

**FREDERICK COUNTY, MARYLAND
FREDERICK COMMUNITY COLLEGE ACCOUNTS PAYABLE & DISBURSEMENTS**

**PERFORMANCE AUDIT REPORT
For the period July 1, 2021, through December 31, 2023
Report # 24-03**



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**FREDERICK COUNTY, MARYLAND
FREDERICK COMMUNITY COLLEGE ACCOUNTS PAYABLE & DISBURSEMENTS
PERFORMANCE AUDIT REPORT
TABLE OF CONTENTS**

INDEPENDENT AUDITORS' REPORT AND EXECUTIVE SUMMARY	1
BACKGROUND	4
OBJECTIVES, SCOPE, AND METHODOLOGY	6
OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT'S RESPONSES	9



INDEPENDENT AUDITORS' REPORT AND EXECUTIVE SUMMARY

Interagency Internal Audit Authority
Frederick County, Maryland

Frederick County Government Interagency Internal Audit Authority (IIAA) engaged CliftonLarsonAllen LLP (CLA) to conduct a performance audit of the Accounts Payable and Disbursements processes of Frederick Community College (FCC). Our audit scope covered the period of July 1, 2021, through December 31, 2023. We conducted our audit in accordance with *Governmental Auditing Standards* issued by the Comptroller General of the United States.

The focus of our audit was to review the policies and transactions related to Accounts Payable and Disbursements. Our specific objectives were to assess the adequacy of internal controls and policies pertaining to the segregation of duties and their effectiveness in mitigating the risk of unauthorized transactions.

Furthermore, we examined whether the general disbursement and purchase card transactions aligned with the policy and procedure guidelines set forth by the FCC. It was essential to ensure compliance with these guidelines to maintain transparency and accountability.

Another key area of assessment was the adherence to policies and procedures for creating new vendors. Our objective was to determine if vendors were being added in accordance with established policies and procedures and to identify any potential inconsistencies or gaps.

We also evaluated the timely removal of unused vendors from the active vendor list which is a key function for maintaining an up-to-date and accurate vendor database, minimizing potential risks associated with stale vendors.

Lastly, we assessed the efficiency and risk profile of the receiving process. It was essential for this process to operate effectively and maintain a low risk profile to avoid any delays, errors, or potential vulnerabilities.

By conducting this comprehensive review, our objective was to provide insights and recommendations that would enhance the overall effectiveness and integrity of the Accounts Payable and Disbursements functions in your organization.

A summary of observations are as follows:

Interagency Internal Audit Authority
Frederick County, Maryland

Observation #	Area	Observation
1	Vendor Master File Analysis & Segregation of Duties	<p>Certain personnel possess the ability to add vendors, add invoices, and process payments. We noted that certain individuals have the capability to perform incompatible functions.</p> <p>Additionally, in relation to the modifications made to vendor information, it is important to highlight that all tested changes were duly authorized and supported by verified documentation. Nevertheless, it has been observed that the individuals responsible for altering payment and address details also possess the capability to initiate payments.</p>
2	Vendor Master File Analysis	<p>According to best practices, inactive vendors should be regularly reviewed and removed from the vendor list. It is generally recommended to review and update the vendor list at least annually or quarterly.</p> <p>During our review, we noted 65 vendors listed as active but for which there were no payments between July 1, 2021, and December 31, 2023. Additionally, there were no payments made to these vendors from January 1, 2024, up until our testing date of April 15, 2024.</p> <p>Upon review and discussion with FCC finance, we found that each of the 65 vendors had some level of activity on their accounts within the annual FCC vendor review process procedures. However, the process and timing of creating accounts, specifically dual enrollment created accounts may need review.</p>
3	Vendor Master File Analysis	<p>As part of the task order, we were directed to review a sample of vendor changes from July 1, 2021, to December 31, 2023. However, Frederick Community College was unable to provide us with the details of changes made to the Vendor Master File vendor prior to 250 days from the current run date.</p>

Interagency Internal Audit Authority
Frederick County, Maryland

Key recommendations are as follows:

1. Assign distinct roles to different personnel to ensure that no individual has the authority to perform overlapping functions that are incompatible with proper segregation of duties, implement access controls within the system to restrict permissions based on job functions, and establish a multi-tier approval process for critical accounts payable activities.
2. Implement a systematic process for the periodic review and removal of inactive vendors from the active vendor listing including establishing criteria for identifying inactive vendors, conducting regular reviews, maintaining documentation of the review process, and communicating updated vendor status.
3. Work with the IT Department to develop a report that tracks Master Vendor File changes for a period greater than 250 days for proper audit support.

