

INTERNAL AUDIT OFFICE
CHARLES COUNTY GOVERNMENT

AUDIT REPORT



Charles County Government • 200 Baltimore Street, La Plata, MD 20646
Auditor@CharlesCountyMD.gov • 301-645-0644
Maryland Relay: 7-1-1 (TDD: 1-800-735-2258) • www.CharlesCountyMD.gov

Purchasing Audit

DEPARTMENT/DIVISION:

Fiscal & Administrative Services,
Purchasing Division

REPORT NUMBER:

2024-FAS-001

REPORT DATE:

01/10/2025



Charles County Internal Audit Office

DEPARTMENT OF FISCAL AND ADMINISTRATIVE SERVICES – PURCHASING DIVISION: PURCHASING AUDIT

Report Number:

2024-FAS-001

Director of Department of Fiscal and Administrative Services, Chief of Purchasing, Internal Audit Oversight Committee, County Administrator, and Deputy County Administrator:

Report Date:

01/10/2025

In accordance with the Internal Audit Charter, SOP# CP.CAD.04.001, the Internal Audit Office (IAO) performed a Purchasing Audit. This audit was conducted as part of IAO's risk-based Annual Audit Plan approved by the Internal Audit Oversight Committee for FY25. Internal audits are designed to provide assurance, add value, and improve operations.

The Scope of this engagement encompassed purchasing transactions spanning 12 months (Oct 2023 – Sept 2024). The objectives of this audit were to: 1. Evaluate the effectiveness and adequacy of key processes and control functions in purchasing operations; 2. Validate the accuracy and completeness of purchase order development; 3. Evaluate the formal procurement process for compliance with procedures; 4. Assess purchasing/procurement software for workflows and user permissions; 5. Test for instances of purchasing/procurement fraud and evaluate fraud detection and prevention mechanisms; 6. Identify and assess vendor management protocols; 7. Evaluate compliance with the MWBE and SLBE programs; and 8. Evaluate adequacy of training programs for purchasing/procurement teams.

The results of the audit, including any findings and recommendations for improvement are detailed in this report. We would like to thank the members of the management for their commitment to teamwork and cooperation during the audit.

Sincerely, Johnnie Coleman, Senior Internal Auditor

CONCLUSIONS

The IAO's conclusion, based on the evidence obtained, is that the Purchasing functions reviewed are **effective**, with observations and recommendations. This assessment is based on the strengths and weaknesses of the entities' business operations as they relate to the audit objectives.

BACKGROUND & SCOPE

Background

Within the Department of Fiscal and Administrative Services (FAS), the Purchasing Division plays a vital role in acquiring supplies and services for the Charles County Government. The Purchasing Division is committed to providing high-quality service to internal/external customers and ensuring compliance with Chapter 203 of the County Code and the Purchasing Guidelines SOP CAP.FAS.05.002.

The Purchasing Division manages procurement processes for both informal and formal purchases. The division processes purchase orders to ensure that all acquisitions align with the county's operational needs and budgetary constraints. Additionally, it provides technical assistance and training to county employees, validates compliance with Minority Women-Owned Business Enterprise and Small Local Business Enterprise Programs, and assists in preparing contracts for departments with ongoing needs for various commodities and services. Furthermore, the division is responsible for maintaining positive vendor relations.

The Purchasing Division uses the Munis platform to facilitate purchase orders and contracts. Purchasing transitioned to the OpenGov platform to facilitate formal procurement solicitations.

Potential risks in purchasing include, but are not limited to, compliance risks (e.g., failing to adhere to County Code), documentation risks (e.g., incomplete or inaccurate records), fraud risks (e.g., kickbacks or false vendors), operational risks (e.g., ineffective processes), vendor management risks (e.g., inadequate oversight), and system control risks (e.g., insufficient workflow controls). These risks can collectively undermine purchasing integrity.

