

**Montgomery County, Maryland
Office of the County Executive
Office of Internal Audit**



**Targeted Internal Control Review
Procure-to-Pay: Vendor Administration**

August 31, 2022

Highlights

Why MCIA Did this Review

The Montgomery County Office of Internal Audit (MCIA) conducted a targeted internal control review of the Montgomery County Government's (County) vendor administration process. The County's Accounts Payable Section within the Department of Finance (Finance) is responsible for the vendor administration process which includes creating, maintaining, and inactivating the County's current and future vendors. As of December 2021, the County had 49,684 active vendors.

This review was conducted based on the results of a previous procure-to-pay fraud risk assessment completed in 2019 (risk assessment). The overall focus was to test the effectiveness of internal controls identified during the risk assessment. The review was conducted by the accounting firm SC&H Group, Inc., under contract with MCIA.

August 2022

Vendor Administration – Targeted Internal Control Review

What MCIA Found

The County's vendor administration process includes functions and internal controls, while operating with limited resources. However, several opportunities to improve control design and operational effectiveness to more effectively mitigate fraud risks were identified. The opportunities can be addressed by enhancing or implementing additional steps within the vendor administration process and internal control environment.

We identified five areas of improvement to strengthen controls and mitigate risks within the vendor administration process, including:

1. Increasing segregation of duties related to access rights and reviews.
2. Enhancing system functionality within Oracle and CVRS.
3. Increasing Dun & Bradstreet reporting usage.
4. Enhancing maintenance of documentation and ensuring consistent performance of vendor maintenance procedures.
5. Performing consistent periodic ethics review procedures.

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Objectives

This report summarizes the targeted internal control review (review) of Montgomery County's (the County) vendor administration process. The review was performed by SC&H Group, Inc. (SC&H), under contract with the Montgomery County Office of Internal Audit (MCIA). The review included conducting targeted tests/evaluation procedures based on the results of the procure-to-pay (P2P) fraud risk assessment that was completed in December 2019.¹

The vendor administration review focused on how the County manages risks associated with the setup, maintenance, and inactivation of vendors registered within the County's Master Oracle (the County's third-party enterprise resource planning (ERP) system) Database. The objective was to evaluate vendor administration internal controls for design and operational effectiveness.

Background: P2P Fraud Risk Assessment

The following provides an overview of the P2P fraud risk assessment and the results relevant to the vendor administration review. After the P2P fraud risk assessment was completed, the next step was to conduct targeted internal control reviews, which included this vendor administration review.

P2P Fraud Risk Assessment Overview

The P2P operation is one of a number of enterprise operations (including payroll, cash management, Purchase Cards (not part of the P2P fraud risk assessment), and employee reimbursements) for which core business groups (including the Department of Finance, the Office of Procurement, the Office of the County Attorney, the Office of Human Resources, and/or the Department of Technology and Enterprise Business Solutions) have overall responsibilities. These responsibilities include setting policies and designing appropriate internal controls and processes to ensure a sound control environment and effective operations within the context of the County's decentralized operational environment. In some cases, core business group responsibilities extend to transaction processing.

As an enterprise operation, P2P involves execution-level responsibilities within individual County departments/offices, as well as the core business groups. Therefore, any assessment of the existing control environment and associated risks for an enterprise operation must acknowledge that the control environment does not end at the core business groups but extends out into the departments/offices that are executing the operation; in other words, an enterprise-wide control environment.

The P2P fraud risk assessment did not include detailed testing of internal controls. Rather, the intent of the fraud risk assessment was to inform senior management of high-level controls as they pertain to fraud and fraud management within the County's P2P operation, and to identify residual risk of fraud after existing controls have been considered.

P2P Fraud Risk Assessment Results

The fraud risk assessment of the County's P2P operation included Procurement Contracts (i.e., transactions that are subject to Chapter 11B of the County Code and Regulations, collectively

¹ The Procure-to-Pay Fraud Risk Assessment report, dated December 9, 2019, can be accessed from the County's website here: https://www.montgomerycountymd.gov/exec/Resources/Files/P2P_FRA_Report_12052019.pdf

referred to as “Procurement Regulations”) and Agreements (i.e., transactions that are exempt from or not subject to the County’s Procurement Regulations).² The fraud risk assessment focused on identifying fraud risks, not the risk of waste and abuse.

The fraud risk assessment was completed in December 2019. The results showed that while the County has a complex P2P operation, there appeared to be an established control environment with preventive and detective control activities designed to mitigate fraud risks. In addition, the County was actively working to further enhance its P2P control environment through various initiatives (e.g., enhanced internal controls; and establishment of the Risk Governance Committee, and the Financial, Analysis, Audit and Compliance section within the Department of Finance). Further, the County has personnel in the core business groups that are focused on and committed to addressing inherent risks and residual risks.

Targeted Internal Control Reviews

The results of the P2P fraud risk assessment were used to develop a plan to execute detailed testing of internal controls and processes within the P2P operation. The targeted internal control reviews include reviewing and testing specific transactions within selected departments/offices to determine whether the controls are operating as designed. The purpose of the targeted internal control reviews is to provide a basis for management to determine whether the existing internal controls mitigate risk to an acceptable level and provide assurance of a sound control environment; as well as identifying instances where the controls should be strengthened to better mitigate risk.

