

Audit Report

**Comptroller of Maryland
General Accounting Division**

November 2020



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Gregory A. Hook, CPA
Legislative Auditor

November 9, 2020

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Carol L. Krimm, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Comptroller of Maryland – General Accounting Division (GAD) for the period beginning July 1, 2015 and ending December 1, 2019. GAD is primarily responsible for maintaining the State’s accounting records, centrally processing vendor invoice payments, and distributing checks prepared by the State Treasurer’s Office. GAD also administers the State’s corporate purchasing card program and prepares the State’s annual financial statements.

Our audit disclosed that GAD did not monitor agency compliance with the Board of Public Works requirement that vendors with contracts in excess of \$200,000 be paid electronically. According to GAD’s records, approximately \$1.0 billion of the \$3.3 billion in State payments made by check during fiscal year 2019 represented individual payments greater than \$200,000. Electronic payments help to provide for a more secure payment process, and to reduce unnecessary efforts and costs (such as printing and postage) associated with preparing and mailing checks. In particular, electronic payments limit the need for manual processing and intervention by agency personnel, a significant benefit during the pandemic.

Our audit also disclosed that GAD did not have sufficient policies and procedures for its review and monitoring of Statewide corporate purchasing card (CPC) activity. During fiscal year 2019, agencies expended \$285.3 million under the State’s CPC program.

Finally, our audit also included a review to determine the status of the finding contained in our preceding audit report. We determined that GAD satisfactorily addressed this finding.

The Comptroller of Maryland's response to this audit, on behalf of GAD, is included as an appendix to this report. In accordance with State law, we have reviewed the response and, while the Comptroller agrees with the recommendations in this report, we identified an instance in which statements in the response conflict with or disagree with a report finding. In this instance, we reviewed and reassessed our audit documentation, and reaffirmed the validity of our finding. In accordance with generally accepted government auditing standards, we have included an "auditor comment" within the Comptroller's response to explain our position. Ultimately, we have concluded that the corrective actions identified in the response are sufficient to address all audit issues.

We wish to acknowledge the cooperation extended to us during the audit by GAD. We also wish to acknowledge the Comptroller's and GAD's willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

A handwritten signature in cursive script that reads "Gregory A. Hook".

Gregory A. Hook, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The General Accounting Division (GAD), which is a unit of the Comptroller of Maryland, is primarily responsible for maintaining the State's accounting records, centrally processing vendor invoice payments, and distributing checks prepared by the State Treasurer's Office. GAD also administers the State's corporate purchasing card program and prepares the State's annual financial statements. According to the State's accounting records, GAD's expenditures totaled approximately \$5.3 million during fiscal year 2019.

Audit of the State's Financial Statements

An independent accounting firm is engaged by the Comptroller of Maryland for the purpose of expressing an opinion on the State's annual financial statements. In the related audit reports for fiscal years ended June 30, 2016, 2017, 2018, and 2019, the firm stated that the State's financial statements presented fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the finding contained in our preceding audit report dated July 11, 2016. We determined that GAD satisfactorily addressed this finding.

Findings and Recommendations

Vendor Payments

Finding 1

The General Accounting Division did not monitor agency compliance with the Board of Public Works requirement that vendors with contracts in excess of \$200,000 be paid electronically.

Analysis

The General Accounting Division (GAD) did not monitor agency compliance with the Board of Public Works (BPW) requirement that vendors with contracts in excess of \$200,000 be paid electronically. Electronic payments help to provide for a more secure payment process and to reduce unnecessary efforts and costs (such as printing and postage) associated with preparing and mailing checks. In 2003, BPW issued an advisory requiring each agency to ensure that vendors with contracts in excess of \$200,000 register with the State to receive payments electronically or receive an exemption from electronic payments from the Comptroller of Maryland (according to GAD management, no exemptions have been granted to date). GAD is responsible for monitoring and reporting noncompliance with the advisory, receiving and reviewing registration and exemption applications from vendors, and for recording the payment method to be used in the State's accounting system.

