



Charles County, Maryland

Internal Audit Office

AUDIT OF CHARLES COUNTY COMMISSIONERS: BUSINESS EXPENSES

Report Number:
2023-BOC-003

Report Date:
08/15/2023

Commissioner Office Chief of Staff, Internal Audit Oversight Committee, County Administrator & Deputy County Administrator:

County Commissioner Expense Policy (SOP #: CP.CC.01.002) requires that an internal audit be conducted at the end of each fiscal year on Commissioner Expenses. Internal Audits are designed to add value and improve operations.

The audit's objectives were to: **1.** Determine that processes and procedures are in place to ensure proper utilization of funds allocated annually for Individual Commissioner Accounts. Determine that County Commissioner Expense Policy is updated to include any changes in the business unit operations. **2.** Determine how the departmental purchase card is utilized in payment of Individual Commissioner Account transactions. **3.** Assess the effectiveness of internal control systems and segregation of duties in processing Individual Commissioner Account transactions. **4.** Ensure monthly reconciliations are completed for Individual Commissioner Account expenses. **5.** Search for value-added recommendations to improve efficiency and effectiveness in this business unit.

The results of the audit, findings, and recommendations are detailed in this final report. Commissioner Office Staff were provided with an opportunity to respond to the findings and recommendations and their responses are included. The IA will conduct a 6-month follow-up to determine the status on the implementation of recommendations and observations presented.

Sincerely,
Johnnie Coleman, Senior Internal Auditor

CONCLUSIONS

Based on evidence gathered and interviews performed pursuant to the overall effectiveness of the internal controls in this business unit, IA deems controls to be **UNSATISFACTORY**. IA recommends that internal controls be strengthened to include written procedures that include appropriate separation of duties and monthly reconciliations.



**Internal Audit Report
Charles County Commissioners
Business Expenses**

08/15/2023

**Internal Auditor
Johnnie Coleman**

Table of Contents

OVERVIEW	3
EXECUTIVE SUMMARY	4
OBJECTIVES, SCOPE, AND METHODOLOGY	5
AUDIT RESULTS.....	6
ISSUES AND RECOMMENDATIONS	7
APPENDICES	10

Appendix A – IAD Guidelines for Written Procedures

OVERVIEW

Background

The Internal Audit Department undertook this audit based on a requirement from the County Commissioner Expense Policy (SOP #: CP.CC.01.002) section 1.5.3 that an internal audit be conducted at the end of each fiscal year on Commissioner Expenses. Revisions to the SOP were completed in March of 2023. Each year, the Commissioners fund the Individual Commissioner Accounts to be utilized in the fulfillment of his or her duties. Annual funding is provided for conferences and meetings, mileage reimbursement and individual Commissioner special projects. Funding for fiscal year 2024 is \$4,600 per Commissioner for conferences and meetings, \$2,200 per Commissioner for mileage reimbursement and \$ 4,000 per Commissioner for special projects.

Conferences and Meeting: include annual conferences, conventions, educations seminars, events, meetings and related transportation and lodging.

Mileage Reimbursement: reimbursement for use of personal vehicles and/or County-owned vehicles when Commissioners personally incur cost for fuel, tolls, parking, and other vehicle-related expenses, during the execution of their duties as a County Commissioner.

Special Projects: individual Commissioner town hall meetings, community outreach, or other activities that are unique to an individual Commissioner in the fulfillment of his or her duties. A stipulation for payment to qualify for special projects is that the activity must take place in Charles County and cannot be in support of organizations that already receive funding from the County through the grants award process.

Payments (both purchase card and checks) made for Commissioner business expenditures will offset the funding allocated to the Individual Commissioner Accounts. Fund balances in the Individual Commissioner Accounts are tracked by the Commissioner office staff. Funds are permitted to be transferred between the Individual Commissioner Accounts of the same Commissioner but not those of another individual Commissioner.

The County Commissioner Expense Policy (SOP #: CP.CC.01.002) was revised in March of 2023 when management identified payments that were made in violation of County policy and the subsequent requests for transfer of funds to cover a negative Individual Commissioner Account balance. An Ethics Commission Complaint (#2023-01 and #2023-01.5) and an Internal Human Resources (HR) Investigation (*Purchase Card #2023-02*) was performed on expenditures applied to the Individual Commissioners Accounts during fiscal year 2023. Both reports are included in the workpapers for this Internal Audit review.

