



Wicomico County, Maryland

OFFICE OF THE INTERNAL AUDITOR

P.O. BOX 870
SALISBURY, MARYLAND 21803-0870
410-548-4696
FAX 410-548-7872

Steve Roser CPA, CIA-CRMA, CFE
Internal Auditor

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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. 120-2015, the Office of the Internal Auditor (IA) 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 purchases for Wicomico County through the established Purchase Card System.

IA conducted the audit with due professional care, and IA 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.

Our previous audit of the purchase/travel card system occurred in FY2011 (report released April 7, 2011). The current audit revealed increased usage of purchasing cards for procurement. IA identifies several findings in subsequent sections of this report that bear discussion.

IA extends 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
Internal Auditor

Contents

Internal Auditor’s Report	1
Audit Report.....	3
Background	3
Wicomico County Purchase and Travel Card Program	3
Bank of America	3
Limits and Accountability	3
Audit Objective	4
Scope of the Audit.....	4
Statistics and Highlights	4
Card Usage	4
High-end Users.....	6
Conclusion.....	6
Schedule of Findings and Recommendations	6
1. Invoice Splitting.....	6
2. Vendors and Purchases through Amazon.com	6
3. Card Count and Unused Cards	7
4. Alcohol Purchases	7
5. Payroll to Cardholders Testing	7
6. Training	8
7. Purchasing.....	8
8. Transaction and Card Limits.....	8
9. Unallocated Transactions.....	8
Management Response	8
Auditor’s Closing Remark.....	8
Appendix I – Top Vendor Breakout Comparison	9
Appendix II – Transaction and Card Limits.....	10
Appendix III – Internal Control Flow Chart	12

Audit Report

Background

Wicomico County Purchase and Travel Card Program¹

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 Finance 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
- MUNIS² generated requisition and purchase order
- Petty cash transaction (generally, under \$300)

Wicomico County appointed the Assistant Director of Finance, Dawn Parks, as Purchase/Travel Card Program Administrator. Her responsibilities include card issuance, card cancellation, training, and compliance. Issuance of purchase/travel cards must have approval of the Department Head. Ms. Parks 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.

Limits and Accountability

The Finance Assistant Director on advice of the Department Head assigns credit limits and transaction limits for each cardholder on an individual basis. For the vast majority of cardholders, single transaction limits range from \$200 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 Assistant Director of Finance through the WORKS program monitors for limit violations (if any).

Every Department must maintain its own records for the Wicomico purchase/travel card system. Each group³ 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 Finance Department monitors electronic signoff, general ledger account assignment, vendor usage, etc. through the WORKS program.

¹ Wicomico County Purchase and Travel Card Program, updated June 23, 2009

² MUNIS is an electronic financial accounting system used by Wicomico County

³ The Wicomico County Purchase/Travel Card system (WORKS) evidences 29 "groups" which roughly mirror the County Departments. Some Departments, however, contain multiple defined groups

Audit Objective

The objectives of the audit were to:

1. Determine the adequacy of administrative oversight procedures
2. Determine if cardholders are making authorized purchases and properly accounting for all items received
3. Determine if approving officials adequately review, approve, and certify for payment the items purchased by cardholders

Scope of the Audit

The audit period examined, on a test basis, was from July 1, 2014 to December 31, 2014, which corresponds to the first half of the last fiscal year for Wicomico County. IA conducted observations, interviews, and inquiries with appropriate personnel. Additionally, IA examined, on a test basis, various documents and electronic system information pertaining to, but not limited to, the following⁴:

- Purchase Card Program, updated June 23, 2009
- Written Purchase Card Management and Cardholder Procedures
- Financial data from the Bank of America WORKS program
- Internal financial data
- Records maintained by selected Departments
- Billing from Bank of America
- Wicomico County purchase/travel card training program
- Wicomico County personnel records

