

**Montgomery County, Maryland**  
**Office of the County Executive**  
**Office of Internal Audit**



**Internal Control Review**

**Procure to Pay – Specific Functions**

**May 9, 2018**

# Highlights

## Why MCIA Did this Assessment

The Office of Procurement (Procurement) and the Department of Finance (Finance) are responsible for the oversight of activities within the Procure to Pay function that are performed by each department within Montgomery County (the County). As such, their role is critical to ensuring that the departments adhere to the policies and requirements related to the use of public funds.

In May 2017, the Office of Internal Audit (MCIA) initiated a focused internal control review to evaluate the internal controls related to the County's oversight of specific aspects of Procure to Pay operations. During the project, the objectives of the review were refined to focus on the identification of process and control deficiencies related to agreements for programs that are exempt from, or not subject to, procurement regulations. Emphasis was placed on additional understanding specific to a selected example of an externally-managed program that was designated as exempt from, or not subject to, procurement regulations. The assessment was conducted by the accounting firm SC&H, under a contract with MCIA.

## What MCIA Recommends

MCIA is making five recommendations to the County to strengthen internal controls, reduce risk, and improve overall oversight and performance. The recommendations are related to specific aspects of the County's Procure to Pay operations, and agreements for purchases or programs deemed to be exempt from, or not subject to, procurement regulations.

May 2018

## Internal Control Review of Specific Procure to Pay Functions

### What MCIA Found

Based on information obtained through our focused review, there are opportunities for the County to improve the oversight of specific components within the Procure to Pay function in order to strengthen control over the disposition of taxpayer funds – particularly through externally-managed County programs.

SC&H identified control deficiencies related to the oversight of County funds disbursed through County programs managed by third party organizations which include:

- Lack of visibility into the ultimate disposition of funds by vendors responsible for operating a County program where funds are received in advance from the County ("externally-managed" program)
- Insufficient County oversight of department activity related to externally-managed programs
- Lack of effective management and control over the population of commodity/payment codes that are used as the basis to identify purchases deemed to be exempt, or otherwise not subject to, procurement regulations

Further, SC&H noted that all agreements such as memoranda of understanding (MOUs) and memoranda of agreement (MOAs) are not governed by an existing County policy and do not require the review and approval of all County departments that could be impacted by the agreements. This exclusion could result in the agreements omitting critical terms and conditions intended to provide necessary oversight and could also result in the inclusion of terms that commit the time and resources of County departments without their knowledge and preparation.

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## Objectives

This report summarizes an internal process and control review (review) performed by SC&H Group (SC&H), under contract with the Montgomery County (County) Office of Internal Audit (MCIA), of the County's Procure to Pay function. The review was focused on understanding the roles of the Office of Procurement ("Procurement") and the Department of Finance ("Finance"), identifying process and control deficiencies, and identifying opportunities for increased program efficiency and effectiveness.

Based on the work performed through the initial phase of the review, and additional communication with the County, SC&H developed objectives that focused on specifically-identified aspects of the County's economic development incubator program (refer to the Background section for a summary of this program).

At the direction and approval of MCIA, the following objectives were established:

- A. Evaluate the roles and responsibilities of the Procurement office and other stakeholders in determining whether specific types of procurements and programs will be exempt from, or not subject to, County procurement requirements.
- B. Assess the County's oversight of funds administered through third party management of County programs.
- C. Document and understand the history of the County's economic development incubator program.

The review procedures were conducted from May 2017 to November 2017.

## Background

### Procurement-exempt programs/Programs not subject to procurement requirements

Procurement is responsible for identifying and assisting in the identification and selection of suppliers to provide goods and services to meet internal needs. There are some goods and services that have been deemed exempt from, or not subject to, the County's procurement requirements – either as a result of legislation that has been enacted, or because the nature of the good or service makes it exempt from the procurement regulations. For example, sometimes expert witnesses are utilized by the County, and an agreement for their services would not be subject to competitive vendor selection.

