Fairfax County Internal Audit Office

Department of Finance
Encumbered FAMIS (Non-PO) Payments Process Audit
Final Report

April 2012

Background

The county's FAMIS financial system was replaced by the FOCUS system in November, 2011. However, the findings and recommendations in this report are still mostly relevant, as the non-purchase order payment process continues to be utilized in the new FOCUS system.

In FAMIS, a non-purchase order (non-PO) payment voucher was used to process a payment for a county expenditure or liability directly through the county's financial accounting system (FAMIS), rather than the county's purchasing system (CASPS). Per the county's Accounting Technical Bulletin for FAMIS encumbered payments (ATB 60030), certain types of purchases and other payments, such as capital construction and utility payments, did not require a PO, and these types of payments were processed in the county's FAMIS financial system. The Department of Finance (DOF) categorized FAMIS non-PO payments into three basic types: 1) financial contract payments, typically used for construction contracts and certain other types of competitively negotiated purchases; 2) other encumbered non-PO payments, typically used for recurring payments such as monthly utility bills and appropriated amounts to the county's contributory agencies and governmental partners; and 3) unencumbered direct payments, used to pay non-recurring county obligations for which a procurement and/or encumbrance action is not required and cannot be accommodated through a procurement card; and also for mass payment uploads interfaced from other data systems. Direct payments were also used to process revenue refunds. ATB 60030 provided two lists of allowable expenditure categories for which the FAMIS non-PO payment process was appropriate.

Our office previously completed an audit of FAMIS unencumbered direct payments in fiscal year 2009. Therefore, this audit excluded unencumbered FAMIS direct payments, and included only the FAMIS financial contract payments and the other encumbered FAMIS non-PO payments. For simplicity, we will refer to both of these payment types as FAMIS encumbered non-PO payments in this report. The Department of Finance's Accounts Payable section had central oversight over the county's FAMIS encumbered non-PO payment process, but had delegated the primary responsibility for ensuring compliance with applicable county policies to the county departments. County policy required that all FAMIS encumbered non-PO payment transactions over $10,000 be routed to the DOF Accounts Payable section to perform a secondary review and approval before they were posted to FAMIS and paid. For fiscal years 2011 and 2010, the volume of FAMIS financial contract and other FAMIS encumbered non-PO payments was 8,687 payment vouchers totaling $379.8 million and 8,068 payment vouchers totaling $358.3 million, respectively.

Executive Summary

Our audit focused on internal controls over the FAMIS encumbered non-PO payment process and a comprehensive review of selected transactions. The most critical objective of our audit was to determine if county departments were inappropriately initiating payments for goods or services directly in FAMIS for expense categories which were

required to be processed through the county's procurement system (CASPS) or other prescribed method. We found that the payment transactions we reviewed generally appeared to be an appropriate use of the FAMIS encumbered non-PO payment process, although some exceptions were noted in our sample. Although these exceptions were not included in the ATB60030 lists of approved categories for non-PO payments, our research and discussion with management and staff of the applicable DOF and Department of Purchasing and Supply Management (DPSM) central oversight departments indicated that for most of the exceptions, county departments had been provided differing or changing guidance in prior years regarding the use of the FAMIS non-PO payment process for those particular expense categories. For contract related payments included in our sample, all appeared to be supported by a valid contract at the time of procurement, and the procurements appeared to be in compliance with the county's competitive procurement or sole source policies and procedures. Additionally, the transactions we reviewed generally appeared to be well substantiated with sufficient supporting documentation, with a few exceptions noted for two of the initiating departments included in our audit sample.

Because the Department of Public Works (DPWES) had been granted full independent procurement authority by the county for capital construction and related architectural and engineering services, our audit also included specific audit procedures designed to test for compliance with DPWES' own policies governing procurement and related contract review and approval requirements. Our review of the DPWES FAMIS financial contract payments indicated that compliance with the procurement policies and procedures by the various sub-agencies of DPWES appeared effective, as we did not note any exceptions for the DPWES transactions in our sample.