We included responses from FCC after each finding in the finding, recommendations, and management's responses section.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
November 20, 2024

FREDERICK COUNTY, MARYLAND
FREDERICK COMMUNITY COLLEGE ACCOUNTS PAYABLE & DISBURSEMENTS
PERFORMANCE AUDIT REPORT

BACKGROUND

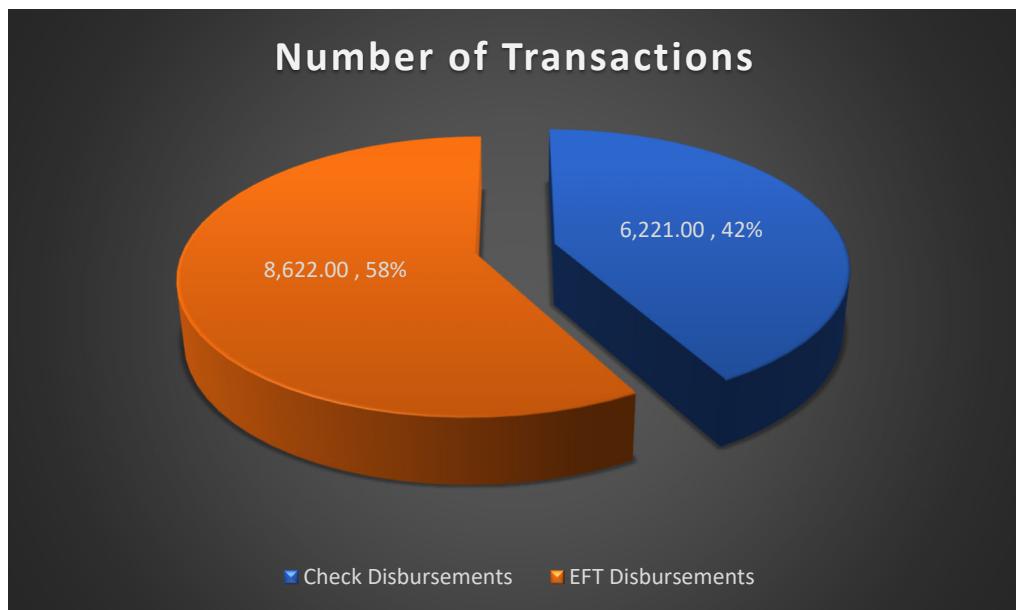
Frederick Community College (FCC) is a public college accredited by the Middle States Commission on Higher Education (MSCHE). FCC offers more than 85 degree and certificate programs through credit and continuing education and workforce development and serves approximately 16,000 students. Approximately 30% of students are full-time and 70% of students are part-time.

The Frederick Community College Foundation, Inc. (Foundation) is considered a component unit of FCC and is discreetly presented in the financial statements of the College. The scope of this analysis is limited to the financial records of FCC and excludes the Foundation.

