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

Targeted Internal Control Review
Procure to Pay: Receiving, Invoicing, and Payments

April 14, 2021

MCIA-21-4

Highlights

Why MCIA Did this Review

The Montgomery County Office of Internal Audit (MCIA) conducted a targeted internal control review (review) of the Montgomery County Government's (County) receiving, invoicing, and payment processes (collectively, the "payment process" review). The County has established an internal control environment for the receiving, invoicing, and payment sub-processes; executing internal controls related to vendor payments; and communicating related policies, procedures, and guidance to County departments. Each County department is responsible for the execution of internal controls related to receiving and reviewing/approving invoices.

This review is the result of a Procure-to-Pay (P2P) fraud risk assessment that was completed in December 2019. The overall focus of this review was to test the operational effectiveness of payment process internal controls identified during the P2P fraud risk assessment. As part of the review, we focused on internal controls performed by the Department of Health and Human Services (DHHS) and the Department of Transportation (DOT). The review was conducted by the accounting firm SC&H Group, Inc., under contract with MCIA.

MCIA is making four recommendations to strengthen the County's internal controls within the receiving and invoicing sub-processes.

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What MCIA Found

There appears to be an established control environment with preventive and detective control activities designed to mitigate fraud risks associated with the P2P operation's receiving, invoicing, and payments sub-processes. Additionally, Finance has implemented and relies upon automated controls within Oracle (the County's third-party ERP system) to efficiently and effectively process vendor payments.

We identified instances of departmental non-compliance with County policies associated with the receiving and invoice approval functions. These findings principally relate to required supporting documentation to evidence proper receipt of goods/services and adequate review and approval of invoices.

We identified four recommendations to strengthen the County's control environment and mitigate risks within the receiving and invoicing sub-processes of the P2P operation, including:

1. Enhance the invoice summary sheet to document evidence of internal controls performed by the County departments.
2. Reinforce documentation requirements and update policies to provide additional guidance for exempt transactions.
3. Require County departments to store receiving documentation in a centralized file location.
4. Evaluate departmental segregation of duties requirements and procedures to strengthen the internal controls.

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Objectives

This report summarizes the review of Montgomery County's (the County) receiving, invoicing, and payment process (collectively, the "payment process" review). The payment process 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 payment process review focused on how the County manages risks associated with the receiving sub-process; and reviewing, approving, and paying vendor invoices. The objectives were to:

1. Determine the invoice and payment types and the departments/offices whose transactions were evaluated during fieldwork procedures.
2. Develop a test plan to conduct targeted internal control review fieldwork procedures.
3. Evaluate receiving, invoicing, and payment internal controls for design and operational effectiveness.

P2P Fraud Risk Assessment

The following provides an overview of the P2P fraud risk assessment and the results relevant to the current payment process review. After the P2P fraud risk assessment was completed, the next step was to conduct targeted internal controls reviews. This payment process review is one of the targeted internal control reviews.

P2P Fraud Risk Assessment Overview

The P2P operation is one of a number of enterprise operations (including, but not limited to, 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 Services) have overall responsibilities. These responsibilities include establishing 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 which 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.

[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

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 implementing 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., the Risk Governance Committee and Financial, Analysis, Audit and Compliance Section). 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 would examine specific transactions within selected departments/offices and to determine whether the controls are operating as intended and 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)
2. Receiving, invoicing, and payments (collectively, payment process review)
3. Vendor administration

This report represents the results of the payment process review.

Payment Process Review Background

Process Overview

The payment process review focused on three sub-processes within the P2P operation:

1. Receiving
2. Invoicing
3. Payment

[2] Montgomery County Code, Chapter 11B can be accessed at the following website: http://library.amlegal.com/nxt/gateway.dll/Maryland/montgom/partiilocallawsordinancesresolutionsetc/chapter11bcontractsandprocurementnote?f=templates$fn=default.htm$3.0$vid=amlegal:montgomeryco_md_mc$anc. Montgomery County Regulations, Chapter 11B can be accessed from the following website: http://library.amlegal.com/nxt/gateway.dll/Maryland/comcor/chapter11bcontractsandprocurement-regula?f=templates$fn=default.htm$3.0

The receiving function has a dual role as it signifies one of the last steps of the contracting process (i.e., where the receipt is matched against a purchase order (PO)) as well as the beginning of the payment process (i.e., where receipt must be matched to the invoice to be paid). As discussed later in this report, although the Receiving function resides within the Oracle Procurement module, Finance has responsibility for establishing the control environment for the receiving sub-process.

Each department/office (referred to as "department" in this report) is responsible for performing the receiving and invoicing sub-processes. A department-approved invoice is routed to Accounts Payable (A/P, within the Department of Finance), which is responsible for reviewing and approving all invoices greater than $10,000, and which is also responsible for releasing payment to the vendor.

The County utilizes a third-party ERP system, Oracle, for recording these transactions. Receipt of goods and services is recorded in Oracle's Procurement module while evidence of receipt is scanned to A/P in Oracle's A/P.

