



# HARFORD COUNTY, MARYLAND

## Office of the County Auditor

January 10, 2014

Honorable Members of the County Council  
Harford County, Maryland  
212 S. Bond St., 2<sup>nd</sup> Floor  
Bel Air, MD 21014

County Executive David Craig  
Harford County, Maryland  
220 S. Main St.  
Bel Air, MD 21014

Dear Council Members and Mr. Craig:

In accordance with Section 213 of the Harford County Charter, we have performed an audit of the County's Accounts Payable Controls. The results of that audit, our findings and recommendations for improvement are detailed in the attached report. We would like to thank the members of management for their cooperation during the audit.

The audit found payments tested were issued for valid County expenses. However, controls were not adequate to ensure all payments were only made to valid vendors, were properly approved and were only for items that were verified as received. Some of the issues noted in the report stem from incorrect use of the procurement system. Employees recently received updated procurement training, so the impact of that outreach has not been determined.

The audit team is available to respond to any questions you have regarding the attached report.

Sincerely,

A handwritten signature in black ink that reads "Chrystal Brooks, CPA".

Chrystal Brooks, CPA, CGFM, CIA, CISA, CGAP, CRMA  
County Auditor

cc: Ms. Kathryn Hewitt, Treasurer  
Ms. Deborah Henderson, Director of Procurement

*~ Preserving Harford's past; promoting Harford's future ~*

410-638-3161 \* 212 South Bond Street \* Room 219 \* Bel Air, Maryland 21014 \* [www.harfordcountymd.gov/auditor](http://www.harfordcountymd.gov/auditor)





## HARFORD COUNTY, MARYLAND Office of the County Auditor

### **AUDIT OF ACCOUNTS PAYABLE CONTROLS**

Period Covered:  
**07/01/2012 through 05/31/2013**

**Report Number: 2013-A-04**

Date Issued:  
**01/10/2014**

#### **Audit Team:**

Chrystal Brooks, CPA, CIA, CGAP, CISA, CGFM, CRMA  
County Auditor

Laura Tucholski, CPA, CFE, CRMA  
Auditor

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## **BACKGROUND INFORMATION**

### **INTRODUCTION AND KEY STATISTICS**

The Accounts Payable (A/P) unit within the Department of the Treasury is responsible for processing and approving payment documents related to Purchase Orders, Vendor Invoices and Employee Expense Reports. Purchases are initiated at the department level and require various approvals depending on the type and amount of the transaction. A/P reviews backup documentation for the purchase to ensure proper accounting codes, correct vendor address and payment amount prior to payment. The departments can only initiate payments for vendors on the vendor master list. Currently, A/P staff are responsible for adding new vendors and making changes to existing vendors. After final approval by A/P staff, payments are posted to the general ledger and processed for check printing or electronic payment on a weekly basis.

Harford County's fiscal year 2013 expenditures totaled \$596.5 million. Additionally, the County issues payments for tax refunds. During our 11 month review period, there were 20,162 check or ACH payments issued by the Accounts Payable Department.

### **REVIEW OBJECTIVE, SCOPE AND METHODOLOGY**

The objective of this review was to determine if controls related to Accounts Payable are adequate to ensure that only valid vendors and debts are paid by the County. The scope of this review was limited to the use and approval of payable documents, vendor maintenance and the issuance of electronic payments and checks.

The audit focused on activity during the period of 07/01/2012 through 05/31/2013. Our audit procedures included interviewing personnel, observation and testing. Specifically, we identified payments made to vendors from Harford County during fiscal year 2013 (through 5/31/2013) to determine if payment was proper (e.g., agreed to supporting documentation, proper approval and document and match type). Further, we determined if reconciliations and check run reviews were performed to ensure payments were made timely and accurately. Additional procedures were performed to determine if payments and vendors appeared reasonable.

The Accounts Payable process is closely related to the Procurement Process and relies heavily on proper approval of purchases during the Procurement Process. In our Audit of Procurement Practices (Report # 2012-A-02), we found various purchase order document types (DP, DV and DR) lacked proper automated approval paths, allowing transactions to be processed without appropriate approvals. Inappropriate use of these document types allows users to circumvent the required approval process. We determined during this

audit that the issue has not yet been corrected by management. We will follow-up on management's progress of this issue as part of our regular findings follow-up process.

The audit was performed in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient 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.

