

**PLANNING SURVEY AND RISK ASSESSMENT  
FREDERICK COMMUNITY COLLEGE PURCHASING OPERATIONS**

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For Frederick County Internal Audit Division Use Only



**Cotton & Company LLP**  
**Planning Survey and Risk Assessment**  
**Frederick Community College Purchasing Operations**

In accordance with the terms of our task order under Contract #000013171, Cotton & Company performed a planning survey and risk assessment of the purchasing operations at Frederick Community College (FCC). Our work was conducted in accordance with the 2011 Revision to the Government Auditing Standards issued by the Comptroller General of the United States.

**Objectives and Scope**

The objectives of the planning survey and risk assessment were to understand FCC's purchasing procedures and practices, evaluate risks and internal controls, and identify specific audit objectives to address the highest risk areas.

Our survey and risk assessment encompassed fiscal years (FYs) 2011 and 2012. It included the originating department's requirements, the acquisition process, acceptance of the product or service by the originating department, and final payment and recording of the purchases in FCC's financial records. It did not include purchases made by college credit card, employee reimbursements, or capital construction purchases.

**Pertinent Regulations**

Maryland Annotated Code § 16-313 provides the main procurement regulatory requirements for FCC. It exempts FCC from competitive solicitation requirements for textbooks, learning materials, resale products, procurements under \$2,500, and emergency purchases. Non-exempt procurements over \$2,500 should be awarded competitively. The Code outlines specific sealed bid procedures, including notification, evaluation, and award procedures, for procurements above \$100,000. This section also states that FCC is exempt from minority-business participation requirements. The Code outlines sole-source purchase requirements in § 16-314, requiring adequate justification and approval by the Board of Trustees.

FCC has written purchasing policies and procedures, which are outlined in the Accounting Procedures Manual Section 3.00, "General Procurement Procedures & Procedures and Guidelines." These policies and procedures were established prior to FY 2010. They outline the key controls in the procurement process and provide solicitation and approval requirements by purchase type. The section titled "FCC Procurement System Overview" outlines the detailed steps that a purchase order follows through the PeopleSoft Procurement module. These policies meet or are more stringent than the state regulatory requirements.

**Methodology and Approach**

Cotton & Company's methodology and approach was as follows:

- Obtained and reviewed FCC's purchasing policies and procedures.
- Obtained and reviewed state and local regulations applicable to FCC's purchasing operations.
- Contacted FCC's financial statement auditors; obtained and reviewed copies of their workpapers documenting and testing the purchasing and accounts payable controls. Both fiscal years' audits

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included testing transactions recorded in the financial system against approved invoices, receiving reports, and authorized matching purchase orders with no exceptions noted.

- Interviewed key personnel in the budgeting, purchasing, Vice President of Administration, receiving, and accounts payable departments.
- Interviewed IT, facilities, and science laboratory department purchasers that had made significant purchases.
- Documented our understanding of FCC's processes in place using narratives and process flow charts.
- Identified key risk areas within the procurement process, as well as key controls FCC has established to address these risks and identify any control weaknesses inherent in the established system. See the Attachment - FCC Purchasing Operations Risk Assessment Matrix.
- Obtained a download of all transactions from FYs 2011 and 2012 and selected a sample of transactions for testing. Using the information from the system regarding type of purchase, dollar value, and vendor name, we selected a sample of 20 transactions from each year, ensuring at least one transaction was selected from the purchasers with significant volume or material total transactions over the period. We selected a variety of dollar value transactions, ensuring that several were near the thresholds for increased competition requirements, and several were identified as sole source. We also reviewed the file for the possibility of transaction splitting. This sampling methodology resulted in a population that included a few transactions for each type of purchasing process used at FCC, including small procurements, riding active contracts, sole source, request for quotes, request for proposals, and purchases for Information Technology, textbook, and resale items. The audit sample covered transactions at all dollar thresholds and transactions initiated by a large percentage of authorized purchasers. We also included all FYs 2011 and 2012 emergency purchases.
- For each of the sample transactions, we:
  - Verified that the purchase had been categorized in the correct budget category.
  - Acquired and reviewed documentation verifying that FCC had followed procurement selection and award procedures and regulations. Documentation included sole-source justifications, quotes received, analysis of available contracts for piggybacking, the Request for Proposal, documentation demonstrating the publicity of the opportunity, evaluation and recommendation of bidders by the selection committee, approval by the Board of Directors, and notification of award.
  - Reviewed information in the PeopleSoft Procurement Module to verify that proper approval had been obtained. This included verifying that persons listed as approvers were identified in the FCC approval path document. This document identifies specific management and Vice Presidents authorized as approvers for each department. We also verified that purchasing department approval had been input for each selected transaction.
  - For a sample of transactions paid on each of the selected purchase orders, we verified that the purchaser and the accounts payable personnel had documented the proper approvals and that the payment agreed to the invoice with regard to vendor, amount, quantity, and type of items. We also verified that the purchaser's approval stamp, as well as approval stamps from any manager review (per specific department procedures), were present.

