplement the agencies' other review procedures, these situations could have been detected sooner. Furthermore, it could have served as a deterrent if cardholders knew the data were being used as a part of the agencies' routine verification processes.

To enhance the integrity of the CPC Program, GAD should amend its Program Manual by requiring user State agencies to regularly obtain L-3 data and providing guidance to agencies as to how to incorporate the L-3 data into their purchasing card verification procedures.

An executive summary can be found on page 5 of the report and our audit scope, objectives, and methodology are explained on page 11. The Comptroller of Maryland's response is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during our audit by GAD and the agencies we selected for testing.

Respectfully submitted,

A handwritten signature in black ink, reading "Thomas J. Barnickel III". The signature is written in a cursive style with a large initial "T" and a stylized "B".

Thomas J. Barnickel III, CPA  
Legislative Auditor

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# Executive Summary

## Legislative Audit Report on the State Corporate Purchasing Card Program March 2014

We conducted a performance audit of the State's Corporate Purchasing Card (CPC) Program to identify processes and data analysis techniques that could be used to enhance the integrity of the Program.

The State introduced the CPC Program to streamline procurement and accounts payable functions for small purchases by eliminating required paperwork (such as requisitions, purchase orders, and invoice and payment processing documents). For fiscal year 2013, State CPC purchases totaled \$260 million. Due to the large amount of purchases made, it is important to maintain and enhance the integrity of the Program.

The Comptroller of Maryland – General Accounting Division has established certain policies and practices to help ensure that CPCs are used for appropriate purposes. The policies stipulate the acceptable purchasing card uses, and require cardholders to acknowledge that they understand the policies and that they can be held liable for unauthorized purchases. Both automated and manual process controls have been established. Some controls are preventive, such as automatically limiting the type of merchants where the CPCs can be used (based on merchant codes), limiting the amounts that can be purchased by each cardholder, and requiring multiple authorizations to establish an individual cardholder account. Other controls are detective, such as strict recordkeeping requirements for each transaction and monthly post-purchase reviews of each transaction by supervisory personnel.

The integrity of the Program relies primarily on the cardholders using the CPCs in accordance with the acceptable use policies and on the cardholders' immediate supervisor conducting a thorough review of individual cardholder's purchase transactions to ensure compliance with the policies. However, with respect to supervisor reviews of CPC transactions, our audits of State agencies have disclosed instances where the reviews were not evident, were cursory or incomplete, were performed without having received all required documentation from the card user, and appeared to be performed without adequate diligence to protect State funds.

Our audit disclosed that GAD had not required State agencies to use L-3 data to assist in monitoring cardholders' purchasing activities. We found L-3 data to be a very useful tool for evaluating the propriety of CPC transactions. L-3 data, which are available from the purchasing card bank, includes significant

descriptive information captured by certain merchants for each purchase, such as item description and quantity, combined with detailed merchant information and cardholder information.

Our examination of L-3 data identified four cardholders who made inappropriate CPC purchases which, based on our investigation and the investigations of the agencies involved, totaled approximately \$255,000. We found that L-3 data item descriptions alone can raise suspicion, such as the purchase of obviously inappropriate items like guitars and toy soldier figures. Also, attempts to conceal improper purchases are obvious when the items purchased described in the L-3 data do not agree to the cardholders' descriptions of the items purchased as recorded in their purchase activity logs.

Since the L-3 data are available and easy to use, we believe that GAD should require all State agencies using CPCs to use the L-3 data and provide guidance on how the data can be incorporated into the agencies' verification processes. For the State agencies, the process can be done centrally at the agency or by the immediate supervisors that review their subordinates' CPC transactions. However, since not all vendors supply L-3 data, it's important that other controls remain in place to ensure the integrity of the CPC Program.

Our audit also identified other automated analysis techniques, which we have described in this report that could be useful under specific circumstances.



## Background Information

### Program History and Description

In fiscal year 1997, the State implemented its Corporate Purchasing Card (CPC) Program upon approval by the Board of Public Works. The Program was intended to streamline procurement and accounts payable functions by eliminating paperwork (requisitions, purchase orders, and the associated invoice processing) for many small purchases. For fiscal year 2013, State CPC purchases totaled \$260 million and the average CPC purchase was \$353. Since inception of the CPC Program through June 30, 2013, State agency CPC purchases have totaled approximately \$3 billion. Additionally, the card vendor pays the State an annual rebate based on the State's total purchase volume for each 12-month period. We were advised by GAD that the card vendor paid the State a rebate of \$4.1 million for the contract year ending in April 2012.

### Program Controls

The Comptroller of Maryland – General Accounting Division (GAD) is the lead agency for administering the Program. GAD has established Program policies and procedures applicable to all State agencies to reduce the potential for fraud, waste, and abuse.