<u>Transaction Types</u>

The payment authority determines the internal controls that are performed for each vendor payment. There were three payment authorities in scope for this review:[3]

1. Non-exempt transactions: Transactions that are subject to Chapter 11B of the County Code and Regulations (collectively, Procurement Regulations). Based on the procurement method, these transactions require a Purchase Order (PO) or Direct Purchase Order (DPO) and Oracle will perform a three-way match prior to authorizing payment to a vendor.[4]
2. Exempt transactions – DPO: Transactions that are not subject to or are exempt from Procurement Regulations. These exemptions must be on the Office of Procurement's (Procurement) PMMD-148 Exemptions List.[5] These purchases do not require POs, but do require DPOs for Oracle to perform the three-way match prior to authorizing payment to a vendor.
3. Exempt transactions – Direct payments: Transactions that are not subject to or are exempt from Procurement Regulations. These transactions represent an exception to Finance's Authorized Payment Policy (see *Policy Guidance* below) and must be on the Finance DP Exemptions List. A PO or DPO is not required and a three-way match is not performed.

Transactions less than $10,000 are exempt from the County's Procurement Regulations. Therefore, if the transaction is less than $10,000, the department would be required to create a DPO, unless the transaction is an exempt transaction – direct payment.

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[3] Other acceptable payment authorities that were not in scope for this review included Purchasing Card (P-Card), petty cash, and employee reimbursements.

[4] A PO authorizes the purchase of goods or services in accordance with a contract that has been executed under the County's Procurement Regulations. A DPO is a department-issued PO that indicates to the vendor that the department has authorized the purchase of goods or services. DPOs greater than $10,000 must be approved by the Financial Analysis, Audit, and Compliance (FAAC) section of Finance before receiving or invoice processing can occur. DPOs less than $10,000 are department-approved only. Both POs and DPOs encumber funds in Oracle.

[5] PMMD-148 Exemption List reflects the exemptions reviewed for legal authority by the Office of the County Attorney and approved to be paid by DPO by Finance.

Process Summaries

A high-level overview of the receiving, invoicing and payment sub-processes follows. Exceptions and/or variations to these transactions are further described under the *Exempt Transactions – Direct Payments* section below.

Receiving Sub-Process Overview

The receiving function is performed by the department. For purchases of goods, the department physically receives the goods and confirms that all items have been received (completeness), the correct items were received (accuracy), the items are in good condition (quality), and that the ordered goods conform in every way to what was expected when the order was placed (compliance). For purchases of services, the department confirms the services were satisfactorily performed and deliverables were received. The receipt of goods or services requires an employee with direct knowledge of the vendor's performance.

Evidence of receipt can be manual signatures on supporting documentation and/or systematic receipt in Oracle. If the individual performing the receiving function does not have system access to enter the receipt in Oracle, then they manually sign receiving documents (e.g., packing slip). The manual evidence of receipt is forwarded to a department employee with system access to enter the receipt in Oracle.

The employee providing the manual signature is commonly referred to as the "true receiver" and the employee that enters the receipt in Oracle is referred to as the "system receiver." The system receiver enters the receipt against the corresponding PO or DPO in Oracle.

Invoicing Sub-Process Overview

The invoicing sub-process includes two functions: invoice processing and invoice approval.

1. The invoice processing function is performed by the department, unless the department utilizes A/P's Shared Services.[6] Invoice processing includes receiving the invoice from the vendor, obtaining and documenting required manual approvals of the invoice, and entering the invoice into Oracle.
2. The invoice approval function includes departmental approvals and, if the invoice is greater than $10,000, approval by A/P prior to payment. The department is responsible to validate the invoice is accurate, complete, and compliant with agreed upon terms (e.g., contract terms).

Invoice approval evidence can be a manual signature on the invoice and/or systematic approval in Oracle. If the individual performing the invoice approval function does not have system access to enter or approve the invoice in Oracle, then they manually sign the invoice. The hard-copy invoice and supporting documentation, with evidence of review and approval, is forwarded to a department employee with system access to enter the invoice.

The employee providing the manual signature is commonly referred to as the "true approver" and the employee that enters the invoice in Oracle is referred to as the "invoice processor." The invoice is then automatically routed to the department "system approver" in Oracle. The system approver ensures the invoice was:

1. Entered correctly in Oracle,
2. Properly reviewed for accuracy, completeness, and compliance,

[6] A/P Shared Services is designed to leverage the expertise and economies of scale of a centralized A/P function. Departments utilizing the Shared Services send their invoices to A/P for invoice processing and approval.

3. For an authorized purchase, and
4. Matched to the correct PO or DPO.

If the transaction is less than $10,000, the department system approval is the only required approval for vendor payment. If the transaction is greater than $10,000, the transaction will automatically route to A/P for approval.