The fraud risk assessment included limited procedures to determine if controls existed, based on interviews with County personnel and review of documentation. The following P2P operations were selected for further detailed testing of control design and/or operational effectiveness:

1. Needs assessment, solicitation, and contracting (collectively, contracting process review)³
2. Receiving, invoicing, and payments (collectively, payment process review)⁴
3. Vendor administration

This report represents the results of the vendor administration process review.

Vendor Administration Process Review Background

Process Overview

The vendor administration process review focused on the following three sub-processes:

1. Vendor Setup: The process of creating new vendors within Oracle.
2. Vendor Maintenance: The process of periodically reviewing and updating existing vendor records within Oracle.
3. Vendor Inactivation: The process of inactivating vendors within Oracle.

² Montgomery County Code, Chapter 11B can be accessed at the following website:

https://codelibrary.amlegal.com/codes/montgomerycounty/latest/montgomeryco_md_comcor/0-0-0-4343

³ The report pertaining to the Procure to Pay: Needs Assessment, Solicitation, and Contracting Targeted Internal Control Review can be accessed at the following website:

https://www.montgomerycountymd.gov/exec/Resources/Files/audit/TICR_Contracting_Processes-6-2021.pdf

⁴ The report pertaining to the Procure to Pay: Receiving, Invoicing, and Payments Targeted Internal Control Review can be accessed at the following website: https://www.montgomerycountymd.gov/exec/Resources/Files/audit/MCIA-21-4_Payments_TICR_Report_4-2021.pdf

Vendor administration is owned and managed by the County's Accounts Payable (AP) Section within the Department of Finance (Finance). The AP Fiscal Assistant (Fiscal Assistant) performs most duties related to the setup, maintenance, and inactivation of vendors with oversight, assistance, and reviews from the AP Supervisor and AP Manager. Both businesses and individuals have the ability to register as vendors with the County. As of December 2021, the County had 49,684 active vendors within Oracle.

Vendor Setup

The vendor setup sub-process consists of new vendor registrations within the Central Vendor Registration System (CVRS)⁵, manual new vendor registrations, and creation/activation of a registered vendor's record within the County's Oracle Master Vendor Database (Oracle Database). The following provides details related to the setup process.

Vendor Registration: New Vendors

Companies or individuals who want to conduct business with the County must first become registered, active vendors in the Oracle Database. The Oracle Database houses vendor information, and only companies and/or individuals registered in Oracle Database are authorized to be issued a purchase order (PO)/direct purchase order (DPO) and/or receive payment from the County. Once the vendor is in the Database, the County can issue POs/DPOs to that vendor through the procurement/acquisition processes and make payments to that vendor through the accounts payable process.

To become registered, potential vendors first access CVRS, the County's third-party registration system through which a potential vendor (e.g., contractor, company, etc.) begins the registration process. Access to CVRS and the Oracle Database is restricted to three AP personnel: the AP Manager, the AP Supervisor, and the Fiscal Assistant.

Potential vendors enter and upload pertinent information including their legal name, taxpayer identification number (TIN), organization type, signed W-9, company address, and contact information in CVRS. After their entry, the process follows the "*Vendor Activation*" activity below.

Vendor Activation

Activating a vendor in the Oracle Database consists of multiple activities performed by the Fiscal Assistant to confirm the validity of the potential vendor and the completeness of information entered/uploaded by the vendor.

On a daily basis, CVRS automatically generates the following files and places them in a file repository. The Fiscal Assistant reviews the files from the repository daily.

1. Data File: A report detailing changes to existing vendors and data for new vendor records.
2. TIN and Name Matching File: A report detailing each business/individual and their associated TIN.

Upon review, the Fiscal Assistant manually creates an Excel spreadsheet with the Name and TIN matching file and accesses the Oracle Database. The Fiscal Assistant searches within the Oracle Database to ensure the new vendor registrations do not already have an existing record.

⁵ CVRS can be accessed at the following website: <https://mcjpc.net/main/homePage.php>

The Fiscal Assistant then accesses the Internal Revenue Service's (IRS) TIN Matching Application site⁶. This site is a database of all TINs issued to businesses/individuals that have been assigned a federal tax identification number (or social security number for individuals), also known as an employer identification number (EIN). Each vendor's name and TIN is entered into the application to confirm the TIN provided is correct. Upon confirmation, the Fiscal Assistant prints the TIN matching report for each vendor and saves it to a restricted drive to maintain as review evidence. The Fiscal Assistant updates the Excel spreadsheets with the results. Any discrepancies identified during the review are noted on the spreadsheet, the vendor information is removed from the data file, and an email is sent to the pending vendor indicating their profile will not be activated until corrected information is provided through CVRS by the pending vendor.

The Fiscal Assistant also performs an Experian Address Validation check to confirm the address entered within CVRS when the vendor completed their registration. The Fiscal Assistant accesses the Experian database and enters the pending vendor's name. Vendors with valid registered addresses are returned by the database and the Fiscal Assistant compares the address to the information within CVRS. If they agree, the vendor can be activated within Oracle. If they do not agree, the vendor is removed from the data file and contacted to indicate a valid address was not provided. Evidence of the address validation is printed and saved to a restricted drive.