GAD has established and maintains the *Corporate Purchasing Card Program Policy and Procedures Manual*. This *Manual* was issued in April 2001 and was last revised in October 2010. The *Manual* provides user agencies with information and guidance regarding card issuance, card security, appropriate card use, and documentation. The *Manual* also requires that each cardholder sign an agreement certifying that he or she will comply with applicable procurement policies and is responsible for unauthorized purchases.

In addition, GAD and the card vendor have taken certain centralized actions to help ensure the propriety of transactions processed under the Program. Specifically, GAD and the card vendor instituted certain control mechanisms, including the following procedures:

- Establishing single transaction dollar limits as follows: State agencies (including University System of Maryland) - \$5,000; Emergency Response Cards - \$25,000.

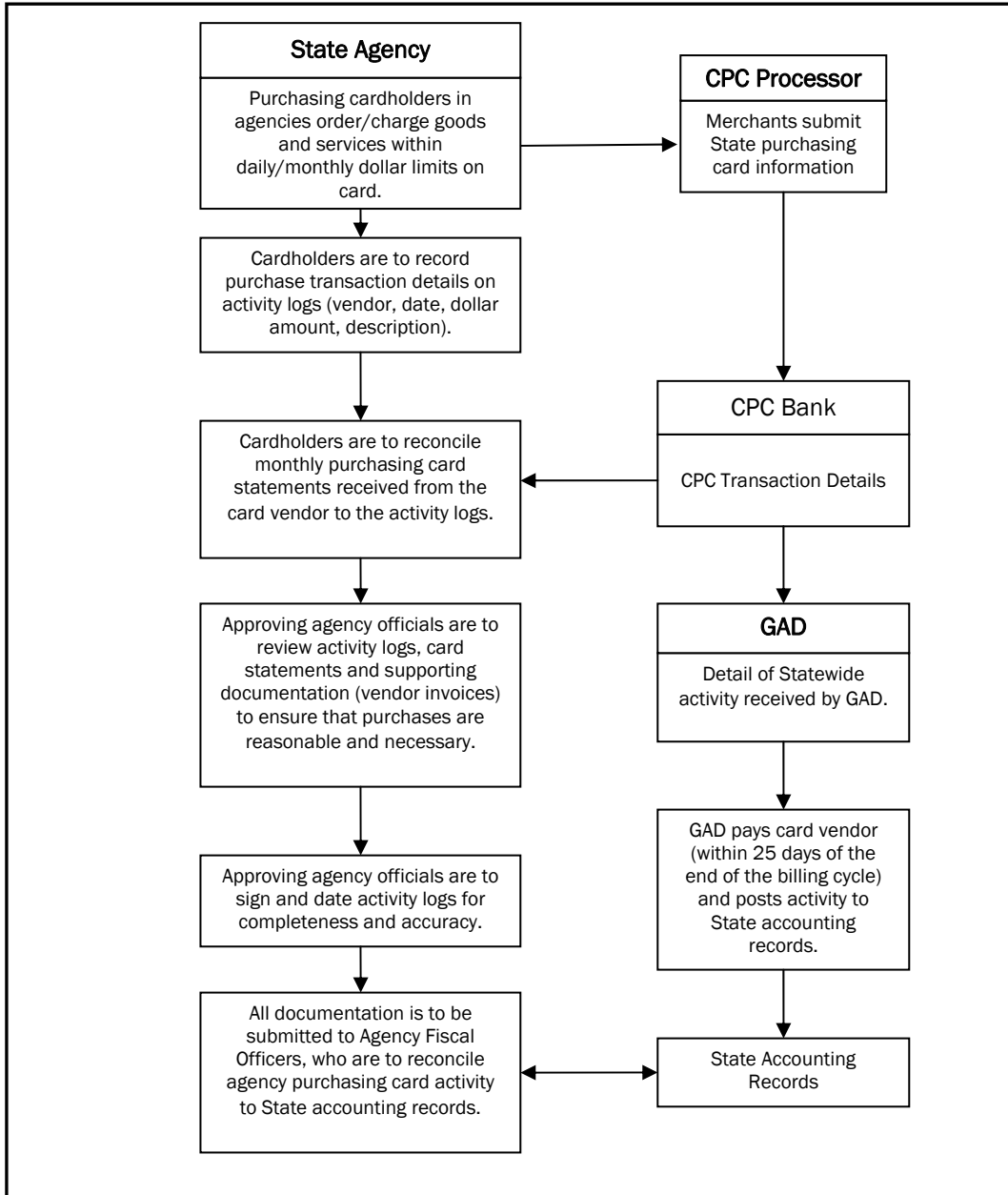
- Blocking certain merchant category codes so that the system will not approve transactions attempted with merchants in these categories. Blocked codes include merchants coded as personal service providers (such as beauty shops, restaurants, movie theaters, liquor stores, gambling establishments, and automated teller machines). The purchasing card vendor assigns merchant codes, and GAD makes the determination of which codes to block.
- Limiting the State's liability for lost and stolen cards. The card vendor provides protection from liability for fraudulent use by cardholders up to \$100,000 per card provided prompt and timely actions are taken by the State agency, such as terminating cardholders who make fraudulent purchases.
- Reviewing for questionable purchases on a monthly basis. GAD uses data provided by the card vendor to attempt to identify questionable purchases (purchases from certain merchant codes that are deemed susceptible to misuse). GAD requires user agencies to investigate such purchases and provide assurance that these purchases were proper.