Payment Sub-Process Overview
Once the invoice has obtained all necessary department and A/P approvals, the invoice is automatically sent to a payment queue in Oracle. Payments accumulate in the queue until the payment run occurs.[7] All payments that meet the payment terms are automatically selected for payment.[8]

The County allows various payment methods, including:
1. Checks
2. Electronic fund transfers (EFT) or automated clearing house (ACH) payments
3. Single use authorizations (SUA; i.e., a one-time use credit card payment)
4. Wire transfers

Vendors can be set up to have multiple payment types in Oracle. By default, all vendors are set up to receive check payments. If a vendor fills out the County's ACH Vendor Form and/or requests to be set up for SUA, the vendor can also be set up to receive ACH or SUA payments, respectively. Then, supplier site (i.e., the payment type in Oracle) can be chosen from the vendor's allowable payment methods when processing the invoice.

Wire payments are infrequent and only set up for a vendor if approved by the Finance Controller. A Special Wire Exemption form must be provided by the department indicating the wire amount, payee information, and a business justification detailing why the wire is needed. The Special Wire Exemption form must be reviewed and approved by the A/P Manager and the Finance Controller before payment is executed to the vendor.

Exempt Transactions – Direct Payments
The following bullets outline differences in how exempt transactions – direct payments – are processed:
1. Receiving: The receipt for a transaction is not recorded in Oracle. The invoice review and approval is evidence that the department has confirmed goods and services have been received and meet the requirements for payment.
2. Invoicing: A signed and dated copy of the most recent agreed upon payment terms (e.g., contract terms) must be attached invoices greater than $10,000 in lieu of the Oracle-generated PO or DPO. The system does not perform a three-way match for these transactions.
3. Payments: There are no differences in the way payments are made for these transactions.

[7] Payment runs occur daily, Monday through Friday.
[8] Payment terms, such as pay on date, is an optional field that can be input for an invoice. If entered, the payment will remain in the queue and will be automatically selected for payment once the payment terms are satisfied.

Applicable Policy Guidance

For purposes of this review, SC&H focused on policies, procedures and internal controls developed, maintained, communicated, and enforced by Finance related to:

1. Exempt transactions (i.e., DPO and direct payments).
2. Receiving, invoicing, and payment sub-processes of the P2P operation.

Finance documented the required policies, procedures, and internal controls through three policies that are available on the County's intranet site:

1. A/P Policies: Financial Governing Principles and Standards, effective August 2, 2017. This policy is commonly referred to as the A/P Policy.
2. A/P Policies: Authorized Payment, effective April 1, 2018. This policy is commonly referred to as the Authorized Payment Policy.
3. FAAC Policies: DPO Workflow, effective February 1, 2019. This policy is commonly referred to as the DPO Workflow Policy.

A/P Policy

The purpose of the A/P Policy is to provide a general overview of transactions processed in Oracle's A/P module (described further under *Oracle Modules* below). It provides best practice and internal control guidance for the P2P operation which includes detailed instructions for receiving goods and services, invoice requirements and approvals, and vendor payments. The policy provides departments with an explanation of the procedures that should be performed, including why they are important internal controls, and recommended segregation of duties for key P2P functions.

Authorized Payment Policy

The purpose of the Authorized Payment Policy is to provide guidelines on the processing of payments made for all purchases within the County. This policy provides details related to payment authorities and required supporting documentation for POs, DPOs, and direct payments.

DPO Workflow Policy

The purpose of the DPO Workflow Policy is to provide guidelines on processing DPOs over $10,000 which require approval from FAAC. This policy defines the automated workflow that requires pre-approval from FAAC before departments can perform the receiving function in Oracle against the DPO or process invoices related to the DPO.

Oracle Modules

The receiving, invoicing, and payments control activities are executed in two Oracle modules: Procurement (administered by Office of Procurement) and A/P (administered by Finance). The following control activities are performed in each module:

1. Procurement module:
    a. POs are requested by the department and approved by the Office of Procurement.
    b. DPOs are requested by the department and approved by FAAC, as applicable based on dollar thresholds.
    c. Receipts are recorded against the PO or DPO by the department.

2. A/P module:
    a. Invoices are entered and approved by the department.

b. Invoices are approved by A/P, as applicable based on dollar thresholds.
c. Payments to the vendor are processed by A/P.

Scope and Methodology

The review was conducted from January 2020 to November 2020. The review focused on the County's current receiving, invoicing, and payment sub-processes. For testing purposes, transactions were selected from those processed through the Department of Health and Human Services (DHHS) and Department of Transportation (DOT). The review period included transactions processed for payment from July 1, 2018, through December 31, 2019.

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

Scoping

Data Analytics and Department Selection

SC&H worked with the Internal Audit (IA) Manager and Finance to identify and finalize the invoice and payment types that would be included in the review. SC&H requested and received an Oracle report listing all payments made for the period of July 1, 2018 through December 31, 2019 (payments file).