Based on the organization-wide risk assessment, the Internal Audit Oversight Committee agreed, as part of the FY 2025 Audit Plan, that it was prudent for the Internal Audit Office (IAO) to conduct an internal audit of the Purchasing Division.

Scope

The Scope of this engagement encompassed purchasing transactions spanning 12 months (Oct 2023 – Sept 2024). The objectives of this audit were to:

- Evaluate the effectiveness and adequacy of key processes and control functions in purchasing operations.
- Validate the accuracy and completeness of purchase order development.
- Evaluate the formal procurement process for compliance with procedures.
- Assess purchasing/procurement software for workflows and user permissions.

- Test for instances of purchasing/procurement fraud and evaluate fraud detection and prevention mechanisms.
- Identify and assess vendor management protocols.
- Evaluate compliance with the MWBE and SLBE programs.
- Evaluate the adequacy of training programs for purchasing/procurement teams.

The Internal Audit Office's approach involved testing audit objectives through evidence-analysis techniques, including reviewing department SOPs, interviewing personnel, analyzing samples of purchase orders and formal procurement, and reviewing documentation. Detailed audit methods and procedures can be found in the methodology section of this report.

DISCUSSION, OBSERVATIONS, FINDINGS & RECOMMENDATIONS

I. Purchasing Policy & Procedures

As part of the audit, the auditor reviewed the recently revised Purchase Guidelines SOP (CAP.FAS.05.002), Delegated Authorities SOP (CP.FAS.05.001), and Chapter 203 of the Charles County Code (purchasing section) to ensure compliance and consistency across documents.

Observation 1: During the review, the auditor noted several areas where the language in Chapter 203 of the Charles County Code, the Purchasing Guidelines SOP, and the Delegated Authorities SOP might potentially be better aligned, clarified, or made more detailed.

Recommendation: The auditor provided specific recommendations for consideration to the Chief of Purchasing. **Note:** The Chief of Purchasing has already reviewed potential recommendations, providing clarity to the auditor where needed and revising the language where it was determined to be important.

II. Requisition-to-Purchase Order Transactions

Purchasing reviews and approves requisitions initiated by departments. To validate the accuracy and completeness of requisition-to-purchase order (PO) transactions the audit reviewed informal purchases (\$2,500 – \$50,000) to ensure proper documentation and compliance with requirements noted in Purchasing Guidelines CAP.FAS.05.002. The audit reviewed a sample of requisitions/POs across various procurement types, including sole source, piggy-back, emergency, contract, etc. Audit procedures were to:

- Verify that Requisitions/POs submitted were properly authorized by departments via Munis workflow and/or paper form. **No exceptions noted.**
- Ensure that proper required documentation was uploaded to Munis for requisition approval. **No exceptions were noted** for the following documentation:
 - Sufficient number of Quotes
 - Capital Asset Forms (if applicable)
 - Sole Source Requisition Documentation (if applicable)
 - Such as departmental letter of justification.
 - Piggyback Requisition Documentation (if applicable)
 - Such as supporting valid external contract with evidence that vendor approved pricing for Charles County Government.
 - Emergency Requisition Documentation (if applicable)
 - Such as authorization and letter of justification
 - Requisitions based on contracts
 - Such as contract and price sheet were current
- Confirm that invoices were signed matching quotes and checks. **No exceptions noted.**

This part of the review included ensuring proper use of the Purchasing Division's "General Notes". General notes is a mechanism in Munis used by departments and Purchasing staff to describe characteristics of the requisition/PO such as procurement type (i.e., sole source, piggyback, contract, BPO, etc.) and departmental compliance with Minority Women-Owned Business Enterprise (MWBE) and Small Local business Enterprise (SLBE) requirements.