In addition, various controls are available to the individual State agencies to further control card use and limit potential exposure to inappropriate transactions. For example, a daily transaction limit and a monthly dollar limit may be set for each individual card.

These controls have been designed to reduce the likelihood of flagrant types of abuse such as those noted in recent United States Government Accountability Office (GAO) audit reports on federal government purchasing card programs. For example, the GAO has noted the use of cards to make inappropriate purchases such as electronics for home use and cash advances.

## Purchasing Card Processing

The following is a simplified illustration showing the flow of the purchasing card use, and the payment and reconciliation processes.





## **Audit Scope, Objectives, and Methodology**

### **Scope**

We conducted a performance audit of the State's Corporate Purchasing Card (CPC) Program to identify processes and data analysis techniques that could be used to enhance the integrity of the Program. We conducted this audit under the authority of the State Government Article, Section 2-1221 of the Annotated Code of Maryland and performed it in accordance with generally accepted government auditing standards. 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 our audit objectives.

### **Objective**

The objective of this audit was to identify transaction review processes and data analysis techniques that could be used to enhance the integrity of the State's Corporate Purchasing Card Program.

### **Methodology**

To accomplish our objectives, we reviewed applicable State laws and regulations, as well as policies and procedures established by GAD and other selected State agencies to maintain the integrity of the CPC Program. We interviewed personnel at GAD and at the selected agencies that processed transactions tested during the audit. We obtained information from representatives of other government purchasing card programs and reviewed relevant reports published by the United States Government Accountability Office. We obtained electronic files detailing transactions processed by the State's purchasing card vendor for the period from December 25, 2009 to January 25, 2012 which included approximately 1.5 million transactions totaling \$521 million and performed automated analyses of the data. We reviewed the data received from the vendor and found it to be reliable for our audit purposes. When our analysis raised suspicion of potential inappropriate CPC activity, we extended our review to certain cardholder transactions before and after the period above to determine the frequency and extent of the potential violations.

Using the data from the vendor, we performed several types of automated tests to identify and determine the propriety of items or services that were purchased as well as the propriety or legitimacy of the vendors from whom those items or services were purchased. We reviewed documents at various State agencies to determine the reliability of the Level-3 detail transaction data and the propriety of selected transactions (were purchases adequately supported, approved, and reasonable).

Our audit did not include the review or evaluation of the CPC vendor's information system. We also did not review GAD or individual agencies' processes for issuing purchasing cards and assigning individual card credit limits, nor did we evaluate all internal controls of the agencies whose transactions were selected for testing. Furthermore, we did not test all transactions for violations of purchasing card policies, such as missing receipts, lack of supervisor review, and lending of CPC card to others. In general, we did not test CPC procedures and controls, which are typically covered during our fiscal compliance audits of GAD and State agencies.

### **Fieldwork and Agency Response**

We conducted our fieldwork from January 2012 to October 2012 and updated agency personnel and legal actions as of December 2013. The Comptroller of Maryland's response to our findings and recommendations is included in an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise the Comptroller regarding the results of our review of its response.

## Findings and Recommendations

### **Conclusion**

The Comptroller of Maryland – General Accounting Division (GAD) has established certain policies and procedures to help ensure that corporate purchase cards (CPC) are used for appropriate purposes. Our audit disclosed additional actions could be taken by GAD to help improve the integrity of the program. For example, our audit disclosed that CPC Level-3 (L-3) data are a valuable source of information that can facilitate an efficient review of the propriety of CPC transactions by an agency's finance office personnel, central staff, or internal auditors. Review of L-3 data could supplement other control activities. In particular, L-3 data could be used by CPC cardholders' supervisors to enhance their review of CPC transactions and could serve as a means of identifying cardholder attempts to conceal inappropriate CPC purchases.