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## **Conclusion and Recommendation**

We determined that FCC has a strong control environment over the purchasing operations with many levels of detailed and thorough reviews to prevent and detect fraud. We did not identify any deficiencies or deviations from stated policies and procedures in our survey.

The Purchasing Director takes solicitation and award compliance with regulations and best practices seriously. He works with other community colleges to identify best practices and share contracts, and he reviews multiple contracts that FCC can utilize or “piggyback” and selects the most cost effective ones. The Vice President of Administration’s Special Project Coordinator, who has reviewed purchases at FCC for 23 years, conducts detailed reviews of purchases and of all contracts before they are submitted to the Vice President of Administration for review.

Through our review of documents and interviews conducted with purchasers, we found that FCC had strong control activities in place to encourage competition and select the lowest priced responsive bidder. System controls require approval from different levels of management based on the type and dollar amount of purchases. Multiple levels of management review all purchases, with the Board of Trustees reviewing new contracts over \$25,000.

System and management controls are in place to ensure that expenses are properly budgeted and that expenditures are adequately approved. There are checks in place to ensure that purchases are categorized in the correct budget category, with reviews conducted by management, as well as an independent review by the Purchasing Department. During the payment process, accounts payable personnel also review the budget categories. Processes are in place to segregate duties between purchasing, receiving, and payment, and there are system controls for adding and making changes to the vendor file. Controls are in place to ensure payments are made only for those goods and services that have been received and accepted.

Based on our testing of a sample of transactions, the controls established to mitigate key purchasing risks appear to be in place and functioning as intended. Accordingly, we have determined all areas to be low risk; there are no high-risk areas. We do not believe that additional audit testing of FCC’s purchasing operations are warranted or necessary at this time.

**Attachment - FCC Purchasing Operations Risk Assessment Matrix**

Attachment to Memo - FCC Purchasing Operations Risk Assessment Matrix

| Procurement Cycle Function | Key Risks   | FCCs Controls in Place to Mitigate Risks  | Assessed Risk Level |
|----------------------------|---|---|---------------------|
| Budgeting                  | Spending is not budgeted nor properly approved.                 | <p>The Department Manager requests budget and the President’s Administrative Staff develop the budget with the Budget Manager.</p> <p>The President’s Cabinet (20 members of the Executive FCC management team), the Board of Trustees, and the County Commissioners approve the budget before it is finalized.</p>   | Low                 |
| Budgeting                  | Unauthorized use of money or department allocated funds.        | <p>The system only accepts purchases with a sufficient available budget in the specific account code. The system commits the budget so that it cannot be recommitted until purchase order dollars are released.</p> <p>Multiple levels of review occur on purchase orders and during the payment process to ensure that purchases are appropriate for the budget line item used.</p> <p>Once the budget is approved, only budget transfers between account codes or within the Division can occur. The transfer process requires approval from the Budget Manager to ensure the transfer meets FCC policy, and requires additional levels of approval.</p>  | Low                 |
| Budgeting                  | Spending is not in accordance with executive approved budget.   | <p>Budget transfers must be approved by the Budget Manager, Department Manager, Division VP, and VP of Administration.</p> <p>The Budget Manager who has sole authority for budget input and changes, cannot make purchases, and does not have any payment authority.</p>   | Low                 |
| Purchasing                 | Regulations are not followed when procuring goods and services. | <p>Many purchases are exempt from solicitation requirements by the regulations including those under \$2,500, those considered emergency, and for textbook, learning materials, and resale items. FCC requirements are more stringent than the state regulations to encourage competitive award procedures even for these exempt purchases.</p> <p>When riding contracts from other counties, the state, or consortiums, FCC fully evaluates the active contracts to ensure they were solicited and awarded in accordance with required Maryland State solicitation and award requirements.</p> <p>FCC policies and procedures meet the requirements for competitions for purchases between \$2,500-25,000, as they are competitively awarded through quotes, bid selection, or riding competitively awarded contracts.</p> <p>FCC policies and procedures place more stringent full competition requirements than state required regulations. Purchases above \$25,000 and less than the \$100,000 regulatory threshold are competitively solicited through formal requests for proposals and award.</p> | Low                 |

