Fairfax County Internal Audit Office

Police Extradition Reimbursement Process Audit
Final Report
September 2007

Executive Summary

We performed an audit of the Police Department's fugitive extradition reimbursement process. Our audit focused on the billing, cash receipts handling, and accounting functions associated with the extradition reimbursements; and we reviewed the propriety of extradition expenses as well. The Police Department generally appeared to comply with the Commonwealth of Virginia's (state) extradition reimbursement requirements, and all the extradition expenditures we reviewed appeared to be appropriate and were well substantiated by supporting documentation and secondary review. We did note, however, that the internal control structure over extradition reimbursements presented the following opportunities for potential improvement:

- Segregation of duties over the cash receipts process was not sufficient, as one staff position was responsible for performing all of the cash receipts activities including collecting, depositing, and recording the accounting transactions. Additionally, this position was remitting the billings to the state, and recording the accounting transactions and adjustments for the billings.

- Billing system controls were not sufficient. The Police Department tracked extradition billings by using a billing journal (Excel spreadsheet) rather than utilizing the county's financial system (FAMIS). Although the Department of Finance approved the department's use of an alternative billing process, the Excel spreadsheet file did not appear to have sufficient controls or accountability. The use of an Excel spreadsheet to account for extradition billings did not provide any audit trail of when or by whom billing records were posted, adjusted, or deleted; and all billing date records were deleted when the reimbursements were received.

- Extradition billings were not always timely, as 13 of the 30 billings reviewed were delayed over 60 days by the Fugitive Squad detectives, who were responsible for submitting the billings and travel receipts to the Financial Resources Division for review and remittance to the state. The timeliness of billings did appear to greatly improve during the past year, however, as all but one of the 13 delayed billings noted occurred prior to April 2006.

Scope and Objectives

This audit was performed as part of our fiscal year 2007 Annual Audit Plan and was conducted in accordance with generally accepted government auditing standards. The audit covered the period of July 1, 2005, through December 31, 2007, and the audit objectives were to determine if:

- Requests for reimbursement of extradition expenses were processed timely, accurately, and completely
- There were sufficient follow-up steps performed by the department for

reimbursements not received
- There was sufficient documentation maintained to support the extradition expenses
- Extradition reimbursement monies received were properly accounted for and processed.

Because extradition expenses are ultimately paid by the state rather than the county, through the reimbursement process, the Police Department follows the state extradition travel guidelines rather than the county's travel policy. Therefore we did not use the county's travel policy as a criteria while performing our audit. Our audit scope was also limited to out-of-state fugitive extraditions, which are the responsibility of the Police Department, and did not include in-state extraditions, which are generally the responsibility of the Sheriff.

Methodology

Our audit approach included reviewing the policies and procedures for fugitive extradition travel expenditures and reimbursements, and interviewing the management and staff of the Police Department to obtain an understanding of the requirements for propriety of extradition travel expenditures and the requirements for reimbursement. We also obtained samples of travel expense documents, reimbursement billings, and reconciliations for our review. Our audit did not examine the system controls over the county's financial system (FAMIS). Our transaction testing did rely on those controls; therefore, this was a scope limitation. The potential impact of this circumstance on our findings was that some portion of transaction data from FAMIS may have been erroneous, which could have affected the conclusions of the audit.

The Fairfax County Internal Audit Office is free from organizational impairments to independence in our reporting as defined by generally accepted government auditing standards. We report directly and are accountable to the county executive. Organizationally, we are outside the staff or line management function of the units that we audit. We report the results of our audits the county executive and the Board of Supervisors, and reports are available to the public.