The exceptions noted which provide opportunities for improvement included:

- Payments for two contracts administered by the Fire and Rescue Department (FRD) were paid using the FAMIS encumbered non-PO process, which was not appropriate for the type of services procured. The contracts were for ambulance fee billing services and for medical staff services. For the ambulance fee billing contract, the county's purchasing agent and other DPSM staff had provided specific instructions that a purchase order (PO) should be established in CASPS, rather than the FAMIS non-PO payment process.

- There was no explanation and reference to an original contract, or other supporting documentation forwarded to DOF Accounts Payable section for several real estate lease, capitalized equipment lease payments, and loan payments initiated by the Facilities Management Department (FMD), and there was insufficient supporting documents forwarded to DOF for a condominium management fee payment initiated by Department of Housing and Community Development (Housing). As county policy required only transactions exceeding $10,000 to be approved by DOF, each exception noted above was for a substantial payment amount, above the $10,000 threshold. For all supporting documentation exceptions noted for FMD and Housing, we subsequently verified that the departments did retain sufficient supporting documents in their central files.

Scope and Objectives

This audit was performed as part of our fiscal year 2010 Annual Audit Plan and was conducted in accordance with generally accepted government auditing standards. Our audit covered only encumbered FAMIS (non-PO) payments with document numbers beginning with the "VP" or "EP" document prefix. We did not audit payments processed as unencumbered FAMIS direct payments, travel vouchers, or certain other FAMIS direct payments such as tax refunds, witness fees, debt service payments for county bonds, foreign transactions initiated by the Fairfax County Economic Development Authority, or payments posted to FAMIS through an interface process with another computerized system. Our audit did not include procedures to verify if county departments were in compliance with applicable procurement technical review policies. The audit covered the period of October 1, 2009, through June 30, 2010, and the audit objectives were to determine if:

- Encumbered FAMIS (non-PO) payment disbursements were appropriate per county policy, as specified in the lists of approved expense categories in the county's Accounting Technical Bulletin (ATB 60030), or else approved by the county's purchasing agent for items not typically allowable by policy.
- The encumbered FAMIS (non-PO) payment disbursements were substantiated by sufficient supporting documents.
- For contract-related payments, there was a valid contract at the time of procurement and payment for goods or services, and the required competitive procurement or sole source policies and procedures were not circumvented.

Methodology

Our audit approach included reviewing the policies and procedures for FAMIS non-PO payments, as well as the numerous procurement policies and procedures promulgated by DPSM and DPWES. Our methodology also included interviewing the management and staffs of the Department of Finance, the Department of Purchasing and Supply Management, and other selected departments to obtain an understanding of the requirements for the FAMIS non-PO payment process and requirements. We performed analytical procedures on the audit population data, and identified potentially higher risk sub-populations of direct payment transactions for which we planned and conducted specific audit tests. We also obtained payment supporting documents, contracts, request for proposal or invitation to bid documents, and Board agenda items 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; however, this was not 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, but this would not likely have affected the conclusions of our 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. Proscribed Uses of FAMIS Non-PO Payment Process

The FAMIS non-PO payment process appeared to be used inappropriately to process payments for certain goods and services which should have been paid through the purchase order process in the county's purchasing system (CASPS). However, guidance from the departments providing central oversight over the FAMIS non-PO payment process sometimes conflicted with the county's current policies as documented in ATB 60030, due to changes in evolving policies over time, or else long standing alternative practices now generally perceived by some departments as acceptable because the practices have been allowed over the years.

We also noted that payments initiated by the Fire and Rescue Department for an ambulance fee billing service contract and a medical staff services contract did not appear to be an acceptable use of the FAMIS non-PO payment process, and we found no evidence that the DPSM central oversight department had approved the FAMIS non-PO payment process, either explicitly or implicitly. In fact, the contract file for the ambulance fee billing contract indicates that the county's purchasing agent and other DPSM contract staff had provided specific instructions that a purchase order be established in iCASPS to make payments against.