Our examination of the L-3 data for CPC transactions from December 2009 to January 2012 resulted in the identification and investigation of inappropriate purchases by four cardholders. We subsequently determined that one of these cases had been identified and investigated by the agency prior to our examination. The remaining three cases were reported to the appropriate agency management personnel for further agency investigation and administrative actions, such as employee terminations. Investigations of these four cases resulted in the identification of inappropriate purchases totaling approximately \$255,000. The cases were also referred to the Office of the Attorney General – Criminal Division. Ultimately, for these four referrals, prosecutions were undertaken and convictions were obtained.

In addition to examining the L-3 data, we evaluated various other data analysis techniques. We concluded that these other analysis techniques could be useful in attempting to identify misuse or fraud in CPC transactions and believe the techniques could be used by agency management to further evaluate the integrity of CPC transactions.

### **Background**

The integrity of the CPC Program relies primarily on the cardholders using the CPCs in accordance with the acceptable use policies and on the card user's immediate supervisor conducting a thorough review of individual purchase transaction documents to ensure that each purchase is properly described and documented and that each purchase relates to an appropriate business

purpose of the agency. However, the effectiveness of the supervisory review of purchase transactions is dependent on the abilities of and diligence exercised by these supervisors and others responsible for reviewing detailed CPC activity. For example, supervisors must ensure that cardholders accurately maintain logs identifying each purchase and that accurate and valid itemized receipts are provided. With the advent of advanced technologies, documentation can be altered or fraudulent documentation can be easily created to misrepresent the purchases made.

**Finding 1**

**State agencies were not required to use L-3 data to assist them in monitoring their cardholders' purchasing activity.**

**Analysis**

State agencies were not required to use L-3 data to assist them in monitoring their cardholders' purchasing activity such as through requirements established in GAD's *Corporate Purchasing Card Program Policy and Procedures Manual*. Our experience using L-3 data indicated that it was readily available, easy to use, and provided significant information about items purchased. Specifically, we used L-3 data to identify and investigate apparent improper purchases by four cardholders. We were able to determine that the cardholders intentionally concealed the nature of their purchases by providing fictitious or altered receipts and/or misleading user log entries.

During 2011, GAD began using L-3 data to monitor State agencies purchases. Although beneficial, GAD's monitoring has limitations in that GAD does not have specific knowledge about State agencies' purchasing needs to reliably assess the appropriateness of certain purchases. Moreover, because cardholder purchase activity logs are maintained at the agencies, GAD cannot readily compare L-3 data to the logs. Improper purchases are obvious when the items purchased described in the L-3 data do not agree to the cardholders' descriptions of the items purchased as recorded in the purchase activity logs.

Our investigation of the four cardholders who made inappropriate purchases, as well as the investigations conducted by the agencies involved, resulted in the identification of inappropriate purchases totaling approximately \$255,000. See the *Exhibit – Cases With Inappropriate Purchases*, beginning on page 19, for detailed descriptions of the four cases in which inappropriate purchases were noted. The issues identified during this audit have been or



will be fully addressed, as appropriate, in our fiscal compliance audit reports on the applicable agencies, which may contain more detailed recommendations relevant to each specific agency.

L-3 data are available to GAD and State agencies through the purchasing card bank's online system. Similar to an invoice and a cash register receipt, L-3 data include detailed descriptive information for each purchase, as well as detailed merchant and cardholder information. L-3 data are much more informative than the basic data that typically appears on a CPC cardholder's monthly statement received from the CPC bank, which typically consists of the transaction date, dollar amount, merchant name, and city and state.

L-3 data are captured and reported electronically to the purchasing card processor along with other purchase information by some merchants (the submission of L-3 data by merchants is voluntary). While many merchants do provide L-3 data, the majority of merchants do not provide such data. Thus, the use of L-3 data as a mechanism to improve CPC Program integrity should be reviewed as a tool to supplement other control processes.

#### **Recommendation 1**

**To enhance the integrity of the CPC program, we recommend that GAD amend its *Program Manual* to require State user agencies to regularly obtain and use L-3 data and provide guidance to the agencies as to how the L-3 data can be used in their CPC verification procedures.**

#### **Finding 2**

**Certain aspects of CPC transactions can be evaluated on a global basis using computer matching processes or the purchasing card bank's online system to identify circumstances or trends that may indicate the inappropriate use of CPCs.**

#### **Analysis**

Certain aspects of CPC transactions can be evaluated on a global basis using computer matching processes or the purchasing card bank's online system to identify circumstances or trends that may indicate inappropriate use of CPCs. Examples of such methods and techniques are described below. One significant case is presented below to illustrate potential results of using these techniques.

