Fairfax County Internal Audit Office

Department of Finance
Non-PO Payment Process Audit
Final Report

May 2019

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Executive Summary

The Non-Purchase Order (PO) payment method is used in selected cases that do not lend themselves to the normal PO process such as reimbursement paid to an employee for work-related travel expenses; one-time payment to vendors/suppliers that do not have contracts with the County preventing them from using a PO to pay for their services/commodities; and other qualifying categories of goods and services. The Department of Finance (DOF) Accounts Payable (AP) Division has oversight responsibility for monitoring the use of Non-PO payments. The Department of Procurement and Material Management (DPMM) is responsible for determining the categories of goods and services that qualify for payments as a Non-PO payment. There are two basic types of Non-PO payments: earmarked fund document (encumbered) and direct payments (unencumbered).

Individual agencies/departments sent the Payment Request Forms (PRF) and supporting documentation to DOF-AP Division for processing which were scanned into the FOCUS system to be processed. The processing AP staff verified whether the PRF agreed to the invoice and was signed by authorized staff before the payment was completed. DOF-AP is currently in the process of implementing a new Vendor Invoice Management (VIM) system which is an automated accounts payable workflow process in FOCUS. This workflow will eliminate the use of the manual PRF and allow invoices to be scanned directly into VIM and authorize goods receipt and payments through electronic signature. Proper implementation of controls within the VIM system will address the findings noted below. Per DOF, the new vendor invoice management system will roll out to agencies in Fall 2019.

In general, we found that DOF's Non-PO payment procedures and policies were effective and up-to-date; and controls were generally in place over reviewing, approving, and processing of Non-PO payments. The Non-PO payment information was accurate and Non-PO payment processes and standards were established, monitored, and documented. However, we noted that internal controls over the authorized signature verification process and handling of sensitive information invoices could be strengthened:

- The Signature Authorization Forms for the Department of Housing and Community Development (DHCD) did not reflect the changes they submitted. In addition, Signature Authorization Forms kept by the Health Department (HD) and the Fairfax-Falls Church Community Services Board (CSB) did not match the forms on file with DOF.
- Of the forty processed payment request forms selected for review, two payments were approved by an individual who was not on the Signature Authorization Form at the time of the approval.
- In three of the 20 sensitive information invoices reviewed, the supporting documentation was scanned into FOCUS along with their payment request form that contained sensitive information.

Scope and Objectives

This audit was performed as part of our fiscal year 2019 Annual Audit Plan and was conducted in accordance with generally accepted government auditing standards. 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 our audit objectives. Our audit objectives were to determine whether:

- Non-PO Payment Policy, Financial Policy Statement 630 (FPS 630) and Signature Authorization Policy (FPS 634) were reviewed, monitored, and updated as needed and adhered to their requirements.
- Controls to prevent duplicate payments were adequate and effective.
- Non-PO payments were appropriate, authorized, accurate, and in compliance with county's established purchasing policies and procedure.
- Controls to prevent unauthorized or fraudulent use of the Non-PO process were adequate and effective.
- Adequate separation of duties existed within DOF's and/or DPMM's role of managing the payment process.
- Controls were in place to ensure Sensitive information such as HIPPA, police activity, personal protected information (PPI) are secured and shared on a need-to-know basis.

Methodology

Our audit approach included reviews of the Non-PO Payment-related policies and procedures including the Non-PO Payment Policy, *Financial Policy Statement 630;* and *Signature Authorization Policy*, FPS *634.* In addition, we performed process walk-throughs, and interviewed the appropriate staff to obtain an understanding of the Non-PO processes to determine whether DOF-AP division had adequate controls over reviewing, approving, and processing of its Non-PO payment requests. We also observed the staff using CAPTIVA system to scan invoices into FOCUS. Additionally, we performed substantive testing to determine if invoices were appropriate and authorized; payment processing functions were separate to prevent the same person initiating and approving the same transaction; and sensitive information invoices were protected and not scanned into FOCUS.

The Fairfax County Internal Audit Office (IAO) is free from organizational impairments to independence in our reporting as defined by 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 to the County Executive and the Board of Supervisors.

Findings, Recommendations, and Management Response

1. **Signature Authorization Form**

   The Signature Authorization Forms for the Department of Housing and Community Development (DHCD) did not reflect the changes they submitted. In addition, Signature Authorization Forms kept by the Health Department (HD) and the Fairfax-Falls Church Community Services Board (CSB) did not match the forms on file with DOF.

