

COUNTY COUNCIL OF WICOMICO COUNTY, MARYLAND

2018 Legislative Session

Legislative Day No. 20

Resolution No. 102-2018

Introduced by: The President of the Council

A RESOLUTION ACCEPTING THE PURCHASING AND TRAVEL CARD PROGRAM AUDIT REPORT

WHEREAS, under Section 305, titled "County Internal Auditor" of the Charter of Wicomico County, Maryland, the Internal Auditor is charged with the duty to report on internal accounting controls, administrative and operating practices and procedures, and other pertinent financial and compliance matters within Wicomico County; and

WHEREAS, the Internal Auditor has submitted a Purchasing and Travel Card Program Audit Report. The objectives of the audit were as follows: (1) Gain an understanding of the department level controls for purchase cards; (2) Analyze the usage of purchase cards since reintroduction into the County; (3) Review internal controls over purchase card usage; (4) Evaluate adherence to internal controls; (5) Review new purchase card manual; and (6) Make recommendations (if applicable).

NOW, THEREFORE, BE IT RESOLVED, by the County Council of Wicomico County, Maryland that the Purchasing and Travel Card Program Audit Report, attached as Exhibit A, is accepted.

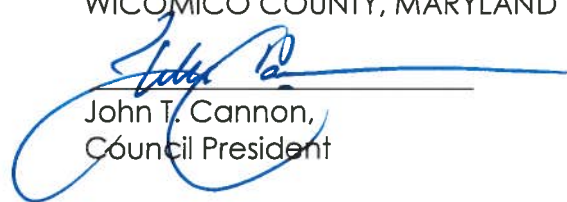
Done at Salisbury, Maryland, this 4th day of September, 2018.

ATTEST:

COUNTY COUNCIL OF
WICOMICO COUNTY, MARYLAND



Laura Hurley,
Council Administrator



John T. Cannon,
Council President

CERTIFICATION

This Resolution was Adopted , Adopted with Amendments ____, Failed ____, Withdrawn ____ by the County Council on September 4, 2018.

Certified by 

Laura Hurley, Council Administrator



Wicomico County, Maryland
OFFICE OF THE INTERNAL AUDITOR

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August 15, 2018

Internal Auditor's Report

The County Council and County Executive of Wicomico County, Maryland:

Pursuant to Section 305(D) of the Wicomico County Code and Council Resolution No. 81-2018, the Office of the Internal Auditor has conducted an Audit of the Wicomico County Purchase Card System. A report is submitted herewith. The purpose of the audit was to determine the adequacy of procedures and controls along with the level of compliance with those procedures and controls for the process of making small purchases for Wicomico County through the established Purchase Card System.

We conducted the audit with due professional care, and we planned and performed the audit to obtain reasonable assurance about whether the current Purchase Card System practices are in compliance with applicable policies and procedures and whether those policies and procedures are adequate to obtain an acceptable level of control.

The audit revealed a robust system meant to increase efficiency and effectiveness for purchasers, the Finance Department, and vendors. Management released an updated Purchase Card Manual in June 2018 and is diligently working on ensuring a system of adequate checks and balances. We have identified several findings in subsequent sections of this report that bear discussion.

We extend our appreciation to Management and Staff in all Departments for their timely assistance, cooperation, and candid assessment of the Purchase Card System.

Respectfully submitted,

J. Stephen Roser, CPA

J. Stephen Roser, CPA
Internal Auditor

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Audit Report

Background

Wicomico County Purchase and Travel Card Program

Wicomico County utilizes Purchasing and Travel Cards to streamline the procurement process, reduce the volume of accounts payable transactions, reduce administrative costs, and insure prompt payment. The Purchase Department has the sole responsibility to authorize Purchase and Travel cards. The County prohibits the use of other credit cards outside the Purchase Card system without authorization from the Director of Administration. All County procurements must occur via one of the following methods:

- Purchase/Travel Card transaction
- MUNIS generated requisition and purchase order
- Petty cash transaction (generally, under \$300)

Wicomico County appointed the Purchasing Agent, Nick Rice, as Purchase/Travel Card Program Administrator. His responsibilities include card issuance, card cancellation, training, and compliance. Issuance of Purchase/Travel cards must have approval of the Department Head. Mr. Rice has the sole authority to issue a Purchase/Travel Card for Wicomico County upon approval.