ETHICS COMMISSION RECOMMENDATIONS (SUMMARIZED)

The Ethics Report reports expressed serious concerns over the lack of oversight and internal controls in this business unit stating specifically County Governments failure to utilize existing mechanisms within the policies such as monthly reconciliations to limit opportunities for misuse

of funds allocated to the Individual Commissioner Accounts. The Ethics Commission decision also noted ambiguities in the Credit and Purchasing Card Policy. The Commission recommended the appropriate departments of County Government evaluate processes and conduct both formal and informal inspections for compliance. They also encouraged enhanced training, and periodic reminders for staff concerning expectations relating to the use of purchasing cards.

HUMAN RESOURCES RECOMMENDATIONS (SUMMARIZED)

HR recommended the review of duties assigned to the Commissioner Specialist and Administrative Associates to ensure duties and workload are properly allocated. The HR investigation also stressed the need for training on department SOPs, standardization in the use of Asana (an internal project management platform), and a color-coded ledger used by this business unit. The investigation also recommended that when purchase card statements are reviewed the receipts on file should be verified against the charges and signed off on by the reviewer. HR further recommended enhanced communication between the Chief of Staff and the County Administrator in discussions about projects, progress, and staffing.

Funds allocated to the Individual Commissioners Accounts are public funds and require full reporting and transparency.

EXECUTIVE SUMMARY

Purpose

The purpose of this audit is to evaluate the internal controls currently being utilized in the Individual Commissioner Expense Account payment process and assess compliance with applicable County policies and procedures. To determine if documentation of expenses aligns with the County Commissioner Expense Policy and to determine that expenditures are properly authorized, reasonable, processed correctly and in a timely manner.

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 based on our audit objectives. Internal Audits are designed to add value and improve operations.

Results in Brief

A lack of oversight and internal controls was identified where transactions (10) did not conform to the County Commissioner Expense Policy (SOP #: CP.CC.01.002) or the Credit and Purchasing Card Policy (SOP #: CAP.FAS.02.002). The backup documentation found ***did not*** include proper authorization (written or email) by the Commissioners or verification that transactions are following the SOP. Areas of improvement to strengthen controls and mitigate risks include:

- Commissioners should be required to review and approve (written or email) monthly transactions prior to payment of purchase card bills. Transactions paid by check should also be included. Each individual Commissioner should sign a detailed report authorizing that transactions are in accordance with the regulations as outlined in the SOP.
- Document authorization and verification of all transactions. Electronic or manual verification including the date of transaction. Authorization and verification indicating the transactions meet accounting and compliance requirements and those approving are aware of budget availability.
- The Commissioner Office should generate detailed *Standard Operating Procedures*. Written step-by-step procedures will assist in ensuring that the business process remains consistent and compliant. Compliance with procedures assists in reducing errors and increasing efficiencies and provides guidelines on how to resolve issues.
- The duties of each departmental employee should be outlined in step-by-step written procedures.
- Fully detail the purpose of all payments made with County funds. Details should include the names of all attendees for events paid for by County funds. Back-up documentation should be included.
- Monthly reconciliations of individual Commissioner expense transactions. Design and use an expense payment summary form to include required signatures.
- Mandatory training on the Commissioner Expense Policy, Purchase Card use and office procedures for all newly assigned Commissioner office staff. Annual refresher training on policy and procedures for all Commissioner's Office staff.
- Commissioners sign an annual statement certifying they will adhere to policy regarding Commissioner business expenses. This will serve as an annual reminder of policy requirements.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The following were the objectives of the audit:

1. Determine that processes and procedures are in place to ensure the proper utilization of funds allocated annually for Individual Commissioner Accounts. Determine that County Commissioner Expense Policy is updated to include any changes in the business unit operations.
2. Determine how the departmental purchase card is utilized in payment of Individual Commissioner Account transactions. Determine if additional reports are generated in support of managing purchase card transactions.
3. Assess the effectiveness of internal control systems and segregation of duties in processing Individual Commissioner Account transactions. Ensure backup documentation is properly authorized and included in the files.