Findings and Recommendations

1. Segregation of Duties

We noted a lack of sufficient segregation of duties, as an excessive scope of responsibilities was assigned to one accountant position in the Financial Resources Division (FRD). The position was responsible for performing the following duties:

- Remitting the extradition billings to the state
- Posting the billing records to the extradition billing journal (an Excel spreadsheet file)

- Receiving and opening the mail containing the reimbursement checks
- Preparing the bank deposit slip
- Making the deposit at bank
- Crediting reimbursements received to the billing journal
- Posting the cash receipt and expenditure credit transactions to the county's financial system (FAMIS)
- Adjusting the billing records or writing off unreimbursed billing amounts in the billing journal
- Reconciling the extradition reimbursements and expenditures per the billing journal to FAMIS

County financial policies emphasize that separation of duties "is one of the most important aspects of internal control" and that "departments are required to develop a system of checks and balances so that no individual person is responsible for the completion of all steps in processing monetary receipts." The effect of the noted lack of segregation of duties is the possibility that reimbursement monies could be misappropriated or unauthorized travel expenditures could be incurred, and remain undetected.

Recommendation: We recommend that the Police Department comply with the county's requirement for separation of duties over the cash receipts process. There should be more than one person responsible for performing the following activities:

- Collection of cash receipts
- Deposit of cash receipts at the bank
- Recording the cash receipts transactions in the billing journal and FAMIS
- Reconciling FAMIS reports with internal records

Management Response: The Police Department will implement a new extradition reimbursement billing and collection work plan, which was designed to take into consideration the limited staffing resources currently available in the Financial Resources Division (FRD). FRD will work with the Department of Finance (DOF) to implement the use of the accounts receivable (AR) module of the county's financial system (FAMIS). The FRD accountant II position responsible for ensuring state reimbursement of county fugitive extradition expenses will continue to review the extradition billings and supporting document packages prepared by the Fugitive Section of the Criminal Investigation Bureau (CIB). The accountant II will establish accounts receivable (AR) documents in the county's financial system (FAMIS) for the extradition billings. FRD will also establish an EDI wire transfer process with the Virginia Supreme Court so that extradition reimbursements from the state may be made electronically, and deposited directly into the county's operating account. This process will eliminate the need for the FRD accountant II to handle cash receipts, prepare deposit slips, and make bank deposits, and would result in a greater separation of duties, as DOF manages the account to which the wire transfers will be made.

To achieve even greater segregation of duties, FRD will request that a new administrative assistant II position be established. If the position request is approved, one of the duties assigned will be to post the required journal entries to FAMIS for the EDI wire payments from the state. The new position would also be responsible for posting adjustments to the extradition billing documents (AR), resolving and/or writing off unreimbursed billing amounts, and reconciling the extradition expenditure and reimbursement account in FAMIS to the extradition tracking system and related records. If the position request is not approved, then the FRD accountant II position will continue to be responsible for adjusting and writing off billing amounts, and reconciling the extradition account. The accountant II would be responsible for posting the EDI wire transfer journal entries to FAMIS as well. As noted above, segregation of duties will still be considerably improved, as the accountant II will no longer handle the cash receipts and make bank deposits once the EDI wire transfer process for extradition reimbursements is implemented. The anticipated completion date is October 15, 2007.

2. Billing System Controls

The Police Department tracked extradition billings by using a billing journal (an Excel spreadsheet file) rather than using the county's financial system (FAMIS) to record accounts receivable (AR). Although the decision to not record AR documents in FAMIS was approved by the county's Department of Finance (DOF), the alternative process using the Excel spreadsheet file did not appear to have sufficient controls or accountability. The use of an Excel spreadsheet to account for extradition billings does not provide any audit trail of who posts initial billing records, adjustments or deletions; or when those postings occurred. The staff responsible for remitting the billings to the state and recording the billings on the Excel spreadsheet initially noted a billing date, but erased the billing dates when the reimbursements were received. The lack of billing system controls could lead to unauthorized changes or deletion of billing records in the extradition Excel file which remain undetected.

Recommendation: We recommend the Police Department post accounts receivable documents in FAMIS, or implement an alternative billing system with sufficient system controls.

Management Response: The Financial Resources Division will work with the Department of Finance to implement the use of the accounts receivable module of the county's financial system. FAMIS transaction codes will need to be created by DOF for the unique accounting treatment currently used for the extradition reimbursements. The anticipated completion date is October 15, 2007.