Further, the Fiscal Assistant prints a Dun & Bradstreet (D&B) Supplier Risk Manager Report⁷ for all registered and/or pending vendors and saves the report on the restricted drive. D&B provides a database of business only records to assist organizations in making informed business decisions about businesses they are entering into business arrangements with. Not all vendors will have a record within the D&B database. For those businesses that do not have a record, a report is not printed.

Following the reviews, the Fiscal Assistant places the updated data file into a repository for the EBS Oracle team to pick up and create/update the supplier in the Oracle Database. The Oracle Database assigns a vendor number to the vendor within the system during the upload. For all new vendors and existing vendors, the Fiscal Assistant assigns the associated vendor number to the vendor information within CVRS. This updates the vendor information within CVRS to include the associated Oracle vendor number⁸. The day after the upload is performed, the Fiscal Assistant receives an automated email communication confirming the successful completion of the upload. The email will indicate if any errors occurred, which the Fiscal Assistant will investigate and resolve.

Manual Vendor Creation

In certain emergency and/or exception-based cases, vendors are setup manually and directly in the Oracle Database. These cases are limited to length of service award programs (LOSAP), payroll garnishments, child support, employee death beneficiaries, and prevailing wage vendors. In these instances, vendors provide the same information as those who register through CVRS to the Fiscal Assistant. Following, the Fiscal Assistant reviews the information provided to ensure the vendor has provided their legal name, TIN, organization type, signed W-9, company address, and contact information, and manually enters the vendor information

⁶ The IRS TIN Matching Application can be accessed at the following website: <https://www.irs.gov/tax-professionals/taxpayer-identification-number-tin-matching>

⁷ Dun and Bradstreet can be accessed at the following website: <https://www.supplierriskmanager.com/cp/login>

⁸ Oracle refers to this field as the "supplier" number. However, for clarity and consistency, this report uses the term "vendor."

provided into the Oracle Database. The AP Manager reviews all manually-entered vendors to ensure all information is reflected within the system accurately.

Vendor Maintenance

The vendor maintenance sub-process consists of changes and updates to vendor profiles, as well as periodic reviews of reports and vendor information.

Vendor Changes/Updates

Existing vendors sometimes need to update their vendor information (e.g., a legal name change or address change). When this occurs, the vendor must access CVRS and update the applicable information. The following controls and processes have been established for making these changes:

1. The County department who works with the vendor ("Using Department") cannot access the Oracle Database on behalf of the vendor and make changes to its profile.
2. AP personnel will not accept requests for changes directly from the County Department that works with the vendor and will only process changes entered into CVRS.
3. Manually created vendors: An exception to the above exists for manually-created vendors. For these vendors, the vendor will contact the Using Department (which is typically Finance Payroll, Procurement, or the Department of Fire and Rescue Services), and/or Fiscal Assistant and provide the requested change information to be entered. The Fiscal Assistant manually updates the vendor information within the Oracle Database and CVRS.

When a vendor is already registered and has a profile within the Oracle Database, the Fiscal Assistant ensures the business/individual name, address, and TIN agree to the information exported within the data file generated out of CVRS and updates the vendor information within the file to include the corresponding Oracle vendor number.

Monthly Reporting/Monitoring

On a monthly basis, the following vendor monitoring activities occur.

AP Forensics Report Review

The Fiscal Assistant and AP Manager receive an AP Forensics report (FAAC R_209) from the County's Financial Analysis, Audit, and Compliance (FAAC) section within Finance. The report details vendors with missing information within their master vendor record. The Fiscal Assistant reviews the report and contacts the vendor to update the vendor record within the Oracle Database. If they do not receive a response, the vendor will remain on the report and the Fiscal Assistant will update the report with details about AP's outreach to the vendor and follow-up procedures that were conducted.

OFAC Check

The AP Manager accesses the Office of Foreign Assets Control's (OFAC) OFAC Sanctions List Search⁹ and performs a check to ensure no existing vendors have been sanctioned from conducting business in the United States. Vendors who appear on the sanction list are immediately inactivated. Evidence of the review is maintained on a restricted network drive.

Ethics Audit (Monthly Ethics File (MEF) Review)

The AP Manager performs an audit comparing the addresses and banking information of registered vendors to the County's active employee listing to ensure County employees are not

⁹ The OFAC Sanctions List Search can be accessed at the following website: <https://sanctionssearch.ofac.treas.gov/>

registered as vendors. Individuals identified as being a County employee and having an active vendor record are placed on an ethics hold (i.e., inactivation) within Oracle and the individual is notified of the hold. Vendors on ethics hold cannot be paid by a Using Department.

The AP Manager, in conjunction with the Fiscal Assistant, reviews the MEF Ethics report, detailing the listing of employees and vendors. The Fiscal Assistant researches whether there are valid reasons why an employee might also have a vendor record, such as a LOSAP recipient or where an employee is also a landlord doing business with the County. For exception cases, the Fiscal Assistant places the vendor's profile on an ethics hold within the Oracle Database until a review is conducted and a resolution is reached.

Vendors are reactivated within Oracle by the Fiscal Assistant at the request of a Using Department if that department is entering into a transaction with the vendor. Those who are not approved/requested stay inactivated.

