



Wicomico County, Maryland

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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. 125-2012, the Office of the Internal Auditor (IA) has conducted an Audit of Vendors providing goods and performing services to Wicomico County. 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 vendor selection, existence, and payments.

IA conducted the audit with due professional care and IA planned and performed the audit to obtain reasonable assurance about whether the vendors receiving payments from Wicomico County exist and provide the goods and services for which they are paid.

IA extends appreciation to Management and Staff of the Purchasing Department and the Department of Finance for their timely assistance, and cooperation. Additionally, we recognize and appreciate the input from all participating County Departments for their assistance in identifying various vendors.

Respectfully submitted,

J. Stephen Roser, CPA
Internal Auditor

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Audit Report

Background

We performed the Vendor Audit in cooperation with our external auditors. The overriding purpose was to address the existence of county vendors and the risk that payments to fictitious entities or individuals might take place. Payments for goods and services for Wicomico County may occur in one of two ways:

1. Purchase Order System
2. Purchasing Card System

The Purchasing Card System functions to provide goods and services under a threshold amount set for each cardholder. IA performed an audit of the County Purchasing Card System as part of the abbreviated FY 2011 Annual Audit Plan¹. The County processes larger purchases through a Purchase Order System managed by the County Purchasing Department.

Audit Objectives

The objectives of the audit were to:

1. Assure that vendors paid by the County provide goods and services to the County
2. Assure that internal controls for the prevention of fraudulent vendors are in place and working as intended

Scope of the Audit

MUNIS Vendor Data

IA obtained a complete list of vendors for FY2012 from the MUNIS² database and performed the following steps:

1. A visual scan of the all vendors over the aggregate threshold of payments in excess of \$9,999
2. Eliminate readily recognized vendors (e.g. Verizon)
3. Perform an Internet Search for the remainder to determine:
 - a. A legitimate business presence
 - b. A legitimate good or service the County might use
4. Send the remaining vendor list to the Finance Department for explanation of the payments
5. Flag vendors with insufficient explanation (if any) for investigation

WORKS Vendor Data

IA downloaded a complete list of vendor activity for calendar year-to-date August 3, 2012 from the WORKS³ database and performed the following steps:

1. A visual scan of the all vendors over the aggregate threshold of payments in excess of \$1,499
2. Eliminate readily recognized vendors (e.g. Verizon)

¹ Please refer to the Purchase Card Audit dated April 5, 2011

² MUNIS is a financial software program the County uses to account for and track all County business

³ 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

3. Perform an Internet Search for the remainder to determine:
 - a. A legitimate business presence
 - b. A legitimate good or service the County might use
4. Review WORKS detail input for purpose
5. Send the remaining vendor list to the each Department for explanation of the payments
6. Flag vendors with insufficient explanation (if any) for investigation

General Highlights and Statistics

Vendor Existence

The following matrices represent some parameters for the testing described in the scope of the audit:

MUNIS Testing		Count	FY2012 Expenditures
1	Total Number of Vendors	1699	\$ 123,568,162
2	Vendors > \$9,999	289	\$ 121,444,120
3	Vendors Tested for Internet Presence	110	\$ 7,003,415
4	Vendors Flagged for Finance Department Inquiry	26	\$ 3,322,131
5	Unknown Vendors Flagged for Investigation	None	

WORKS Testing		Count	CYTD 8/3/2012 Expenditures
1	Total Number of Vendors	1589	\$ 1,183,541
2	Vendors > \$1,499	168	\$ 824,209
3	Vendors Tested for Internet Presence	67	\$ 188,789
4	Vendors Flagged for WORKS Detail Inquiry	33	\$ 102,870
5	Vendors Flagged for Department Inquiry	18	\$ 54,116
6	Unknown Vendors Flagged for Investigation	None	

Vendor Selection

The Purchasing Department controls the vendors for Wicomico County who receive payments in excess of \$1,000. The County uses a formal request for quotation (RFQ) for purchases between \$1,500 and \$5,000. Purchases over \$5,000 must go through a formal bid process⁴. Vendors register with the county and are classified according to supplies or services rendered. It is possible for a vendor to register within multiple categories (e.g. an HVAC company that offers electrical and plumbing services). The Purchasing Department analyzes potential vendors and approves eligible companies for the centralized bidder's list. Bidder information can be found on the Wicomico County Website under the link for the Purchasing Department.