3. Reconciliations and Secondary Reviews

We noted that reconciliations of the extradition travel account for the first eight months of the 18-month audit period were not available for review. For the

remaining ten months of the audit period, it appeared that the monthly reconciliations had only been completed for five of the months. We also noted that the secondary review of the billings and supporting documents performed by the Financial Resources Division (FRD) staff was not evidenced on any of the 30 billings we reviewed. Timely reconciliations are a useful control which can help the department detect and correct erroneous or unauthorized transactions. Failure to document who performed the secondary review of billings, and the date they were reviewed, decreases the accountability that the process is being performed in a complete and timely manner.

Recommendation*:* We recommend that the Police Department identify in its written policies and procedures the position responsible for reconciling the fugitive account internal records to FAMIS, and the frequency of the reconciliations, and that the department retain the reconciliations of the fugitive travel account for a period of at least three years. We also recommend that department staff indicates that a secondary review and approval of billing documents has been performed by signing and dating the face of the document.

Management Responses: The Police Department will retain the signed hard copies of the monthly reconciliations of the extradition account for a period of three years. We will no longer include a FRD signature line on the extradition reimbursement billing documents. Rather, the FRD director's on-line approval of the accounts receivable (AR) documents in FAMIS will indicate the performance of the secondary review and approval. These steps will be fully implemented by October 15, 2007 once we begin to use FAMIS to record accounts receivable.

4. Timeliness of Billings

We noted that 24 of the 30 extradition trips we tested did not meet the department's internal requirement that the lead officer and Fugitive Squad supervisor provide all trip receipts to the Financial Resources Division (FRD) within five days following the extradition trip. For 13 of the 24 trips, it took over 60 days for the Fugitive Squad to submit the billing documents and receipts to FRD for review and remittance to the state.

The timeliness of extradition billings did appear to greatly improve during the second half of our 18-month audit period. All but one of the 13 delayed billings noted above occurred prior to April 2006.

Recommendation: We recommend that the Fugitive Squad implement procedures and management controls to ensure compliance with the requirement that the squad submit extradition billings and receipts to FRD within five days after completion of an extradition trip. If the Police Department determines a change in the Fugitive Squad's deadline is warranted, the Fugitive Squad should work with FRD to determine a mutually agreeable deadline which gives the Fugitive Squad sufficient time to complete the billings, while still providing FRD sufficient review time to achieve timely billings on a monthly basis.

Management Responses: We have revised our department's internal policy and procedures for fugitive extraditions to require that the Fugitive Squad submit

the reimbursement billings and supporting documents to FRD within ten work days upon the extradition officers' return from extradition travel. This audit recommendation has already been completed.

Other Observations

During our audit we noted that the extradition reimbursement checks received from the state were made payable to the detectives' names, rather than to Fairfax County. FRD staff and management indicated that this practice was a state requirement. However, when we contacted the state agency responsible for issuing the extradition reimbursement checks, we were told that Fairfax County could receive the reimbursements directly by wire transfer, if it established an EDI account with the Virginia Supreme Court's accounts payable section. We recommend that the Police Department implement the EDI wire transfer process for receiving extradition reimbursement payments from the state. Use of the EDI wire transfer system would achieve greater segregation of duties between the billing, cash receipts, and recording accounting transactions responsibilities, and would also improve the timeliness of cash deposits to the county's bank account, improving the county's interest earnings.

We also noted that the Fugitive Squad detectives spend approximately 400-600 hours per year (squad total) making their own travel arrangements. This time estimate is based on information provided by the squad's supervisor and two of the detectives, who estimated that travel arrangements take 2-3 hours per trip. Requiring police detectives to spend a substantial amount of time on administrative tasks such as making travel arrangements reduces the amount of time they can spend fulfilling their primary duties. We recommend that the Police Department consider providing administrative support for the required travel arrangements of the Fugitive Squad. Police detectives' travel preferences could still be accommodated if communicated on the paperwork submitted. Detectives would still need to complete paperwork indicating the location and dates/times of extradition travel.