Vendor Inactivation

The vendor inactivation sub-process consists of the inactive vendor reviews and vendor account inactivations within the Oracle Database. The County does not delete vendor records within the Oracle Database. Instead, vendors are inactivated when they no longer conduct business with the County.

Annually, the Fiscal Assistant reviews the Oracle Database for inactive vendors. The review includes a three-year and seven-year component.

Three-Year Review

The Fiscal Assistant sends letters to vendors that have had no activity (i.e., the vendor has no POs or DPOs or has not been paid) for three years, requesting they update their information through CVRS and respond to the notice indicating if they would like to remain active. The request to update information through CVRS helps the County ensure it has current vendor information (e.g., business address, primary point of contact, or legal name). If a vendor does not respond, does not update their information, or a letter is returned indicating it was not delivered, the vendor is inactivated.

Seven-Year Review

Vendors are deemed inactive if they have no open POs or DPOs, and payment has not been remitted to them in the last seven years. Vendors who have been inactive for seven years are automatically inactivated within Oracle, without further contact being made to the vendor.

Scope and Methodology

The review was conducted from November 2021 to April 2022. The scope of the review focused on vendor creation, maintenance, and inactivation by members of AP. Samples were selected from an active vendor population as of December 2021 and utilizing a date range of January 1, 2020, through October 31, 2021.

In order to achieve the objectives, SC&H performed the following procedures.

Scoping

Internal Control Refresh

Due to the amount of time between the P2P fraud risk assessment and this review's commencement, SC&H performed a reconfirmation activity to determine if the vendor administration process and documented controls changed.

Test Plan Development

Following the reconfirmation activity, a test plan was created to test the design and/or operational effectiveness of the identified internal controls.

Fieldwork

Fieldwork consisted of testing the operational design and/or operational effectiveness of internal controls identified during the P2P fraud risk assessment and subsequent reconfirmation activity. SC&H prepared a document request listing information needed to satisfy the testing steps developed in the test plan, including populations required to select samples for which additional information was requested.

Sample Selection

Sample selections were made utilizing multiple populations and reports created and reviewed by the Fiscal Assistant, AP Supervisor, and AP Manager. The scope period for the population report and samples selected was from January 1, 2020 to October 31, 2021. SC&H utilized both judgmental and random selection methods for sampling.

Walkthroughs

Walkthroughs were performed with the AP team to obtain a more thorough understanding of each sub-process to evaluate the effectiveness of internal controls, workflow of information between CVRS and the Oracle Database, and restriction of documentation on the County network. Results of walkthroughs were documented as part of test procedures.

Internal Controls Testing

Internal controls identified and detailed within the audit plan were tested to assess the design and operational effectiveness of the control activity. SC&H prepared a document request list for information needed to satisfy the testing steps developed in the test plan.

1. Vendor Setup, Maintenance, and Inactivation: Obtained and reviewed documentation to determine whether the vendor went through the appropriate creation, change, and deactivation processes.
2. Monthly Vendor Reviews: Obtained and reviewed documentation to determine whether monthly reviews related to vendor maintenance were reviewed timely, documentation was maintained, and adequate review was performed.
3. Access and System Functionality: Obtained and reviewed documentation to determine whether controls limited access to authorized AP personnel.

Validation

The preliminary test results were compiled and presented to the IA Manager. Results were subsequently presented to the AP Manager.

Findings and Recommendations

Results

We appreciate the assistance and cooperation from the County's AP team throughout this review. Multiple sets of data, information, and discussions were necessary to complete the review, and the AP team worked diligently to provide detailed responses and make themselves available.

As described above, the AP team responsible for vendor administration demonstrates significant effort to manage and process a multitude of vendor related tasks and transactions. It does so with a team comprised of one fully assigned professional who conducts a majority of the tasks and functions, and an AP Supervisor and AP Manager who provide supervision and oversight.

Over the past several years, AP has also made progress to improve its vendor administration operations. For instance, AP implemented the Experian Address Validation check and CVRS vendor ID checks. These help ensure a new vendor's legal name, address, contact information, and tax identification number are correct and the vendor is not an existing vendor within the County's Oracle Database.

Overall, based on the review procedures, the vendor administration process appears to incorporate controls to mitigate risks even given the challenge of limited resources.

The review yielded findings and opportunities for AP to improve the County's vendor administration process. These findings are categorized by functional area and are presented to help strengthen the design and operational effectiveness of internal controls within the process.

Finding 1: Segregation of Duties

Background

Within Oracle, the Fiscal Assistant has elevated access to perform all activities related to vendor maintenance, including setup, changes, and inactivation. This access differs from the AP Manager and AP Supervisor, who both have access to review vendors, but do not have the ability to perform the majority of vendor creation and maintenance activities. Through discussions with AP personnel and review of documentation, there is no secondary review to validate the Fiscal Assistant's vendor record entries and updates within the Oracle Database (except in the cases of manual vendor updates, as discussed above at "Manual Vendor Creation"). Finance currently performs an annual review of user access rights within Oracle to ensure vendor related segregation of duties limitations are identified and remedied.