4. Ensure monthly reconciliations are completed for Individual Commissioner Account expenses. Determine if transactions are coded correctly and backup documentation has proper authorization, review, and approval.
5. Search for value-added recommendations and suggestions to improve the efficiency and/or effectiveness of the function under review.

Scope:

The Internal Audit Office conducted an audit of the County Commissioners Business Expenses for fiscal year (FY) 2023. Internal Audit reviewed the entire population of transaction posted to each of the Individual Commissioner Accounts. The audit was completed due to revisions of the Commissioner Business Expense policy in March of 2023 requiring the Internal Audit Office to complete an audit each FY.

Methodology

We applied various methodologies during the audit process to gather and analyze information pertinent to the audit scope and to assist with developing and testing the audit objectives. The methodologies included the following:

- Interviewed key personnel for insight and procedures on how Commissioner business expenses are transacted. Examined use of the departmental purchase card in the payment of expenses.
- Reviewed department standard operating policy and procedures related to how transactions are processed for Commissioner Business Expenses.
- Determine reports generated and how the County funded Individual Commissioner Accounts are reconciled.
- Review support documentation for evidence of separation of duties. Review all transactions in each Individual Commissioner Account for fiscal year 2023.

AUDIT RESULTS

Based on evidence gathered and interviews performed pursuant to the Individual Commissioner Accounts, the Internal Audit Office (IA) determined that the overall effectiveness of the internal controls in this business unit is **unsatisfactory**. IA recommends that internal controls be strengthened in this business unit to include written procedures that include appropriate separation of duties and monthly reconciliations.

ISSUES AND RECOMMENDATIONS

Issue #1 / Risk	Internal Audit Recommendations	Management Comments
<p><i>The Departmental purchase card was used for purposes that are not allowed under the County Commissioner Expense Policy and the Credit and Purchasing Card Policy.</i></p> <p><i>A total of 10 transactions were found to be in violation of the policy. Internal Audit findings include those (8) previously identified by other reviews and (2) additional that were forwarded to staff for resolution during our review.</i></p> <p><i>Fraud Risk</i></p> <p><i>Segregation of Duties Risk</i></p> <p><i>Policies and Procedures Risk</i></p>	<ol style="list-style-type: none"> <i>1. Include authorization and verification for each transaction (signature or email) by the requesting Commissioner that the request follows County policy. County funds must never be used for items excluded by policy.</i> <i>2. Training for staff to ensure they understand what transactions are ineligible for purchase card use. Staff can provide verification that company policy is adhered to.</i> <i>3. Monthly reconciliation of each Commissioners expense accounts.</i> <i>4. Written step-by-step procedures that outline the duties of all staff members.</i> <p><i>Establish written accountability for purchase card use to ensure the card is not used for ineligible purchases.</i></p> <p><i>Segregation of duties mitigate the opportunity to engage in fraudulent card use without timely detection.</i></p> <p><i>Written procedures reduce errors, increase efficiency, and produce guidelines on resolving issues.</i></p>	<p><i>Concur:</i> <i>Violations of the commissioner expense policy must never occur. To ensure that policies are adhered to, commissioner specialist are now requesting their individual commissioners to provide authorization/approval of expenditures in a written or email format when requesting funding for expenditures allocated to the commissioner expense accounts. Commissioner specialists also verify that transactions for which they are being asked to complete are within policy.</i></p> <p><i>The email request from the commissioner authorizing the transaction is signed by the commissioner specialist and forwarded with any additional backup to the Asst. Chief of Staff and Admin Associate. Both have Munis access and complete purchase card reconciliations and final approval of commissioner expense transactions.</i></p> <p><i>The commissioner expense policy is provided to all specialists and the importance of following it has been discussed in department meetings. Step-by-Step procedures are currently being finalized.</i></p>