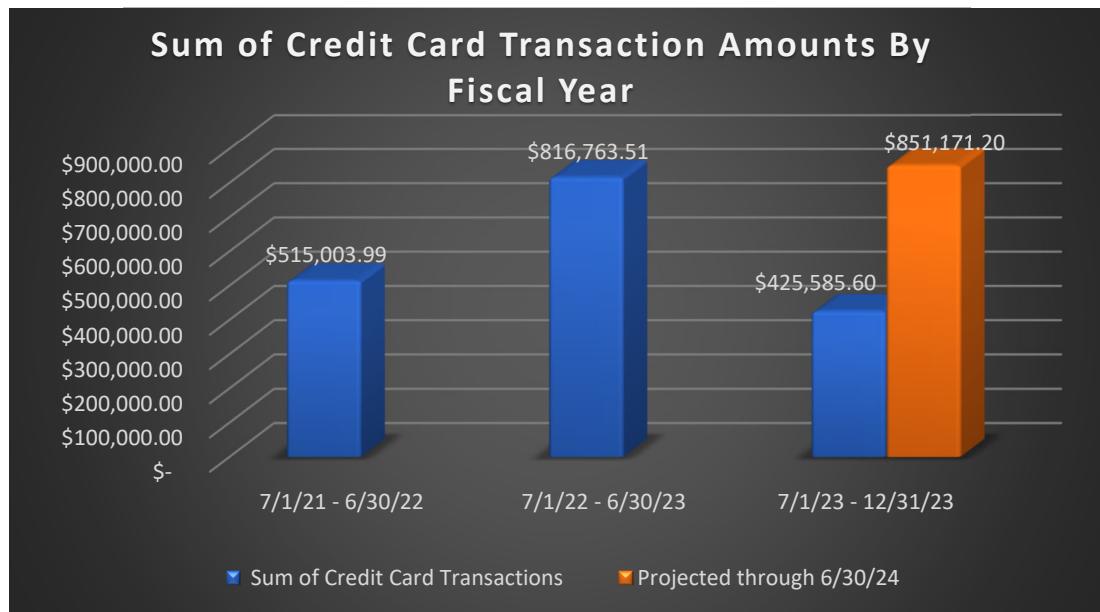
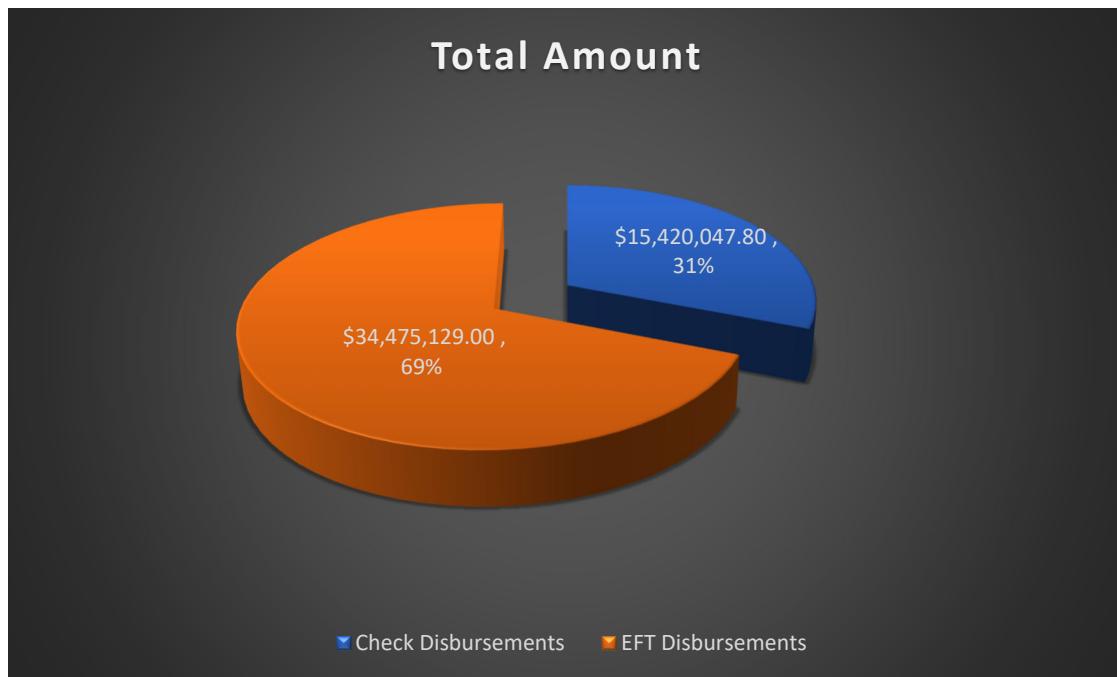
FCC utilizes three distinct payment methods for its disbursements: check payments, electronic funds transfer (EFT) payments, and procurement card payments. During the specific period from July 1, 2021, to December 31, 2023, the FCC processed a total of 14,843 payments, with an aggregate value of \$49,895,176.80. Among these disbursements, 6,221 transactions utilized check payments, amounting to \$15,420,047.80, while 8,622 transactions were executed through EFT payments, reaching a total of \$34,475,129.

Included in the EFT payment totals mentioned above are payments made to pay-off purchase card balances. FCC utilizes purchase cards to facilitate small-scale transactions efficiently. These payment cards are issued through Truist Bank and are held by 59 designated FCC purchase card holders. The purchase cards have varying credit limits, ranging from \$2,000 to \$25,000.