Finding

Based on the combination of elevated access rights and limited review/oversight, a segregation of duties limitation exists. The principle of segregation of duties is based on shared responsibilities of a key process that disperses the critical functions of that process to more than one person or department. Without this separation in key processes, fraud and error risks are far less manageable.¹⁰

¹⁰ <https://us.aicpa.org/interestareas/informationtechnology/resources/value-strategy-through-segregation-of-duties>

Risks

Elevated access rights to multiple key components of a process combined with limited oversight could expose the County to inappropriate/fraudulent vendor activity, such as setting up a fictitious vendor or changing a vendor's information to reroute payments.

Recommendation 1.1

Finance should determine if there are opportunities to segregate and limit user access rights and reduce/eliminate segregation of duties limitations. If Finance is unable to implement changes to acceptably reduce risk, it should revisit impacted processes and controls to determine mitigating controls.

For example, access rights could be modified such that the Fiscal Assistant could enter new vendors and changes, but system approval would be required by either the AP Manager or AP Supervisor prior to the vendor being activated within the system.

Recommendation 1.2

Finance should implement a review of vendor additions and changes within Oracle to determine if they are appropriate and authorized. [Addressing this recommendation may be contingent on addressing the system reporting limitations identified and discussed in Finding 2.]

Finding 2: System Reporting Functionality

Background

Oracle and CVRS are utilized by the Fiscal Assistant to perform vendor activities including setup, changes, and inactivations. The Fiscal Assistant generates and uses reports from each system to perform these reviews and activities.

Finding

Limitations within systems resulted in AP being unable to provide refined Oracle and/or CVRS reports identifying time stamped vendor additions or changes, or change histories. Per discussions with AP personnel and review of system reporting, certain reports cannot be produced from the system, while others cannot be run with specific parameters. As a result, there are limitations to what can be reviewed and detected after a vendor has been added or changed. Specifically, AP was unable to provide:

1. A report identifying new vendors that were activated during a certain time period, which could be useful to periodically review the appropriateness of new vendor activations and help mitigate the risk of incompatible system rights.
2. A report identifying vendor changes during a certain time period, which could be useful to periodically review the appropriateness of vendor changes and help mitigate the risk of incompatible system rights.

Risks

Limited system reporting availability could impact the effectiveness of risk mitigation procedures and controls, which could expose the County to fraud-related activities. For example, lack of audit reporting related to vendor changes could result in a vendor's address or banking information being modified to misappropriate funding to a County employee.

Recommendation 2.1

Finance should identify and implement system reports, or alternative methods to track and control detailed vendor system information including change, activation, and date-related details.

Finding 3: Dun & Bradstreet Evaluations

Background

Dun & Bradstreet (D&B) is utilized by the Fiscal Assistant during new vendor setup activities. A Supplier Risk Manager Report¹¹ is printed for each new vendor (excluding individuals who are registering as a vendor with the County) and saved on a restricted drive. The report provides details about a business's various financial and legal liabilities. Using Departments have access to D&B to review the Supplier Risk Manager Report when determining responsibility of vendors during the procurement process.

Finding

The County does not appear to have developed and implemented a process to fully utilize D&B review procedures to effectively mitigate risks of unauthorized and illegitimate vendors being on-boarded and activated.

Based on review procedures and per discussion with AP, AP's D&B review does not directly impact the vendor's creation, as it is not AP's responsibility to bar a vendor based on information included in a D&B report. Following AP's review, the D&B report is filed and the vendor is activated within the system. AP communicated that the Using Department is responsible to determine the responsiveness and responsibility of a vendor through the procurement and acquisition processes.

Further, SC&H tested samples to evaluate AP's D&B review and identified multiple instances where documentation evidencing the vendor's D&B review was not maintained or available, or the vendor did not have a D&B profile. However, AP was unable to provide evidence to support the review and conclusion.

Risks

The following could result in exposure to inappropriate and illegitimate vendors conducting business with the County.

1. Incomplete or ineffective D&B review procedure actions.
2. Lack of related party knowledge by those responsible for vendor evaluations.

Recommendation 3.1

The Office of Procurement (Procurement), Office of the County Attorney (OCA), and Finance should collaborate to develop and implement a process for reviewing and taking actions based on the D&B review results; the process should clearly identify roles and responsibilities for all parties (e.g., Procurement, OCA, Finance, the Using Department).

For example, the D&B review results could be required as a documented factor in making the determination of responsibility during the evaluation of solicitations.

¹¹ The Supplier Risk Manager Report provides demographic information about companies, including the company name and DUNS number. It also provides scores pertaining to the company's financial viability and highlights any risk indicators that could deter other entities from conducting business with the company.

Similarly, the policies/procedures could include review/approval components, who is contacted when the review occurs, and what actions are taken should a vendor/individual not have a D&B profile. Following the policy/procedural updates, the responsible parties/departments could communicate internally (within their department) and externally (other impacted departments) the policies/procedures so all County personnel responsible for vendor review procedures are informed of the updated procedures and expectations.

Additionally, on a periodic basis, Finance could review vendors who previously did not have a profile in the D&B system to determine if a profile has been created. For any vendors with newly created D&B profiles, a Supplier Risk Manager Report could be printed and saved to AP's restricted drive.

Finding 4: Vendor Maintenance

Background

Annually, the Fiscal Assistant reviews the Oracle Database for inactive vendors. Vendors who have been inactive for three years or seven years are contacted and/or inactivated. Once a vendor has been inactive for three years, AP will perform outreach requesting the vendor either update their profile within CVRS or provide a response indicating they would like to be inactivated within the system. Vendors are automatically inactivated if they have not been paid in seven years and have no active POs or DPOs.