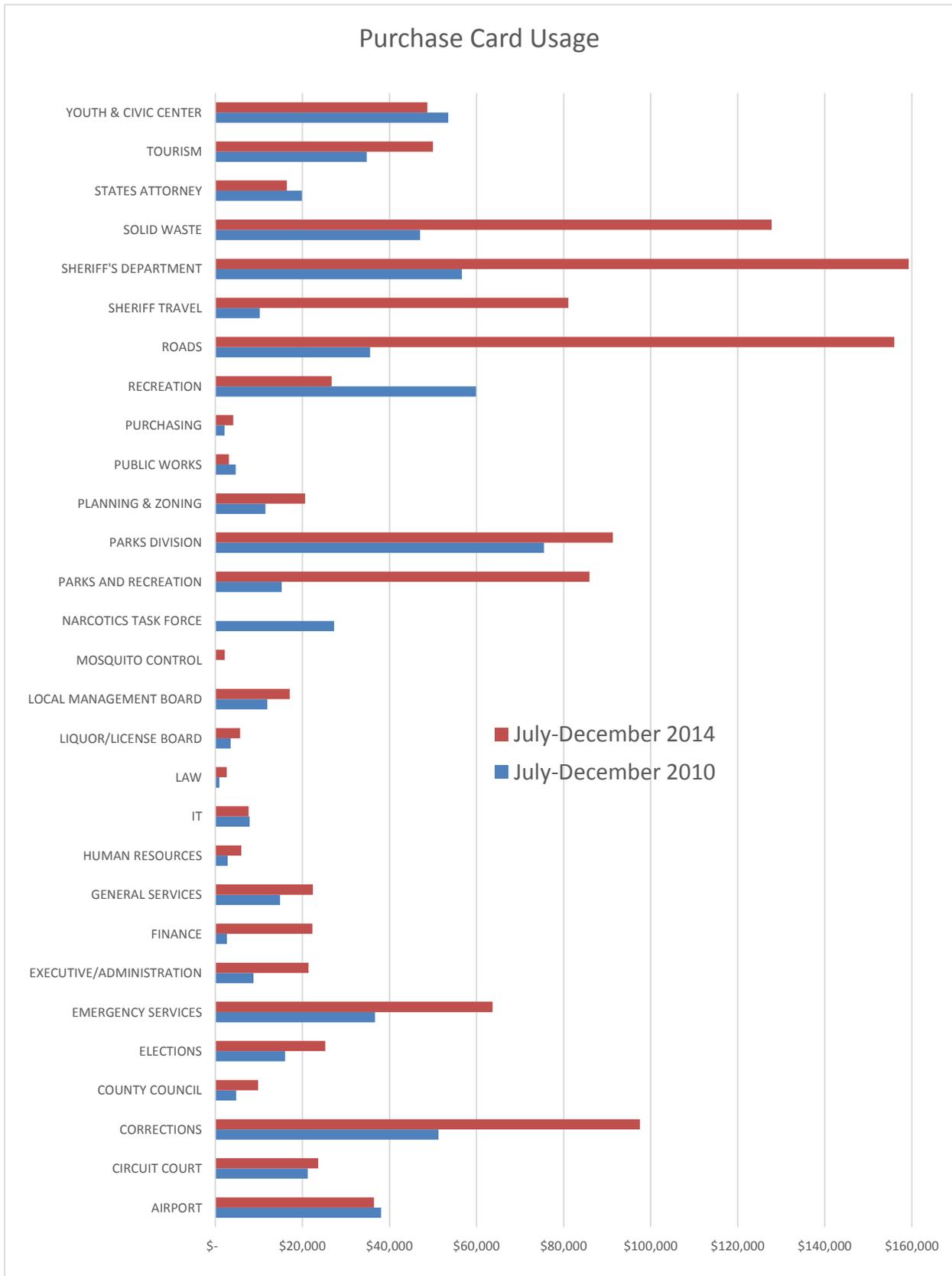
Other than the time period tested, the scope was open ended with concentration on internal control procedures, adherence to those procedures, and examination of the data available for the period. In addition to transaction file testing, interviews were held with key personnel in order to understand and evaluate significant processes, controls and risks prevalent in the purchase card program both currently and during the test period. Instances of non-compliance were evaluated on an individual basis in order to determine the effect on internal controls. IA believes that 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.

Statistics and Highlights

Card Usage

Data reveals that from the six-month period July 1, 2014 to December 31, 2014, net purchase/travel card activity for Wicomico County totaled \$1,234,611. The prior Purchase Card Audit covered the six-month period July 1, 2010 to December 31, 2010 and totaled \$645,502. This represents an 83% increase in usage over four years. The average transaction was \$144 in 2010 and \$186 in 2014. Total number of transactions recorded for the period July 1, 2014 to December 31, 2014 was 6,955. Information gathered through interviews indicates that larger purchases requiring price evaluation (gathering multiple quotes, etc.) are now taking place with credit cards. The following chart shows purchase/travel card usage by group for both periods:

⁴ Please note that IA worked closely with the County's outside financial auditors to prevent duplication of efforts. Our independent financial auditors review and test the County purchase/travel card program each year as a matter of course during the County's annual financial audit.