⁴ Source – Wicomico County Purchasing Manual

Conclusion

IA assesses risk as follows:

MUNIS Vendors

Probability ⁵	Low
Exposure ⁶	High

Purchase Card Vendors

Probability	Medium
Exposure	High

Overall risk assessment	Medium
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Vendor testing as described in the scope of the audit did not reveal any indication of fraudulent vendor activity in the County system. Although we cannot state with 100% certainty that no deceptive vendor activity exists, we can state that the testing as described did not reveal any red flag issues. Based on evidence gathered through substantive testing, documentation review, and interviews, the internal controls and adherence to those controls for Wicomico County vendor payments are at a satisfactory level.⁷

Schedule of Findings and Recommendations

Sole Source Vendor

There exists the possibility that a particular good or service is available from only one vendor. An example given by the Purchasing Director is a particular replacement pump required for air handling equipment that is available from only one manufacturer/distributor. The Wicomico Purchasing Manual addresses the issue in Section V. A detailed Sole Source Justification and Disclosure Statement must be completed and signed by the Department Head and the Purchasing Director. The County requires Council approval for any purchase that does not go through the prescribed bidding process. The rules provide exceptions for parts or service of existing equipment or where a delay will create additional expense⁸.

Piggyback Contracts

The Federal Government General Services Administration (GSA) contracts are available to state and local governments to provide economies of scale in an effort to reduce expenses through the use of open-end contracts. That is, prices available to the federal government become available to Wicomico County. The Wicomico County Purchasing Manual addresses piggybacking. County Council amended Section V through Legislative Bill No. 2010-01 adding language restricting the circumstances under which the Purchasing Director can use the process⁹. For

⁵ What are the odds something can go wrong?

⁶ What is the cost if something does go wrong?

⁷ 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.

⁸ Wicomico County Purchasing Manual, Section V(8)(e)

⁹ Wicomico County Purchasing Manual, Section V(6)(c)

Wicomico County, the local contract must be current; the item purchased must be identical to the item on the GSA contract, and the Purchasing Agent should determine if bidding the item would produce higher savings.

Purchasing Manual

Wicomico County placed the current Purchasing Manual in service on July 1, 1987. Some of the methods and language is in need of an update. The purchasing Director is in the process of drafting changes to the manual. IA recommends continuation of the extensive process as a priority.

Vendor Account Merging

Interviews with Purchasing Personnel revealed that, in the past, Department Heads, and others regularly input new vendors into the MUNIS system. The result was the creation of multiple accounts for single vendors. Subsequently, the County changed procedures so that Purchasing has the sole responsibility for vendor account creation. Purchasing maintains an active vendor list to prevent duplication. Additionally, the Purchasing Assistant is in the process of purging the MUNIS system of duplicate accounts through merging. IA recommends continuation of the process and periodic monitoring for duplication in the future.

Purchase Card Limits

The implementation of the County Purchase Card Program eliminated inefficiencies in purchasing by streamlining the process of making small purchases. The Purchase Card System is monitored constantly by the Finance Department and audited regularly internally and externally. Some in management have suggested that an increase in the limits for card purchases would serve to enhance that advantage. Increased limits on card purchases necessarily increase risk. Management may want to perform a cost/benefit analysis coupled with risk assessment for increasing purchase card limits. IA, with Council's permission, stands ready to assist in such a project if desired by management.

Auditor's Closing Remark

The Wicomico County Office of the Internal Auditor would like to thank management and staff from the Department of Finance and the Purchasing Department for their timely cooperation and assistance during the audit. Additional thanks go to all departments for their assistance in vendor identification.