In those circumstances where a department seeks to obtain goods or services they believe to be exempt from, or not subject to, procurement requirements, through a memorandum of agreement or memorandum of understanding (referred to collectively as "agreements") the department will draft the agreement and provide it to the Office of the County Attorney (OCA) for review. The OCA will review the agreement for form and legality, and also question agreements to acquire goods or services that are not specifically exempted from, or not subject to, the procurement requirements through existing regulations, and do not include the signature of the Director of Procurement. If the acquisition is determined to be subject to procurement requirements, the department will then work with Procurement to identify and select a provider. If the acquisition of the good or service should be exempt from, or not subject to, the procurement requirements, the OCA will make the determination of who from within the County should further review and approve the agreement.

### Economic development incubator program

In 1998, the County began a program called the Business Innovation Network (BIN) that was managed and funded through the Department of Economic Development (DED). The purpose of the BIN was to establish economic development incubators (incubators) to promote and support the development and growth of Montgomery County-based technology-focused businesses.

There have been five incubators owned and/or operated by the County:

1. Silver Spring Innovation Center
2. Rockville Innovation Center
3. Germantown Innovation Center
4. Shady Grove Innovation Center (currently National CyberSecurity Center of Excellence (NCCOE))
5. Wheaton (currently operating as Incubator Without Walls)

The County selected the Maryland Economic Development Corporation (MEDCO) to issue the debt for the Rockville and NCCOE locations, and to also manage each of the County's incubator facilities.

The DED was initially responsible for the administration of the County's incubator program. Effective July 1, 2016, the County privatized most of the DED, and responsibility for the incubator program was moved to Finance.

## **Scope and Methodology**

The review was initiated in May 2017 and fieldwork procedures were completed through November 2017. The review objectives focused on the responsibilities, procedures, and controls of both Procurement and Finance related to programs that were deemed exempt from, or not subject to, the County's procurement requirements. [NOTE: For ease of reference in this report, we use the phrase "procurement-exempt" to refer to both instances that were deemed exempt from procurement requirements, as well as not subject to procurement requirements because of the nature of the good or service being acquired.] The County's economic development incubator program was selected as the review's example function.

In order to achieve the objectives of this review, SC&H, in coordination with the County, developed an audit program to achieve the review objectives. The program included steps to address each objective with the goal of gathering information, assessing risks and controls, and identifying opportunities for improvement where necessary. The following assessment areas were established based on the review's planning procedures:

- A. Obtain and review County policies and regulations related to exempting procurements or programs from County procurement requirements. Further, interview relevant stakeholders within Procurement and other departments to understand the process to consider whether to exempt procurements and programs from County procurement requirements.
- B. In addition to the information obtained through Step A, interview relevant stakeholders from within Finance to determine whether there is documentation that specifies the roles, responsibilities, and activities of Finance related to the oversight of County funds administered through third-party management of County programs.

- C. Obtain and review County documents related to the establishment of the County's economic development incubator program. Further, interview relevant County stakeholders to obtain background information regarding the program's inception, structure, and oversight.

## Summary of Work Performed

SC&H initially sought to identify and obtain County policy and procedure documentation that specified the roles, responsibilities, activities, and expectations of County departments and personnel that may be involved in the procurement process. Departments and personnel identified through a policy could include: the requesting department, the OCA, the Chief Administrative Officer (CAO), Finance, Procurement, and other County departments, depending on the type of goods or services to be acquired. SC&H further sought to obtain policy and procedure documentation that a) defined the County's oversight requirements for each procurement-exempt agreement and program; and b) assigned responsibility for assuring adherence to all applicable procurement regulations, and for monitoring the disposition of County funds.

Throughout the review process, SC&H was unable to identify or obtain policy and/or procedure guidance that would address the above-listed criteria. It was determined that there does not appear to be a formally documented policy, or established procedures, in place that defines the responsibilities and necessary oversight associated with procurement-exempt agreements and programs. As a result, SC&H was limited regarding the documentation available for review.

