



HARFORD COUNTY, MARYLAND

Office of the County Auditor

AUDIT OF ACCOUNTS PAYABLE CONTROLS

Report Highlights

Why We Did This Audit

This audit was conducted as part of the County Auditor's risk-based Annual Audit Plan approved by the County Council for FY2017.

What We Found

We noted that controls are adequate to ensure that payments are issued on time and correctly.

What We Recommend

We recommend management continue to pare down the vendor list prior to transitioning to a new accounting system.

Report Number: 2017-A-14

Date Issued: 07/18/2017

Council Members and County Executive Glassman:

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

The audit found payments were made for valid County expenses. Payments were made on time and only to valid vendors. Prior audit issues have largely been addressed; however, we noted that review of the vendor file has been ongoing and is not yet complete.

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

Sincerely,

Chrystal Brooks
County Auditor

cc: Mr. Robbie Sandlass, Treasurer



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REVIEW RESULTS

We have audited Accounts Payable Controls for the period of 1/1/2015 through 4/30/2017. Our opinion, based on the evidence obtained, is controls are adequate to ensure that payments issued by Harford County are made timely and correctly. The audit approach focused on testing the key controls that address management's objectives for the process. Conclusions drawn are below.

Risk	Expected Control	Conclusion
Payment amounts are incorrect	<ul style="list-style-type: none"> • Purchase orders are created and invoices are automatically agreed to the purchase order 	Satisfactory
	<ul style="list-style-type: none"> • Accounts Payable reviews invoices prior to processing payments to be paid 	Satisfactory
Payments are issued on invalid invoices	<ul style="list-style-type: none"> • Invoices are reviewed by departmental users for validity 	Satisfactory
	<ul style="list-style-type: none"> • Large purchases required supervisory and procurement approval 	Satisfactory
	<ul style="list-style-type: none"> • Duplicate invoice numbers are prevented from being paid by the system 	Satisfactory
Unauthorized payments are forwarded to the bank for processing	<ul style="list-style-type: none"> • Payment data uploaded to the bank agrees to the approved check register 	Satisfactory
	<ul style="list-style-type: none"> • Processed payments are reconciled to the check register 	Satisfactory
Fraudulent or unauthorized vendors are paid	<ul style="list-style-type: none"> • Vendors are approved before being added in the system 	Satisfactory
	<ul style="list-style-type: none"> • Vendors are not employees 	Satisfactory
	<ul style="list-style-type: none"> • Changes to vendor information are performed by authorized users and are reviewed independently 	Satisfactory
	<ul style="list-style-type: none"> • The vendor file allows only unique authorized vendors for payments 	Needs Improvement
Cash is not effectively utilized	<ul style="list-style-type: none"> • Payments are issued just prior to their due dates 	Satisfactory
	<ul style="list-style-type: none"> • Early payment discounts are taken 	Satisfactory
	<ul style="list-style-type: none"> • Charges are not incurred for late payments 	Satisfactory

There are no new issues to report as a result of this review. However, one prior audit finding remains open. The status of the prior audit issues are discussed below. Management has been provided an opportunity to respond to this report; the response provided follows the Status of Prior Audit Findings.

STATUS OF PRIOR AUDIT FINDINGS

We have reviewed the issues reported in a prior audit. Current conclusions for the findings included in Audit Report 2013-A-04 are noted below.

Previously we noted, “vendor lists were not periodically reviewed and purged to include only current vendors” and some vendors appeared in the vendor listing multiple times. Our current review of the vendor file noted that the number of active vendors has decreased. However, the number of vendors paid in the audit period has increased and among those vendors, 1,327 had duplicated addresses, 1,057 had duplicated names and 311 had duplicated Tax IDs. Among those, 280 shared the same name, address and taxID with another vendorID. We also noted, in the current audit, 6 separated employees whose vendor accounts remain active. We have been advised that Accounts Payable staff continues to review and deactivate unused vendor accounts. *This issue remains open.*

Previously, we noted “some documentation related to vendor changes was not available for review to ensure the change was proper.” In this audit, we tested a sample of vendor changes and noted that they were properly supported. *This issue has been addressed.*

Previously we noted, “Payments were issued using the wrong type of document in the Accounts Payable System”. Our current audit sample showed that the correct document types were used. *This issue has been addressed.*

Previously we noted, “Controls related to receiving orders may be circumvented”. Our current audit sample did not identify any transactions that required receivers. Our sample was a representative sample; it is likely that items that would require receivers are now usually purchased using purchase cards, so are not reflected in the Accounts Payable transaction population. This appears reasonable. *This issue has been addressed.*

MANAGEMENT RESPONSE

The Treasury and Procurement Departments continue to work on cleaning up our vendor files. To a large extent, fully addressing this issue is limited by our antiquated mainframe system. The County is currently in the process of selecting a new ERP system, which should greatly assist in maintaining current and unduplicated vendor lists.

BACKGROUND INFORMATION

PROGRAM DESCRIPTION AND KEY STATISTICS

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

During our 16-month review period, there were nearly 42,000 check or ACH payments issued by the Accounts Payable Department. Those payments totaled approximately \$1.14 billion.

REVIEW OBJECTIVE, SCOPE AND METHODOLOGY

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

The audit focused on activity during the period of 1/1/2015 through 4/30/2017. Our audit procedures included interviewing personnel, observation and testing. Specifically, we met with Accounts Payable staff to confirm our understanding of the payment process. We reviewed a representative sample of payments to confirm that they were supported by valid invoices, paid accurately and timely and were recorded in the proper accounts. Additionally, we reviewed the supporting documentation to confirm the completeness of data forwarded to the bank for payment. We performed data analysis to identify potentially duplicated payments and to confirm that payment dates appear reasonable. Finally, we reviewed the vendor file to determine potentially problematic or duplicate vendors; we searched for vendors with the same address as an employee and we confirmed that changes to vendor information were authorized and reviewed.

There was a previous audit of Account Payable Controls issued in 2014. Report 2013-A-04 indicated a few issues. The above procedures were designed to efficiently determine the status of the prior audit findings.

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

The audit was performed in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Team:

Chrystal Brooks

CPA, CIA, CGAP, CISA, CGFM, CRMA

County Auditor

Sarah Self

Staff Auditor