SC&H sorted and filtered out the following transaction types that were not in scope:

1. Refunds and credits
2. P-Card transactions
3. Employee reimbursements
4. Payroll and employee benefit payments
5. Rents and lease payments
6. Petty cash
7. Accruals
8. Tax payments
9. Insurance payments
10. Debt service and loan disbursements
11. Interagency payments (i.e., Montgomery College and Montgomery County Public Schools)

SC&H analyzed and reviewed the remaining payments by the following categories:

1. Department
2. Commodity type (e.g., office supplies or consulting services)
3. Payment authorization method (i.e., PO, DPO, or direct pay)
4. Payment type (i.e., EFT, Wire, SUA, or Check)
5. Vendor (e.g., Pepco)

The following table summarizes the transaction count and payment amount by department for the top ten County departments, sorted by highest dollar amount, after removing the transaction types that were not in scope.

Rank	County Department Abbreviation from Payments File	Transaction Count	Payment Amount	% of Spend
1	Transportation	17,979	$ 312,390,065	22%
2	Health and Human Services	46,721	188,515,803	13%

Rank	County Department Abbreviation from Payments File	Transaction Count	Payment Amount	% of Spend
3	Environmental Protection	3,365	163,169,030	11%
4	Non-Departmental Accounts *(See Note 1 below)*	22,705	148,310,678	10%
5	General Services	10,638	131,217,877	9%
6	Not Defined *(See Note 1 below)*	26,825	102,092,814	8%
7	Housing and Community Affairs	38,956	68,996,843	5%
8	Technology Services	3,005	61,385,574	4%
9	Human Resources	1,380	41,036,582	3%
10	Finance	1,062	40,487,755	3%
11	All Other County Departments *(See Note 2 below)*	76,094	182,007,181	13%
	Total	**248,730**	**$ 1,439,610,202**	**100%**
Note 1: Non-Department Accounts and Not Defined are described in more detail below under section *Data Analytics - Non-Departmental Transactions.*				
Note 2: The remaining 34 County departments from the payments file were aggregated for presentation purposes.				
Note 3: The Transaction Count and Payment Amount represent totals for the period of July 1, 2018 through December 31, 2019, after removing certain transaction types as stated in section *Data Analytics and Department Selection* of this report.				

Table 1: Spend by County Department (based on SC&H analysis of payments file data)

After reviewing the total payment amount and types of transactions by department, DOT and DHHS were selected for review in the fieldwork phase.

Test Plan Development

Following the data analytical procedures and agreeing upon the department selection, a test plan was created to test the design and/or operational effectiveness of internal controls identified during the P2P fraud risk assessment.

Fieldwork

Fieldwork consisted of performing additional data analytics, documentation review, and testing the design and/or operational effectiveness of internal controls identified during the P2P fraud risk assessment.

Data Analytics - Non-Departmental Transactions

Approximately $250 million of transactions for the review period included "Non-Departmental Accounts" and "Not Defined" in the department field of the payments file. Non-Department and Not Defined payments consist of transactions that are attributable to County-wide efforts or programs as a whole. Finance provided an updated payments file which included a "Ship_Bill To" department name that was not included in the original payments file. SC&H identified additional transactions that were previously classified as Non-Department and Not Defined that were attributable to DOT and DHHS based on the "Ship_Bill To" department name in the payments file. A sample of transactions that were originally labeled as Non-Department and Not Defined but appear to be related to DOT and DHHS were included in the test population.

Sample Selection
SC&H analyzed DOT and DHHS transactions from the payments file to select a sample of transactions to test. As mentioned in the *Payments Review Background* section of this report, the internal controls vary based on payment authority. SC&H met with Finance to gain an understanding of how to identify certain attributes of the various payment authorities within the payments file.

SC&H selected transactions from each of the following five data fields of the payments file:

1. Exemption type
    a. Non-exempt
    b. Exempt (i.e., exempt transactions – DPO and exempt transactions – direct payments)
2. PO type
    a. Standard
    b. DPO
    c. Blank[9]
3. Invoice source:
    a. Manual invoice entry
    b. System interface (e.g., EICM)[10]
4. Invoice dollar amount
    a. Less than $10,000
    b. Greater than $10,000
5. Payment method code
    a. EFT
    b. Check
    c. Wire
    d. SUA

Documentation Review
SC&H obtained and reviewed the A/P Policy, the Authorized Payment Policy, and DPO Workflow Policy to confirm our understanding of the internal controls environment for each process. Additionally, SC&H reviewed the Finance DP Exemptions List, the Procurement PMMD-148 Exemptions List (i.e., paid by DPOs), and Finance Consolidated Exemption List (which combines Finance's and Procurement's exemption lists).

Walkthroughs
Additional walkthroughs were performed with the A/P Manager to obtain a more thorough understanding of each process and to evaluate the effectiveness of internal controls executed by A/P. Walkthroughs were also conducted with DHHS and DOT staff to gain an understanding of departmental workflows and effectiveness of internal controls that were executed by each in-scope department.

Internal Controls Testing
Internal controls identified during the fraud risk assessment were tested to assess the operating effectiveness of the control activity. SC&H prepared a document request list for all information needed to satisfy the testing steps developed in the test plan.