Recommendation: We recommend that the DOF Accounts Payable staff more closely review the supporting documents for encumbered FAMIS (non-PO) payment pay transactions for propriety, and not approve such payments which are clearly not permissible. DPSM approval should be obtained for transactions that appear to be an appropriate use of the encumbered FAMIS non-PO payment process but were not listed as an allowable category of expenditure in the ATB 60030.

When the Department of Finance revises the ATB60030 in the future to reflect the equivalent non-PO payment process in the county's new integrated financial system (FOCUS), it should consider consulting with the appropriate managers from DPSM, DMB, DAHS, County Attorney's Office, and other relevant departments to clarify allowable expenditures and resolve conflicting opinions and interpretations of the county's non-PO payment process policies. If DOF chooses to continue to provide a comprehensive list of allowable categories in future policy documents, it should consider updating the list on a periodic basis.

Management Response: The Department of Finance agrees with these recommendations. Management will emphasize to Accounts Payable staff the need for close examination of policy compliance for non-PO transactions. ATB 60030 has been made a high priority for update. The Department of Finance is currently working with the Department of Purchasing and Supply Management to review and update the categories of allowable non-PO payments. DOF will update and release the ATB accordingly and communicate changes to county departments as well as the DOF Accounts Payable staff. The estimated completion date is June 30, 2012. DOF and DPSM will conduct a semi-annual review of the allowable categories, with updates as needed. DOF will also conduct periodic review sessions with the Accounts Payable staff to ensure they are following the proper procedure for non-PO payment requests. The estimated completion date is December 31, 2012.

2. Sufficient Supporting Documentation

We noted six encumbered FAMIS (non-PO) payment transactions for which the initiating departments provided no supporting documents, or else insufficient supporting documents, to DOF Accounts Payable staff when they forwarded the transactions to DOF for required secondary approval. For these transactions, it is not clear how the DOF Accounts Payable staff were able to verify the propriety of the transactions when they approved them. Of the six transactions, five were for real estate lease, capitalized equipment lease, and loan payments initiated by the Facilities Management Department (FMD). The remaining one was for a condominium management fee payment initiated by Department of Housing and Community Development (Housing).

As county policy required only transactions exceeding $10,000 to be approved by DOF, each exception noted above was for a substantial payment amount, above the $10,000 threshold. For all supporting documentation exceptions noted for FMD and Housing, we subsequently verified during our audit that the departments did retain sufficient supporting documents in their central files. FMD and Housing have agreed to take additional steps to fully document support sent to DOF for these payments.

Good internal control practices should require that supporting documents for payments include an invoice or other sufficient and relevant documents, with indication of appropriate management approval at the initiating department. With the implementation of the new FOCUS system, all non-PO payments are now required to be approved by DOF regardless of the amount, as the $10,000 threshold requirement was discontinued upon implementation of FOCUS. Therefore the need for supporting documentation sufficient for DOF to be able to determine the appropriateness of a payment remains critical, even for smaller payment amounts going forward.

Recommendation: DOF should not approve payments that lack sufficient supporting documentation. DOF should revise the ATB 60030 or other pertinent policy documents to provide sufficient guidance to county departments regarding

the appropriate types of sufficient, relevant supporting documentation to substantiate disbursements. Discussion with DOF management indicated they were considering the future use of some type of recurring payments method through FOCUS whereby supporting documents would be electronically attached, or potentially setting up a central contract document repository. DOF is looking into these options as a potential means to enhance processing efficiency and make documentation controls more effective.

Management Response: The Department of Finance agrees with these recommendations. Management will emphasize to Accounts Payable staff the importance of documentation review and policy adherence. The Department of Finance will update ATB 60030 with an estimated completion date of June 30, 2012.