

MEMORANDUM

June 12, 2023

TO: Audit Committee

FROM: Blaise DeFazio, Senior Legislative Analyst ^{BD}
 Office of Legislative Oversight

SUBJECT: **Briefing:** Office of the Inspector General Overview
Discussion: Office of Inspector General Report 23-06, *Abuse of Purchase Cards by Montgomery County Public Schools Department of Transportation Employees*
Briefing: Office of Internal Audit Overview
Discussion: Office of Internal Audit Report 22-5, *Internal Control Review: Procure-to-Pay – Vendor Administration*
Discussion: Office of Internal Audit FY24 Work Plan

On June 15th, instead of solely focusing on Office of Inspector General (OIG) and Office of Internal Audit (OIA) updates as in prior spring/fall Audit Committee meetings, the Audit Committee will receive overview presentations from the OIA and OIG, along with a discussion of one report from each office. In addition, the OIA will present its FY24 Work Plan. The participants expected to attend the worksession and the location of the supporting materials for each item are listed below.

Item #	Topic/Representatives	Materials
1 & 2	OIG Overview & Report 23-06 Discussion Megan Davey Limarzi, Inspector General Brian Hull, Chief Operating Officer, MCPS Dana Edwards, Chief of District Operations, MCPS Robert Reilly, Finance Assoc. Superintendent, MCPS Mary Bergstresser, Internal Audit Unit, MCPS	Pages 4-17
3-5	OIA Overview, Report 22-5 Discussion, & FY24 Work Plan Discussion William Broglie, Manager, Office of Internal Audit Karen Hawkins, Chief Operating Officer, Finance Adaora Azubike, Controller, Finance Karen Smith, Accounts Payable Manager, Finance Melissa Garner, Operations Chief, Procurement	Pages 18-38

1. Office of the Inspector General Overview

Inspector General Megan Davey Limarzi will brief the Committee on how the OIG provides oversight to promote the effectiveness and efficiency of programs and operations of County government and independent County agencies. Ms. Limarzi provided a presentation on pages 4-7 that summarizes how the OIG operates. Completed FY23 reports and the status of current reports are on pages 8-10. The OIG's Work Plan and published reports are found on the OIG's website, at <http://www.montgomerycountymd.gov/OIG/igproduct.html>.

2. Discussion on Office of Inspector General Report 23-06, Abuse of Purchase Cards by Montgomery County Public Schools Department of Transportation Employees

Inspector General Limarzi will also present [report 23-06](#), *Abuse of Purchase Cards by Montgomery County Public Schools Department of Transportation Employees* (executive summary on page 11), with an opportunity for the Committee to ask questions or make comments afterwards. The presentation starts on page 12.

Report Summary

The OIG initiated this investigation “after consulting with the Montgomery County Police detective investigating alleged misconduct by the former Montgomery County Public Schools (MCPS) Department of Transportation (DOT) Director and former MCPS DOT Assistant Director.” The goals of the investigation were to determine whether evidence existed that MCPS DOT employees misused purchase cards to procure items for personal use and to evaluate MCPS DOT employee compliance with purchase card policies and procedures.

The results of the investigation found that:

- 1) Purchase cards issued to the former MCPS DOT Assistant Director were used to make approximately \$133,000 worth of purchases that were prohibited by policy. Approximately \$1,600 of the purchases were deemed by the OIG as possibly for personal, not MCPS-related, use.
- 2) The former MCPS DOT Director, former Assistant Director, and some staff regularly violated purchase card policies.
- 3) Although MCPS has taken steps to mitigate identified vulnerabilities, additional oversight of the purchase card is needed.

OIG made the following recommendations for MCPS:

- 1) Continue to cooperate with law enforcement to support efforts to recoup stolen funds and equipment and prosecute violations of law.
- 2) Reconcile purchase transactions made with purchase cards issued to the former MCPS DOT Assistant Director to ensure appropriate items have been captured in inventory.
- 3) Implement the use of compliance monitoring features in the JP Morgan system to alert purchase card administrators of potential violations of policy.
- 4) Ensure desk reviews of all schools and central office departments are conducted with the prescribed frequency.

OIG also recommended that the Board of Education develop and implement written policies requiring rotational audits of purchase cards for central office departments and functions.

The MCPS corrective plan for the report is on pages 15-17.

3. Office of Internal Audit Overview

Office of Internal Audit Manager William Broglie will brief the Committee on how the OIA provides independent strategic risk-based auditing services. Mr. Broglie provided a handout on pages 18-20 that summarizes how the OIA operates. Completed FY23 reports and the status of current reports are on page 21. Published reports for the Office of Internal Audit can be found at https://www.montgomerycountymd.gov/exec/internal_audit.html.

4. Discussion on Office of Internal Audit Report 22-5, Internal Control Review: Procure-to-Pay – Vendor Administration

The Internal Audit Manager will also present [report 22-5](#), *Internal Control Review: Procure-to-Pay – Vendor Administration* (summary on pages 22-28) with an opportunity for the Committee to ask questions or make comments afterwards.

Report Summary

The OIA conducted targeted test/evaluation procedures based on the results of the procure-to-pay fraud risk assessment from December 2019. The goal of the review was to test the effectiveness of internal controls identified during the risk assessment.