Issue #2 / Risk	Internal Audit Recommendations	Management Comments
<p>Support documentation does not include proper authorization, verification, and approval.</p> <p>Fraud Risk and Separation of Duties Risk</p>	<p>1. Written step-by-step procedures that detail the specific duties of staff.</p> <p>Segregation of duties reduces the opportunities to allow any person to be able to both perpetrate and conceal errors or fraud.</p>	<p>Concur: Commissioner specialists are now requesting their individual commissioner to provide authorization/approval of expenditures in a written or email format when requesting funding for expenditures. Commissioner specialists now verify authorization/approval is included on support documentation and sign to verify accuracy of all information prior to forwarding to the Asst. Chief of Staff and Admin Associate for final approval and reconciliation. Written Procedures are currently being finalized.</p>

Issue #3 / Risk	Internal Audit Recommendations	Management Comments
<p>Support documentation does not include specific details for all attendees to events that were paid for by County funds.</p> <p>Fraud Risk</p>	<p>1. Include purpose of payments in detail and names of all attendees for events paid for with County funds. Include the details with the monthly reconciliation and approval documentation that will be attached to the transaction as backup.</p> <p>Written accountability to ensure transactions are in line with County policy.</p>	<p>Concur: Each Commissioner Specialist now updates their commissioner's various expenditures on a spreadsheet called Charles County Commissioners Budget 2024. It includes the description of the transaction, the purchaser and amount of the transaction. Monthly reconciliation is being completed on a spreadsheet called Commissioners Office CC receipts. Includes Munis account codes, vendor, date/description of transactions and initials of person completing the form. Verification of accuracy is now required at two different levels, the commissioner specialist and the Admin Associate and the Asst Chief of Staff.</p>

Issue #4 / Risk	Internal Audit Recommendations	Management Comments
<p><i>An expense was coded to the incorrect Commissioner expense account pending the transfer of funds to the correct account. The transaction was corrected on the Commissioner office files after completion of the transfer but not the records in Munis.</i></p> <p>Operational Risk</p>	<ol style="list-style-type: none"> 1. Complete monthly reconciliation of Commissioner expense accounts to identify errors. Utilize a payment summary that can be signed by the Commissioner specialist (verification) and the Commissioner (approval). 2. Transfers of funds should be approved by the County Administrator prior to transaction being initiated. 3. Ensure account coding is correct by including sign-off on the monthly reconciliation. <p><i>Human Risk - risk of business processes failing due to human error.</i></p>	<p>Concur: Each Commissioner Specialist now updates their commissioner’s various expenditures on a spreadsheet called Charles County Commissioners Budget 2024. A separate sheet is maintained for each of the three funding accounts accessed to each commissioner. A running balance with the remaining funding balance is included on each sheet to ensure expenses are not incurred if the balance is not sufficient to cover the expense. Account coding is now verified monthly on the Commissioner Office CC spreadsheet file.</p>

Issue #5 / Risk	Internal Audit Recommendations	Management Comments
<p><i>A Commissioner repaid an expenditure that was not within the SOP requirements. It was not posted on the Munis system when IA reviewed the Commissioners expenses. The Accounting department inadvertently did not review a clearing account that included the repayment.</i></p> <p>Note: the repayment was made within SOP guidelines after the error was identified.</p>	<ol style="list-style-type: none"> 1. Monthly reconciliation would have identified the oversight. IA recommends that the accounting department automate the review of clearing accounts. Create a daily report that can be easily reviewed. Auto email report to department daily. (Continuous Audit) <p><i>IA notes that all departments must work together to ensure smooth operations.</i></p>	<p>Note: This finding is not specific to the Commissioner Expense area. IA is working with the Information systems department to see if we can automate more to ensure entries posted to clearing accounts are cleared.</p>

APPENDICES

Appendix A – IAD Guidelines for Written Procedures

The Internal Audit Department recommends that written procedures be generated for this Business Unit. Below are some basic guidelines that can be used in the creation of these procedures. Please feel free to utilize the guidelines shown below to create written procedures. **Internal Audit cannot draft departmental procedures because it will compromise our objectivity.**