Bank of America

Wicomico County Purchase/Travel cards are VISA cards issued by Bank of America. Bank of America provides the County with a password-protected internet based program called WORKS. WORKS is used to monitor the activity of the Wicomico County Purchase/Travel Card system in many ways. The Program Administrator provides users access to the program and a security level is set for each user according to his/her predefined needs. Bank of America charges no fees to Wicomico County and pays the County cash rebates each year as part of the program based on card usage.

Banks assign merchant category codes to vendors who accept credit cards. The codes broadly define goods and services provided by the vendor. Wicomico County can block a category code for its Purchase/Travel cards. Some categories such as financial institutions are blocked for all cards in the Wicomico system. The County blocks travel codes such as hotels and airlines for cardholders who are not authorized for travel.

Management Response

Wicomico County Purchase and Travel Card Program – Direct Pay is also a method of payment used by the County, generally used for utilities.

Bank of America – Bank of America provides 24 hour, 7 day a week Fraud protection. If a transaction meets their fraud criteria, the card is suspended until the transaction is cleared or determined to be fraudulent. If fraudulent, the card is closed and new card issued. The County is not held liable for any fraudulent transactions

Merchant Category Codes – Liquor stores are not blocked for cards with Travel authority. There are three members of our Civic Center staff that are approved to purchase alcohol with a purchase card. These staff members include the Food and Beverage Administrator, the Asst. Food and Beverage Administrator and the Food and Beverage Manager. The purchase card is used at the County locations when there has been a last minute order and there is not adequate time to obtain a check. Each event can require something different that may not be on hand. The internal controls in place to prevent any unauthorized alcohol purchases include all cardholders signing and dating a detailed receipt for all transactions. This receipt is then signed by a supervisor or approver of said purchase. The Department Head then signs off on the monthly reconciliation report. Any improper use of the p-card may result in disciplinary action, up to and including termination of employment.

Limits and Accountability

For the vast majority of cardholders, single transactions are limited to \$999. A few, uniquely authorized individuals have a \$4,999 single transaction limit. Monthly credit limits range from \$2,500 to \$25,000. The Purchasing Agent through the WORKS program monitors limit violations (if any).

Every Department must maintain its own records for the Wicomico Purchase/Travel Card system. Each group appoints a proxy reconciler who is responsible for maintaining the records for a department. These records, such as invoices and packing slips, are maintained according to protocol established by Wicomico County and remain available for inspection by the internal and external auditors. Additionally, electronic signoff is required within the WORKS program by users, proxy reconcilers, and management. The Purchasing Department monitors electronic signoff, general ledger account assignment, vendor usage, etc. through the WORKS program.

Audit Objective

The objectives of the audit were to:

1. Gain an understanding of the department level controls for purchase cards
2. Analyze the usage of purchase cards since reintroduction into the County
3. Review internal controls over purchase card usage
4. Evaluate adherence to internal controls
5. Review new purchase card manual
6. Make recommendations (if applicable)