The OIA’s accounting firm SC&H Group, Inc. found while the County’s vendor administration process “appears to incorporate controls to mitigate risks given the challenge of limited resources,” there are five areas of improvement to strengthen controls and mitigate risks:

- 1) Increasing segregation of duties related to access rights and reviews.
- 2) Enhancing system functionality within Oracle and the Central Vendor Registration System.
- 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.

The Department of Finance’s, the Office of Procurement’s, and the Office County Attorney’s responses to the report are on pages 29-34.

5. Discussion of the Office of Internal Audit FY24 Work Plan

As required by Section 2-25A(b) of the County Code, the Chief Administrative Officer must submit the annual Office of Internal Audit workplan to the Council for review and comments on or before each June (the FY24 Work Plan was submitted on May 23, 2023).

Office of Internal Audit Manager Bill Broglie will present OIA’s FY24 Work Plan (pages 34-38), with an opportunity for the Committee to ask questions or make comments afterwards. The FY24 Work Plan will focus on three areas:

- 1) Current-State Assessment of the County’s Enterprise Resource Planning System
- 2) Information Technology Department-level Audits
- 3) Audits of Non-IT Enterprise-wide Operations and Programs (includes Purchase Card Administration – Targeted Department-level Audits and Information Solicitations/Procurements)



AUDIT COMMITTEE MEETING June 15, 2023

Megan Davey Limarzi, Esq., Inspector General

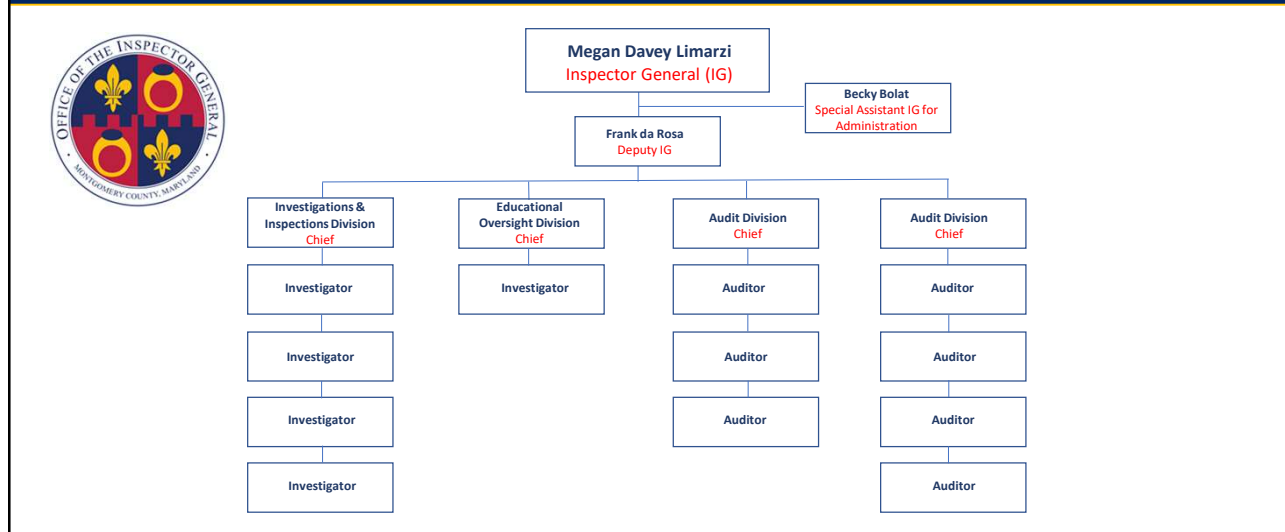
1

Statute and Authority

- ❖ In 1997, Bill 38-96 established the OIG as an independent office in the Legislative Branch
 - Tasked with **promoting efficiency and effectiveness** of county programs and operations;
 - detecting **waste, fraud, and abuse**; and
 - making **recommendations to promote accountability** (including providing investigative assistance to the Ethics Commission as resources allow).
- ❖ In 2020, Bill 11-19 expanded the duties of the Inspector General
- ❖ OIG oversight authority includes **MCPS**, Board of Education, Montgomery College, the Housing Opportunities Commission and “any other governmental agency (except a municipal government or a state-created special taxing district) for which the County Council appropriates or approves funding, sets tax rates, makes levies, or approves programs or budgets.” (ex. **MCEDC**)

2

OIG Staff



3

OIG Values and Strategic Goals

- ❖ **Values:** Relevance, Independence, Integrity, Collaboration, Excellence
- ❖ **Goals:** The OIG's **overarching goal is to add value** through the **work** that we do; through our **responsiveness** to residents, employees, and stakeholders who contact us; and through our **support and investment** in our staff and community.
 - **Promote the efficiency and effectiveness** of county funded programs and operations by providing timely and relevant oversight and analysis.
 - **Deter and detect fraud, waste, and abuse** in county government and county-funded agencies.
 - Engage in work that provides **opportunities to enhance racial equity and social justice** in the county.
 - **Support and cultivate** a diverse, inclusive, and informed **staff that are experts in their field.**

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OIG Work

❖ The work of the OIG is primarily driven by our **4-year Workplan** and complaints received through our **hotline**:

- Announced engagements
 - ✓ Audits
 - ✓ Inspections
 - ✓ Reviews
 - ✓ Evaluations
- Investigations
 - ✓ Conflict of interest
 - ✓ Employee misconduct
 - ✓ Misappropriation of funds
 - ✓ Gross mismanagement

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Professional Standards

- ❖ All OIG engagements **incorporate diversity, equity, inclusion, and accessibility** considerations.
- ❖ **Audits** are conducted in accordance with **generally accepted government auditing standards (GAGAS)** to ensure high-quality audits that reflect competence, integrity, objectivity, and independence.
- ❖ **Investigations and program reviews** are conducted in accordance with the *Association of Inspectors General Principles and Standards for Offices of Inspectors General* which provides the principles and quality standards to assure that all work is of the highest quality.