### **Declined Transaction Review**

This method isolates all CPC attempted transactions that were rejected when the card was used, and evaluates the frequency of the rejection circumstances, such as the number of times rejections occurred for each cardholder, the nature of the establishment where the purchases were attempted, and the type of commodity that was attempted to be purchased. Frequent attempts under similar circumstances by one cardholder (such as repeated attempts to purchase alcoholic beverages, gasoline, or common carrier travel) could indicate deliberate attempts to misuse the CPC card.

### **Multiple Vendors at One Address**

This method evaluates whether the vendors paid by CPCs are legitimate and independent vendors. Multiple vendors using a residential address or an address known to use mail-stop boxes could indicate non-existent merchants who provide no goods or services for the charges made, or who charge inflated prices for merely taking orders for deliveries actually fulfilled by other merchants. Typically, the cardholder is directing the purchasing activity to such vendors in exchange for kickbacks or has an ownership interest in the vendor.

### **Employee Address and Vendor Address are the Same**

This method involves matching employee addresses (for example, from the agency's human resource records) with vendor addresses. The risks are similar to those for Multiple Vendors at One Address, as discussed above.

### **High Dollar Volume of Purchases by One Cardholder from an Obscure Vendor**

This method involves creating a cross-tabulation of the number, frequency and volume of CPC purchases by cardholders and vendors. Subsequently, the tables are examined to identify unusually high activity by one cardholder with little-known vendors. Again, the risks are similar to those for Multiple Vendors at One Address, as discussed above.

### **Purchases Structured to Avoid Transaction Limits**

This method evaluates CPC activity for artificial splitting of single purchase amounts that exceed the \$5,000 single CPC transaction limit or the applicable individual card limits. It involves examining for multiple purchases on a single day or on nearby dates from a vendor that, in total, exceed the applicable limits. Typically, but not always, this is done by splitting the single purchase amount into a series of smaller charges of equal amounts that are under the individual limit, or into a series of charges equal to the limit with the last charge making up the balance of the single purchase amount. Structured purchases are usually entered into for card user or agency convenience to

avoid complying with State procurement laws and regulations that may require multiple quotes or bidding, and the employee may receive no self-benefit from this scheme. However, this scheme could be used to direct the purchases to a particular vendor in exchange for kickbacks.

### **Additional Scrutiny for Unusual Vendors or Payees**

This method consists of examining the CPC data (both from the issuing bank and/or in the cardholder monthly package of statements, logs, receipts, and approvals) for unusual practices or seemingly mismatched descriptions. For example, payments to a PayPal account from a CPC card should raise questions as to the nature of what is being bought since PayPal is an account used to accumulate and disburse funds rather than a provider of goods or physical services. (The following paragraph describes a case in which PayPal was used to facilitate inappropriate activity.) Another example would be where the vendor name indicates a service-type provider (such as a barber shop or beauty shop, which are prohibited merchants) but the descriptions of items purchased indicate goods such as food were bought. These mismatches or unusual practices when found should raise suspicion for the reviewer and be resolved through further inquiries or investigation.

By reviewing CPC data for unusual vendors, we noted one instance in which an on-line payment processing service was used to facilitate inappropriate CPC activity. This situation was commented upon in our audit report on the University System of Maryland – Coppin State University (CSU) dated November 18, 2013. Specifically, CSU paid a retired employee who returned to work for the campus \$25,800 through an on-line payment processing service using a CPC card. This was done during the period from July 6, 2010 to October 5, 2010 to circumvent the earnings limitation for retirees established by State law (Section 23-407 of the State Personnel and Pensions Article of the Annotated Code). State law requires a reduction of retirement benefits for individuals that work for the State after retirement. In general, the amount of retirement allowance must be reduced if the sum of the individual's earnings and the retirement allowance exceed the individual's average final compensation. This limitation applies for five full calendar years after the date the individual retires.

In this case, the individual performed the same duties as prior to retirement, and an employee-employer relationship continued to exist. Payments to this individual should have been made using the State's contractual employee payroll process through the State's Central Payroll Bureau (CPB). When the employee initially retired and continued to work in the same capacity as prior to retirement, the employee was paid properly as a contractual employee

through CPB. However, because the State Retirement Agency (SRA) matches its records of retiree pay to CPB payments, the SRA identified and recovered from the employee the excess payments made during fiscal years 2008 and 2009. Subsequently, the retired employee requested to be paid by CPC, which effectively precluded SRA from identifying the wage payments and recovering amounts in excess of the earnings limitation.

We were advised that the employee that authorized the use of the CPC to pay this employee was terminated by the campus for this and other inappropriate activities, and the employee's supervisor received a written reprimand.