Scope of the Audit

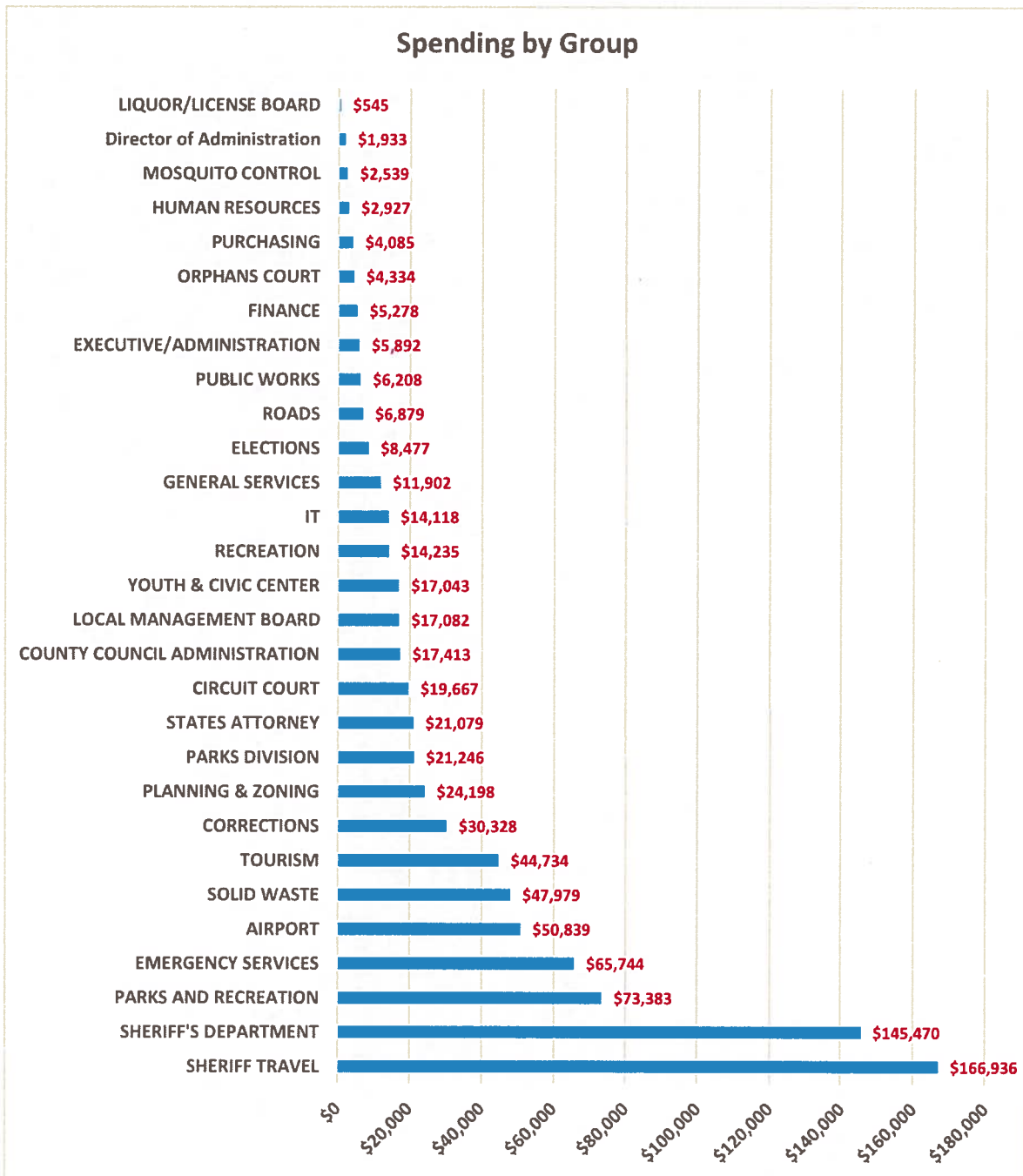
The audit period examined, on a test basis, was from April 3, 2017 to May 31, 2018, which corresponds to the reintroduction of the Purchase Card Program into Wicomico County. We conducted observations, interviews, and inquiries with appropriate personnel. Additionally, we examined, on a test basis, various documents and electronic system information pertaining to, but not limited to, the following:

- Purchase Card Program, updated June 20, 2018
- Written Purchase Card Management and Cardholder Procedures
- Financial data from the Bank of America WORKS program
- Internal financial data
- Records maintained by each Department
- Billing from Bank of America
- Wicomico County Purchase/Travel Card training program
- Wicomico County personnel records

Other than the time period tested, the scope was open ended with concentration on internal control procedures, adherence to those procedures, and examination of the data available for the period. In addition to transaction file testing, interviews were held with key personnel in order to understand and evaluate significant processes, controls and risks prevalent in the Purchase Card Program, including process efficiencies, e.g. transaction cycle times. Instances of non-compliance were evaluated on an individual basis in order to determine the effect on internal controls. We believe the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives for the Wicomico County Purchase/Travel Card Program.