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Communication

❖ Ways we share the results of our work

- News releases
- Management Alerts
- Presentations
- Exit briefings with auditees and county leadership
- Formal reports
- Lessons Learned Bulletins
- Outreach
- OIG website
- LinkedIn



OFFICE OF THE INSPECTOR GENERAL

Megan Davey Limarzi, Esq.
Inspector General

June 6, 2023

Audit Committee
Montgomery County Council
100 Maryland Avenue
Rockville, Maryland 20850

Dear Committee members:

The following is a summary of engagements conducted to date in fiscal year 2023 by the Office of the Inspector General:

On-Going (Open) Engagements:

- Review of Carryout Bag Tax
Status: Awaiting response from the administration
- Review of the Department of Permitting Services' (DPS) efforts to procure and implement an enterprise software system to manage permits, licensing, inspections, and code enforcement activities.
Status: Conducting field work
- Performance audit of the Department of Police (MCPD) to assess controls over their internal accounting and contracting processes.
Status: Conducting field work

Completed Engagements:

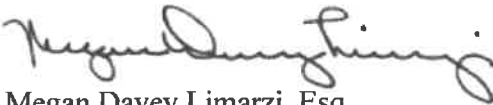
- April 26, 2023 – MCPS Payment of Traffic Citations, OIG Publication #23-012.
- April 12, 2023 – Performance Audit of Purchasing Card usage & Related Travel Expenses, OIG Publication #23-011.
- February 13, 2023 – Performance Audit of Solid Waste Activities, OIG Publication #23-010.
- January 31, 2023 – Food Security and Emergency Procurements, OIG Publication #23-009.
- December 15, 2022 – Abuse of Purchase Cards by Montgomery County Public Schools Department of Transportation Employees, OIG Publication #23-006.

- October 20, 2022 – Inventory Internal Controls Follow Up Review of ABS, OIG Publication #23-005.
- October 7, 2022 – Performance Audit of Purchasing Card Usage at OMB, OIG Publication #23-004.
- September 1, 2022 – Annual Report, OIG Publication #23-003
- August 29, 2022 – Disposal of Surplus Property Utilizing GovDeals.com, OIG Publication #23-002.
- August 9, 2022 – Cross Cutting Trends from FY21 and FY22 OIG Engagements, OIG Publication #21-001.

The table on the attached document displays the status of FY22 and FY23 planned engagements as listed in the current work plan, OIG Work Plan FY 22-25. We added an audit of the Office of Intergovernmental Relations, which we completed earlier in the year, to continue to pursue our mandate of auditing all principal offices in county government. Additionally, my office continues to receive and process complaints from residents and employees of Montgomery County. The information contained in this update does not include open investigations that we have undertaken as a result of those complaints.

Please contact me with any questions.

Sincerely,



Megan Davey Limarzi, Esq.

cc: Blaise DeFazio, Legislative Analyst

STATUS OF OIG WORK PLAN ITEMS FY 2022 & FY 2023

STRATEGIC AREA	COMPLETED	ON-GOING	ANTICIPATED
Oversight	<ul style="list-style-type: none"> • Montgomery County Public Libraries (Audit) • Department of General Services, Division of Fleet Management Services (Inspection) • Office of Consumer Protection (Review) • Compliance review of Department of Recreation seasonal employee background check process • Audit of the Office of Management and Budget • Audit of the Department of Environmental Protection • Audit of the Office of Intergovernmental Relations – Added since publication 	<ul style="list-style-type: none"> • Department of Police 	N/A
Promoting Fiscal Accountability	<ul style="list-style-type: none"> • Emergency procurement practices • Accountability at Montgomery County Public Schools 	<ul style="list-style-type: none"> • Department of Permitting Services – Added since publication 	N/A
Effectuating Positive Change	Follow-up review on implementation of corrective actions by the Department of Alcohol Beverage Services	<ul style="list-style-type: none"> • Review of the Carryout Bag Tax – Added since publication 	N/A
Fighting Fraud, Waste, and Abuse	<ul style="list-style-type: none"> • Timely response to hotline complaints and allegations • Serve as a resource to residents • Provide investigatory assistance to the Ethics Commission • Engage in trainings and outreach opportunities 		

The Montgomery County Office of the Inspector General (OIG) initiated this investigation in May of 2022, after consulting with the Montgomery County Police detective investigating alleged misconduct by the former Montgomery County Public Schools (MCPS) Department of Transportation (DOT) Director and former MCPS DOT Assistant Director. Our investigation sought to (1) determine whether evidence existed that MCPS DOT employees misused MCPS purchase cards (P-Cards) to procure items for personal use; and (2) evaluate MCPS DOT employee compliance with P-Card policies and procedures related to purchases, approvals, reviews, and reconciliations in order to test whether sufficient controls existed to mitigate vulnerabilities.

In conducting our investigation, we identified purchases that were prohibited by policy, purchases of items that are highly desirable and easily stolen, and purchases of items that could be converted for personal use. We analyzed line-item descriptions and the limited receipts available for each transaction looking for indicators of fraud, such as even-valued purchases, purchases made on weekends, and purchases that were sent to non-MCPS affiliated addresses.