Similarly, the Fiscal Assistant performs a monthly review of vendors with missing information within Oracle. Vendors are identified through an AP Forensics report (FAAC R_209) obtained from the FAAC section within Finance. The report is reviewed by the AP Manager and Fiscal Assistant, who contact the vendors to obtain the missing information. Vendors will provide the information or a reason as to why it was omitted from their profile. The Fiscal Assistant will subsequently update the vendor's profile within the Oracle Database and document the resolution within the AP Forensics Report. Vendors who do not respond will remain on the report until resolution is obtained.

Finding

Inadequate documentation was maintained pertaining to procedures performed related to various vendor maintenance activities.

SC&H tested multiple sample sets to evaluate vendor maintenance. Based on the test procedures performed, the following was identified:

1. 21 samples: AP identified the vendor in its three-year inactivity log. AP sent a letter to confirm if the vendor should stay active. AP did not receive a response; however, did not inactivate the vendor per protocol.
2. 2 samples: AP identified the vendor in its three-year inactivity log. The vendor requested to be removed. However, AP did not inactivate the vendor. Further, AP did not retain support evidencing the vendor's request.
3. 1 sample: AP identified the vendor in its three-year inactivity log. The vendor requested to stay active. However, AP was unable to provide evidence of the communication.

4. 1 sample: AP identified the vendor in its three-year inactivity log. The vendor requested to be removed. The vendor was inactivated; however, AP was unable to provide evidence of the communication.

Other exceptions:

1. 25 samples: AP contacted vendors with missing master record information, retrieved the information, and updated the system. However, AP was unable to provide evidence of the vendor's requested change/update.
2. 2 samples: The AP Manager reviewed manual vendor entries from the Fiscal Assistant. However, AP was unable to provide review evidence.
3. 2 samples: AP performed an Office of Foreign Assets Control (OFAC) check of all existing vendors to confirm no vendors had been sanctioned from conducting business in the United States. However, the OFAC check was not performed in a timely manner and occurred at least 25 days after the scheduled monthly review.

Risks

Incomplete or ineffective vendor monitoring actions could result in exposure to inappropriate and/or illegitimate vendors conducting business with the County.

Recommendation 4.1

Finance should ensure existing policies and procedures specify review and document retention requirements related to vendor maintenance to help ensure all requirements are known and available to Finance staff executing vendor maintenance tasks on a regular basis.

Recommendation 4.2

Finance should consider developing checklists/tools to aggregate review procedures and steps such as document retention protocols. Finance staff should utilize these tools to help ensure tasks were performed as needed and in a timely manner.

Finding 5: Ethics Review Procedures

Background

Employees may register as vendors with the County on an exception basis. For example, an active employee in the payroll system may also be the death beneficiary of a deceased employee and therefore must also have a vendor record in place to be issued payments related to the death benefit.

On a monthly basis, the AP Manager downloads a Monthly Ethics File which documents all employees and vendors who potentially have the same address and bank account number within the Oracle Database. The AP Manager, in conjunction with the Fiscal Assistant, reviews the report; the Fiscal Assistant researches whether there are valid reasons why an employee might also have a vendor record, such as a LOSAP recipient or where an employee is also a landlord doing business with the County. For exception cases, the Fiscal Assistant places the vendor's profile on an ethics hold within Oracle until an appropriate review is conducted; this review may involve on a case-by-case basis review by Ethics Commission staff.

Finding

Procedures to complete the Monthly Ethics File (MEF) Report review are not consistently performed. Further, documentation to support the review is not consistently maintained.

Based on the review procedures performed, the following documentation exceptions were identified:

Vendors were identified as an exception during the MEF Ethics Report review. Based on the review, the vendors either remained on ethics hold, were inactivated, or were activated as detailed below. However, documentation was not maintained or available to support the decision.

1. 10 samples: Documentation evidencing the vendor's ethics hold and rationale for remaining inactive was not maintained or available.
2. 8 samples: The vendors were placed on ethics hold, however were active in Oracle. Per discussion with AP, the vendors were miscategorized and should not have been placed on ethics hold.
3. 6 samples: Documentation evidencing the vendor's ethics hold and rationale for being active review was not maintained or available.
4. 1 sample: The vendor was flagged for review and placed on ethics hold, resulting in inactivation. It was subsequently reactivated, however documentation was not maintained or available to support the decision. Per discussion with AP, the department using the vendor requested that the vendor be reactivated and AP complied.

Risks

1. Inconsistent documentation retention could impact the ability to effectively justify vendor activations and inactivations. This could further lead to vendors and/or related parties inappropriately conducting business with the County.
2. Inconsistent procedures to activate legitimate vendors could negatively impact those vendors' abilities to conduct business with the County.

Recommendation 5.1

Finance should update the procedures related to the MEF review to ensure roles and responsibilities are clearly articulated. This should include who is performing the initial review and who is approving the activation of vendors within the Oracle Database. Procedures should include requirements for documentation and retention, reporting, and follow-up related to any ongoing reviews. Documentation maintained should include the original outreach to Using Departments and/or vendors and any response (either formal or informal) related to the review of the vendor record. Results of the review should be documented within the MEF and associated correspondence should be maintained as evidence of the review. Finance should implement a process to regularly review the status of vendors placed on ethics hold, and actions subsequently taken. Vendors left on ethics hold should be contacted for additional information and/or Using Departments should be contacted to confirm the vendor should remain active within the system. Results of the review should be documented, and associated correspondence maintained.

