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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. 86-2016, the Office of the Internal Auditor (IA) has conducted a review of the Wicomico County Purchasing Payments Program. A report is submitted herewith. The purpose of the review was to gain an understanding and evaluate the County's policies and procedures for making vendor payments after a purchasing card program reorganization.

IA extends appreciation to Management and Staff in Purchasing and Finance for their timely assistance, cooperation, and candid assessment of the County Vendor Payments Program.

Respectfully submitted,

J. Stephen Roser, CPA

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Audit Report

Background

The County recently made changes regarding methodology for payments to various vendors for goods and services. The specific purpose of this exercise was to look at the current situation to gain an understanding and evaluate internal controls. We did not address procurement, but rather focused our efforts to the evaluation of payment methodology after the procurement process. IA plans to look at procurement as defined in our new, recently approved, purchasing manual in the future.

Purchasing Card

This office performed numerous audits, follow-up, and other projects related to purchase cards beginning in FY 2011¹. Wicomico County's purchasing card program, as originally implemented, served to streamline small purchases by decentralization. Management implemented internal control through a centralized system "works" provided by the card issuer. The system required review and signoff on several levels including senior management and the Finance Department. Over time, the system was expanded to include larger and more numerous purchases rendering the internal controls less effective due to the scope of card usage. Management sought to improve internal controls by implementing alternative systems and eliminating the use of the Bank of America purchasing card system for routine purchases.

Objectives

The objectives of the audit were to:

1. Gain an understanding of new purchasing protocols replacing purchase cards protocols.
2. Determine the adequacy of administrative oversight procedures.
3. Determine if approving officials adequately review, approve, and certify for payment the items purchased.

Scope and Methodology

The audit period examined was January 1, 2016 to date. Observations and Inquiries with appropriate personnel were conducted, as well as examination of various documents and system information pertaining to the following categories and were subject to change based on preliminary surveys and interviews:

- Purchasing Program Agreement(s)
- Internal Policy and Procedure Manual
- A listing of authorized purchasers
- Financial Data that includes the total purchase flowchart

Conclusion

We offer no conclusion based on this exercise. The purpose was to review payment methodology and other information in effort to understand the current state and management thinking regarding vendor payments in Wicomico County.

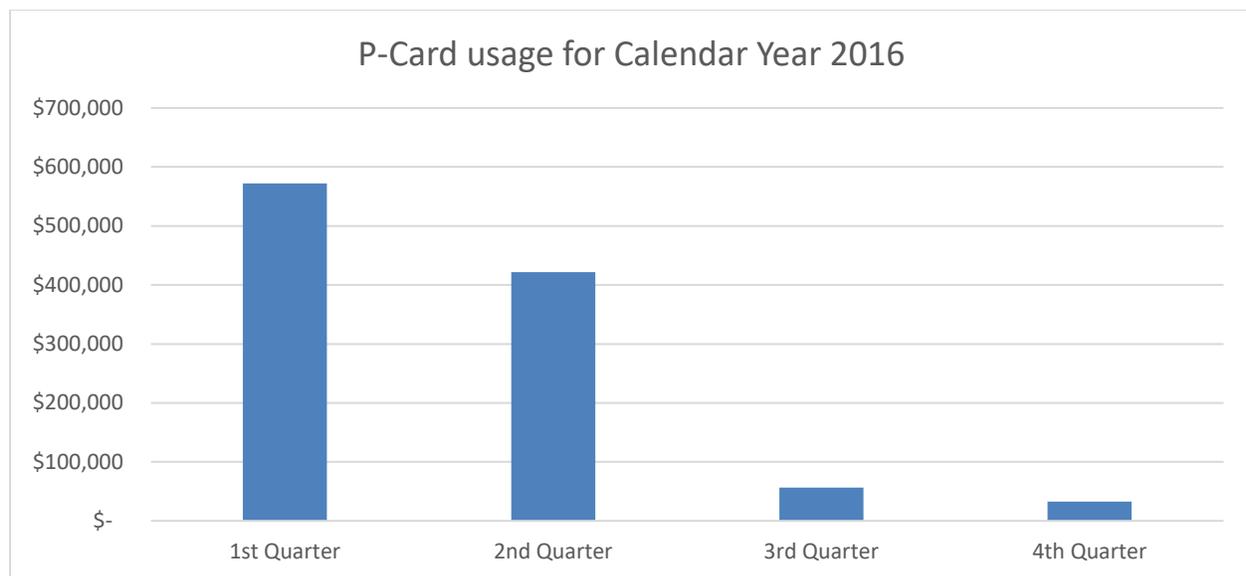
¹ Please see Purchasing Card Audit Reports and other information posted on the County Website for more information

Highlights and Findings

The current system provides payment to county vendors primarily through one the four methods as described:

Travel Cards

Until recently, travel expenses and other purchases were imbedded within the Bank of America purchasing card system. Auditing county travel expenses was very difficult. Managers and proxy reconcilers routinely mixed travel and other receipts and held them at a department level². The County converted the existing purchase card system to travel only. Finance personnel periodically monitor statements for non-travel expenses. Auditor testing revealed a sharp decrease in card counts and usage. Decline in card usage for calendar year 2016 (the year of implementation) follows:



Card usage decreased from \$571,696 in the first quarter to \$32,907 in the fourth quarter for calendar year 2016. Additionally, testing for non-travel charges in the fourth quarter amounted to \$2,047 (6%). IA forwarded transaction information to Finance.

Credit Cards

County Finance saw a need, provided for a limited credit card program, and established limited credit card system through PNC Bank. IA analyzed credit card usage for July to December 2016. Transactions on twenty-nine credit cards totaled \$63,641 for the period. The vast majority of cardholders are senior management. Credit card payments and evaluation takes place in the Department of Finance. Cardholders must submit receipts before Finance processes any payments.

Electronic Payables System (“e-Payables”)

A new system of electronic payables is a process within Munis³ known as “active card integration”. The system contains no physical credit or debit cards. The system is an alternative method of processing payments used in

² For more information on county travel expenses please see Auditor’s Report dated October 17, 2014 (Travel & Expense) and subsequent follow-up memos dated June 30 and October 23, 2015 available on the County Website

³ Munis is a comprehensive accounting and budgeting software system employed by the county

conjunction with the existing purchase order system. The e-payables system requires the establishment of an agreement with certain vendors and a bank. It allows payments without the processing of paper checks. The current system is driven primarily by the Department of Finance.

Purchase Orders

The county's purchase order system has been in place for some time. IA reviewed purchase orders and some of the changes in the new Purchasing Manual and we plan more work regarding purchasing in the future. We looked at check security and the check creation process as part of this exercise and found the current internal controls acceptable.

Other Issues

Discussions with management indicate that more work in the area of purchasing may be in order. This office plans further work concerning the implementation of the newly created Purchasing Manual. Additionally IA may propose to examine other issues in future audits related to the following:

- Vendor accounts
- Munis workflow arrangements
- Credit card programs
- Commodity code implementation

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 Purchasing for their timely cooperation and assistance during the audit.