### The role of Procurement in the oversight of procurement-exempt programs

SC&H requested County policy and procedure documentation that defined the procurements or programs to be exempt from, or not subject to, the County procurement requirements. SC&H was referred to section 11B-4 of the Montgomery County Code. Section 11B-4 provides specific criteria that, if met, exempts certain purchases from procurement requirements. Section 11B-4 also includes verbiage exempting "any other procurement exempted from this Chapter by another law."

Further, SC&H was provided with a master listing of commodity/payment codes that consisted of 74 individual codes covering the purchases or procurements deemed to be exempt from, or not subject to, procurement requirements. In some instances, the information provided for these codes included a reference to a specific law or regulation that exempted the commodity type from procurement requirements. In other instances, the description for the reason the commodity type was exempt was listed as "not subject to procurement" with no further explanation.

SC&H met with Procurement management to discuss that office's role in the purchases and programs exempt from procurement regulations. It was noted during that discussion that some exemptions are specified in state or local laws, some exemptions are specified in County Code, and other purchases are deemed not to be subject to the procurement regulations. Per the information, this process appears to occur outside of the purview of Procurement. The requesting departments make the initial determination that a proposed purchase or program should be exempt. The OCA reviews the agreement, including the specific good or service to be obtained. If OCA agrees with the requesting department, the agreement moves to the contracting officer (generally the CAO or their designee) for review and approval. If, however, the OCA determines that the purchase should be subject to procurement regulations, the requesting department is notified by OCA, and then works with Procurement to obtain the needed goods or services. SC&H notes that this process was provided through inquiry, and there is no formal, documented policy

in place that describes the process to exempt programs or purchases from procurement regulations, or defines the roles and responsibilities of each stakeholder.

### *Testing*

Using the population of exempt commodity/payment codes obtained from Procurement, SC&H selected a sample of 15 codes and requested that Procurement provide supporting documentation that justified the determination that each category should be exempt from, or not subject to, the procurement requirements. Of the 15 codes selected, eight were noted as “not subject to procurement” and seven referenced laws or agreements as the source of the justification. Procurement provided SC&H with the supporting documentation for the seven selected codes that referenced specific source laws or agreements. For the eight selected codes that were noted as “not subject to procurement”, no additional documentation to support the exemption was provided.

### The role of Finance in the oversight of procurement-exempt programs

SC&H met with Finance and Accounts Payable (AP) personnel to obtain an understanding of the department’s roles and responsibilities related to the oversight of the County’s procurement-exempt programs. The information gained during this review was based on those inquiry-based discussions.

SC&H learned that both operating departments and AP are responsible for the review and approval of invoices that are exempt from, or not subject to, the County’s procurement regulations. Departments are required to perform a review and approval of all invoices; they are also required to submit invoice packets to AP for all invoices that are \$10,000 or more. Invoice packets include the invoice and supporting documents. Normally, a purchase of goods and services that is expected to cost \$10,000 or more is subject to the procurement regulations and is evidenced by a signed executed contract and a purchase order posted in the system. Thus, the invoices for payments against these contracts are usually matched by AP against a previously authorized and posted purchase order. For transactions that are exempt from, or not subject to, the procurement regulations, departments are not required to execute a contract signed by Procurement, and therefore there is no purchase order executed by Procurement. Departments may initiate their own direct purchase orders in the system for these exempt transactions, but no centrally approved purchase order is required.

A purchase order approved by Procurement provides the evidence to AP that the related invoice is issued pursuant to a contract that has been executed in accordance with the County’s purchasing laws and regulations. For exempt transactions, there is no alternate transaction to a purchase order that is required to be posted in the system which evidences authorization for the purchase, nor is there centralized oversight and monitoring of exempt transactions. Further, AP policies and practices do not distinguish between exempt and non-exempt transactions, and bridge the gap described above by requiring additional support for exempt transactions including authorization for the original purchase. As a result, exempt invoice packets submitted by departments include varying levels of support with some not having enough documentation to fully support the transaction.