To provide some context, during fiscal year 2022, fiscal year 2023, and fiscal year 2024 up to December 31, 2023, the credit card disbursements amounted to \$515,003.99, \$816,763.51, and \$425,585.60 respectively. It is projected that the total credit card disbursements for the full fiscal year would reach \$851,000.



FREDERICK COUNTY, MARYLAND
FREDERICK COMMUNITY COLLEGE ACCOUNTS PAYABLE & DISBURSEMENTS
PERFORMANCE AUDIT REPORT



The increase in credit card transactions during three years displayed is attributed to several factors. Post-COVID, there has been a significant rise in travel to conferences, driven by FCC's renewed focus on professional development. This has led to higher travel expenses, which are often covered using credit cards. Additionally, conference fees have also increased, and these fees are primarily paid with credit cards. There was also an increase in cardholders due to the addition of Associate Vice President (AVP) positions and the new departmental structures.

FREDERICK COUNTY, MARYLAND
FREDERICK COMMUNITY COLLEGE ACCOUNTS PAYABLE & DISBURSEMENTS
PERFORMANCE AUDIT REPORT

OBJECTIVES, SCOPE AND METHODOLOGY

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) established by the U.S. Government Accountability Office (GAO). 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 the audit objectives.

The objectives of the audit are as follows:

1. Gain an understanding of the FCC Accounts Payable and Disbursements policies and procedures and evaluate the risks and internal controls identified.
2. Ensure the compliance of newly established vendors with designated policies and procedures, to conduct an evaluation of the segregation of duties in place, and to validate the presence of supporting documentation that substantiates the vendor additions. CLA tested 77 or approximately 10% vendors added during the audit period.
3. Ensure existence and adherence to appropriate policies, procedures, and controls pertaining to changes made to new vendors and to conduct testing to validate the authorization and support of changes made to new vendors through review of relevant documentation. Additionally, evaluate the existence of effective segregation of duties concerning updates to vendor information. CLA tested 69 or approximately 10% of vendors with information updates (address information, payment information, etc.) during the audit period.
4. Compile a list of active vendors who have not received any payments from July 1, 2021, to December 31, 2023. Investigate the reasons for maintaining these vendors as active despite the lack of financial transactions within the specified period.
5. Observe and walkthrough the receiving process of goods by central receiving staff, including the delivery/receipt process by the departments including reconciliation between invoice, packing slip and purchase order. For damaged or incorrect items, observe and walkthrough the return process, including department approval of the return.
6. Select a sample of credit memos for the period 7/1/21 through 12/31/23 and verify that were was proper approval and that the transactions were supported by appropriate documentation. CLA tested 22 or approximately 5% of credit memos.
7. Obtain the general disbursements population for the period from July 1, 2021, to December 31, 2023, and select sample of disbursements to test compliance with policies, including verification of item receipt, timely payment processing, proper approvals, and correct general ledger coding. If related to a purchase order, ensure the PO was properly approved and payment was made post-PO and applied appropriately. CLA tested 303 or approximately 2% of disbursements during the audit period.

FREDERICK COUNTY, MARYLAND
FREDERICK COMMUNITY COLLEGE ACCOUNTS PAYABLE & DISBURSEMENTS
PERFORMANCE AUDIT REPORT

OBJECTIVES, SCOPE AND METHODOLOGY (CONTINUED)

8. Obtain the population of procurement card holders for the specified period and for a sample of cardholders, choose one month per cardholder to review the monthly statement and receipts, testing to ensure expenditures comply with policy and the disbursement process for payment is followed. CLA selected 5 cardholders for testing which is more than 5% of the procurement cardholder population.
9. Understand various finance personnel responsibilities and search for incompatible duties.