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[9] Invoices with a blank PO type were exempt from Procurement Regulations and were processed as direct payments. A sample of blank PO Types were selected for testing.
[10] DHHS utilizes EICM (enterprise integrated case management) system to view client needs and services, collaborate across programs and service providers, and improve billing and cost recovery.

For each payment selected, SC&H obtained the supporting documentation to evaluate the review and approval, including Oracle screen shots (which evidence execution dates and system approvals). The test procedure attributes included the following:

1. Determine if the receipts had adequate support and were properly recorded in Oracle.
2. Determine if invoices had adequate support and were properly recorded and approved in Oracle.
3. Determine if payments were made in compliance with County policies.

The results of testing were compiled and presented to DOT on October 19, 2020 and DHHS on October 20, 2020 for review and comment. DOT and DHHS provided additional feedback and support through October 31, 2020 that was reviewed to update and finalize testing results.

Validation

The preliminary observations were reviewed with Finance on November 5, 2020. After meeting with Finance, the preliminary observations were sent to DOT and DHHS management via email. DOT opted not to have a formal closeout meeting. The DHHS closeout meeting was conducted on November 9, 2020.

Data and Fieldwork Limitations

The following limitations impacted the payments review and were communicated to Finance management throughout the review.

1. **COVID-19 Restrictions:** This review occurred during a period that the County was on mandatory work from home restrictions due to the COVID-19 pandemic. As mentioned in the *Payments Review Background* section of this report, supporting documentation is not required to be scanned and sent to A/P for approval for transactions less than $10,000. A/P provided documentation they had access to and requested that DOT and DHHS provide the support for the remaining samples. Six samples were not provided because they were not scanned and therefore were not available.

2. **Oracle Access:** Due to enhanced workload associated with COVID-19 related requests, Finance requested that SC&H obtain Oracle inquiry system access to obtain the system receipt and invoice approval screen shots directly from Oracle. SC&H was granted inquiry access and was able to successfully obtain the required screen shots except for evidence of the department employee performing the system receipt. SC&H was able to view when the receipt was recorded and the quantity/dollar amount received, but not who from the department performed the receiving function in the system. Finance offered to manually pull this information for each transaction, but due to the size of the request and potential impact to the review's timeline, SC&H did not make this additional request for testing purposes.

3. **Data integrity:** The payments file contained some blank data fields. In some instances, as described with "PO Type" above, the blank data field was useful in noting the transaction did not have a PO or DPO and was therefore exempt. However, blanks in other data fields, such as Vendor Type, Description, or Purchase Type (i.e., for non-exempt transactions), could mean incomplete or inconsistent data entry.

4. **System Interfaced Payments:** Payments that are processed through direct system to system interfaces are exempt from the Authorized Payment Policy. Therefore, regardless of the dollar value, once a County employee has approved the payment in the interfaced system, the payment will be paid directly from Oracle without additional

approvals from A/P. Each system interface is administered by the respective department, and each system has different user access, approval hierarchies, and internal controls for invoice approval and payment processing. For a DHHS system interfaced payment, SC&H obtained supporting evidence of the charges and the system approval from the interfaced system. For the DOT system interfaced payment, SC&H was not able to test the internal controls because the system was not administered by DOT. Therefore, SC&H was not able to conclude on the internal controls for system interfaced payments.[11]

5. **Manual Signatures:** For certain transactions, the County relies on manual signatures to evidence receipt of goods/services and invoice approval. During testing procedures, SC&H could not determine the purpose of signatures on invoices (e.g., acknowledging receipt of the goods or acknowledging receipt of the invoice or approving the invoice). Therefore, SC&H conducted subsequent walkthroughs with DOT and DHHS staff to determine the appropriateness of signatures and the adequacy of segregation of duties. Further, DOT and DHHS were not able to provide current organizational charts that would provide evidence of allowable receivers, allowable invoice processors, and allowable invoice approvers.[12] See *Finding 2* for more information.

Findings and Recommendations

Results

There appears to be an established control environment with preventive and detective control activities designed to mitigate fraud risks associated with the receiving, invoicing, and payments sub-processes of the P2P operation. Most test samples included multiple signatures evidencing what appeared to be reviews by each in-scope department. Further, based on the test procedures performed, system controls in place such as the three-way match for PO/DPO, the automated approval workflow in Oracle based on dollar thresholds, and A/P Forensics tool to identify potential duplicate payments, appeared to be operating effectively.

Finance has developed and updated policies to provide standards and guidance to departments through the A/P Policy, Authorized Payment Policy, and the DPO Workflow Policy to properly process payments. These policies and processes provide clarity, instruction, and internal controls for exempt transactions that were not previously monitored centrally within the County.