Our review disclosed that GAD did not monitor agency compliance with the advisory and, as a result, numerous vendors were paid by check when electronic payments should have been used. Specifically, according to GAD's records, approximately \$1.0 billion of the \$3.3 billion in State payments made by check during fiscal year 2019, represented individual payments greater than \$200,000. These payments went to 605 vendors, with several vendors receiving numerous checks exceeding \$200,000. For example, one vendor received 117 checks, each exceeding \$200,000 and totaling \$126.6 million. Additional vendors with contracts over \$200,000 may have been paid by check in individual amounts less than \$200,000, which are not included in our results.

GAD management advised us that each individual agency is responsible for ensuring that its vendors register with the Comptroller of Maryland to receive payments electronically when required. However, the aforementioned advisory states that the Comptroller will monitor compliance with the advisory and report instances of noncompliance to BPW.

Recommendation 1

We recommend that GAD monitor, as required, agency compliance with the BPW advisory requiring vendors with contracts in excess of \$200,000 to be paid electronically unless the vendors obtain the required exemptions, and report noncompliance with the advisory to BPW.

Corporate Purchasing Card Program

Finding 2

GAD did not have sufficient policies and procedures for its review of Statewide corporate purchasing card activity.

Analysis

GAD did not have sufficient policies and procedures for reviewing and monitoring Statewide corporate purchasing card (CPC) activity. Consequently, there was a lack of assurance that these reviews were conducted in a consistent, comprehensive, and timely manner. The reviews are conducted by GAD to help ensure agency compliance with GAD's *Corporate Purchasing Card Policy and Procedures Manual*. During fiscal year 2019, agencies expended \$285.3 million under the State's CPC program.

- GAD has no formal policy governing the frequency of field visits to review agency CPC procedures. Such reviews help to ensure that agencies are in compliance with *Manual* requirements. We were advised by GAD management that its unwritten policy was to conduct field visits of each agency every four years. However, our review of field visits conducted for 10 agencies with purchases of \$209 million during fiscal year 2019 disclosed that, for three agencies, the time period between their two most recent field visits exceeded 6 years, and as of January 2020, another agency had not been visited since October 2012. Fiscal year 2019 expenditures for these four agencies totaled \$104 million.
- GAD did not have formal internal procedures for the identification and review of questionable CPC transactions. The *Manual* requires GAD to identify and review these transactions. GAD management advised us that, when conducting reviews, employees consider several criteria such as, unusual merchant codes and the type of purchase in relation to the agency's mission. However, no procedures or criteria had been formally established for the reviews to help ensure that the procedures were consistent and comprehensive.

During fiscal year 2019, there were 77 agencies participating in the State’s CPC program, and GAD identified \$802,306 of transactions as questionable for further review.

Recommendation 2

We recommend that GAD establish, and adhere to, formal policies and procedures, as appropriate, for its review of Statewide CPC activity which include the frequency of field visits, and criteria to be used for the identification and review of questionable transactions.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Comptroller of Maryland (COM) – General Accounting Division (GAD) for the period beginning July 1, 2015 and ending December 1, 2019. The audit was conducted in accordance with generally accepted government auditing standards. Those 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 provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine GAD’s financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included State agency vendor payment processing, vendor table maintenance, State agency working funds, and the corporate purchasing card program. We also determined the status of the finding contained in our preceding audit report.

