

MARYLAND-NATIONAL CAPITAL PARK & PLANNING COMMISSION

Field Purchase Orders

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I. EXECUTIVE SUMMARY

A. Background

The Department of Finance at the Maryland-National Capital Parks and Planning Commission (M-NCPPC) operates under the leadership of the Secretary - Treasurer. The department provides fiscal management and oversight of all Commission financial activities and is organized into four divisions:

- Administrative Services Division (Office of the Secretary – Treasurer)
- Accounting Division
- Information Technology Services Division
- Central Purchasing Division

The Central Purchasing Division is responsible for achieving maximum value from the expenditure of public funds. Procurement transactions are to be conducted in accordance with Commission practices, procedures and applicable state and federal laws, in a manner that encourages and maintains good community, vendor and departmental relations; ensures fair and equitable treatment of all persons who deal with the Commission in purchasing matters; promotes economy in Commission purchasing; ensures that the Commission is not an active or passive participant in discrimination against minority, women or disabled (MFD) owned businesses; and provides safeguards for the maintenance of a procurement system of quality and integrity.

The Central Purchasing Division team, under the leadership of the Purchasing Division Chief, includes four Principal Procurement Specialists, one Senior Procurement Specialist and an Administrative Specialist.

Based on most recent statistics, through the first quarter of fiscal year 2016, the Commission procured approximately \$23 million in goods, professional services, construction and miscellaneous services. Approximately 17.5% or \$4 million was spent with MFD owned businesses.

B. Scope, Objective, and Methodology of the Audit

Objective: The purpose of the audit was to review and evaluate of the system of internal controls for purchase orders. The audit scope was limited to field purchase orders, defined as purchase orders for goods and services in the amount of \$10,000 and below. In accordance with Commission policies, field purchase orders do not require documented vendor competition (i.e., bidding).

Scope: The scope of the audit included, but was not limited to, the following audit procedures:

- Reviewed applicable Commission practices and procedures;
- Interviewed Central Purchasing staff about the purchase order process;
- Interviewed a selection of facility field buyers;
- Observed Accounts Payable staff perform vendor invoice payment processing, and verified the process for matching key details between purchase orders and invoices prior to vendor invoice payment; and
- Tested a sample of field purchase orders and reviewed for appropriate authorization and approval (i.e., segregation of duties), as well as adherence to approved monetary limits. In addition, reviewed purchase orders for potential violations aimed at avoiding competitive bidding requirements.

The audit was conducted in accordance with the *U.S. Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide 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.

The audit covered the period from 07/01/15 through 12/31/15.

C. Major Audit Concerns

The results of our evaluation and testing procedures indicated no major audit concerns.

D. Overall Conclusions

The results of our evaluation and testing procedures indicate no major weaknesses in the design or operation of internal controls for field purchase orders. On an overall basis, we consider the controls to be satisfactory.

We believe all weaknesses identified and communicated are correctable and that management's responses to all recommendations satisfactorily address the concerns. It is the responsibility of management to weigh possible additional costs of implementing our recommendations in terms of benefits to be derived and the relative risks involved.

We wish to express our appreciation to the Department of Finance – Central Purchasing and Accounting Divisions' management and staff for their cooperation and courtesies extended during the course of our review.



Wanda King, MBA
Senior Auditor



Renee M. Kenney, CPA, CIA, CISA
Chief Internal Auditor

August 5, 2016

Conclusion Definitions

Satisfactory	No major weaknesses were identified in the design or operation of internal control procedures.
Deficiency	A deficiency in the design or operation of an internal control procedure(s) that could adversely affect an operating unit's ability to safeguard assets, comply with laws and regulations, and ensure transactions are properly executed and recorded on a timely basis.
Significant Deficiency	A deficiency in the design or operation of an internal control procedure(s) which adversely affects an operating unit's ability to safeguard assets, comply with laws and regulations, and ensure transactions are properly executed and reported. This deficiency is less severe than a material weakness, yet important enough to merit attention by management.
Material Weakness	A deficiency in the design or operation of an internal control procedure(s) which may result in a material misstatement of the Commission's financial statements or material impact to the Commission.

II. DETAILED COMMENTARY AND RECOMMENDATIONS

1. Develop and Implement Monitoring Procedures

Issue: The Office of Internal Audit's (OIA) review of field purchase orders resulted in the following:

- Central Purchasing does not have procedures for proactively monitoring multiple field purchase order transactions (i.e., splitting large purchase orders into smaller monetary increments). Multiple field purchase orders may be created to circumvent the Commission's competitive bidding requirement for purchases exceeding \$10,000.
- During transaction testing, OIA observed that one field purchase order appeared to have been created for the sole purpose of paying a vendor invoice. Available documentation supported that vendor services had already been provided to the facility, before the field purchase order's creation date in Lawson. The date of the invoice submitted to Accounts Payable preceded the field purchase order's date. Note that there does not appear to be a pervasive problem, as only one transaction resulted in an exception for this test attribute.

Criteria/Risk: Commission Practice 4-10, *Purchasing Policy, and the Purchasing Manual* provide guidance for procurement of goods and services on behalf of the Commission. The policy states that competitive bidding is required for purchases over \$10,000, and the manual further emphasizes that splitting purchases into multiple transactions to avoid the Commission's competition requirements is prohibited. Guidance is also provided for the method of payment to be used for goods and services provided by external vendors. Generally, purchase orders should not be created to pay vendor invoices for services previously rendered and for goods already received. Alternatively, a check request should be made, supported by documentation of the circumstances and department head approval. Failure to follow established Commission practices may result in hampering the Commission's overall objective of achieving maximum value from the expenditure of public funds.

Recommendation: The Office of Internal Audit recommends the following:

- Central Purchasing management should review field purchase orders monthly or quarterly, at minimum. Continuous monitoring of multiple field purchase orders, created by buyers for the same vendors, will assist management with evaluating and detecting potential violations of the competitive bidding requirement. Management can timely identify violations and implement corrective action.

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- Accounts Payable management should communicate with and remind staff about the current procedure of reviewing invoice and purchase order dates when processing vendor invoice payments. Continuous monitoring of the dates should help to timely identify buyers who create purchase orders in Lawson primarily for the purpose of paying invoices.

Risk: Medium

Management Response: The Accounting Division concurs with this recommendation and will remind staff to review invoice and purchase order dates when processing vendor invoice payments.

Central Purchasing has put procedures in place to review field purchase orders on a continuous, monthly basis.

Expected Completion Date: Completed

Follow up Date: September 2016