In May 2020, Finance established an electronic method for the invoice processors to upload the invoices and supporting documentation directly into Oracle where previously invoices and supporting documentation were scanned outside of Oracle through a third-party document management system, ZyImage. This change allows the system approver to review the attached documents directly within Oracle, but the system approver cannot remove or add documents. The invoice processor and system approver can communicate via comments within Oracle to clarify or request additional information. Additionally, departments must attach all invoices and supporting documentation regardless of the dollar value (whereas only invoices over $10,000

[11] Fraud risks associated with these payment types were communicated to Finance during the P2P fraud risk assessment and Finance is working on a corrective action plan to address these risks.
[12] DOT and DHHS provided organizational charts by division. However, the organizational charts did not include name, title, role, and/or approval hierarchy within the division.

had to be scanned previously). The result of these changes appears to help strengthen the transparency and internal controls surrounding the County's invoice processing and approvals.

Both DOT and DHHS have dedicated personnel that are focused on executing the receiving, invoice processing, and invoice approval internal controls. However, the following identifies how these departments perform control activities differently:

1. DHHS has several service areas, but most invoices are reviewed and approved by a centralized fiscal unit. Some exempt payments, such as employee mileage reimbursements and some IT and Facilities purchases, are reviewed and approved directly by employees in the service areas. Additionally, DHHS utilizes a department-specific Invoice Review Certification form that provides the steps that the invoice approver must perform to review and approve the invoice and clearly documents the required manual signatures for invoice approval (i.e., printed names, signatures, and titles). This document was helpful in determining who was reviewing and approving the invoices and what specific steps were performed.
2. DOT has five distinct divisions that independently, within each division, receive goods/services and review and approve invoices. SC&H selected three DOT divisions to review their receiving and invoice approval processes. While each division performed adequate steps to receive goods/services and review/approve invoices, there was no centralized fiscal review or forms that were used to improve consistency across divisions.

As previously mentioned, the payment process review was focused on two County departments, DOT and DHHS. However, the findings identified below existed and were consistent across both departments. Based on the consistency of the departmental findings and the relationship to County-wide policies and procedures, there is risk that these findings could also apply to other departments as well. Therefore, these findings are addressed to Finance, as appropriate, because of Finance's role in administering the control environment for the receiving and invoicing sub-processes within the P2P operation.

The following two findings were identified to strengthen and enhance the control environment surrounding the receiving and invoicing sub-processes of the P2P operation.

Finding #1: Inadequate supporting documentation for receiving and invoicing sub-processes

Finding 1.1: Required receiving and invoice support documentation was not submitted to A/P and/or maintained by the department to evidence proper receiving and invoice approval.

Finance policies require that payments 1) over $10,000 have adequate supporting documentation attached to the invoices submitted to A/P, and 2) payments less than or equal to $10,000 have adequate supporting documentation maintained by the department. Regardless of the dollar value, departments are required to maintain adequate support for receiving and invoice processing.

Specifically, for POs and DPOs, the Authorized Payment Policy states: "All associated documents, such as bill of lading, packing slip, signed work order indicating job complete, vendor time sheets, etc. should be attached to the invoice."

For exempt transactions - direct payments, the A/P Policy states:

1. Payments less than or equal to $10,000: “Proper backup documentation demonstrating 1) approval of the purchase, 2) proof of goods being delivered or services being rendered, and 3) any other relevant support must be attached to the invoice and be maintained in the department for auditing purposes.”
2. Payments greater than $10,000: “A signed and dated copy of the most recent relevant terms of the Contract (key provisions of the payment agreement) or Memorandum of Understanding (MOU) agreement must be attached to the invoice. If a contract or MOU has not been issued, then support must be included that indicates the terms originally authorized and agreed to by the Department. The support for this invoice must contain sufficient information to clearly indicate it meets the criteria to be exempt from the County’s procurement regulations.”

The following exceptions were identified during testing:

1. Supporting documentation scanned and sent to A/P for payments greater than $10,000 did not consistently have adequate support (such as packing slips or bills of lading) for receiving; this was identified for multiple samples tested.
2. Supporting documentation scanned and sent to A/P for payments greater than $10,000 did not consistently have adequate support (such as vendor time sheets or direct expense receipts) to evidence invoice charges; this was identified for multiple samples tested.

For a sample of payments that were missing receiving or invoice support in what was sent to A/P and/or maintained by the department, SC&H requested that the department provide evidence of the receipt or additional support for invoice charges. While the departments were able to locate additional supporting documentation for some samples, there were still samples where they were not able to provide adequate support for the receipt and/or the invoice charges.

<u>Finding 1.2: Receiving documentation is not stored in a County system or centrally within the departments.</u>

Receiving of goods could occur days or weeks before a physical invoice is received by the County. Additionally, receiving is often performed by a different employee/team that could be in a different location than the employee/team that receives and processes the invoice in Oracle. There is currently no centralized storage for receipt documentation in Oracle.

The updated scanning process (see *Results* section) allows invoice processors to attach supporting documentation directly in the A/P Module, which should include the receipt documentation per A/P’s policies. However, there is no similar repository implemented in the Procurement module to store or attach receipt documentation. Further, Finance policies do not provide guidance on where receiving documents should be stored beyond attaching them to invoice support, which could be a logistical challenge due to different employees/teams in different locations performing the receiving and invoice processing functions.