Comments and MCIA Evaluation

We provided the Department of Finance (Finance), the Office of Procurement (Procurement), and the Office of the County Attorney (OCA) with a draft of this report for their review and comment. Finance, Procurement, and OCA responded, acknowledging additional opportunities noted in the report to strengthen existing controls and processes, and stated that they are prepared to take corrective actions to address the respective report recommendations. Finance and Procurement also acknowledged the complexity and resource challenges associated with implementing several of the recommendations.

No changes have been made in the report based on the responses, which are included in this report at Appendix A.

APPENDIX A – Department Comments



Marc Elrich
County Executive

Michael J. Coveyou
Director

DEPARTMENT OF FINANCE

MEMORANDUM

August 24, 2022

TO: Bill Broglie, Internal Audit Manager
Office of the County Executive

FROM: Michael Coveyou, Director 
Department of Finance

SUBJECT: Formal Comments on Draft Report: Targeted Internal Control Review – Procure-to-Pay: Vendor Administration - dated August 2022

Enclosed please find the Department of Finance formal response to the Targeted Internal Control Review for Procure-to-Pay: Vendor Administration report issued by Internal Audit.

We appreciate the report's overall observation that, based on the review procedures, the vendor administration process appears to incorporate controls to mitigate risks, even given the challenge of limited resources. We also appreciate that the report acknowledged progress made over the past several years to improve vendor administration operations. Our formal response addresses the opportunities identified for Finance to further improve the vendor administration process.

If you, or the audit firm working with you, have any questions relating to the attached, please contact Karen Hawkins, Chief Operating Officer, David Crow, Acting Controller, or me. You and your audit firm representatives have our contact information.

Attachment

cc: Karen Q. Hawkins, Chief Operating Officer, Department of Finance
David Crow, Acting Controller
Jhason Abuan, Information Technology Division Chief
Karen Smith, Accounts Payable Manager

Department of Finance

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**Finance Response to
Targeted Internal Control Review – Procure-to-Pay: Vendor Administration
by the Office of Internal Audit
Dated August 2022**

Recommendation 1.1

Finance should determine if there are opportunities to segregate and limit user access rights and reduce/eliminate segregation of duties limitations. If Finance is unable to implement changes to acceptably reduce risk, it should revisit impacted processes and controls to determine mitigating controls.

For example, access rights could be modified such that the Fiscal Assistant could enter new vendors and changes, but system approval would be required by either the AP Manager or AP Supervisor prior to the vendor being activated within the system.

Finance Response:

As noted in the report, there are limited resources available to support this function. This impacts the ability to further reduce segregation of duties limitations through implementing new regularly performed procedures and increasing staff/management-assigned responsibilities. Finance will evaluate if there are additional opportunities to reduce segregation of duties limitations, for example through the potential use of expanded automation, additional monitoring reports as referenced in Recommendation 2.1, and reevaluation of any roles/responsibilities.

Recommendation 1.2

Finance should implement a review of vendor additions and changes within Oracle to determine if they are appropriate and authorized. [Addressing this recommendation may be contingent on addressing the system reporting limitations identified and discussed in Finding 2.]

Finance Response:

Based on the results of follow up to Recommendation 2.1, and considering the limited resources currently available, Finance will determine the feasibility of implementing any additional reviews of vendor additions/changes, beyond the procedures currently in place.

Recommendation 2.1

Finance should identify and implement system reports, or alternative methods to track and control detailed vendor system information including change, activation, and date-related details.

Finance Response:

Finance will coordinate with the ERP Office and CVRS vendor to determine if existing reports can be expanded to more fully incorporate the type of information being recommended, or if alternative methods should be explored.

Recommendation 3.1

The Office of Procurement (Procurement), Office of the County Attorney (OCA), and Finance should collaborate to develop and implement a process for reviewing and taking actions based on the D&B review results; the process should clearly identify roles and responsibilities for all parties (e.g., Procurement, OCA, Finance, the Using Department).

For example, the D&B review results could be required as a documented factor in making the determination of responsibility during the evaluation of solicitations.

Similarly, the policies/procedures could include review/approval components, who is contacted when the review occurs, and what actions are taken should a vendor/individual not have a D&B profile. Following the policy/procedural updates, the responsible parties/departments could communicate internally (within their department) and externally (other impacted departments) the policies/procedures so all County personnel responsible for vendor review procedures are informed of the updated procedures and expectations.

Additionally, on a periodic basis, Finance could review vendors who previously did not have a profile in the D&B system to determine if a profile has been created. For any vendors with newly created D&B profiles, a Supplier Risk Manager Report could be printed and saved to AP's restricted drive.

Finance Response:

Finance concurs that there are additional potential opportunities to clarify and enhance the procedures and documentation surrounding the current D&B review process at the time of vendor file updates. Finance also concurs that there are potential opportunities to establish and/or clarify policies over the use of D&B as part of certain vendor responsibility check processes. Based on our discussions with OCA and Procurement, this is a complex topic that will likely require resources and time to build off of work previously performed and to more fully identify and address policy and procedure options. Finance will work with OCA and Procurement to address the recommendations in this report.