Our audit did not include certain support services provided to GAD by COM – Office of the Comptroller. These support services (such as processing of invoices, maintenance of accounting records, human resources, related fiscal functions, and payroll processing prior to January 1, 2018) are included within the scope of our audits of COM – Office of the Comptroller. In addition, our audit did not include certain support services provided to GAD by COM – Central Payroll Bureau, effective January 1, 2018. These support services (payroll processing) are included within the scope of our audits of COM – Central Payroll

Bureau since that date. Furthermore, our audit did not include certain support services provided to GAD by COM – Information Technology Division related to the procurement and monitoring of information technology equipment and services and the operation of the Annapolis Data Center. The operation of the Annapolis Data Center includes the development and maintenance of GAD applications and maintenance of the operating system and security software environment. These support services are included in the scope of our audits of COM – Information Technology Division.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of July 1, 2015 to December 1, 2019, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions, and to the extent practicable, observations of GAD’s operations. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State’s Financial Management Information System (such as revenue and expenditure data), as well as from the contractor administering the State’s Corporate Purchasing Card Program (credit card activity). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these sources were sufficiently reliable for the purposes the data were used during this audit. We performed various tests of the relevant data and determined the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

GAD’s management is responsible for establishing and maintaining effective internal control. 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. As

provided for in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to GAD, were considered by us during the course of this audit.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect GAD's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our audit also disclosed a significant instance of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to GAD that did not warrant inclusion in this report.

The response from COM, on behalf of GAD, to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise COM regarding the results of our review of its response.

APPENDIX



Peter Franchot
Comptroller

October 28, 2020

Mr. Gregory Hook, CPA
Legislative Auditor
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, MD 21201

RE: OLA Audit of General Accounting Division - Comptroller of Maryland

Dear Mr. Hook:

Enclosed, please find the Comptroller of Maryland - General Accounting Division's (GAD) response to the legislative audit conducted between July 1, 2015 – December 1, 2019.

I want to take this opportunity to thank the Office of Legislative Audits (OLA) for your diligent review of GAD's performance. My agency takes the audit findings and recommendations very seriously and will give our full attention and efforts to implement the agreed upon recommendations for the growth and improvement of our agency. It is noteworthy that this very thorough and comprehensive audit found no occurrences of inaccurate and inappropriate disbursements of taxpayer dollars. I believe this is a testament to the proven policies and procedures that my agency has established and executed over many years.

We appreciate the value of third-party audits such as these, as we constantly aspire to further improve our best practices. Thus, we concur with Finding 1, and have begun the process of implementing the recommendation outlined in the finding. However, we do respectfully disagree with Finding 2. As noted in the attached response, GAD has long-standing documented procedures in place that address the recommendations proffered in Finding 2. We have also included a link to the Corporate Purchasing Card Manual as a reference and appreciate the opportunity to discuss this in detail in our official response.

As always, I appreciate and welcome the audit findings and recommendations from OLA, and look forward to implementing the suggested solutions accordingly.

Sincerely,



Peter Franchot
Comptroller

**Comptroller of Maryland
General Accounting Division**

Agency Response Form

Vendor Payments

Finding 1
The General Accounting Division did not monitor agency compliance with the Board of Public Works requirement that vendors with contracts in excess of \$200,000 be paid electronically.

We recommend that GAD monitor, as required, agency compliance with the BPW advisory requiring vendors with contracts in excess of \$200,000 to be paid electronically unless the vendors obtain the required exemptions, and report noncompliance with the advisory to BPW.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 1	Agree	Estimated Completion Date:	First report sent to BPW for the period July 2020
Please provide details of corrective action or explain disagreement.	It is COM's understanding that this advisory was issued to decrease the cost associated with issuing paper checks and to increase efficiency within banking services. COM understands the need for efficiency and cost containment in government. In response to OLA's observation, GAD has implemented procedures to monitor and report check payments in excess of \$200,000 to the Board of Public Works (BPW) on a monthly basis.		

**Comptroller of Maryland
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Agency Response Form

Corporate Purchasing Card Program

Finding 2
GAD did not have sufficient policies and procedures for its review of Statewide corporate purchasing card activity.

We recommend that GAD establish, and adhere to, formal policies and procedures, as appropriate, for its review of Statewide CPC activity which include the frequency of field visits, and criteria to be used for the identification and review of questionable transactions.