### Additional challenges in the oversight of transactions associated with the incubator program

Further, SC&H learned that the County did not have the proper oversight structure in place to monitor financial transactions related to the incubator programs that are classified as not subject

to the procurement regulations. The incubator program's financial transactions include large annual payments to a vendor who is then responsible for managing the various incubator facilities and their operations and programs. This vendor then uses the funds received from the County to pay other sub-vendors and suppliers for goods and services related to program operations. In this situation, there is no way for the County to determine at the time of its payment to a vendor, if the disbursements later made by the vendor or a sub-vendor will be in a manner and for the purpose originally intended by the County. In addition, while the agreement executed with the vendor required monthly financial reporting, the department responsible for executing and administering the agreement and related payments was also solely responsible for subsequent financial monitoring and oversight. The County does not have a standard policy or procedure governing the monitoring of subsequent financial transactions and disbursements entered into by a vendor who is responsible for operating a County program from funds received in advance from the County.

SC&H found that the incubator program presented unique challenges, and the absence of certain formal, documented policies created risks specific to the program. For example, there is no existing guidance that requires Finance or the using department to review and approve the disbursements of County funds by third parties that manage County programs. Additionally, there is no existing guidance that requires Finance or the using department to coordinate or conduct independent third-party audits of disbursement activities on a periodic basis – to include an end-of-year reconciliation of vendor disbursement activity. Rather, each individual agreement might include verbiage that allows the County to review the finances and activities performed by the vendors in their fulfillment of the terms of the agreement (the “right to audit”). While such language would allow Finance, or an independent third-party, to review the disbursement activity of the vendor, based on the information SC&H obtained during the review, there is no evidence that Finance or the using departments perform these vendor reviews in each instance on a consistent, periodic basis. Further, there is not a process or set of controls in place to assure that Finance or the using departments are aware of each vendor agreement that would require their oversight.

#### Economic Development Incubator Program Review

SC&H conducted interviews with representatives from the OCA, Finance, and the Office of the County Executive. The purpose of these interviews was to obtain background information specific to the intent, design, and creation of the incubator program. Topics of the discussions included the goals and mission of the program, the strategy behind the organization of the program, and decisions regarding the controls and safeguards that would be integrated into the program.

Due to the amount of time that has passed since the incubator program was established, limited information was available regarding the history of the program and strategic discussions and/or decisions that drove the creation of the program. A reason for this was individuals who would have been able to provide that foundational information no longer worked for the County. Beyond the specific information contained in the actual agreements, the lack of background and strategic information that SC&H was able to attain resulted in a limitation to assess the completeness and sufficiency of the consideration given to the initial design of the program.

According to interviews, the incubator program was created in 1998, with “about four or five” incubators working. When the program started, the County did not want to issue additional debt to finance the program, so it contracted with a third party, the Maryland Economic Development Corporation (MEDCO), to issue the debt for two facilities (Rockville Innovation Center and the NCCOE, which was the Shady Grove Innovation Center at the time). MEDCO issued the debt



needed to establish the incubator program, and the County appropriated sufficient funds to make the debt payments to MEDCO.

MEDCO also became responsible for the management of the incubator program – including the costs associated with managing each of the County’s incubator facilities. Once the incubator program was functional, MEDCO subcontracted the management of the incubator facilities to other vendors, including Scheer Partners. MEDCO had the responsibility and ability to select the third- party contractors without being subject to County procurement regulations.

SC&H obtained and reviewed copies of agreements that established the terms and requirements for the external management of the incubator program. The agreements were reviewed and approved by the OCA and the CAO but did not include evidence of the review or approval of other County departments, such as Procurement or Finance.