1. NO ONE PERSON SHOULD BE ALLOWED TO INITIATE, APPROVE, CERTIFY, OBLIGATE (pay) AND RECEIVE FOR TRANSACTIONS UTILIZING THE PRUCHASE CARD.
2. THE PURCHASING CARD **DEPARTMENT** APPROVING OFFICIAL (**Chief of Staff or Assistant**) MUST **REVIEW AND VERIFY** ALL TRANSACTIONS TO DETERMINE IF COMMISSIONER EXPENSES ARE IN ACCORDANCE WITH BOTH THE CHARLES COUNTY GOVERNEMENT(CCG) SOP CP.CC.01.002 **COUNTY COMMISSIONER EXPENSE POLICY** AND CCG SOP CAP.FAS.02.002 **CREDIT AND PURCAHSING CARD POLICY**.
3. STRENGTHEN INTERNAL CONTROLS WITHIN MUNIS ERP TO ASSURE SEPARATION OF DUTIES. ASSIGN PERMISSIONS WITHIN MUNIS TO PRECLUDE ONE INDIVIDUAL FROM PERFORMING ALL KEY DUTIES.
 - IF POSSIBLE, GIVE EACH COMMISSIONER SPECIALIST SYSTEM PERMISSIONS TO INPUT INVOICES AND CREATE WORKFLOWS FOR THEIR RESPECTIVE COMMISSIONER. TRANSACTIONS ARE UPLOADED WITH THE PURCHASE CARD STATEMENT BY FAS SO THIS PROCESS WOULD BE TO ATTACH INVOICES/DOCUMENTS TO THE TRANSACTION AND CODE THE DEPARTMENT AND ACCOUNT NUMBERS.
 - SYSTEM PERMISSIONS TO THE ASSISTANT CHIEF OF STAFF TO ELECTRONICALLY REVIEW TRANSACTIONS/WORKFLOWS INPUT BY THE COMMISSIONER SPECIALIST. VERIFY TRANSACTIONS ARE PROPERLY CODED AND PROPER DOCUMENTATION IS INCLUDED.
 - SYSTEM PERMISSIONS TO THE CHIEF OF STAFF TO ELECTRONICALLY INPUT, REVIEW AND PROVIDE FINAL APPROVAL FOR TRANSACTION AS WELL AS PROVIDE FINAL RELEASE OF THE MONTHLY PURCHASE CARD STATEMENT.TAKING THE STEPS ABOVE WILL ENSURE THE SEPARATION OF DUTIES EXIST.
4. NOTE: IF THE OFFICE OF COUNTY COMMISSIOMERS OFFICE PURCHASE CARD IS CONSIDERED A “DEPARTMENTAL CARD” THE P-CARD CUSTODIAN IS RESPONSIBLE FOR THE PHYSICAL SECURITY OF THE PURCHASE CARD AND FOR RECONCILING THE P-CARD IN MUNIS. **IF OTHERS IN THE DEPARTMENT IS TO USE THE P-CARD A LOG SHOULD BE MAINTAINED BY THE P-CARD**

CUSTODIAN THAT DOCUMENTS THE DATE, TIME AND IDENTITY OF THE PERSON USING THE P-CARD.

5. THE CARDHOLDER IS PERMITTED TO MAKE TRANSACTIONS ON BEHALF OF OTHERS IN HIS/HER DEPARTMENT, HOWEVER, **THE CARDHOLDER IS ULTIMATELY RESPONSIBLE FOR ALL USE OF HIS/HER CARD.**
6. **RECORDKEEPING AND RECONCILIATION** – THE CARDHOLDER IS RESPONSIBLE FOR MAINTAINING AND SUBMITTING RECEIPTS FOR ALL PURCHASES MADE WITH THE P-CARD. DOCUMENTATION SHOULD INCLUDE SALES RECEIPTS AND CREDIT CARD TRANSACTION RECEIPTS. PROVIDE A DETAILED DESCRIPTION OF PUBLIC PURPOSE. *CONSIDER UTILIZING A P-CARD SUMMARY FORM TO ASSIST IN TRACKING PURCHASES THAT MUST BE RECONCILED TO THE ACCOUNT STATEMENT EACH MONTH. BANK OF AMERICA ACCOUNT STATEMENTS ARE PROVIDED BY ACCOUNTING IN AN ELECTRONIC FORMAT MONTHLY.*
7. **MUNIS** – *ENTER INTO THE MUNIS PURCHASE CARD PROGRAM – A DESCRIPTION OF THE TRANSACTION, COPY OF THE DOCUMENTATION, AND THE ACCOUNT NUMBER TO WHICH THE TRANSACTION IS TO BE CHARGED. UPON COMPLETION OF THE RECONCILIATION, ATTACH TO THE ACCOUNT STATEMENT IN MUNIS AND THE STATEMENT WILL BE RELEASED INTO WORKFOLW FOR THE APPROPRIATE APPROVALS.*