General Statistics and Highlights

Data reveals that from the period April 3, 2017 to May 31, 2018, net Purchase/Travel card activity for Wicomico County totaled \$837,356. The average transaction was \$179. Total number of transactions recorded for the period was 4,679. As of May 31, 2018, Wicomico County has 327 cards issued of which 209 are currently active. The following chart shows Purchase/Travel Card usage by group for the period April 2017 to May 2018:



Extensive testing both in the field and through data mining comprised a major part of this audit. We performed the following statistical tests with satisfactory¹ results:

- Timely posting by proxy reconcilers
- Unallocated transactions testing
 - The process of assigning general ledger account numbers to transactions
- Invoice limit testing
- Purchase limit testing
- High-end users testing for reasonableness
- Restricted purchase test

IA performed the following field-testing with satisfactory results:

- Handwritten receipt testing
- Micro purchase other than Purchase cards testing
- Invoices containing card numbers
- Restricted purchase test
- Existence of non-expendable items testing

IA offers some comments on several other tests performed in a subsequent section. These tests also yielded satisfactory results:

- Invoice splitting
- WORKS reporting accuracy
- Training

These tests also yielded adequate² results:

- Timely electronic signoff
- Bank of America – card count
- Maryland sales tax transactions
- Cardholders to payroll testing

(continued on next page)

¹ For the purposes of this audit, IA uses a three-tier grading system recommended by the International Professional Practices Framework (IPPF) as expressed by the IPPF Practice Guide issued March 2009. The three tiers are Inadequate System of Internal Control, Adequate System of Internal Control, and Satisfactory System of Internal Control. Satisfactory findings indicate that overall controls are satisfactory, although some enhancements may be recommended. It is the highest rating on the scale.

² According to IPPF Practice Guide issued March 2009: "Adequate system of internal control means that findings are subject to reservations. A number of findings, some of which are significant, have been raised. Where action is in progress to address these findings and other issues known to management, these actions may be at too early a stage to allow a satisfactory audit opinion to be given."

Conclusion

Based on the considerable information gathered in this process:

1. The administrative oversight procedures in place are satisfactory for the stated purposes.
2. Cardholders are in compliance, at a satisfactory level, with regard to purchase authorization and accounting procedures for items received.
3. Approving officials satisfactorily review, approve, and certify for payment the items purchased by cardholders.

IA recommends periodic review by this office of the Wicomico County Purchase/Travel Card System. In the process of performing this audit, baselines and procedures have been established that will assist in subsequent audits and review exercises.

Schedule of Findings and Recommendations/Management Response

The findings listed below represent some key issues that bear discussion as an added feature to the audit process. It is noteworthy that all three objectives for the Purchase/Travel card audit, as stated in the conclusion, were satisfactory. The audit revealed no evidence of material weakness or significant deficiencies in the areas tested. The findings are both positive and negative and they do not rise to the level of concern that material weakness or significant deficiencies would garner.

1. Invoice Splitting

Invoice splitting occurs when a single invoice that would otherwise total beyond the limits is split into multiple invoices to thwart the rules on limits. The system and its administration have good controls and training in place to inform employees about the splitting policy. No recommendation is made regarding invoice splitting.

2. Bank of America – Card Count

The active card count from Bank of America on May 31, 2018 was 327, with 209 cards active. Management issues Purchase/Travel cards based on anticipated needs. Data revealed that 121 cards had less than \$500 in purchases during the test period, further, 35 of those had purchases less than \$100, and 49 of those had no activity. There is no cost to the County based on the number of cards issued. It is recommended that management gauge the need for cards to keep their issuance when the usage is very low. Intuitively, risk should be minimized with fewer cards in circulation.

Management Response

Purchasing is currently going through the list of active cardholders and working with departments to close any accounts that are not needed. We will be monitoring card usage and closing any cards that are not needed on an annual basis.