## **REVIEW RESULTS**

Harford County management is responsible for establishing and maintaining effective internal controls. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets and compliance with applicable laws, rules and regulations are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected.

We reviewed the procedures for printing checks and sending electronic payments and noted that there are appropriate redundancies in place to ensure that the payments issued agree to those that were processed by Accounts Payable staff. We additionally confirmed that physical access to the check supply is appropriately restricted. Further, we noted that manual checks are rarely used and their limited use must be approved by the Treasurer.

Our procedures disclosed that system access was not restricted to prevent unauthorized purchase and disbursement transactions. Specifically, our audit found accounts payable employees, within the Department of the Treasury, could initiate and fully process certain transactions as well as add vendors to the vendor file. As a result, unauthorized payments or payments to fictional vendors could be processed without detection.

While ADPICS (the purchasing system) limits the approval of payments, it cannot prevent unauthorized purchases if the correct document types are not used. Our testing disclosed that document types and purchase order match types were not always appropriately used, allowing purchases to be made with less stringent approval requirements.

In our opinion, payments are made to the appropriate vendors and in the correct amounts. However, internal controls can be improved to ensure that all payment approvals are authorized and appropriate. Areas for improvement are described in the Findings and Recommendations section of this report.

## **MANAGEMENT RESPONSE**

Treasury has reviewed the results from the audit of accounts payable controls and has prepared a management response for the one finding that required a response. Treasury welcomed the opportunity to review the findings to improve the internal controls of the accounts payable area, and was pleased to discover that only one finding was documented by the internal audit team.

Treasury strives to implement the best internal controls to provide reasonable assurance that the accounts payable area is working effectively and efficiently so that we can rely on it for financial reporting and that we are in compliance with applicable laws and regulations. We will work expeditiously to implement the area of improvements from the internal audit team so that we can deliver to our tax payers the best and most professional financial accounting that they deserve.

## FINDINGS AND RECOMMENDATIONS

### **Finding Number: 2013-A-04.01 Vendor Additions and Changes**

#### **Vendor additions and changes may not be reviewed.**

**Analysis:** Vendor additions and changes are not segregated from the payment processing staff. Currently, individuals who process payments can also change vendor information or add vendors in the accounting system. These individuals are supposed to provide any change documentation to the A/P supervisor for subsequent review to ensure the change was made correctly. The A/P supervisor reviews the documentation to confirm that the change was made correctly; however, this review may not include all vendor changes because it only encompasses changes that are provided to the supervisor. If the supporting documentation is not provided to the supervisor, the change will not be reviewed. The A/P supervisor receives a daily report summarizing the changes to vendors' ACH bank information; however, the report does not include other changes such as name, tax identification number or payment address. The current process would allow an employee to create a vendor or change a vendor's information so that payments are made or routed to an improper recipient without timely detection.

In our testing, we noted that some documentation related to vendor changes was not available for review to ensure the change was proper. Specifically, documentation did not agree or was not available to support 5 of 20 sampled ACH-paid vendors and 3 of 13 sampled check-paid vendors.

Finally, the audit disclosed vendor lists were not periodically reviewed and purged to include only current vendors. We noted that there are 51,443 active vendors in Harford County's accounting system; however, less than 10% of them (4,952) received a payment in the last two years. Of the active vendors, we noted that approximately 4,794 had the same name as another vendor and 1,664 had the same Tax Identification Number as another vendor. For the vendors who were paid in FY2012 and FY2013, we noted:

- 186 unique addresses (related to 438 vendors) were associated with more than one vendor number
- 88 identical names (related to 220 vendors) were associated with more than one vendor number
- 272 unique tax identification numbers (related to 416 vendors) were associated with more than one vendor number

In some cases, the above scenarios are reasonable; for example, several franchises may have different owners, but the same company name. Some business addresses may have multiple tenants. Some vendors have multiple remittance addresses. However, in many cases it appears

that vendors have been added in the system multiple times over many years. Consequently, users intending to pay a particular vendor may have to choose from multiple options. This may also result in some vendors receiving multiple 1099 tax forms from the County each year.

**Recommendation:** We recommend vendor maintenance functions be performed by staff not involved in processing payments to reduce the risk of fraudulent or incorrect changes. We further recommend an automated report that will summarize the vendor changes that have been made so that all changes are captured for independent review. Finally, we recommend that vendors' system status be changed after a period of inactivity and that management purge the vendor rolls when a new system is implemented to help prevent payments to incorrect vendors.