RECONCILING PRIOR TO RELEASE INTO WORKFLOW

- COMPARE STATEMENT TO RECEIPTS AND ATTACH RECEIPTS IN MUNIS
- CONFIRM EACH TRANSACTION AND VERIFY AMOUNTS CHARGED
- PROVIDE DESCRIPTION FOR EACH PURCHASE
- ATTACH ACCOUNT STATEMENT TO PURCHASE CARD STATEMENT PROGRAM
- IF POSSIBLE, HAVE RECONCILIATION COMPLETED BY STAFF MEMBER OTHER THAN CARDHOLDER.
- *---DEVELOP A P-CARD SUMMARY FORM IF NOT ALREADY IN USE---* RECONCILE IT THE BANK STATEMENT.
- THE P-CARD HOLDER MUST SIGN THE TRANSACTIONS SUMMARY AND THE PURCHASE CARD STATEMENT (BANK STATEMENT)

MISSING RECEIPTS:

- IF THE CARDHOLDER IS MISSING A RECEIPT, CONTACT THE VENDOR TO OBTAIN A DUPLICATE RECEIPT. IF RECEIPT CANNOT BE RETRIEVED, DOCUMENT PERTINENT TRANSACTION INFORMATION AND HAVE APPROVED BY THE CARDHOLDER'S SUPERVISOR.
- **DEVELOP A MISSING DOCUMENTATION FORM**

EXAMPLES OF RECEIPT DOCUMENTATIONS

- CASH REGISTER ORIGINAL ITEMIZED RECEIPTS

- AIRLINE ITENERARY AND SALES RECEIPT (IF “E-TICKET” ATTACH THE EMAIL DOCUMENTATION) BE SURE THE DOCUMENTATION INCLUDES THE TRAVELER OR TRAVELERS NAME.
 - ITEMIZED HOTEL BILLS
 - ITEMIZED RESTAURANT BILLS
 - RECEIPT MUST BE DETAILED AND INCLUDE A LIST OF PARTICIPANTS
8. TO PLACE A TELEPHONE ORDER (**DEVELOP WRITTEN GUIDELINES**)
- HAVE PURCHASE CARD READY BEFORE PLACING THE CALL
 - ASK FOR THE GOVERNMENT SALES REPRESENTATIVE
 - ASK VENDOR TO EMAIL AN ORDER CONFIRMATION, INCLUDING DETAILS OF PURCHASE
9. TO PLACE A FAX/MAIL ORDER (**DEVELOP WRITTEN GUIDELINES**)
- COMPLETE ALL INFORMATION NEEDED ON THE ORDER FORM AND KEEP A COPY FOR YOUR RECORDS
10. TO PURCHASE ONLINE (**DEVELOP WRITTEN POCEDURES**)
- PRINT OUT COMPLETED REGISTRATION FORMS, CONFIRMATIONS, AND INVOICES TO BE USED AS SUPPORTING DOCUMENTATJON.
 - WHEN ENTERING PURCHASE CARD INFORMATION, MAKE SURE YOU ARE ON A SECURE SITE. FOR EXAMPLE: LOOK FOR LOCKED PADLOCK NEXT TO SITE INFORMATION IN THE BROWSER’S ADDRESS BAR.
11. TO PURCHASE OVER THE COUNTER (**DEVELOP WRITTEN PROCEDURES**)
- ENSURE THAT THE RECEIPT RECEIVED IS AN ITEMIZED RECEIPT, AND NOT JUST A CREDIT CARD TRANSACTION SLIP, AND MEETS ALL THE REQUIREMENTS OF AN INVOICE
12. RETURNS (**DEVELOP WRITTEN PROCEDURES**)
- ALL REFUNDS MUST BE CREDITED TO THE PURCHASE CARD, NO CASH REFUNDS SHOULD BE ACCEPTED.