High-end Users

For the purpose of this audit, we define high-end users as those individual cardholders with accumulated charges of \$10,000 or more during the six-month test period. A comparison of high-end users for the current and prior audits follows:

<i>Charges in excess of \$9,999</i>	Highest Single User (accumulated transactions)	Total Users > \$9,999 (count)	Total Users > \$9,999 (amount)
July - December 2010	\$ 35,092	19	\$ 354,253
July - December 2014	\$ 107,756	31	\$ 856,157

Our analysis shows a 63% increase in the number of cardholders charging \$10,000 or more in a six-month period. Evidence indicates that overall credit card usage for the County nearly doubled over the period.

Conclusion

Based on the information gathered in this process IA is of the opinion that internal control over the purchasing and travel card program for Wicomico County is at an adequate⁵ level to its stated purposes. We understand that Management is looking into alternatives to our current system. Additionally, we have assurances that, if the County remains in its current Bank of America purchasing card system, management intends to reevaluate controls to reduce risk. IA is of the opinion that the current system of internal control as established was satisfactory for the volume and scope of transactions reviewed during the FY2011 audit. We are now of the opinion, however, that those same controls and adherence thereto requires careful evaluation by management to determine the changes needed to provide the same level of control. That is, larger and more frequent transactions in the County purchasing/travel card system now require increased internal control.

Schedule of Findings and Recommendations

The findings listed below represent some key issues that bear discussion as an added feature to the audit process. The findings are both positive and negative and they do not rise to the level of concern that material weakness 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 are vigilant when it comes to monitoring invoice splitting. Our testing revealed no instances of splitting⁶. No recommendation is made regarding invoice splitting.

2. Vendors and Purchases through Amazon.com

Please see Appendix I for a comparative breakout of top vendors for the two audit periods. IA tested the list of vendors for reasonableness and found no anomalies in the testing sample. There was, however, \$14,645 in

⁵ 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."

⁶ Please note that this statement does not indicate that no splitting took place during the test period, it means only that our testing did not reveal any instances of invoice splitting. On occasion, it becomes necessary to post a purchase (partially) to more than one general ledger account. For the purposes of this audit, we do not consider the practice invoice splitting

purchases from Amazon. The goods ordered were not readily identifiable from the WORKS data. IA tested some of the transactions and determined that they were legitimate purchases most of which were electronics. Notes may be attached to the transactions within the WORKS system that further identify the items purchased, but the card data itself is not clear when purchasing from Amazon. We recommend that management address this anomaly as part of its ongoing evaluation.

3. Card Count and Unused Cards

The active card count from Bank of America on July 29, 2015 was 291. A breakout of unused active cards issued follows:

**Unused Purchase/Travel Cards
As of July 29, 2015**

Last Used (Year)	Number of Cards
Never Used	23
2010	1
2011	1
2013	13
2014	38
Total	76
	26%

IA recommends evaluation of issued and unused cards for possible elimination thereby decreasing risk. Additionally, we understand that management has the card list and is in the process of doing so.

4. Alcohol Purchases

Banks assign merchant category codes to vendors who accept credit cards. The codes broadly define goods and services provided by the vendor. It was our understanding during the previous audit that Wicomico County can block a category code for its purchase/travel cards. Some categories such as financial institutions and liquor stores were blocked for all cards in the Wicomico system. Testing revealed at least one alcohol purchase with a County card ancillary to catering an event requiring the purchase. IA tested the purchase of alcohol with a different County issued purchase/travel card. We were able to purchase wine at a convenience store in Maryland and liquor at a package store in Delaware with a County issued card. We strongly recommend that management immediately address the problem with the card-issuing institution in effort to block such purchases with County issued cards.

5. Payroll to Cardholders Testing

IA cross-referenced cardholders with Wicomico County payroll records. Several cardholders were not found in the payroll records. It was then determined that all the missing names were County workers in the Maryland State payroll system except one high ranking individual volunteer for an enterprise fund responsible for making a large number of purchases mostly on weekends. We have satisfactory assurance from management that this individual's card issuance was fully coordinated with the Administrator and approved by the Director of Administration. IA was unable to find a requirement in the program literature requiring cardholders to be County employees. IA recommends that Wicomico County amend the Purchase Card Program to require employment by cardholders unless granted a waiver by the Program Administrator⁷.