**Management Response:** We concur with the recommendations and are taking the following actions. The current report used to summarize changes to ACH bank account information will be modified and expanded by the Information, Communication and Technology Department (ICT) to include any addition of vendors to the vendor file and any changes to the vendor name, tax identification number, and remittance address. ICT has started the process and confirmed with test results that the modifications can be added to this report. Accounts Payable (A/P) staff will continue to make additions and changes to the vendor master file. The Financial Systems Management section of Treasury will review and verify that changes are justified and supported with documentation.

The vendor system status will be changed after a period of inactivity and we will have the A/P staff review and code duplicate vendors in the vendor master file as "inactive" or "flagged for deletion". Due to the size of the vendor file, this process will be an ongoing effort.

**Expected Completion Date:** 01/31/2014

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#### **Finding Number: 2013-A-04.02 Improper Document Types**

**Payments were issued using the wrong type of document in the Accounts Payable System.**

**Analysis:** Within FAMIS/ADPCS, users may enter various document types to request payment for a vendor; however, the proper document type was not always used. Direct Purchase Orders (DP) should be used in most circumstances when a product or service is being requisitioned or ordered. Direct Vouchers (DV or DR) may be used when there has not been a previous purchase order issued. These are often used for subscriptions, products or services (DV) or employee reimbursements (DR) that would not have been "ordered" in advance. Computer Vouchers (CV) are created by the Accounts Payable Staff to adjust or correct a payable document. RIMS Vouchers (RD) are created by Procurement or Accounts Payable and used for recurring payments

such as rental payments, utilities, and appropriation payments (i.e. Board of Education, Harford Community College).

The requirements for approval of these transactions varies by document type. Generally, DP transactions require the most scrutiny to ensure that purchases, especially large ones, have been approved prior to being made. We noted that DRs and DVs do not generally require approval of the Procurement Department and in our testing of 35 transactions, we found 10 transactions that utilized these document types, but should have been DPs. Five of the transactions were payments to independent contractors. DVs are acceptable for these transactions per the guidelines; however, since DVs only require approval above \$25,000, most independent contractors paid in this manner would not receive a payment that would generate the required Procurement review.

We also noted that in some cases, departments spend above the approved DP amount by asking Accounts Payable to issue a higher than approved payment without the approval of Procurement. In those cases, the Accounts Payable staff may create a CV to pay the amount that is in excess of the approved purchase order. We only noted one instance of this in our testing; however, this is problematic because the practice may circumvent the Procurement approval limits.

**Recommendation:** We recommended that the Department of Procurement include discussion of these matters in its refresher training for ADPICS users. We confirmed that the topic was included in the October 18, 2013 training and will perform follow-up procedures in the next audit.

**Management Response:** None Needed.

**Expected Completion Date:** 10/18/2013

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**Finding Number: 2013-A-04.03 Improper Match Type**

**Controls related to receiving orders may be circumvented.**

**Analysis:** To best ensure that orders are received prior to being paid for, best practices recommend a three-way match between purchasing documents. This means that before payment is issued, a transaction should be supported by 1) a purchase order, 2) documentation that the order was received and 3) an invoice requesting payment. The three-way match ensures 1) if 8 widgets are needed, only 8 are ordered, 2) the number of widgets received is confirmed, and 3) that if 4 widgets were received, instead of 8, payment is only made for the 4 widgets that were received.

Within FAMIS, these documents are represented by the document types DP, RC and IV. In some instances, such as delivery of a service, a receiving document (RC) would not be appropriate. To differentiate between service and inventory purchase orders, the purchasing system uses various match types which are entered by the user when the DP is created. Purchases requiring receipt of a product should use match type A1 or A2. All other purchase orders may use match type AA, B1 or B2.

In our testing sample, we identified 18 transactions that utilized a DP; of those, 7 should have used match type A1 or A2, but did not. In those cases, there is no confirmation that each item ordered and paid for was received.

**Recommendation:** We recommended management consider refresher training and updated user manuals for employees responsible for purchasing to improve ordering and receiving compliance. We confirmed that the topic was included in the October 18, 2013 training and will perform follow-up procedures in the next audit.

**Management Response:** None Needed

**Expected Completion Date:** 10/18/2013