   According to FPS 634, *Signature Authorization*, "A completed Signature Authorization Form (DOF634) must be used to identify the individuals within departments who are responsible for approving payments of those transactions…The Signature Authorization Form is the evidence of the authority to approve transactions and must be on file in DOF." While individual departments/agencies are responsible for notifying DOF when adding, changing, or deleting an approver from the file, it was the responsibility of DOF to "file the original form in the file designated for Signature Authorization Forms and maintain the file on a current basis."

   Utilizing outdated Signature Authorization Forms increases the risks of unauthorized/fraudulent payments which could lead to waste and loss of county funds. It also increases the risk that erroneous or inappropriate charges go undetected or not be corrected in a timely manner.

   Recommendation: Until the new VIM system is implemented, DOF staff should ensure that Signature Authorization Forms are updated immediately upon notification of changes from individual departments/agencies. The updated form should be maintained and communicated with the appropriate personnel in a timely manner.

   For the upcoming VIM system that will be implemented, proper controls should be included in the process to ensure that payment authorizers in the workflow are current and up to date.

   Management Response: Copies of the submitted Signature Authorization forms will continue to be maintained by DOF Accounts Payable (AP) Division in a central repository. The AP Manager will continue to update and maintain a spreadsheet with information from all current signature authorization forms. Additionally, we will add a monthly review of the spreadsheet with Division Chief. Regarding the Health Department and Fairfax-Falls Church CSB submissions, we will change the Signature Authorization policy and instructions to require all forms be sent to a centrally managed DOF AP email inbox. This will ensure physical copies are not delivered to the wrong location. The anticipated completion date is May 31, 2019.

2. Unauthorized Approver

Of the forty processed payment request forms selected for review, two payments were approved by an individual who was not on the Signature Authorization Form at the time of the approval. However, the individual's name was later added to the Signature Authorization form for their agency.

Per FPS 634, *Signature Authorization*, "DOF staff is required to use the forms to verify approver names on payment documentation."

Failure to verify the approver's name on payment documentation before it is processed increases the risks of erroneous or inappropriate payments that could go undetected or not be corrected in a timely manner. It also increases the risks of unauthorized/fraudulent activities as well as waste and loss of county money.

Recommendation: The implementation of the vendor invoice management system (VIM) which will automate the signature authorization process should solve this issue. However, in the interim, we recommend DOF staff use the Signature Authorization forms to verify the approver's name on the Payment Request Form before they process the payment.

Management Response: DOF will continue to make every effort to ensure the approvers that sign Non PO PRF's have a Signature Authorization Form on file. If there is an exception then proper approval audit trails will be attached with the invoice document. This procedure was reviewed and reiterated in an AP staff meeting on April 17, 2019. In the above case there was an email approval by the requesting agency director delegating the approver, but the email trail was not saved with the invoice document.

Note: During the audit, IAO verified that a Signature Authorization Form was completed for the individual and sent to DOF, AP Division. No follow-up is needed for this item.

3. Sensitive Information Invoices

We noted that in three of the 20 sensitive information invoices reviewed supporting documentation scanned into FOCUS along with their payment request form contained sensitive information such as the individual's date of birth.

According to FPS 630, *Non-PO Payments,* "Departments submitting Non-PO payments of sensitive information such as HIPPA related, or police activity which details incident and/or contains SSN or other personal information may redact the sensitive data prior to submitting to DOF or retain the sensitive data invoice and/or supporting documentation at the department." However, if sensitive supporting documentation were forwarded to DOF along with their PRF, they should be redacted or not scanned into FOCUS.

Supporting documentation with sensitive information that is scanned into FOCUS increases the risks of unauthorized access and/or release of personal/sensitive information and violates the County policy.

Recommendation: We recommend DOF remind their staff of their responsibility for recognizing and redacting sensitive information erroneously scanned into FOCUS. Additionally, DOF should remind county agencies of their responsibilities regarding redacting individuals' sensitive information when submitting payment request forms and supporting documentation to DOF when they come across this information.

Management Response: DOF will continue its efforts to educate the agencies and the processing team. There is an ongoing effort where attachments with sensitive information are identified and redacted. The agencies are contacted and informed about the process for handling sensitive data. DOF has reiterated the importance of redacting sensitive information during an AP staff meeting on April 17, 2019. This has also been addressed in the year-end AP presentations on May 2, 2019. The anticipated completion date is May 2019.