SC&H’s review of the agreements found that the executed agreements authorized MEDCO to make disbursements related to incubator facility management based on approved budgets. MEDCO was funded through large “blanket” disbursements of funds from the County to MEDCO, which it used to pay for debt repayment, facility leases, facility management fees, and other related expenses. The requests for these blanket disbursements within the County were made by the owning department (DED) and processed through Finance’s AP. Once approved by AP, the disbursement amounts were provided to MEDCO, which had the responsibility to further disburse the funds, as necessary.

Section 2.1.c of the 2006 MEDCO management agreement also authorized the establishment and funding of a Special Reserve Account that could be used to pay for non-specific expenses related to the economic development program at the discretion of the DED Director. The revised 2016 agreement does not address the Special Reserve Account.

Related, section 13.3 of the 2006 MEDCO management agreement (section 14.3 of the revised 2016 agreement) specified that the DED Director could designate authority to other individuals to make decisions, authorize actions, etc. without additional County consent or approval.

Together, these terms provided DED personnel with the ability to request and authorize payments to be made by MEDCO on the County’s behalf and enter into subsequent purchases or procurements without the additional scrutiny or controls of the County’s Procurement or AP processes.

SC&H’s review also found that the agreements included language providing the County the right to audit MEDCO’s finances and activities (sections 2.2.a and 6.2 of the 2006 MEDCO management agreement; sections 2.3 and 6.2 of the revised 2016 agreement). The agreement terms were not specific as to frequency or scope of the reviews. Through discussion with Finance, it was determined that the County had not exercised its right to audit MEDCO’s disbursement of County funds.

## **Findings and Recommendations**

### *Recommendation #1 – Policy for Review and Approval of Agreements Exempt from Procurement Law*

Finding: The County lacks a defined, documented policy that governs the process through which agreements (i.e.: MOUs, MOAs, etc.) are reviewed and exempted from procurement regulations.

The current practice is:

- a. The department prepares the agreement,
- b. The Office of the County Attorney reviews the agreement for form and legality, as well as the justification for exemption from County procurement regulations, and
- c. The CAO reviews and approves the agreement

There is no requirement that Procurement review and approve the appropriateness of each instance in which agreements are deemed “exempt” or “not subject to procurement”. Currently, if a department deems an agreement to be exempt from procurement regulations, Procurement is excluded from the process unless the OCA determines that the agreement should be subject to procurement requirements, in which case the department is directed to work through Procurement.

There are also no defined categories or “triggers” that would necessitate the review and approval of other departments prior to the execution of the procurement-exempt agreement.

For agreements that include financial implications for the County (such as the transfer of County funds), there are no documented requirements that require Finance’s review and approval of the agreement, or establish Finance’s role in monitoring the department’s responsibility (or Finance’s authority directly) to exercise the County’s right to audit vendor finances or to periodically monitor vendor activity – including the disbursement of County funds.

There is no documented requirement to review all executed procurement-exempt agreements on a defined, periodic basis to verify that all vendor activities and disbursement activities align with the original agreement and continue to qualify as exempt from procurement regulations.

### Risks

In the absence of a documented procurement-exempt agreement policy, the following potential risks were noted:

1. May limit the County’s assurance that only qualified agreements are exempt from procurement requirements;
2. Increases the potential that agreements could be executed without the involvement and input of departments responsible for determining the appropriateness of the exemption, as well as those responsible for continued oversight to assure compliance with County requirements;
3. Increases the potential omission of terms and conditions necessary to monitor vendor adherence to County requirements, as well as the lack of consideration for the time, expense, and resources necessary for ongoing compliance monitoring.
4. Without a defined, periodic review of the executed agreements that are exempt from procurement regulations, subsequent vendor activity or disbursements could fail to meet the original objectives of the agreement, and/or the requirements that initially qualified the agreement for the exemption and make them subject to Procurement oversight.
5. The decentralization of the County’s Procure to Pay function relies on the design and execution of effective controls at the department level. Effective Procure to Pay function also relies on the existence of centralized oversight and monitoring functions designed to detect deviations on the parts of the departments that could indicate the misappropriation of County funds. The lack of a formal, documented procurement-exempt agreement policy

could result in a gap in oversight that could fail to identify ineffective department controls and allow for the misappropriation of County assets.