Recommendation 4.1

Finance should ensure existing policies and procedures specify review and document retention requirements related to vendor maintenance to help ensure all requirements are known and available to Finance staff executing vendor maintenance tasks on a regular basis.

Finance Response:

Finance concurs with this recommendation. Finance will review, and update as necessary, policies and procedures related to vendor maintenance to ensure they incorporate review and document retention requirements.

Recommendation 4.2

Finance should consider developing checklists/tools to aggregate review procedures and steps such as document retention protocols. Finance staff should utilize these tools to help ensure tasks were performed as needed and in a timely manner.

Finance Response:

As part of the review of procedures in response to Recommendation 4.1, Finance will determine if the development of any checklists or similar tools will facilitate review procedures and document retention protocols.

Recommendation 5.1

Finance should update the procedures related to the MEF review to ensure roles and responsibilities are clearly articulated. This should include who is performing the initial review and who is approving the activation of vendors within the Oracle Database. Procedures should include requirements for documentation and retention, reporting, and follow-up related to any ongoing reviews. Documentation maintained should include the original outreach to Using Departments and/or vendors and any response (either formal or informal) related to the review of the vendor record. Results of the review should be documented within the MEF and associated correspondence should be maintained as evidence of the review. Finance should implement a process to regularly review the status of vendors placed on ethics hold, and actions subsequently taken. Vendors left on ethics hold should be contacted for additional information and/or Using Departments should be contacted to confirm the vendor should remain active within the system. Results of the review should be documented, and associated correspondence maintained.

Finance Response:

Finance concurs with this recommendation. Finance will evaluate and update procedures related to the Monthly Ethics File (MEF) review, and policies relating to the current ethics hold process. This reevaluation will also include requirements for documenting and retaining review results.



OFFICE OF PROCUREMENT


Marc Elrich
County Executive

Avinash G. Shetty
Director

MEMORANDUM

August 25, 2022

TO: Bill Broglie, Internal Audit Manager
Office of the County Executive

FROM: Avinash G. Shetty, Director  for
Office of Procurement

SUBJECT: Formal Comments
Draft Report for Targeted Internal Control Review
Procure-to-Pay: Vendor Administration

Please accept this memorandum as the Office of Procurement's formal response to the Targeted Internal Control Review for Procure-to-Pay: Vendor Administration report issued by Internal Audit.

While the report covers many elements of vendor administration, the Dun & Bradstreet (D&B) review usage would be the primary element in which procurement plays a part. Our office acknowledges the potential benefits if the use of D&B is implemented within new policies and procedures related to the responsibility check performed by the Using Departments at the time vendors are vetted for potential award. Given the variety of different procurement vehicles and the unique and specific scope of work associated with each procurement, a detailed review would be needed to accommodate nuanced procurement scenarios. This effort will take extensive analysis, cross-departmental coordination, and dedicated time necessary to ensure the County develops a realistic and legally acceptable approach.

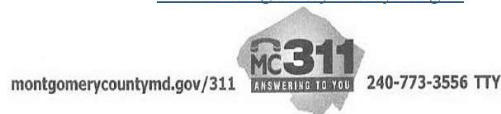
Implementation of new policies and procedures surrounding the use of D&B will be a significant effort, but our office is committed to working together with Finance and the Office of the County Attorney to move forward with discussions and opportunities on this matter.

Any questions relating to this response can be sent to Melissa Garner, Division Chief of Operations for the Office of Procurement.

cc: Melissa Garner
Sheronda Baltimore

Office of Procurement

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OFFICE OF THE COUNTY EXECUTIVE

Marc Elrich
County Executive

John P. Markovs
Acting County Attorney

MEMORANDUM

TO: Bill Broglie, Internal Audit Manager
Office of Internal Audit
Office of the County Executive

FROM: John P. Markovs, Acting County Attorney 

DATE: August 26, 2022

RE: Formal Comments on Draft Final Internal Audit Report: Targeted Internal Control Review – Procure to Pay: Vendor Administration

Thank you for the opportunity to respond to the draft internal audit report. The Office of the County Attorney (OCA) plays a supporting role in certain contracting processes that are not specifically mandated by County law. With respect to implementation of a process to incorporate and utilize Dun & Bradstreet (D&B) Evaluations for contracting purposes, including vendor registration and contracting awards, OCA will continue to act in an appropriate supporting role with the primary departments responsible for vendor registration and contracting, the County's Finance Department and Office of Procurement.

OCA generally agrees with Recommendation 3.1 as set forth in the draft report. OCA is not aware of an existing policy articulating a process for reviewing and taking action based on obtaining and reviewing available D&B reports for purposes of determining vendor "responsibility" during the evaluation of procurement solicitations and the awarding of County contracts. Such a policy would need to be formulated to conform with existing County law and regulation as it relates to the appropriate contracting action. OCA is prepared to assist both the Office of Procurement and Finance Department, as appropriate, to advise on the development and implementation of a suitable policy that conforms with existing law and established policies and procedures.

Thank you for addressing these issues in your report.