3. Maryland Sales Tax Transactions

Wicomico County is exempt from Maryland sales tax. The County sales tax exemption number that retailers must use is embossed on all Purchase/Travel cards. Emphasis on sales tax exemption was covered in the latest Purchase Card Manual as well as training facilitated by the Purchasing Agent. We analyzed ten purchase card transactions and found that eight had been charged sales tax during the testing period. Further, we compared this information to the data we downloaded from WORKS and found that WORKS did not consistently itemize sales tax information. In the Purchase Card Training held on July 20, it was mentioned that the Finance Department will use data from WORKS to appeal to the State of Maryland to receive reimbursement for sales tax charged to County transactions. It is recommended to thoroughly train cardholders on the correct procedures for getting exemption from sales tax

at the point-of-sale or at least, as also mentioned in the training session, ensuring that cardholders are itemizing purchases correctly to reflect sales tax paid so the County can apply for reimbursement later.

Management Response

MD Sales Tax – The Purchasing department has recently held training for reconcilers that showed how to properly allocate sales tax in the event sales tax was charged. This allocation allows the Finance department to pull a report and submit for reimbursement from the State. The Civic Center already codes their sales tax to a different account and submits to the State.

4. Active Employee to Cardholders Testing

We cross-referenced cardholders with an active employee database. We ran a report from the WORKS program on June 29, 2018 and found that five employees still had *active cards* issued in their names but had ended their employment with Wicomico County three to six weeks prior. We recommend that the Program Administrator setup a system with Human Resources and Department Heads to ensure that they are notified immediately when a cardholder's employment ends, to ensure the card is collected and the account is de-activated.

Management Response

Active Employee to Cardholder Testing – Purchasing has worked with Human Resources to modify the Department Head's Employee Exit Checklist to include notifying Purchasing when a cardholder leaves as well as returning their p-card.

5. Training

During the process of completing this audit, we attended the new manual training process personally. One hour of training provides a satisfactory amount of information for cardholders. Managers and Proxy Reconcilers receive additional training related to their required duties. Findings indicate that initial training is satisfactory. We recommend that Program Administrators encourage all Departments to provide additional training periodically as part of regular staff meetings.

6. Record Keeping

In the past, departments have kept receipts from purchase card purchases in their office until needed for audit purposes. In the new manual training session, it was discussed to have copies of all receipts sent to the Finance Department on a monthly basis; the exact logistical method of this procedure was pending. We believe this would add a good layer of internal control to the program and would help ensure that departments would not fall behind on their record keeping of purchases. It should also help to avoid a bottleneck effect at the end of the fiscal year and start of the External Auditors' procedures.

7. Manager Signoff Time

We performed a test on the WORKS data to determine the average amount of time between a transaction posting to WORKS and a manager signing off on the transaction. Further, we analyzed the frequency of instances where the signoff procedure took more than 45 days. 45 days was our benchmark because a purchase could post on the first of the month and the batch is due to be finalized by the fifteenth of the following month. We found that the average transaction had a signoff time of 18 days and 4.97% of transactions had a signoff time greater than 45 days. We recommend that signoff procedures in WORKS be verified by the Finance Department when they receive the record keeping paperwork from departments as discussed in section six above.

Management Response

Manager Signoff Time – Signoff times were covered in the Training sessions. These signoff times will continue to be monitored. Departments who fail to signoff within the allotted time frame will be warned that p-card privileges may be revoked if it continues.

8. Open Checkbook

We viewed the Open Checkbook available to the public to view the County's expenditures per vendor and found that purchase card transactions are grouped together under "Bank of America – Purchase Card Account":

BANK OF AMERICA - PURCHASE CARD ACCOUNT	\$2,013,302	\$143,059	\$771,543	\$7,435
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While clicking the link will expand the inquiry and show a breakdown of expense accounts (office supplies, equipment, travel, etc.), it does not give detail about what specific vendors are being paid with purchase cards. We recommend that management work with Bank of America and Tyler Technologies to address this omission of vendor information to further increase Wicomico County's transparency efforts.

Management Response

Open Checkbook – Purchasing is working with our Bank of America representative to see if vendor information can be included.

Auditor's Closing Remark

The Wicomico County Office of the Internal Auditor would like to thank management and staff from the various departments for their timely cooperation and assistance during the audit.