### Recommendation

The County should develop, document, and formalize a policy governing the review and approval of all agreements (MOUs, MOAs, etc.) that are deemed exempt from procurement regulations. An effective policy would include elements such as (but not necessarily limited to):

1. Define the process for requesting and approving the exemption under the policy, including:
  - a. Identifying the departments/offices responsible for examining and approving the exemption;
  - b. Requirements for documenting the justification for the exemption, as well as evidencing the review and approval; and
  - c. Establishing the frequency of subsequent reviews to assure the continued appropriateness of the exemption.
2. If the agreement is determined not subject to an appropriate exemption from procurement regulations, the agreement should be returned to the sponsoring department to be processed in accordance with the County's procurement requirements.
3. Identifying each County department or specific personnel that would be required to review and approve each type of agreement. Different workflows and review processes (including departments required to review an agreement) might be appropriate for different types of agreements (e.g., those that involve the transfer of County funds; those that do not involve the transfer of County funds, but which may involve the exchange of information, goods, or services, or provision of services without the transfer of funds) prior to execution.
  - a. This would help assure that agreements do not include or omit terms and conditions that could encumber the time, resources, and personnel or County departments without their knowledge and involvement.
  - b. This would also help assure that all risks (financial and non-financial) to the County are identified and considered prior to the execution of the agreement.
4. If an agreement provides for the transfer of County funds, the policy should include a requirement for Finance review and approval of the agreement. Such review would assure the following:
  - a. Finance's assessment of the level of financial risk under the agreement,
  - b. Their determination of the level of oversight and role with respect to the County's right to audit the finances and activities of contracted vendors, and
  - c. Appropriate resources (time, money, personnel, etc.) necessary to perform such audits are identified and planned/budgeted for.

Based on the results of the revised activities performed, four additional findings related to the Procure to Pay function were identified. Findings, associated risks, and recommendations, are detailed below.

Rec #	Area	Observation	Risk	Recommendation
2	Accounts Payable	Based on inquiry, there is not a standardized requirement for additional relevant backup needed to perform the review of invoices related to exempt commodity/payment codes and that bridges the gap caused by lack of required purchase orders.	Inaccurate or inappropriate payments may not be detected if invoice reviews do not require a consistent set of additional supporting documents for exempt transactions.	Develop and implement a policy that defines the supporting documentation required to facilitate the review and approval of vendor invoices specific to exempt commodity/payment codes.
3	Procurement	Based on inquiry, there is no formal policy that governs the establishment of new exempt commodity codes and the periodic review of existing exempt codes.	The lack of a formally documented policy could allow the establishment and use of exempt commodity codes for programs that should otherwise be subject to Procurement requirements and other County oversight.	Develop, formalize, and implement a policy that specifies the requirements for the creation of new exempt commodity codes and mandates the periodic review of existing codes to assure continued appropriateness.
4	Procurement	Based on inquiry, there is no formal policy that requires the periodic review of the use of exempt commodity/payment codes.	The lack of a defined, periodic review of the use of exempt commodity/payment codes could result in departments paying vendors for goods or services that were acquired outside of appropriate procurement regulations.	Develop, formalize, and implement a policy that establishes a defined, periodic review of the use of all exempt commodity/payment codes to assure that departments are not using the codes inappropriately.
5	Procurement	Based on inquiry and Procurement's response to a sample of exempt payment codes, there is no documented requirement that requires evidence supporting the exemption of purchases and programs to be obtained and retained. As a result, the only justification for the exemption of some categories is "not subject to procurement" with no additional information or supporting documentation.	The lack of appropriate evidence supporting the exemption of purchases and programs could result in the inappropriate omission of these items from the procurement requirements.	Establish and document requirements for the justification needed to support the decision to exempt categories from procurement regulations and mandate the retention of the supporting documentation.