SCOPE

We analyzed P-Card transaction data for all 12 MCPS DOT employees assigned cards from July 10, 2020 to June 22, 2022. Some MCPS DOT employees were issued two P-Cards.

Approximately \$570,000 was spent through MCPS issued P-Cards during the scope of our investigation.

DURATION & STANDARDS

Our investigation was conducted between May and November 2022, in accordance with the Association of Inspectors General Principles and Quality Standards for Investigations by Offices of Inspector General (May 2014).

RESULTS

- P-Cards issued to the former MCPS DOT Assistant Director were used to make approximately \$133,000 worth of purchases that were prohibited by policy. Approximately \$1,600 of the purchases were deemed by the OIG as possibly for personal, not MCPS related, use.
- The former MCPS DOT Director, former Assistant Director, and some staff regularly violated P-Card policies.
- Although MCPS has taken steps to mitigate identified vulnerabilities, additional oversight of the P-Card program is needed.

RECOMMENDATIONS

- Continue to cooperate with law enforcement to support efforts to recoup stolen funds and equipment and prosecute violations of law.
- Reconcile purchase transactions made with P-Cards issued to former MCPS DOT Assistant Director to ensure appropriate items have been captured in inventory.
- Implement the use of compliance monitoring features in the JP Morgan system to alert P-Card administrators of potential violations of policy.
- Ensure desk reviews of all schools and central office departments are conducted within the prescribed frequency.
- Develop and implement written policies requiring rotational audits of P-Cards for central office departments and functions.

Abuse of Purchase Cards by Montgomery County Public Schools Department of Transportation Employees

OIG Publication #23-006

December 8, 2022



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OBJECTIVES/SCOPE

- ❖ **Determine** whether evidence existed that **MCPS DOT employees misused MCPS purchase cards (P-Cards) to procure items for personal use**
- ❖ **Evaluate** MCPS DOT employee **compliance with P-Card policies and procedures** related to purchases, approvals, reviews, and reconciliations in order to test whether sufficient controls existed to mitigate vulnerabilities.
- ❖ **Scope:** P-Card transaction data **for all 12 DOT employees assigned cards from July 10, 2020 to June 22, 2022.**

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FINDINGS

- ❖ MCPS employees used P-Cards in violation of policy.
- ❖ Deputy Assistant Director Ewald purchased items prohibited by policy for personal use.
- ❖ DOT employees shared their P-Card with unauthorized DOT staff.
- ❖ Internal controls were not followed.
- ❖ IAU does not audit central offices unless a complaint is received.
- ❖ Desk reviews of all schools and central office departments by Controller's office were not always conducted within the prescribed frequency.

10

RECOMMENDATIONS

- ❖ Continue to **cooperate with law enforcement** to support efforts to recoup stolen funds and equipment and prosecute violations of law.
- ❖ Conduct a **reconciliation of purchase transactions** made with P-Cards assigned to Ewald to ensure appropriate items have been **captured in inventory**.
- ❖ **Implement the use of compliance monitoring features** in the JP Morgan system to alert P-Card administrators of potential violations of policy.
- ❖ Ensure **desk reviews** of all schools and central office departments are **conducted within the prescribed frequency**.
- ❖ Develop and implement **written policies requiring rotational audits of P-Cards** for central office departments and functions.

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Questions?

Report fraud, waste, and abuse

www.montgomerycountymd.gov/oig



MCPS Corrective Plan – OIG Montgomery County MD’s Report of Investigation (OIG-23-006)

OIG Montgomery County MD’s Report of Investigation (OIG-23-006)—Abuse of
Purchase Cards by MCPS Department of Transportation Employees

June 15, 2023

1

Recommendation 1—Continue to cooperate with law enforcement to support efforts to recoup stolen funds and equipment and prosecute violations of law.

•**Ongoing.** We have been working with law enforcement to continue to support efforts to recoup stolen funds and equipment and prosecute violations of law.

2

Recommendation 2—Reconcile purchase transactions made with P-Cards issued to former MCPS DOT Assistant Director to ensure appropriate items have been captured in inventory

- **Completed February 2023.** MCPS worked to ensure all necessary furniture and equipment purchased with the Purchasing Card (P-Card) issued to the former MCPS DOT Assistant Director have been captured in inventory records.

3

Recommendation 3—Implement the use of compliance monitoring features in the JP Morgan system to alert P-Card administrators of potential violations of policy.

- **Completed February/March 2023.** The MCPS controller worked with JP Morgan to configure JP Morgan compliance monitoring features. Training and documents were developed in February/March 2023. The logged transactions will be reviewed by IAU/Controller/Procurement offices quarterly.
 - Flag transactions over a specified dollar amount
 - Split transactions
 - Questionable merchant category codes
 - Questionable merchants
- Quarterly review of all transactions pending for approval. All schools and offices with transactions over 90 days will be notified of potential violations and possible cancellation of P-Card.

4

Recommendation 4—Ensure that desk reviews of all schools and central office departments are conducted within the prescribed frequency.