#### **Recommendation 2**

**We recommend that GAD establish or sponsor orientation and training programs for agencies' management and CPC supervisors about other available techniques for analyzing and assessing the propriety of CPC transactions. Other transaction screening techniques for evaluating the propriety of CPC transactions should be considered by agencies for their particular circumstances.**

Exhibit  
Cases With Inappropriate Purchases

**Case 1 – Local Health Department**

Using L-3 data, we found that purchases totaling \$45,640 made by one cardholder at a Local Health Department between January 2008 and February 2012 appeared to have no legitimate business purpose. The descriptions entered on the CPC activity logs by the cardholder did not agree to the L-3 descriptions recorded directly by the retailer for the items actually purchased. Table 1 below describes these purchases.

Table 1		
Questionable Purchases Noted at a Local Health Department		
Items Purchased	Quantity Purchased	Amount Paid
Guitars	56	\$ 30,183
Guitar Accessories	77	7,898
Watches	17	2,412
Pellet Guns	9	1,257
Binoculars	9	1,039
Knives	24	813
Toys	16	610
Books	14	426
Military Memorabilia	19	424
Clothes	11	295
Men's Vitamins	15	283
Totals	267	\$ 45,640

Source: Bank L-3 data

All of these questionable purchases were made from an Internet retailer. As such, all receipts were computer-generated and thus could be easily falsified. The employee who made these purchases indicated on the CPC activity logs that the questionable purchases were for legitimate items such as ink cartridges and computer software and provided his supervisor with fictitious computer-generated receipts that corresponded to the descriptions recorded in the activity logs.

The employee's supervisor does not appear to have been aware of L-3 data since the data had not been reviewed as part of the supervisory review of the cardholder's CPC transactions. Had the supervisor's review of CPC transactions included the review of L-3 data, the questionable purchases, which were made over a four-year period, would likely have been detected at an earlier time since the purchase descriptions provided by the retailer differed so dramatically from the descriptions entered by the cardholder on the activity logs.

In addition, in our opinion, the supervisor probably should have questioned why a fairly small agency needed to purchase such a large quantity of ink cartridges, software, and other office supplies. This lack of a diligent supervisory evaluation of the reasonableness of the purchases also allowed the fraud to continue over a long period.

As a result of these fraudulent purchases, the employee was terminated from State service by the Department of Health and Mental Hygiene effective May 21, 2012. Furthermore, this former employee was prosecuted by the Office of the Attorney General - Criminal Division. The employee had pleaded guilty of theft between \$10,000 and \$100,000 and was sentenced to serve a six-month prison term. Also, we were advised that as a result of the supervisor's failure to detect these improper purchases over an extended period of time, the supervisor retired from State service effective July 1, 2012.

## Case 2 – Department of Juvenile Services

Using L-3 data, we found that one employee at a Department of Juvenile Services (DJS) facility had purchased 41 gift cards totaling \$4,185 in 13 separate CPC transactions between May 2010 to April 2011. The purchase of gift cards using a CPC is strictly prohibited by GAD policies. Even though some of these transactions had been subjected to a supervisory review, the monthly cardholder activity logs did not properly describe the actual items purchased (none of the descriptions in the activity logs indicated the purchase of gift cards, but instead listed descriptions that appeared to be for legitimate business purposes). Furthermore, the transactions were not always supported by an itemized receipt or invoice. However, the supervisor had apparently never questioned the missing receipts.

The employee's supervisor does not appear to have been aware of the existence of L-3 data because the data had not been reviewed as part of the supervisory review of the cardholder's CPC transactions. Had the supervisor reviewed the L-3 data, the purchase of prohibited gift cards would have been readily apparent. Since there was evidence that the employee purposely attempted to conceal the prohibited purchases, we performed a more thorough review of all of this cardholder's CPC activity.

In addition to the prohibited gift card purchases, our analysis of this cardholder's CPC activity over a three-year period identified significant increases in CPC activity, especially with one vendor. Specifically, CPC purchases in calendar years 2009, 2010, and 2011 by this cardholder totaled \$50,894, \$128,375, and \$245,639, respectively, and purchases from one vendor during the same periods totaled approximately \$13,329, \$31,635, and \$106,759, respectively. Also, there was no written contract that had been solicited for bids or negotiated between the vendor and the State or DJS during the periods in question. In our opinion, these circumstances should have raised questions had DJS supervisors and management been conducting a diligent review of CPC activity. However, we found no indication that this cardholder's CPC activity had been evaluated by DJS supervisors or management.