## **Comments and MCIA Evaluation**

MCIA provided the Office of Procurement, the Department of Finance, and the Assistant Chief Administrative Officer a draft of this report for review and comment. The responses received have been incorporated in the report at Appendices A, B, and C, respectively. The MCIA has reviewed the responses, which supported the findings and recommendations, and determined that no additional changes to the report, or its findings and recommendations, are warranted.

# Appendix A – Office of Procurement Response

The Procurement Response:



## OFFICE OF PROCUREMENT


Isiah Leggett  
County Executive

Cherri Branson  
Director

### MEMORANDUM

May 1, 2018

TO: William Broglie, Manager  
Office of Internal Audit

FROM: Cherri Branson, Director   
Office of Procurement (PRO)

SUBJECT: Audit Report on Internal Control Review, Procure to Pay – Specific Functions  
PRO Comments

I am in receipt of Montgomery County's Internal Audit (MCIA) draft report of the County's Internal Control Review, Procure to Pay – Specific Functions. The SC&H Group (SC&H), under contract with MCIA, performed this audit. In the draft report for official comment dated April 2018, SC&H identified several recommendations associated with several departments, three of which PRO is responding to in this memorandum.

The following Recommendations are included in the draft audit report:

**Recommendation #3:** *Develop, formalize, and implement a policy that specifies the requirements for the creation of new exempt commodity codes and mandates the periodic review of existing codes to assure continued appropriateness.*

**Recommendation #4:** *Develop, formalize, and implement a policy that establishes a defined, periodic review of the use of all exempt commodity/payment codes to assure that departments are not using the codes inappropriately.*

**Recommendation #5:** *Establish and document requirements for the justification needed to support the decision to exempt categories from procurement regulations and mandate the retention of the supporting documentation.*

#### Division of Business Relations and Compliance

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**PRO Comments:**

While the Office of Procurement has an internal review requirement, which includes review by the Office of the County Attorney as applicable, this audit gave us an opportunity to revisit this list and the requirements surrounding a formal documented policy. The Office of Procurement, in conjunction with the Department of Finance and the Office of the County Attorney has reviewed each item on the current exemption list to determine the use, continued relevance and applicability of the exemption. The revised exemption list has been separated into several categories. The list clearly delineates and differentiates between purchases subject to the County's Procurement law but capable of a streamlined payment method, purchases that are not subject to the County's Procurement Law (by statute) and Miscellaneous purchases which do not neatly fit into any of the above referenced categories and may require additional examination to determine their exemption status. Upon conclusion of this joint review, communication will be sent to all departments regarding the revised list and the requirements regarding use.

Additionally, while the Office of Procurement has maintained supporting documentation for exemptions, some of the items on the exemption list are archaic and lack a clear documentation history. The detailed review described above provides an opportunity for the County to review these items using a transparent analytical framework and provide clear communication regarding roles and responsibilities to determine use, oversight and maintenance of documentation.

I appreciate the time taken and analysis performed by you and the Auditors from SC&H.

cc: Pam Jones, PRO  
Trevor Ashbarry, OCA  
Fariba Kassiri, ACAO

# Appendix B – Department of Finance Response

The Finance Response:



DEPARTMENT OF FINANCE

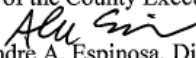
Isiah Leggett  
County Executive

Alexandre A. Espinosa  
Director

## MEMORANDUM

May 1, 2018

TO: Bill Broglie, Internal Audit Manager  
Office of the County Executive

FROM:   
Alexandre A. Espinosa, Director  
Department of Finance

SUBJECT: Formal Response to Recommendation from Internal Control Review: Procure to Pay – Specific Functions

Attached please find the Department of Finance formal response to the draft audit report referenced above. In that report, of the five recommendations listed, Recommendation #2 relates to accounts payable processes, which is the subject of this response. I appreciate the opportunity to provide information on actions taken by the Department of Finance that are responsive to this recommendation.