<u>Risks</u>
Lack of adequate supporting documentation for receipt and/or invoice approval could result in fraudulent or erroneous payments for goods or services that were not received or were not compliant with agreed upon terms (e.g., contract terms).

Recommendation 1.1

Finance should consider revising the invoice cover sheet to clearly document key internal control steps documented in the Finance policies, and to require that departments complete and attach this checklist as part of the submitted invoice. A single document that contains manual signatures (with printed names and titles), key dates, and purpose of steps performed (e.g., verified quantity and quality of goods received were in line with PO, or verified rates charged were in line with contract) could help improve transparency and the design and operational effectiveness of current manual controls.

Recommendation 1.2

Finance should provide departments with a communication, reinforcing documentation requirements to evidence receiving and invoicing. Finance should consider updating their policies to provide:

1. Enhanced details for different commodity types: such as goods vs. services.
2. Additional guidance for recording the receipt for exempt transactions. Since certain exempt transactions are not received in Oracle and therefore will not have a three-way match, supporting documentation should clearly note the manual signature that is acknowledging receipt and the manual signature that is approving the invoice to ensure segregation of duties is maintained.
3. Guidance for appropriate documentation if the vendor does not provide adequate receipt or invoice support, such as when to contact Finance and/or how to acknowledge missing details in the invoice packet.[13]

Additionally, Finance should work with the Office of Procurement to ensure Contract Administration training includes any updated guidance as a result of these recommendations.

Recommendation 1.3

Finance should evaluate opportunities for departments to be able to scan receiving documentation into the Receiving function of the Procurement module. This could provide a more efficient method for employees in different locations to:

1. Store receiving documentation timely, consistently, and centrally within Oracle.
2. Access, review, and attach receiving support during the invoice approval process.

Finding #2: Reliance on manual signatures for segregation of duties controls

Finding 2: Manual signatures and initials on supporting documentation were not legible without assistance from DHHS or DOT.

The A/P Policy allows departments that are not able to segregate roles sufficiently in Oracle, based on location, system access, roles and/or responsibilities, to utilize a manual process to accomplish the internal control activity. This manual process allows a knowledgeable receiver to manually sign the receiving document or invoice as acknowledgement that goods/services were received and acceptable. The manual signature on supporting documentation can then be forwarded to a department employee with system access to receive the goods against the PO/DPO in Oracle. Additionally, an invoice can be manually approved by an authorized

[13] Due to the nature of the services that DHHS provides, certain vendors cannot provide adequate supporting documentation (e.g., due to the vendor's inability to create system generated reporting). DHHS has worked with Finance and OCA to try to remediate the issue, but certain vendors continue to present challenges in obtaining adequate support for services but DHHS is mandated to continue working with them due to grant or contractual agreements.

employee with direct knowledge that the invoice is accurate, complete, and that all goods or services were accepted prior to invoice approval. Similarly, this manual signature on supporting documentation is then forwarded to a department employee with system access to enter the invoice in Oracle, which is then routed through the approval workflow to the system approver. All invoices tested followed this process with manual signatures accompanying system receiving and system invoice approvals.[14] In many cases, the knowledgeable receiver and invoice approval is evidenced only in manual signatures and is not recorded in Oracle.[15]

Due to the manual nature of this process, the A/P Policy states, "The purpose for each signature should be clearly noted on the invoice." However, it was difficult to read the signature or initials on the invoices and/or supporting documentation to determine who was performing the manual activity. Therefore, it was difficult to understand the purpose of the signature; such as whether a signature or initial was acknowledging receipt, evidence for approval by the department, or evidence of another activity (e.g., some department staff documented the date the invoice was received).

As a result, SC&H was unable to determine whether segregation of duties was appropriate for all invoices selected for testing. A sample of invoices where the manual signatures were not clear or legible were selected and discussed with the departments to gain an understanding of who was signing and the purpose of their signatures. There were no issues regarding segregation of duties and all invoices appeared to be properly approved for payment in the limited sample.

Risks

Lack of systematic evidence for receiving and invoice approvals performed by departments could prevent the County from effectively evaluating the appropriateness of invoice authorization and segregation of duties. Inadequate segregation of duties in the receiving, invoicing, and payments process could result in fraudulent or erroneous payments to vendors.

Recommendation 2.1

Finance should consider evaluating departmental segregation of duties requirements and procedures to strengthen the County's control environment surrounding vendor payments.

[14] DHHS samples included the Invoice Review Certification form that clearly documents the contract monitor and supervisor approval, as well as steps performed to review the invoice. The samples that contained this form provided clear and legible names of individuals performing control activities for invoice approval for PO and DPO transactions. However, the form does not provide evidence for receiving (i.e., when goods are received) and the form is not utilized for all exempt transactions. Therefore, the purpose of the signatures on some of the DHHS were not clear. DOT did not utilize this form or any department-specific form.

