



**ANNE ARUNDEL COUNTY
OFFICE OF THE COUNTY AUDITOR**

August 6, 2018

The Honorable Members of the County Council
The Honorable County Executive Steven R. Schuh
Christine Romans, Central Services Officer
John Hammond, Budget Officer
Karin McQuade, Controller
Anne Arundel County
44 Calvert Street
Annapolis, Maryland 21401

Dear Council Members, County Executive Schuh, Ms. Romans, Mr. Hammond, and Ms. McQuade:

Under § 311 of the County Charter, I am calling to your attention and taking exception to the following improper procedure. Central Services circumvented the budgetary procedures and legal appropriation controls and charged a Self-Insurance Fund expenditure to the Facilities Management Division (FMD) in the General Fund.

The County's Annual Budget and Appropriation Ordinance (ABAO) establish budgetary appropriations by fund. The ABAO states that amounts appropriated will be used by the departments, operating units, etc. for the principal objectives and purposes thereof. In situations where appropriation authority is inadequate to pay for a fund's expenditures and encumbrances, Charter Sections 711 and 712 allow for transfers of appropriations or supplemental appropriations through an ordinance.

In August 2016, the County hired a vendor to perform advisory services for Central Services' Risk Management Division (Risk Management). The contract totaled \$4,500 and required the firm to identify and assess the workflow for reporting of workplace injuries and the injury management process. The term of the contract was August 29, 2016, to June 20, 2017.

On September 2, 2016, Risk Management staff entered a purchase order (PO) into the EnterpriseOne system as a Self-Insurance Fund encumbrance. Once in EnterpriseOne, a Risk Management supervisor, a buyer in the Purchasing Division, an analyst in the Office of the Budget, and a clerk in the Office of Finance approved the PO. According to management in these departments/divisions, these reviews and approvals accomplish the following:

- The 1st level of approval by the department/division ensures the commitment is proper in purpose and amount by reviewing supporting documentation.

- The 2nd level of approval by Purchasing verifies that the pricing outlined in the PO matches the quote or proposal for goods and services.
- The 3rd level of approval by the Office of the Budget ensures that the PO aligns with purposes of the business unit, department, or fund.
- The 4th level of approval by the Office of Finance ensures adequate appropriations within the department or division budget.

The contract with the vendor resulted in a report dated December 7, 2016. In early 2017, the Insurance and Safety Manager informed the Central Services Officer that they did not want to pay the vendor. The Central Services Officer asked FMD to pay the invoice. On February 27, 2017, FMD staff entered the second PO into EnterpriseOne for these services as an FMD encumbrance. The Assistant Facilities Administrator, Purchasing, Office of the Budget, and the Office of Finance approved the PO. On March 13, 2017, the County paid the vendor \$4,500.

We made inquiries of those who approved the second PO. We noted the former Facilities Administrator instructed the Management Assistant in FMD to enter the PO into EnterpriseOne. The Management Assistant was not aware of any other instances in which management directed the staff to charge another fund or division's expenditures to FMD. The buyer in Purchasing who approved the second PO has left the County. We did not receive a response from the Budget Analyst; however, the Budget Officer indicated a new analyst reviewed and approved this PO without noticing the impropriety of the expense. The Budget Officer also stated that due to the amount, the analyst might have approved it without a thorough review. According to the Controller, the Office of Finance approved the PO because there were adequate appropriations in the FMD business unit.

On March 6, 2017, Risk Management staff canceled its original PO and attached a note to the PO saying "Cancel this PO as FMD will be paying per" followed by the initials of the Risk Management supervisor.

According to the Central Services Officer, when the vendor presented the bill for the study, staff were concerned about having sufficient funds to cover the expense, and out of expediency, management asked FMD to pay the invoice so the vendor would not have to wait. However, the Central Services Officer agreed that this transaction was handled in error and should have been paid through the Self Insurance Fund's budget.

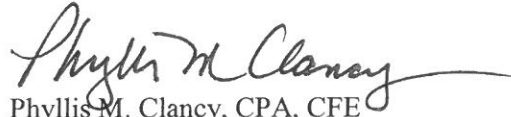
In response to these comments, we offer the following:

- In August, when the County staff entered the first PO, the system earmarked appropriations by recording an encumbrance in the Self-Insurance Fund. Since Finance had approved the original PO, there were adequate appropriations to pay the charge. The vendor would not have had to wait for payment because the payment would not require additional appropriations.
- Further, our analysis shows that the Self-Insurance Fund as a whole had adequate appropriation authority throughout all of fiscal year 2017. Therefore, we cannot substantiate the claim that there were insufficient appropriations in the fund. In fiscal year 2017, the Self Insurance Fund underspent its budget by \$1.2 million. Most of the excess appropriations were in the contractual services category.

- The Self-Insurance Fund is not only funded by the General Fund. The Utilities Fund, Solid Waste Fund, Child Care Fund, the Board of Education, the Community College, and the Library also provide revenue to the Self-Insurance Fund. Therefore, it is not appropriate to charge this expense solely to the General Fund.
- The Insurance and Safety Manager stated the contract was not an anticipated expense and in their view, the initial report contained errors, inconsistencies, and unsupported statements. Central Services staff asked the vendor to correct the report and issue a final report; however, the vendor disagreed with the observations and refused to revise the report.

We encourage the Administration to emphasize the importance of adhering to the budgetary controls established by the Charter, the ABAO, and budgetary policies. We also encourage all those assigned to enter and review transactions to carefully scrutinize POs and other payments for propriety and ensure that County departments and agencies charge expenditures to the correct fund.

Sincerely,

A handwritten signature in black ink that reads "Phyllis M. Clancy". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Phyllis M. Clancy, CPA, CFE
County Auditor