After we brought these circumstances to DJS management's attention, it initiated an investigation of the employee's CPC transactions. As a result of the investigation, DJS identified other questionable purchases totaling \$91,443 made by this employee from April 2011 through March 2012. Of this amount, \$56,844 related to unauthorized purchases from the one vendor with the dramatic increase in CPC sales to the DJS employee. Improper

purchases identified by DJS included commercial kitchen equipment and large quantities of food that were never delivered to a DJS facility.

In our opinion, lax attention by DJS supervisors and management regarding required CPC procedures facilitated this employee's frauds. Our review of the cardholder's transaction activity disclosed that there were no monthly cardholder document packages (supervisor reviewed cardholder activity logs, monthly purchasing card statements, and transaction receipts) available for the period from May 2011 through February 2012 at either the DJS regional accounting office or at the satellite location where the employee worked. Furthermore, there was no indication that anyone at the DJS regional office questioned why monthly cardholder packages ceased being submitted although the employee had increasing CPC activity. GAD's *Corporate Purchasing Card Program Policy and Procedures Manual* requires that State agencies reconcile monthly cardholder activity and ensure the related documents are filed in an easily retrievable and secure manner for future review. DJS' procedures required that the document packages be forwarded from the satellite location to a regional accounting office for reconciliation and filing.

We were advised by DJS that the employee who made these questionable purchases was terminated from State service in May 2012. Furthermore, this former employee was prosecuted by the Office of the Attorney General - Criminal Division. The employee pleaded guilty to theft and was sentenced to serve 15 years in prison with 14 years suspended and is required to pay \$94,868 in restitution.

Although this employee's immediate supervisors did not detect the improper purchases over an extended period of time, no disciplinary action was taken against the supervisors. Furthermore, no disciplinary actions were taken against employees of the regional accounting office who did not question the lack of monthly cardholder packages or increased purchasing activity.



### **Case 3 – University System of Maryland – University of Maryland Baltimore County**

During our review of L-3 data, we found that an employee at the University System of Maryland (USM) – University of Maryland Baltimore County (UMBC) had purchased gift cards with a value totaling \$4,356. UMBC policy prohibits the purchase of gift cards with CPCs. After we brought this issue to the attention of UMBC management, it initiated an investigation of the employee's CPC transactions. As a result of this investigation, additional questionable purchases made by this employee were identified, and the matter was referred to the Office of the Attorney General – Criminal Division for its consideration. This situation was originally reported upon in our audit report on the University System of Maryland – University of Maryland Baltimore County dated May 8, 2012.

The employee's supervisor did not use the L-3 data to determine the propriety of CPC purchases as UMBC advised us that it was unaware of the existence of L-3 data at the time of the questionable purchases. Had L-3 data been reviewed, at least some of the improper purchases, such as the gift cards, would have been readily identifiable. In addition, it appeared that CPC purchases were not always thoroughly reviewed by the employee's supervisor. Specifically, even though the supervisor approved the cardholder's monthly CPC activity logs, the logs did not include all of the purchases on the monthly statements, certain purchases were not supported by vendor invoices, and receipts were altered to obscure identification of the items purchased.

The employee responsible for the improper purchases was terminated by UMBC effective March 8, 2012. In January 2013, the former employee pleaded guilty to felony theft and received a five-year suspended sentence, supervised probation, community service and was ordered to pay restitution of \$6,693. The supervisor who approved the cardholder's improper purchases was issued a letter of reprimand.

## Case 4 – Military Department

During our review of L-3 data for this audit, we noted that an employee of the Military Department purchased gift cards totaling \$39,600 between December 24, 2009 and August 6, 2010. We contacted the Department's management about the employee's purchase of these gift cards. We were advised that the Department had begun an investigation into this employee's CPC purchases as a result of a special review of federal grant expenditures that identified CPC purchases delivered to the cardholder's home address. The investigation identified 372 questionable CPC purchases totaling \$107,493 made by the employee from February 2008 to October 2010. In addition to gift cards, the employee purchased personal items such as home electronics and clothing. Fictitious invoices were prepared by the employee using legitimate item descriptions, such as office supplies, to avoid detection. This situation was also commented upon in our audit report on the Military Department dated May 30, 2013.

Although the documentation supporting CPC expenditures was reviewed by the designated supervisors on a monthly basis, the Department's monitoring procedures did not include the use of L-3 data to help determine the propriety of CPC transactions. The L-3 data would have alerted the Department, as it did us, of the purchases of the prohibited gift cards and possibly many of the other inappropriate CPC purchases by this cardholder. Using the L-3 data may have identified the inappropriate purchases significantly earlier than when the purchases were actually discovered, and accordingly would have been useful to stop the inappropriate purchasing before such a large number of transactions had occurred. Also, in our opinion, the supervisor should have questioned why computer-generated receipts were submitted by the employee when original paper receipts should have been readily available, and why so many office supplies were being purchased.