- **Completed.** MCPS has performed the desk review monthly, including the central offices and schools. Increasing the data sample selection and frequency of office reviews.
- P-Card suspension following a warning if transactions are not reviewed and approved by supervisors in a timely manner. A quarterly review will be conducted and top 25%-50% of outstanding transactions pending review and approval will receive the pending/suspension notifications.
- Based on the current staff allocation, the following frequencies will be conducted for the desk reviews:
 1. Temporary request deviations from limits will be examined and documented—6 months;
 2. Level III sample data review—6 months;
 3. Increase frequency of desk review process for offices as best we can based on the current staff allocation. Specifically, all offices with exception limits will be reviewed at least once a year;
 4. Create a communication plan to review the results of desk review and if needed add research Quarterly; and
 5. Refresh Training required for the P-Card holders and approvers in the annual certification process

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Recommendation 5—Develop and implement written policies requiring rotational audits of P-Cards for central office departments and functions.

- **Completed.** During FY 2023, Internal Audit Unit (IAU) plans on conducting audit reviews of the JP Morgan credit card activity at central office locations and other departments. The primary purpose of these audits is to ensure that the Purchasing Card Program procedures are being followed and that purchase volume is reasonable, transactions and purchases are appropriate, purchases are properly authorized, split purchases are not being made to circumvent card limits, and documentation is complete.
- In the IAU work plan for FY 2023, it was determined that there would be between 2–4 JP Morgan credit card audits conducted for central offices. An audit of the Division of Maintenance and Operations has already been completed (December 2022).
- Requirements for reasonable rotational audits of P-Cards for central office departments have been incorporated into IAU's established audit schedule and will be included in the *MCPS Financial Manual* during summer 2023.

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Internal Audit Program in Montgomery County

LEGISLATIVE CONTEXT: COUNTY CHARTER AND CODE

Montgomery County established the Internal Audit program under the County Charter:

Sec. 218. Internal Audit. The County Executive shall cause internal audits of all departments, offices and agencies of the Executive Branch, and other internal audits as prescribed by law, to be performed. (Election of 11-8-88.)

The Internal Audit function is organizationally part of the Office of the County Executive in recognition of the financial management obligations that are an integral responsibility of County government; and in recognition of the central role the Internal Audit function performs, consistent with best practice recommendations advanced by the Government Finance Officers Association (GFOA)¹, in risk assessment, evaluation of internal controls and processes, and monitoring of corrective action plan implementation. The Internal Audit function is codified in Section 2-25A of the County Code²:

Sec. 2-25A. Office of Internal Audit — Functions.

The Office of Internal Audit is part of the Office of the County Executive. The Office of Internal Audit must conduct its work in accordance with professional standards relevant to internal audit.

(a) *Duties.* The Office must:

- (1) periodically conduct a risk analysis, to identify areas of risk in accountability systems;
- (2) based on the risk analysis, conduct fiscal, contract, compliance, internal control, performance, and information system audits, and attestation engagements;
- (3) undertake investigative audits and audits required by law;
- (4) provide advice to County departments and offices on internal control issues;
- (5) communicate actions necessary to enhance accountability; and
- (6) conduct other investigations and audits as directed by the Chief Administrative Officer.

¹GFOA's mission is to advance excellence in state and local government financial management. GFOA publishes Best Practices, which are applicable to all governments to identify specific policies and procedures that contribute to improved government management. GFOA has emphasized that these should be proactive steps that governments should take. In its 2015 *Internal Control Framework Best Practice*¹, GFOA recommended that state and local governments adopt the Committee of Sponsoring Organizations (COSO) *Internal Control – Recommended Framework* (2013) as the conceptual basis for designing, implementing, operating and evaluating internal controls..

² http://library.amlegal.com/nxt/gateway.dll?f=templates&fn=default.htm&vid=amlegal:montgomeryco_md_mc

PROGRAM ADMINISTRATION AND SCOPE

The Office of Internal Audit utilizes the services of independent accounting firms experienced in providing a range of internal audit services to state and local governments, including services requiring significant technology-based and data analytics expertise.

The Internal Audit program supports the executive branch's inherent management to ensure the following:

- Appropriate standards (codes of conduct and ethics), structures, policies and procedures are in place to protect funds and mitigate risks across the County government;
- Ongoing evaluations are conducted to assess the effectiveness of procedures and internal controls: to ensure that appropriate controls have been designed and implemented, and continue to function as designed;
- Where weaknesses in internal controls exist, document the corrective actions necessary to remedy the root cause of any weaknesses, and monitor implementation of the corrective actions to ensure they are fully implemented on a timely basis.

Internal audits are funded through appropriated funds: primarily a direct appropriation for the Office of Internal Audit, but sometimes through funding provided by other County departments as warranted on a case-by-case basis.

In support of the functions delineated under Sec. 2-25A, the Office conducts both risk assessments (either County-wide or enterprise operation focused) and targeted audits focused on specific programs or operations. The results of these reviews are published on the County Executive's website:

https://www.montgomerycountymd.gov/exec/internal_audit.html.

The Office conducts an ongoing monitoring program to ensure the full and timely implementation of corrective actions required to address findings and recommendations contained in Internal Audit reports, as well as in reports prepared by the County Council's Office of the Inspector General and the Office of Legislative Oversight. Part of this monitoring program also involves selected follow-up audits of previously reviewed programs to ensure identified risks have been addressed through strengthening or implementation of enhanced internal controls and/or process improvements. The Internal Audit Manager also provides advice (consistent with Sec. 2-25A) to County departments, offices, and management officials on internal control issues.