Observation 2: In a sample of 26 requisitions, the auditor found 7 inaccuracies with general notes. Inconsistent use of general notes may lead to inaccurate documentation, discrepancies, and hinder Purchasing in ensuring compliance with procurement guidelines such as MWBE/SLBE requirements. These inconsistencies involved the following issues:

- MWBE & SLBE General Note Issues: Three requisitions had unclear or improperly selected MWBE and SLBE notes. The pre-populated MWBE and SLBE notes were used inconsistently across these transactions.
- BPO General Note Issues: Two purchase orders with the general note "BPO" did not have the "receive by amount" option selected on the requisition form. Additionally, in one instance, "receive by amount" was selected on the requisition, but this was not reflected in the general notes as a BPO.
- Procurement Type General Note Issue: One purchase order utilizing the Piggyback procurement method did not include a general note specifying this method.

Recommendation: Purchasing should provide corrective guidance to financial staff when issues with general notes are identified. Addressing discrepancies as they occur will help prevent recurring problems and improve compliance. Consistent use of general notes is important to ensure accurate documentation, avoid discrepancies, and assist Purchasing in ensuring compliance with procurement guidelines (such as MWBE/SLBE requirements).

III. Formal Procurement Transactions

The Purchasing Division coordinates and documents the formal solicitation process, providing guidance to both internal departments and external stakeholders (i.e., bidders). To accomplish this, Purchasing created numerous guides and tools to assist with the solicitation process, such as checklists, templates, and forms designed to streamline and standardize various procurement steps, ensuring consistency and compliance throughout the process. Additionally, Purchasing is now using OpenGov to facilitate the solicitation process internally and externally.

The audit assessed the accuracy and completeness of formal procurement processes to ensure they meet established procedures in the Purchasing Guidelines CAP.FAS.05.002. Specifically, the audit reviewed seven formally solicited procurement contracts to verify:

- Inclusion of required language was in solicitation materials, such as Public Information Act notice, Prevailing Wage Act, Davis Bacon Wage, Right to Cancel, MWBE notices, non-collusion, protest language, etc. **No exceptions noted.**
- Documentation for solicitations was included and maintained in records (if applicable), including the following. **No exceptions noted.**
 - Notice to offers
 - Submissions
 - Evaluations/and Tabulations
 - Award Recommendations (from Department to Commissioner)
 - Notice of Award
 - Sorry Letters
- Contracts resulting from the solicitation included the following. **No exceptions noted.**
 - Up-to-date and signed contracts/modifications/renewals.
 - Requirement elements such as Anti-Bribery/Anti-collusion Affidavit, MWBE Certification, and MWBE subcontractor documentation
 - Review of vendors' Debarment and SDAT Status
 - Performance, Labor, or Material bonds were included (if applicable in contract)

This part of the review included ensuring vendor's Certificates of Insurance were up-to-date, if required in the vendors contract.

Observation 3: Certificates of Insurance (COIs) are generally reissued annually. Three of the seven formally solicited vendors reviewed did not have the most recent COI documents on file. The auditor requested and was provided with renewed COIs for the three vendors that were out of date. Policies were provided for all years to ensure no lapse in coverage had occurred. The Internal Audit Office was provided with the updated COIs by collaboration between the County's Risk Manager, Chief of Purchasing, and other departmental staff.

Note: The auditor inquired with the Purchasing Division noting that certificates are currently received through various methods: some by mail, some by email to different addresses (including emails no longer active), and may not be properly routed to the Purchasing division. The County may receive multiple COIs for the same vendor throughout the year for different reasons, leading to challenges in tracking and maintaining up-to-date records. This process is scheduled for review with the Risk Manager in January 2025, with a meeting planned to discuss more effective management strategies for COIs moving forward.

Recommendation: Continue team collaboration to ensure all COIs are current. Determine what systematic reminders are available in OpenGov to remind staff and vendors that updated COIs are due. Management has indicated they are already scheduled to coordinate with the Risk Manager to improve COI processes.