If you, or the audit firm working with you, have any questions relating to the attached, please contact Karen Hawkins, Chief Operating Officer, at 240-777-8828, or Lenny Moore, Controller, at 240-777-8802.

### Attachment

cc: Fariba Kassiri, ACAO  
Karen Q. Hawkins, COO, Finance  
Lenny Moore, Controller, Finance

### Office of the Director

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montgomerycountymd.gov

montgomerycountymd.gov/311  Maryland Relay 711



**Finance Response to Recommendation  
Internal Control Review: Procure to Pay – Specific Functions  
Conducted by the Office of Internal Audit**

**Dated April 2018**

**Recommendation:**

Develop and implement a policy that defines the supporting documentation required to facilitate the review and approval of vendor invoices specific to exempt commodity/payment codes.

**Finance Response:**

The Finance Department concurs with this recommendation and has already implemented changes to related policies and procedures.

In August 2017, Finance updated and expanded existing policies over vendor payments, including those policies related to invoice requirements and approvals for transactions exempt from the procurement regulations. Specifically, the Accounts Payable Policies – Financial Governing Principles and Standards, provides guidance on the supporting documentation that must accompany each vendor invoice packet in order to facilitate the appropriate review and approval of exempt vendor invoices. Consistent with these policies, when supporting documentation submitted to Accounts Payable is not deemed sufficient, the invoice is not processed for payment until additional appropriate support is received from the department.

In addition, Finance also recently issued the Authorized Payment Policy (APP), which provides guidance on invoices for transactions exempt from the procurement regulations, regardless of the dollar amount, by clearly defining acceptable payment methods. To better reflect departmental authorization for the original purchase, the APP requires departments to utilize the P-Card or the Direct Purchase Order (DPO) process for paying invoices which are exempt from the procurement process.

# Appendix C – Assistant Chief Administrative Officer



OFFICE OF THE COUNTY EXECUTIVE


Isiah Leggett  
*County Executive*

Timothy L. Firestine  
*Chief Administrative Officer*

## MEMORANDUM

May 8, 2018

TO: William Broglie, Internal Audit Manager  
Office of the County Executive

FROM:  Fariba Kassiri, Assistant Chief Administrative Officer  
Office of the County Executive

SUBJECT: Internal Control Review – Procure-to-Pay: Specific Functions

I appreciate the internal control review conducted by the audit firm, SC&H Group, of specific functions associated with the County's procure-to-pay operations. The review identified several opportunities for the County to further enhance and strengthen its processes to ensure sound program and financial management.

While several other offices/departments are expected to comment on specific aspects of the report associated with accounts payable and procurement functions, I wanted to specifically address the actions planned to address the first finding and recommendation concerning the policies and procedures associated with non-procurement agreements. I agree that the County would benefit from establishing a formal policy concerning the review of such agreements prior to being advanced to the Chief Administrative Officer (CAO) for signature. A formal policy would help promote more consistent review, identification, and resolution of potential issues by a number of key departments prior to execution of such agreements. The Office of the County Attorney, as noted in the report, already is required to review each agreement prior to the agreement being advanced to the CAO's office for signature.

To address this specific recommendation, we have already established a group involving representatives from the Office of the County Attorney, Department of Finance, and the Office of Procurement with the responsibility to develop a formal policy governing the review and approval of all agreements that are deemed exempt from procurement regulations.

We have also directed the Office of the County Attorney, in advance of the policy being finalized, to ensure that any agreement requiring the CAO's signature and involving the transfer of County funds be concurrently reviewed by Finance, and Procurement as appropriate, prior to the agreement being advanced for CAO signature.

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William Broglie, Internal Audit Manager  
May 8, 2018  
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Finally, because we understand the Inspector General has been engaged in review of some related issues, we plan to ensure that our final corrective action plan is coordinated with the Inspector General.

Thank you.