Agency Response	
Analysis	
Please provide additional comments as deemed necessary.	
Recommendation 2	Disagree Estimated Completion Date:
Please provide details of corrective action or explain disagreement.	<p>GAD disagrees with this finding due to its broad scope. GAD has a significant number of policies and procedures for the review of the corporate purchasing card activity as outlined below.</p> <p>The overarching policy over the program is the CPC Manual which has been in place since the inception of the program. (https://www.marylandtaxes.gov/forms/state-accounting/static-files/CPC_Manual_20191125.pdf) GAD notes that the recommendation proposed by OLA specifically addresses the need for internal policies and procedures related to the Field Review and Questionable Purchase processes. As such, our response will focus on these two areas. GAD would like to emphasize that the specific controls identified within this finding were conducted in a complete, accurate, and timely manner to monitor the State of Maryland’s CPC activity</p> <p>Within the CPC manual, there are specific sections regarding the performance of the Questionable Purchase Review [please reference CPC Manual Section 13.11 respectively]. In addition, there are procedural checklists and templates that exist for the Field Review conducted by GAD staff. Furthermore, there are</p>

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	<p>additional controls performed on a monthly basis, including the Agency Self-Assessment reviews, that result in GAD’s review of corporate purchase card activity.</p> <ul style="list-style-type: none">• CPC Field Reviews - GAD conducts an on-site review of agency CPC programs throughout the year. These ‘Field Reviews’ are completed by GAD staff to ensure an agency is abiding by the policies set forth in the CPC Manual. GAD completes this control consistently and completely by scheduling a full 12-month rotation of the field reviews and employing checklists and review templates respectively. The GAD staff complete checklists and review templates documenting their on-site review. The results from a GAD Field Review are aggregated and issued in a report to agency management summarizing procedures performed, observations, and recommendations. Agency reviews are selected on a rotational basis which can span up to 7 years. As an example of this, GAD conducted 15 agency Field Reviews covering \$35.2MM of the FY2019 spend. GAD also notes that the OLA comment specifically questions the interval between field reviews for four agencies, totaling \$104MM in 2019 expenditures. GAD notes that two of these agencies had field reviews conducted by GAD in 2019, one was conducted in 2017, and the remaining agency was scheduled for April 2020 and postponed due to the COVID-19 emergency. All four of the agencies noted by OLA were conducted within 7 years of the previous review.• CPC Questionable Purchase Review – GAD performs a review of ‘questionable purchases’ on a monthly basis. Policy regarding this review is stipulated in the CPC Manual [Section 13.11] “<i>GAD staff will identify transactions on a monthly basis that are ‘questionable’ in nature. It is the responsibility of the agency PCPA to review the transaction(s) thoroughly and respond to GAD, via email, that the transaction is legitimate with an explanation of what was purchased or that the transaction is not legitimate and state what action the agency is taking.</i>” Procedurally, the criteria and process
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General Accounting Division**

Agency Response Form

	<p>has been imparted to the staff member(s) for the given task. As such, for FY2019, GAD performed a questionable purchase review of transactions each calendar month covering 771,625 transactions of the total FY2019 CPC spend (\$285.3MM). GAD identified 2,288 transactions, totaling \$796,760 as questionable during this period. These transactions were appropriately communicated with the agency for resolution. This review has been conducted on a monthly basis without exception.</p> <p>The performance of these reviews evidences the effectiveness of these controls and supports the assertion that CPC activity is being appropriately monitored. GAD will implement OLA's suggestion and augment our current internal policies and procedures surrounding the specific Field Review and Questionable Purchase controls, however such controls are operating effectively.</p>

Auditor's Comment: Although GAD's response indicated disagreement, GAD ultimately agreed to implement the recommendation in order to augment its current internal policies and procedures. GAD stated that agency reviews are selected on a rotational basis, which can span up to seven years. This is contrary to our audit documentation, which supports GAD's initial assertion to us that field visits of each agency are to be conducted every four years. This difference highlights the necessity of our recommendation that GAD establish formal policies and procedures for the frequency of field visits and the criteria to be used to identify and review questionable transactions, and that GAD adhere to the established policies.

AUDIT TEAM

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