The Department terminated this individual's employment in February 2011. In March 2011, at the direction of the Office of the Attorney General – Criminal Division, the Department referred the matter to federal law enforcement for further action. The employee pleaded guilty of wire fraud in federal court and was sentenced to six months in prison, followed by six months of home detention with electronic monitoring. The former employee was also ordered to pay restitution of \$107,493. The supervisor who approved these purchases was allowed to retire in lieu of termination.

## APPENDIX



**Peter Franchot**  
*Comptroller*

**David F. Roose**  
*Deputy Comptroller*

March 21, 2014

Thomas J. Barnickel, III, CPA  
Legislative Auditor  
Office of Legislative Audits  
301 West Preston Street  
Room 1202  
Baltimore, Maryland 21202

Dear Mr. Barnickel:

Enclosed please find the General Accounting Division's responses to the two recommendations listed in the performance audit report on the State Corporate Purchasing Card (CPC) Program.

The CPC Program was implemented in 1997 in order to streamline procurement and accounts payable functions for small purchases. For fiscal years 2012 and 2013, program purchases totaled \$265 million and \$260 million, respectively. Under the CPC Program, the card vendor pays the State an annual rebate based on the total purchase volume. For fiscal years 2012 and 2013, the card vendors paid the State \$8.1 million in rebates which were credited to the general fund. Since 1997, the State has earned over \$34 million in rebates. The number of disbursement transactions has also been significantly reduced since the State no longer pays the individual vendor but issues one check each month to the card vendor.

The General Accounting Division (GAD) is the lead agency for administering the program. GAD has established a CPC Program Policies and Procedures Manual which provides user agencies with information and guidance on card issuance, card security, proper card use and documentation. Before being issued a purchasing card, cardholders are required to acknowledge that they understand the Program's policies and including their liability for unauthorized purchases.

While GAD is the lead administrative agency, we concur with the audit comment that the integrity of the Program relies primarily on cardholders using the CPCs in accordance with the established policies and on each cardholder's supervisor conducting a thorough review of individual cardholder's purchase transactions. The

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CPC Program has benefited the State by streamlining small purchase transactions and ensuring that State vendors are paid timely while at the same time significantly reducing the number of checks issued and earning valuable rebates.

Sincerely,



David F. Roose  
Deputy Comptroller



J. Michael Dougherty, Jr.  
Director, General Accounting Division

JMD/DR:ja

Enclosure

cc: Peter Franchot  
Len Foxwell  
Michelle Bohlayer

# General Accounting Division (GAD) Responses to Office of Legislative Audit (OLA) Performance Audit

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## **Finding 1**

**State agencies were not required to use L-3 data to assist them in monitoring their cardholders' purchasing activity.**

## **Recommendation 1**

**To enhance the integrity of the CPC program, we recommend that GAD amend its *Program Manual* to require State user agencies to regularly obtain and use L-3 data and provide guidance to the agencies as to how the L-3 data can be used in their CPC verification procedures.**

GAD Response:

While we agree that **L-3 data** is an extremely useful tool in the review and verification of corporate purchasing card transactions, it should be noted that this level of detail is only available from less than 40% of the VISA merchants.

On several occasions (June 2011, October 2011, July 2012, and June 2013), GAD conducted training sessions and/or provided instructions to the Purchasing Card Program Administrators (PCPAs) on the use of **L-3 data**. GAD will continue to provide training to user agencies on how the **L-3 data** can be used in their verification procedures. In addition, GAD will amend its Program Manual by the end of this fiscal year to require that user agencies generate the **L-3 data** report monthly and review and document the results.

## **Finding 2**

**Certain aspects of CPC transactions can be evaluated on a global basis using computer matching processes or the purchasing card bank's online system to identify circumstances or trends that may indicate the inappropriate use of CPCs.**

## **Recommendation 2**

**We recommend that GAD establish or sponsor orientation and training programs for agencies' management and CPC supervisors about other available techniques for analyzing and assessing the propriety of CPC transactions. Other transaction screening techniques for evaluating the propriety of CPC transactions should be considered by agencies for their particular circumstances.**

## General Accounting Division (GAD) Responses to Office of Legislative Audit (OLA) Performance Audit

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### GAD Response:

We agree that additional transaction screening techniques for evaluating the propriety of CPC transactions should be considered by user agencies. When the Program Manual is amended by the end of this fiscal year, it will list the additional screening techniques that should be implemented by the agencies for their particular circumstances. Appropriate orientation and training programs will be developed by fiscal year end and provided annually and when requested by specific user agencies.