⁷ Please note that this finding is identical to finding #5 in the first Purchase and Travel Card Audit (report released April 7, 2011)

6. Training

During the process of completing this audit, the IA went through the training process personally. Thirty minutes of initial training provides a satisfactory amount of information for cardholders. Managers and Proxy Reconcilers receive additional training related to their required duties. IA recommends that Program Administrators encourage all Departments to provide additional training periodically as part of regular staff meetings. Additionally we recommend that management update the Cardholder Procedures Manual to reflect current practice and to enhance internal control⁸. IA (with Council's permission) stands ready to assist in his process.

7. Purchasing

Purchasing and travel cards (as discussed in the Background section of this report) save County resources by streamlining the purchase order process. We recommend that County management continue to investigate other methods of purchasing. There may exist other purchasing programs that provide better internal control without burdening the County with significant additional workload.

8. Transaction and Card Limits

The County has the same transaction and card (aggregate) limits in place that were established during the previous audit. Appendix II contains a breakout of the number of users in the various established limits. Because of increased card usage and the increased number of transactions, it becomes necessary for the manager of the purchasing card system to override limits on a temporary basis. We recommend careful evaluation of the internal control guidelines to make sure robust rules are in place and to assure that the limits are handled within those guidelines. This will likely include changes to the program manual.

9. Unallocated Transactions

We tested for unallocated transactions. Unallocated transactions are expenditures that were not properly booked to the general ledger. Testing revealed 36 unallocated transactions representing one-half of one percent of the total transactions. IA does not consider this amount material and is of the opinion that management is performing satisfactorily when it comes to booking expenses charged with credit cards. Although untested during this exercise, it may be prudent for management to reevaluate general ledger posting to assure proper recording of expenditures. IA (with Council's permission) can assist in the process.

Management Response

It is the Finance Department's plan, within the next 90 days, to overhaul the entire Purchase Card Program. It is our understanding that that this program was started in 2008. Since 2008, innovative technology has allowed new opportunities for the Finance Department to operate more efficiently and effectively while conducting County business. For example, a program known as ePayables can eliminate the need for the issuance of individual credit cards for vendor purchases. Issuance of travel cards can continue for travel expense only. We are also working on other matters related to the Purchase Card Program in effort to increase internal controls.

Auditor's Closing Remark

The Wicomico County Office of the Internal Auditor would like to thank management and staff from the Department of Finance, Department of Corrections, Sheriff's Office, and the Civic Center for their timely cooperation and assistance during the audit. Additionally, we would like to thank PKS & Company, P.A. (the County's financial auditing firm) for their collaboration on this project.

⁸ It is our understanding that management is in the process of reviewing alternatives to the current system

Appendix I – Top Vendor Breakout Comparison

Purchase Card

Vendor Analysis

Analysis of top 25 vendors for each related period

For the period July-December, 2010

Vendor	Amount
STAPLESCONTRACTCOMMERCIAL	\$ 30,444
GHA TECHNOLOGIES, INC.	18,023
CENTRE AUTO REPAIR S	15,910
VZWRLSS-IVR VE	14,433
LOWES #00424	12,177
FOGLES ENVIRONMENTAL SER	12,003
SALISBURY AUTOMOTIVE	11,364
ED SUPPLY CO INC	10,700
WM SUPERCENTER	9,282
CATO GAS AND OIL	9,184
HOLT PAPER & CHEMICAL CO	8,295
MOTOROLA, INC. - ONLINE	8,020
VERIZON WRLS IVR VE	7,940
THE HOME DEPOT 2561	7,836
UNDER ARMOUR DIRECT VIRT	7,628
STAPLES 00104117	7,350
7 SPRINGS LODGING	6,433
JOHN DEERE LANDSCAPES47	6,183
THE FARMERS AND PLANTE	6,136
Holloway Transit	5,995
WAL-MART #1890	5,667
HYATT HOTELS BALTIMORE	5,643
ZEP SALES AND SERVICE	5,555
DURON #3690	5,372
MINUTEMAN PRESS	4,961
OTHER	432,628
TOTAL	\$ 675,164