ANNUAL INTERNAL AUDIT PLAN

Bill 11-19 requires the County to submit to the Council by June 1 of each year an "annual workplan" for the upcoming fiscal year for Council review and comment.

The Audit Plan is the result of our overall risk assessment and internal audit targeted planning approach:

- **Risk Assessment** – In developing the Audit Plan, an initial risk assessment is conducted to identify potential areas for review. This assessment takes into consideration input from the Office of the Inspector General (OIG), the members of the County’s Risk Governance Committee (who bring their expertise and leadership perspective across the County enterprise), the County’s internal audit services contractor (who bring their expertise and knowledge of trends and issues in the broader internal audit community), and prior audits and reviews conducted by the OIG and Internal Audit.
- **Targeted Planning Approach** – Our multi-year internal audit planning approach has generally followed a two-step approach (initially discussed in the FY 2021 Internal Audit Plan):
 - Assessment of enterprise-wide operations (e.g., procure-to-pay, purchasing card, cash management, information technology processes). These enterprise-wide operations and functions are managed by core business groups (including the Department of Finance, Office of Procurement, Office of the County Attorney, and Department of Technology and Enterprise Business Solutions): establishing and promulgating policies; designing appropriate internal controls and processes to ensure a sound control environment and effective operations within the context of the County’s de-centralized operational environment; and, in some cases, responsibilities for transaction processing. Our initial focus for the internal audits is, therefore, an assessment of the enterprise-level control environment.
 - Targeted audits of department-level administration. Because of the de-centralized operational environment within the County, individual County departments and offices exercise certain responsibilities for administration of these enterprise-wide operations and functions. Therefore, any assessment of the existing control environment and associated risks for an enterprise-wide 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. Therefore, we conducted targeted audits of department-level administration of enterprise-wide operations.

FY 2024 Internal Audit Plan. The FY 2024 Audit Plan has three areas of focus:

- Current-State Assessment of County’s Enterprise Resource Planning (ERP) System
- Information Technology (IT) Department-level Audits, focused on IT and data security
- Audits of Non-IT Enterprise-wide Operations and Programs, focused on the following:
 - Department-level administration of the purchasing card program
 - Informal Solicitations/Procurements

**Office of the County Executive
Office of Internal Audit Status Report to the Audit Committee
June 15, 2023**

Audit Reports Issued (since last Audit Committee meeting):

No reports have been issued since the October 27, 2022, Audit Committee meeting.

All issued reports are at http://www.montgomerycountymd.gov/exec/internal_audit.html

Ongoing Reviews

- **Cash Management Internal Control Review – Alcohol Beverage Services (ABS)** – Internal control review of ABS cash management operations, focused on retail stores and warehouse. STATUS: *Analysis completed; report drafting underway.*
- **Cash Management Internal Control Review – Police Department** - Internal control review of cash management operations within Police Department’s towing operations. STATUS: *Analysis completed; report drafting underway.*
- **IT Governance Evaluation** – Evaluation of the implementation and effectiveness of the County’s IT governance processes, structures, policies, and procedures. STATUS: *Analysis completed; report drafting underway.*
- **Marriott Conference Center Management Agreement Cost and Revenue Sharing Audit** – In preparation for the County’s negotiations (starting October 2023) with Marriott concerning a new Management Agreement, this is an audit of the Cost and Revenue Sharing Agreement and related terms specified in Exhibit F of the Management Agreement (Agreement) between Montgomery County and Marriott Hotel Services, Inc., effective January 29, 2003, as amended. STATUS: *Analysis and report drafting underway.*

Progress on Implementing Recommendations

CUMULATIVE RECOMMENDATION TRACKING			
	Total Recommendations	Fully Implemented	Partially Implemented (In Progress)
MCIA Audits	558	505	53
Percent	61%	91%	9%
OIG Reports	291	266	25
Percent	32%	91%	9%
OLO Reports	70	48	22
Percent	8%	69%	31%
Total Recommendations	919	819	100
Percent	100%	89%	11%

Status as of April 2023.

Vendor Administration – Targeted Internal Control Review (MCIA-22-5; August 31, 2022)

SUMMARY: The County’s vendor administration process includes functions and internal controls, while operating with limited resources. However, the review identified several opportunities to improve control design and operational effectiveness. The opportunities can be addressed by enhancing or implementing additional steps within the vendor administration process and internal control environment.

BACKGROUND

The Office of Internal Audit conducted a fraud risk assessment of the County’s procure-to-pay (“P2P”) program in December 2019. The P2P program encompasses the lifecycle of operations associated with acquiring goods and services from external vendors. The program can be segmented into the following:

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

The results of the 2019 risk assessment showed that while the County has a complex P2P program, 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 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.

The 2019 risk assessment was used to develop a plan to execute detailed testing of internal controls and processes within each of the P2P operations. The targeted internal control reviews included reviewing and testing specific transactions 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.

Detailed testing was conducted in the three operations referenced above.

¹ 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

² 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 Process Review Background

This P2P Vendor Administration review (Internal Audit report #22-5; issued August 31, 2022) was conducted by SC&H Group, Inc. (SC&H), the County's internal audit services contractor, under the direction of the Office of Internal Audit.

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.

The review focused on the following three processes:

1. Vendor Setup: The process of creating new vendors within Oracle, specifically the Central Vendor Registration System (CVRS). [NOTE: As of December 2021, the County had 49,684 active 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.

The vendor administration process is owned and managed by the County's Accounts Payable (AP) Section within the Department of Finance (Finance).