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|----------------------------|---|---|---------------------|
|                            |   | FCC's Sole Source award policy and procedures meet state regulatory requirements. Sole Source awards above \$25,000 must be approved by the Board of Trustees. Sole source awards over \$2,500 must be approved by the VP of Administration, the Division VP, and the Purchasing Department.  |                     |
| Purchasing                 | FCC spends more than necessary on purchases.  | <p>FCC's policy is to use all available sources to find best price for all purchases. Many purchases that fall under the \$2,500 threshold are purchased from other counties, the state, and consortiums contracts to take advantage of economies of scale.</p> <p>The Purchasing Department and the department end users conduct a thorough analysis to ensure the best priced contract is used by comparing contracts available at different counties, the state, and consortiums, before determining which contract to ride.</p> <p>If existing contracts are not available for purchases between \$2,500 and \$25,000, quotes are requested from at least three sources, evaluated, and the lowest responsive bidder is selected.</p> <p>If existing contracts are not available for purchases over \$25,000, an RFP is posted, and a committee is established to review and analyze the bid responses to determine the lowest responsive bidder.</p> | Low                 |
| Purchasing                 | Unsuitable vendors are used.  | <p>The Purchasing Director checks references before riding available contracts.</p> <p>Selection committee chairs check bidder references during the selection process for RFPs.</p> <p>Purchasers check reviews online before placing orders with new vendors.</p> <p>Purchasers will not use vendor again if service or products do not meet expectations.</p>  | Low                 |
| Purchasing                 | Payments are made to fraudulent vendors.  | <p>A W-9 form is required for a vendor to be added to the system by the Purchasing Department.</p> <p>New vendors can only be added by the Purchasing Department with proper segregation of duties between purchasing and payments.</p>   | Low                 |
| Purchasing                 | Potential vendors are unaware of opportunities which lead to decreased competition. | <p>RFP information is posted in the local newspaper as required by state regulations. Additionally, the opportunity is posted on the EMdMarketplace site and FCC's website Bid Board.</p> <p>Bid award notification information is posted to FCC's website Bid Board.</p>   | Low                 |
| Purchasing                 | Unnecessary or unjustified purchases are  | Purchase Orders (PO) under \$2,500 receive purchaser and Department Management approval at the Department Head or Director level.   | Low                 |

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|                            | made, which lead to a misuse of FCC financial resources.                          | <p>POs between \$2,500 and \$25,000 must also be approved by the Division VP.</p> <p>POs over \$25,000 need the additional approval from the VP of Administration, and for all new contract awards (RFP process awards), the Board of Trustees must also approve before award.</p> <p>The Purchasing Department then approves all POs before it can be used for purchases.</p>  |                     |
| Purchasing                 | FCC is bound by contract terms not in FCC's best interest.                        | Only the VP of Administration can sign contracts for FCC after a thorough contract evaluation by the Purchasing Director and the VP of Administration's Special Project Coordinator to ensure terms and conditions are in the best interest of FCC.   | Low                 |
| Purchasing                 | Purchases are made unnecessarily without competitive award.                       | <p>The Purchasing Director highly scrutinizes all sole source requests and encourages and assists in finding ways to use the competitive award process whenever possible.</p> <p>If determined a legitimate sole source need, full justification will be documented.</p> <p>The VP of Administration must approve all sole source purchases over \$2,500. Additionally, the Board of Trustees must approve all sole source purchases over \$25,000.</p> | Low                 |
| Purchasing                 | Purchasers use the emergency voucher process to circumvent the formal PO process. | <p>All purchases that do not go through the PO process must be approved by the VP of Administration prior to awarding a contract with a vendor.</p> <p>Accounts Payable (A/P) notifies the Purchasing Director of all invoices that do not have PO numbers to ensure that the purchase was properly approved and did not require the formal PO process.</p>   | Low                 |
| Receiving                  | Purchases are not adequately controlled upon receipt.                             | <p>A two-person Receiving Department receives all purchases in a secured location, scans the goods into the Smart Track system with an automated scanner, and records the receipt of the package in the Smart Track system..</p> <p>The Receiving Department checks for damage and does not accept damaged goods</p> <p>Purchasers are identified, and packages are delivered to the purchaser the same day as received.</p>                            | Low                 |
| Receiving                  | Goods ordered are not received or are not in accordance with specifications.      | <p>The end user department verifies that the goods received agree to the order for quantity and quality.</p> <p>Partial shipments are tracked to ensure the remainder of the order is received or it will not be paid for.</p> <p>If items do not meet specifications or are damaged, the end user department will contact the vendor.</p>  | Low                 |

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| Accounts Payable           | Employees create and pay fictitious vendors.                                      | <p>Only Purchasing Department personnel have vendor file access and can add and make address changes to the vendor list.</p> <p>The Purchasing Department is not involved in the invoice receipt or payment functions.</p> <p>A/P staff are not involved in the PO creation, input, or approval function.</p> <p>System controls are in place to ensure inactive vendors cannot be paid.</p> | Low                 |
| Accounts Payable           | Payments are made for goods and services that have not been received or accepted. | End user purchasers receive and accept purchases and approve the invoice after reviewing to ensure the price, quantity, and or service agrees with that contracted and accepted.   | Low                 |
| Accounts Payable           | Payments made for goods and are services not authorized.                          | <p>A/P staff ensure invoices agree to the PO and that it is coded to the correct budget line code.</p> <p>A/P staff that have input final approval authority over the payment of invoices do not have purchasing authority.</p> <p>Associate VP of Fiscal Services reviews the check register report prior to checks being mailed to vendors for payment.</p>                                | Low                 |

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