For the period July-December, 2014

Vendor	Amount
SHERWOOD FORD LIN MERCUR	\$ 56,088
VZWRLSS MY VZ VB P	52,695
VZWRLSS IVR VB	44,270
STAPLES	42,601
LOWES #00424	28,805
J.G. PARKS & SON	21,536
SALISBURY AUTOMOTIVE	19,705
DMI DELL K-12/GOVT	17,700
JOHN DEERE LANDSCAPES47	17,658
HOLT PAPER & CHEMICAL CO.	16,218
RED THE UNIFORM TAILOR LA	15,899
EURSHALL MILLER'S BODY SH	15,805
CATO OIL CO	14,328
THE HOME DEPOT 2561	12,000
FIRESTONE 017434	11,755
THE FARMERS & PLA	11,662
ZEP SALES AND SERVICE	9,914
78 - SALISBURY - CAPTRI	9,912
RC HOLLOWAY CO.	9,033
STAPLES DIRECT	8,865
STEEL SERVICES INC	8,838
GAN NEWS JOURNAL-CCC	8,802
ICM-DELMAR ASPHALT	8,775
ATLANTIC TRACTOR	8,728
RIVER II LLC	8,114
OTHER	754,903
TOTAL	\$ 1,234,611

Appendix II – Transaction and Card Limits

**Single Transaction Limits
By Group- July 29, 2015**

Group	\$200	\$1,000	\$5,000	Total
AIRPORT	-	7	-	7
CIRCUIT COURT	-	9	1	10
CORRECTIONS	2	50	1	53
COUNTY COUNCIL ADMINISTRATION	-	1	2	3
ELECTIONS	-	3	-	3
EMERGENCY SERVICES	-	8	-	8
EXECUTIVE/ADMINISTRATION	-	2	2	4
FINANCE	-	5	-	5
GENERAL SERVICES	-	4	1	5
HUMAN RESOURCES	-	7	-	7
IT	-	2	-	2
LAW	-	2	-	2
LIQUOR/LICENSE BOARD	-	3	-	3
LOCAL MANAGEMENT BOARD	-	4	-	4
MOSQUITO CONTROL	-	1	-	1
PARKS AND RECREATION	-	10	-	10
PARKS DIVISION	-	14	2	16
PLANNING & ZONING	-	4	1	5
PUBLIC HEALTH	-	3	-	3
PURCHASING	-	-	2	2
RECREATION	-	4	1	5
ROADS	-	9	1	10
SHERIFF TRAVEL	74	6	2	82
SHERIFF'S DEPARTMENT	1	5	3	9
SOLID WASTE	-	9	1	10
STATES ATTORNEY	-	5	-	5
TOURISM	-	6	-	6
WICOMICO COUNTY MARYLAND	-	1	-	1
YOUTH & CIVIC CENTER	-	8	2	10

Total 77 192 22 291

**Purchase/Travel Card Limits
By Group - July 29, 2015**

Group	2,500	5,000	10,000	15,000	20,000	25,000	Total
AIRPORT	-	6	1	-	-	-	7
CIRCUIT COURT	-	8	2	-	-	-	10
CORRECTIONS	2	49	1	1	-	-	53
COUNTY COUNCIL ADMINISTRATION	-	1	2	-	-	-	3
ELECTIONS	-	3	-	-	-	-	3
EMERGENCY SERVICES	-	7	-	-	-	-	7
EXECUTIVE/ADMINISTRATION	-	3	1	1	-	-	4
FINANCE	-	5	-	-	-	-	5
GENERAL SERVICES	-	4	-	1	-	-	5
HUMAN RESOURCES	-	7	-	-	-	-	7
IT	-	2	-	-	-	-	2
LAW	-	2	-	-	-	-	2
LIQUOR/LICENSE BOARD	-	3	-	-	-	-	3
LOCAL MANAGEMENT BOARD	-	4	-	-	-	-	4
MOSQUITO CONTROL	-	1	-	-	-	-	1
PARKS AND RECREATION	-	9	1	-	-	-	10
PARKS DIVISION	-	14	2	-	-	-	16
PLANNING & ZONING	-	4	1	-	-	-	5
PUBLIC HEALTH	-	3	-	-	-	-	3
PURCHASING	-	-	-	1	1	-	2
RECREATION	-	4	1	-	-	-	5
ROADS	-	8	-	-	-	2	10
SHERIFF TRAVEL	74	3	3	-	1	1	82
SHERIFF'S DEPARTMENT	1	4	1	1	2	-	9
SOLID WASTE	-	7	-	-	-	3	10
STATES ATTORNEY	-	3	2	-	-	-	5
TOURISM	-	4	1	-	-	1	6
WICOMICO COUNTY MARYLAND	-	1	-	-	-	-	1
YOUTH & CIVIC CENTER	-	8	2	-	-	-	10

Total 77 177 21 5 4 7 291

Appendix III – Internal Control Flow Chart