Vendor Setup Overview

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.

The vendor setup process essentially follows the follow steps:

- Potential vendors must 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, the County's third-party registration system.
- The County then performs multiple activities to confirm the validity of the potential vendor and the completeness of information entered/uploaded by the vendor. The County also generates a Dun & Bradstreet (D&B) Supplier Risk Manager Report³, for those vendors in the D&B database.

Vendor Maintenance

Existing vendors can update their vendor information (e.g., a legal name change or address change) by accessing CVRS and updating the applicable information. The County has implemented controls and processes for making these changes.

³ 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.

In addition, the County performs regular checks of registered vendors to identify potential issues impacting a vendor's ability to conduct business with the County. The two most notable processes are:

- Accessing the Office of Foreign Assets Control's (OFAC) OFAC Sanctions List Search⁴ and performs a check to ensure no existing vendors have been sanctioned from conducting business in the United States. Vendors who appear on the sanctions list are immediately inactivated.
- Performing a monthly audit comparing the addresses and banking information of registered vendors to the County's active employee listing to ensure County employees are not registered as vendors. Individuals identified as being a County employee and having an active vendor record are placed on an "ethics hold" within Oracle and the individual is notified of the hold. Vendors on ethics hold cannot be paid by a Using Department.

Vendor Inactivation

When a vendor has had no activity (i.e., the vendor has no POs or DPOs or has not been paid) for three years, the County requests the vendor to update their information through CVRS and respond to the notice indicating if they would like to remain active. 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. 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. SC&H utilized both judgmental and random selection methods for sampling.

Findings and Recommendations

Overall: The vendor administration process appears to incorporate controls to mitigate risks even given the challenge of limited resources. The Department of Finance has made enhancement over the previous several years to improve its vendor administration operations, including implementation of the Experian Address Validation check and CVRS vendor ID checks.

⁴ The OFAC Sanctions List Search can be accessed at the following website: <https://sanctionssearch.ofac.treas.gov/>

The review yielded findings and opportunities for AP to further enhance 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.

There were seven (7) recommendations resulting from this review. Management responses were provided by the Department of Finance (Finance), and with respect to Recommendation 3.1, from the Office of Procurement and the Office of the County Attorney.

Finding 1: Segregation of Duties

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.⁵

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.

MANAGEMENT RESPONSE:

[Finance] 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.]

MANAGEMENT RESPONSE:

[Finance] 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.

⁵ <https://us.aicpa.org/interestareas/informationtechnology/resources/value-strategy-through-segregation-of-duties>

Finding 2: System Reporting Functionality

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.

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.

MANAGEMENT RESPONSE:

[Finance] 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.

Finding 3: Dun & Bradstreet Evaluations

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.

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).

MANAGEMENT RESPONSE:

[Finance] 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.

[Procurement] 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.

[Office of the County Attorney] 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.

Finding 4: Vendor Maintenance

Finding

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

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.

MANAGEMENT RESPONSE:

[Finance] 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.

MANAGEMENT RESPONSE:

[Finance] 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.

Finding 5: Ethics Review Procedures

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:

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. Finance should implement a process to regularly review the status of vendors placed on ethics hold, and actions subsequently taken.

MANAGEMENT RESPONSE:

[Finance] 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.

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

101 Monroe Street, 15th Floor · Rockville, Maryland 20850
www.montgomerycountymd.gov



**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.

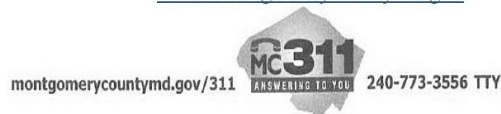
Implementation of new policies and procedures surrounding the use of D&B will be a significant effort, but our office is committed to working together with Finance and the Office of the County Attorney to move forward with discussions and opportunities on this matter.

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

7 Courthouse Square, Suite 330 • Rockville, Maryland 20850 • 240-777-9900 • 240-777-9956 TTY • 240-777-9952 FAX
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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.



OFFICE OF THE COUNTY EXECUTIVE


Marc Elrich
County Executive

Richard S. Madaleno
Chief Administrative Officer

MEMORANDUM

May 16, 2023

TO: Evan Glass, President
Montgomery County Council

FROM: Richard S. Madaleno, Chief Administrative Officer, 

SUBJECT: Fiscal Year 2024 (FY24) Office of Internal Audit Work Plan (“Audit Plan”)

As required by Section 2-25A(b) of Montgomery County Code, I am pleased to submit the attached Audit Plan for FY24 (July 1, 2023 – June 30, 2024). The Audit Plan reflects risk assessments and audits scheduled to be conducted during FY24, including audits initiated in FY23 and continuing into FY24. As we move forward in FY24, we may need to adjust the priorities reflected in the Audit Plan based on emerging issues.

The Audit Plan has been shared with the Office of the Inspector General to ensure effective coordination in audit planning.

Enclosure

cc: Kate Stewart, Chair, Audit Committee, Montgomery County Council
Megan Davey Limarzi, Inspector General, Office of the Inspector General
Fariba Kassiri, Deputy Chief Administrative Officer, Office of the County Executive
Bill Broglie, Internal Audit Manager, Office of the County Executive

Fiscal Year 2024 (FY24) Office of Internal Audit Work Plan (“Audit Plan”)

The FY24 Audit Plan builds on and expands the audit work conducted in previous years in assessing risks within several of the County’s enterprise operations. In addition, risk assessments and targeted audits focused on additional enterprise operations and programs will be conducted.