Our methodology and scope consisted of:

1. Reading the detailed FCC policies and procedures related to the processes of Accounts Payable and Disbursements, Purchase Cards, Procurement, Payroll and Segregation of duties and evaluating the adequacy of the controls encompassed in the respective policies and procedures.
2. Regarding new vendor testing, our methodology approach consisted of:
 - Reviewing the 'Supplier Registration/Change Form' noting the Supplier Name, Supplier ID, and the personnel who entered the information
 - Reviewing the completed and signed W-9 Form
 - Reviewing evidence in PeopleSoft that additions were facilitated by authorized personnel.
3. In the context of vendor change testing, procedures included:
 - Obtaining Documentary evidence to validate and ensure the integrity and accuracy of the information modified for the vendor including signed Vendor/ACH Direct Deposit Authorization forms, signed supplier registration/change forms, vendor invoices, membership forms, etc.
 - For email related changes, proof of new email support was obtained and reviewed.
 - Reviewed the personnel who were responsible for making the vendor change and concluded whether or not they also had the ability to initiate payments.
4. In order to isolate a list of active vendors that have not received payment since 7/1/21. A listing of active vendors was obtained, and a formula was employed to cross-reference the active vendor listing against the disbursement listing to identify active vendors who were not included on the disbursement listing. Inquiry was then conducted regarding any vendors for which there were no payments.
5. In order to observe and evaluate the sufficiency of the receiving process, a CLA staff member conducted an on-site physical walkthrough of the entire procedure; this included custodial responsibilities, reconciliation of received items to underlying records, system input, routing and delivery processes, password security protocols, and the responsibility and segregation of duties related to inspecting packages and performing a three-way match between the purchase order, packing slip, and received items. Additionally, a walkthrough was conducted over the return process, focusing on departments requesting Return Merchandise Authorizations (RMAs) and the communication between these departments and the FCC receiving department.

FREDERICK COUNTY, MARYLAND
FREDERICK COMMUNITY COLLEGE ACCOUNTS PAYABLE & DISBURSEMENTS
PERFORMANCE AUDIT REPORT

OBJECTIVES, SCOPE AND METHODOLOGY (CONTINUED)

6. The testing approach for credit memos included:
 - Reviewing the initial invoice for return of goods.
 - Noting approval of return of goods from department head.
 - Reviewing evidence of the credit memo received from the vendor.
 - Reviewing evidence of the credit memo's existence in the PeopleSoft & ImageNow Systems.
 - Noting approval from the department head within the ImageNow System for the credit memo.
7. General disbursement transaction testing consisted of:
 - Reviewing the check request, purchase request, or IT request for proper authorization.
 - Ensuring that purchase orders were properly generated in Peoplesoft with required approvals.
 - Confirming check amount agreed to invoice amounts.
 - Verifying that transaction was properly recorded in the general ledger.
 - Verifying that invoices were properly coded to PO.
8. Purchase-Card transaction testing concerned allowability and approval on a sample basis. Transaction testing focused on the following areas:
 - Ensuring purchases on credit card statement tie to supporting documentation.
 - Verifying that for any credit card transactions, a credit expense form was completed and approved by direct supervisors
 - Determining that purchases on credit card statements tie to supporting documentation and are traceable to bank statements.
 - Verifying that transactions were in accordance with policy.
9. Regarding segregation of duties, a list was compiled of individuals with system access to add vendors, process invoices, run checks, and approve new procurement cards. This list was then cross-referenced with assigned duties to assess compliance with segregation of duties principles.

FREDERICK COUNTY, MARYLAND
FREDERICK COMMUNITY COLLEGE ACCOUNTS PAYABLE & DISBURSEMENTS
PERFORMANCE AUDIT REPORT

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

Observation No. 1 – Segregation of Duties

After reviewing a list of personnel who possess the ability to add vendors, add invoices, and run checks, it was determined that four individuals have the capability to perform all three functions. Additionally, in relation to the modifications made to vendor information, it is important to highlight that all tested changes were duly authorized and supported by verified documentation. Nevertheless, it has been observed that the individuals responsible for altering payment and address details also possess the capability to initiate payments. We acknowledge that FCC provided an outline of several important controls related to the Accounts Payable, Disbursements, and Vendor Master File maintenance processes. However, our conclusion is that the existing controls do not specifically mitigate the risk associated with lack of segregation of duties regarding creating new vendors and making changes to a vendor's bank account or payment addresses considering that that same personnel who can make these changes also have the ability to make payments.

We recommend FCC assign distinct roles to different personnel to ensure that no individual has the authority to create vendors, modify vendor information, add invoices, approve new procurement cards, and initiate payments. This separation will reduce the risk of errors and fraudulent activities.