[15] Fraud risks associated with these manual signatures were communicated to Finance during the P2P fraud risk assessment and Finance is working on a corrective action plan to address these risks.

Comments and MCIA Evaluation

We provided the Department of Finance with a draft of this report for review and comment. Finance responded with comments on April 12, 2021, and the response has been incorporated in the report at Appendix A. Finance concurred with the findings identified in the report, outlining steps the department plans to take or had taken to address the findings. No changes have been made in the report based on the response.

Appendix A – Finance Response

Marc Elrich
County Executive

Michael J. Coveyou
Director

DEPARTMENT OF FINANCE

MEMORANDUM

April 12, 2021

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

FROM: Michael Coveyou, Director *Michael J Coveyou*
Department of Finance

SUBJECT: Formal Comments on Draft Report: Targeted Internal Control Review – Procure to Pay: Receiving, Invoicing, and Payments - dated April 2021

Enclosed please find the Department of Finance formal response to the Targeted Internal Control Review for Procure to Pay: Receiving, Invoicing, and Payments report issued by Internal Audit.

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

Attachment

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

Department of Finance

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montgomerycountymd.gov/311 MC311 ANSWERING TO YOU 240-773-3556 TTY

Attachment

Finance Response to
Targeted Internal Control Review – Procure to Pay: Receiving, Invoicing, and Payments
by the Office of Internal Audit
Dated April 2021

Recommendation 1.1

Finance should consider revising the invoice cover sheet to clearly document key internal control steps documented in the Finance policies, and to require that departments complete and attach this checklist as part of the submitted invoice. A single document that contains manual signatures (with printed names and titles), key dates, and purpose of steps performed (e.g., verified quantity and quality of goods received were in line with PO, or verified rates charged were in line with contract) could help improve transparency and the design and operational effectiveness of current manual controls.

Finance Response:

As noted in the report, in May 2020, Finance implemented the attachment feature in the Oracle Accounts Payable module. With this implementation, the enterprise invoice cover sheet previously in use is no longer required. Rather, the departments approve the invoice for payment and document receiving on the invoice or within Oracle using the electronic workflow. The AP Policy is currently under review and will be updated to include this change in process. Further, the policy and processes will be reevaluated and updated to more clearly address how approvers are to document their approval and what they are approving (purpose of approval - invoice payment, receiving, etc.).

Recommendation 1.2

Finance should provide departments with a communication, reinforcing documentation requirements to evidence receiving and invoicing. Finance should consider updating their policies to provide:

1. Enhanced details for different commodity types: such as goods vs. services.
2. Additional guidance for recording the receipt for exempt transactions. Since certain exempt transactions are not received in Oracle and therefore will not have a three-way match, supporting documentation should clearly note the manual signature that is acknowledging receipt and the manual signature that is approving the invoice to ensure segregation of duties is maintained.
3. Guidance for appropriate documentation if the vendor does not provide adequate receipt or invoice support, such as when to contact Finance and/or how to acknowledge missing details in the invoice packet.

Additionally, Finance should work with the Office of Procurement to ensure Contract Administration training includes any updated guidance as a result of these recommendations.

Finance Response:

Finance concurs with this recommendation. The AP Policy is currently under review and will be updated to include clarifying guidance for the areas noted. Further, the policy will address how approvers are to document their approval and what they are approving (purpose of approval - invoice payment, receiving, etc.). Any updates to the policy, not already in practice and incorporated to existing training, will be coordinated with Procurement, the Office of Human Resources, and the Office of the County Attorney as appropriate and evaluated as to whether they warrant additional changes to the training programs. Also, on a quarterly basis, an AP Forum is held reminding users of the importance of receiving, attaching appropriate documentation and the requirements for processing invoices. The notes to these meetings are published on the AP Intranet site for all users to review. Finally, an AP Oracle Refresher Training is held semi-annually, and attendees are reminded of these requirements.

Recommendation 1.3

Finance should evaluate opportunities for departments to be able to scan receiving documentation into the Receiving function of the Procurement module. This could provide a more efficient method for employees in different locations to:

1. Store receiving documentation timely, consistently, and centrally within Oracle.
2. Access, review, and attach receiving support during the invoice approval process.

Finance Response:

Finance will review the cost/benefit of implementing required attachment capabilities for the receiving function in the Oracle Procurement Module. Once the cost/benefit has been determined, and requirements have been documented, Finance will work with ERP to determine the priority and timeframe for implementation.

Recommendation 2.1

Finance should consider evaluating departmental segregation of duties requirements and procedures to strengthen the County's control environment surrounding vendor payments.

Finance Response:

Finance will work with the ERP Office to evaluate Oracle roles and responsibilities, and available tools and methods, to maximize our use of automation in ensuring proper segregation of duties. As previously noted, as part of our process of updating the AP Policy, Finance will also address how approvers are to document their approval and what they are approving (purpose of approval - invoice payment, receiving, etc.).