General Approach

The Audit Plan is the result of our overall risk assessment and internal audit targeted planning approach:

- **Risk Assessment** – In developing the Audit Plan, an initial risk assessment is conducted to identify potential areas for review. This assessment takes into consideration input from the Office of the Inspector General (OIG), the members of the County’s Risk Governance Committee (who bring their expertise and leadership perspective across the County enterprise), the County’s internal audit services contractor (who bring their expertise and knowledge of trends and issues in the broader internal audit community), and prior audits and reviews conducted by the OIG and Internal Audit.
- **Targeted Planning Approach** – Our multi-year internal audit planning approach has generally followed a two-step approach (initially discussed in the FY 2021 Internal Audit Plan).
 - Assessment of enterprise-wide operations (e.g., procure-to-pay, purchasing card, cash management, information technology processes). These enterprise-wide operations and functions are managed by core business groups (including the Department of Finance, Office of Procurement, Office of the County Attorney, and Department of Technology and Enterprise Business Solutions). The core business groups are responsible for establishing and promulgating policies; designing appropriate internal controls and processes to ensure a sound control environment and effective operations within the context of the County’s de-centralized operational environment; and, in some cases, responsibilities for transaction processing. Our initial focus for the internal audits is, therefore, an assessment of the enterprise-level control environment.
 - Targeted audits of department-level administration. Because of the de-centralized operational environment within the County, individual County departments and offices exercise certain responsibilities for administration of these enterprise-wide operations and functions. Therefore, any assessment of the existing control environment and associated risks for an enterprise-wide operation must acknowledge that the control environment does not end at the core business groups; it also extends out into the departments/offices that are executing the operation. In other words, the assessment must encompass the enterprise-wide control environment. Therefore, we conducted targeted audits of department-level administration of enterprise-wide operations.

Audit Focus #1: Current-State Assessment of County’s Enterprise Resource Planning (ERP) System

The County’s ERP system is a core enterprise-level system that supports central business functions (including financial management, human resources, procurement) and selected critical front-facing business enterprises (including Alcohol Beverage Services) that are administered both centrally and across each County department. ERP is comprised of both Oracle and Business Intelligence (BI). Oracle is a fully integrated, enterprise-wide software suite that the County uses to do everything from paying and managing our workforce and paying our retirees to billing and collecting monies owed the County to tracking inventory and assets to managing our finances. The current ERP system was implemented approximately 14 years ago and has undergone numerous enhancements and changes during that time period. Given the critical nature of the ERP system to ongoing County operations, conducting a current-state assessment of the ERP system and its associated supporting processes is an essential component of effectively identifying and managing any current or future risks that may exist.

Audit Focus #2: Information Technology (IT) Department-level Audits

Building on the enterprise-level IT risk assessments and audits conducted in FY 2020 – FY 2023, in FY24 we plan to undertake targeted department-level audits focused on IT and data security management. IT roles and responsibilities vary across departments. Certain departments fully manage all components of IT security (outside of the network), many rely on some level of support from TEBS, and others are fully reliant on TEBS for IT support. Many IT security policies and procedures are developed at the corporate level and disseminated to departments for enforcement. Recent IT internal audits have been primarily focused on corporate level development and communication of IT policies and procedures. By focusing on departmental IT and security management, we will gain assurance and comfort over the implementation and management of IT and data security controls focused on individual risks associated with the scope of services managed by a specific department’s IT function.

Audit Focus #3: Audits of Non-IT Enterprise-wide Operations and Programs

During FY24, we intend to conduct internal audits focused on the following enterprise-wide programs and operations:

- **Purchasing Card (PCard) Administration – Targeted Department-level Audits.** As a follow-up to the enterprise-level review conducting in 2020 of the County’s PCard program ([Purchasing Card Program Review - Internal Controls \(November 5, 2020; MCIA-21-1\)](#)), we will be conducting targeted audits of administration of the PCard program within specific departments. In FY 2022, County departments purchased goods and services totaling almost \$12 million using the PCard. The objectives of these audits will be to determine compliance with County PCard policies and requirements and

identify any situations where department-level internal controls and processes need to be strengthened. We anticipate that these reviews will continue beyond FY24. Specific departments will be selected for audit each fiscal year; and we will continue to work with the OIG to avoid duplication of effort.

- Informal Solicitations/Procurements. Informal solicitations/procurements are governed by Section 11B.00.01.04 (*Source Selection Methods and Contract Types*) of COMCOR. Specifically, Subsections 4.1.7 (*Informal Solicitation – Mini-Contract*) and 4.1.8 (*Informal Solicitation – Small Purchases*) define an informal solicitation/procurement, respectively, as “a contract for professional and, under special circumstances, non-professional services valued above \$10,000 and under \$100,000 which is the result of an informal solicitation process,” and “[a] small purchase is an informal solicitation for goods, construction or services valued above \$10,000 under \$100,000.” Departments exercise substantial responsibilities for the solicitation process leading to the Office of Procurement’s award of an informal procurement, including preparation and issuance of the informal solicitation, and drafting of the procurement contract to be sent to the Office of Procurement for execution. We will be conducting an audit of the Informal Procurement program to assess the adequacy of current internal controls and processes at the central business office level (i.e., Office of Procurement), and the administration of the program within specific departments.