We recommend FCC implement access controls within the system to restrict permissions based on job functions and ensure that employees only have access to the modules and functions necessary for their specific roles.

Management's Response

As was stated in Observation No. 1, FCC has several important controls in place to minimize fraud risk including the creation of purchase orders and voucher requests with the required documentation, budget validation, and approvals, all performed outside of the Accounts Payable (AP) department. Adding new vendors or updating vendor information requires an approved vendor request form with a W-9 form to be submitted to AP. AP then notifies the requestor once the required changes are made.

In response to CLA's recommendation, as of August 2024, FCC has further enhanced our AP controls by moving the check processing feature to a position outside of the AP department. The three AP positions will continue to add and make changes to the vendor master file; however, they no longer process payments. These two roles in our accounting software, PeopleSoft Financials, are configured so that the positions that have access to make vendor changes cannot process checks and vice versa.

FREDERICK COUNTY, MARYLAND
FREDERICK COMMUNITY COLLEGE ACCOUNTS PAYABLE & DISBURSEMENTS
PERFORMANCE AUDIT REPORT

Observation No. 2 – Inactive Vendors

We initially identified 65 vendors listed as active but without payment from July 1, 2021, to December 31, 2023. Upon review and discussion with FCC finance, we found that each of the 65 vendors had some level of activity on their accounts within the annual FCC vendor review process procedures. FCC reviews vendors for inactivity with an 18 month look back annually in March. Activity includes vendor information updates/changes, purchase order activity, newly created accounts and payments. Of the 65, 10 had payment activity, 8 were changes or updates to vendor accounts, 7 were purchase orders, 24 were newly created accounts and 16 were dual enrollment instructor accounts created. Through this review we found that FCC finance is performing an annual review of vendor accounts for outdated activity over an 18 month period, however, the process and timing of creating accounts, specifically dual enrollment created accounts may need review (4 were created with no further activity during 2022, 9 were created in 2023 prior to July 1st with no further activity and 3 were created in 2023 post July 1st).

We recommend that FCC perform the following as it relates to stale vendors and vendor inactivity:

1. Ensure the annual review continues to take place and place emphasis on accounts that are becoming stale or created with no activity
2. If resources are available, update procedures to have a review bi-annually or quarterly
3. Maintain documentation of the review process and decisions made regarding vendor status, if not already fully held within the ERP system (PeopleSoft)
4. Communicate with dual enrollment and determine if the creation of accounts in the system can be modified

Management's Response

FCC does have an annual vendor review process that occurs each March. It reviews vendor activity and inactivates those vendors with no activity in the prior 18 months. Activity includes payments, purchase orders, vouchers, and vendor master file changes. Based on CLA's recommendation we will change the vendor review process to bi-annually, occurring March and September each year with an 18-month lookback beginning in September 2024.

The vendor review process is documented in PeopleSoft, and the inactivated date is noted on the inactive vendor's master file. Additional documentation will be maintained by the AP Manager as verification that the bi-annual review process was completed.

Communication took place with the Dual Enrollment department on September 9th, 2024. It was discovered vendor setups were being requested at the time instructors were hired, and payments are not made until the instructors attend either a professional development class or a training session at FCC. These events only take place once or twice per year. Some of the newly hired instructors never attend either event, and therefore, no payments are issued, and the vendor becomes inactive after 18 months of no activity. Dual Enrollment is now going to wait until an instructor attends an event and is due a payment before requesting a vendor setup.

FREDERICK COUNTY, MARYLAND
FREDERICK COMMUNITY COLLEGE ACCOUNTS PAYABLE & DISBURSEMENTS
PERFORMANCE AUDIT REPORT

Observation No. 3 – Report Scope Limitation

As part of the task order, we were directed to review a sample of vendor changes from July 1, 2021, to December 31, 2023. However, Frederick Community College was unable to provide us with the details of changes made to the Vendor Master File vendor prior to 250 days from the current run date. Therefore, we were unable to perform our testing of changes made to vendor files for the entire audit period to ensure there were proper approvals and proper segregation of duties over changes made to vendor files.

We recommend that FCC work with their IT Department to develop a report that tracks Master Vendor File changes for a period greater than 250 days for proper audit support.

Management's Response

The IT department is currently working to modify the prior 250-day report of vendor master file changes to a report that will be generated by date range. The report is anticipated to be completed by March 2025.



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