IV. Compliance with SDAT / Debarment Procedures

The audit evaluated vendors by assessing compliance with procedures related to debarment and SDAT verification, as noted in the Purchasing Guidelines SOP (revised September 2024). Purchasing reviews debarment and SDAT for vendors involved in formal procurement. During the review, the auditor cross-checked all vendors (formal & informal) with the federal debarment database, which identified one vendor as permanently debarred. This vendor was not part of formal procurement. Upon being notified of the issue, management promptly issued a directive to cease using the vendor and requested the Accounting Division to update Munis to reflect the vendor's federal debarment status. Additionally, Purchasing made revisions in the Purchasing Guidelines SOP to clarify Debarment/SDAT procedures (as part of Observation 1).

V. Training Materials

One request from the management of purchasing was to review training material provided to department procurement teams. Purchasing has created numerous guides and tools to assist

County employees navigate the purchasing and solicitation processes. As of October 2024, the Purchasing intranet page lists approximately 45 training materials and resources, including documents and PowerPoint presentations. Additionally, the Purchasing team has provided staff training sessions as necessary, such as those conducted during the launch of OpenGov.

Observation 4: The auditor reviewed existing training materials and identified some suggestions including eliminating material redundancies and enhancing clarity.

Recommendation: The auditor provided suggestions for consideration to the Chief of Purchasing, including specific suggestions for consolidation and edits to improve clarity in training materials.

A general training enhancement is to poll staff for topics of interest/need and provide periodic procurement training sessions with financial staff across departments. Topics might also be based on needs identified by procurement staff such as proper use of “general notes” (observation 2), procurement related fraud awareness and prevention, documenting approvals, required documentation for each procurement type, etc.

MANAGEMENT RESPONSE

Management is provided with the opportunity to respond to recommendations and their responses are summarized below. It is important to note that auditors don't implement recommendations as their role is investigative and advisory, lacking the managerial authority to enforce change. Management, on the other hand, holds the responsibility for implementation due to their authority over resources, decision-making, and strategic direction toward goals and objectives, making them accountable for addressing identified issues. As such, management may also have a valid rationale for existing processes or alternatives to audit recommendations.

As part of the typical audit process, management is provided with the opportunity to respond to recommendations. Management responses are below.

Observation 1 Response:

Purchasing is pursuing updates to the SOP to address audit observations.

Observation 2 Response:

Purchasing ensures that departments are notified when general notes lack required information. While standard notes are available in the financial system for convenience, departments are not required to use specific wording for note acceptance. As part of the requisition review process, Purchasing verifies that all required notes are properly included.

Observation 3 Response:

Purchasing and the Risk Manager have collaborated to enhance the COI collection processes. As part of the documented contract renewal procedures, Purchasing now ensures that COIs are obtained from vendors before approving contract renewals for option periods. To facilitate this, Purchasing provides the Department's contract contact with a COI Request Form, requesting the vendor to submit the COI. If a COI is not provided, the County cannot issue Purchase Orders against the contract, as the contract record is not updated in the financial system until all renewal requirements are fulfilled.

Observation 4 Response:

Purchasing has reviewed the suggestions provided and engaged with frequent department purchasing users to identify the most useful training and materials. Purchasing revised training materials based upon suggestions received and developed a department checklist to assist department users in reviewing requisitions. Additionally, redundant materials identified have been removed from the resource page. Purchasing will continue to develop and refine training and materials to ensure they remain relevant and effective for department users.

METHODOLOGY

The table below connects the auditing procedures used to evaluate the audit objectives.

Audit Objectives	Audit Procedure(s) / Testing
Evaluate the effectiveness and adequacy of key processes and control functions in purchasing operations.	<ul style="list-style-type: none"> • Reviewed policies and procedure documentation. • Conducted an analysis of structural controls within CCG's end-to-end process, covering requisition to payment and vendor selection to payment workflows. • Evaluated purchasing processes throughout the audit for inefficiencies and weak controls.
Validate the accuracy and completeness of purchase order development.	<ul style="list-style-type: none"> • Identified process and documentation requirements related to requisitions and purchase orders in the Purchasing Guidelines (SOP CAP.FAS.05.002). • Sampled informal non-competitive and informal competitive purchases, reviewing: requisition documentation and approvals, general note requirements (MWBE, SLBE, Procurement Type), and identification relevant required documentation (e.g., quotes, contract, Capital Asset Forms, and supporting evidence of sole source, piggyback, and emergency procurements.). Invoices were also reviewed for proper signatures and to ensure quote and check matched.
Evaluate the formal procurement process for compliance with procedures.	<ul style="list-style-type: none"> • Identified process and documentation requirements related to formal procurement in the Purchasing Guidelines (SOP CAP.FAS.05.002). • Sampled accuracy and completeness of requisitions and purchase orders made in connection with formal solicitations. • Tested formal contracts to ensure proper documentation (e.g., anti-bribery affidavit, MWBE certification, signed and up-to-date contracts/renewals/modifications, insurance certificates, & bonding). • Tested formal procurement solicitations for requirements, including: required language in solicitation, documentation of all submissions, evaluation/tabulations, review of SDAT and debarment status, award recommendations, notice of awards, and sorry letters.
Assess purchasing/procurement software for workflows and user permissions.	<ul style="list-style-type: none"> • Tested a sample of requisitions/purchase orders to verify accuracy and completeness of workflow approvals in Munis.

Evaluate fraud detection and prevention mechanisms.	<ul style="list-style-type: none"> Reviewed purchasing processes/procedures and interviewed staff to identify and assess fraud detection and prevention mechanisms in place.
Identify and assess vendor management protocols.	<ul style="list-style-type: none"> Tested verification and compliance with established policies related to vendor status with SDAT and debarment. A sample of vendors was selected to verify vendor SDAT status. All vendors were verified against the federal debarment list on SAM.gov.
Evaluate compliance with the MWBE and SLBE programs.	<ul style="list-style-type: none"> Verified compliance with MWBE formal procurement requirements by ensuring solicitation and contracts documents included MWBE certification materials. Reviewed “general note” documentation of requisitions to verify compliance with MWBE informal procurement requirements.
Evaluate the adequacy of training programs for purchasing/procurement teams.	<ul style="list-style-type: none"> Identified, reviewed and assessed existing training materials.

Internal Controls

Internal controls can be defined as any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Implementation of recommendations noted in this report will strengthen controls. In all elements of the audit procedures, the auditor evaluates the design and effectiveness of controls. If deficiencies in design or effectiveness are noted, it is reported as a finding in this report.

Conformance

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained does provide a reasonable basis for our findings and conclusions. Internal audits are designed to provide assurance, add value and improve operations.

Report Distribution:**Audit Team:**

Jacob Dyer, Acting Director, Dept. Fiscal & Administrative Services
Shanna Reese, Chief, Purchasing Division

Johnnie Coleman, CIA
Senior Internal Auditor

Michael Pheulpin, M.S.
Junior Internal Auditor

ⁱ Definitions:

Effective: The design and effectiveness of the internal control environment address key risks. The business unit complies with external laws and regulations, and internal policies, procedures, and guidelines. Business processes are managed effectively resulting in reliable achievement of expected outcomes.

Generally Effective: The design and effectiveness of the internal control environment generally address key risks; however, findings indicate that some minor areas of weakness in the control environment need to be addressed. Isolated instances of non-compliance with external laws and regulations, and internal policies, procedures and guidelines may exist. Business processes may lack effectiveness or not be managed effectively in all areas resulting in reduced achievement of expected outcomes.

Ineffective: The design and effectiveness of the internal control environment does not address key risks or does not exist. Non-compliance or historical patterns of non-compliance with key regulatory requirements and internal policies, procedures and guidelines exist which expose the audited entity to financial, reputational, and operational risks. Business processes are not managed effectively and expected outcomes are not achieved.