



Fairfax County

Internal Audit Office

**Fire and Rescue Department
Business Process Audit
Final Report**

September 2019

"promoting efficient & effective local government"

Executive Summary

We performed a business process audit covering procurement, reconciliation, and personnel/payroll administration within the Fire and Rescue Department (FRD). The audit included review of procurement cards, FOCUS marketplace cards, purchase orders, non-purchase orders, monthly reconciliations, and verifying compliance with Personnel/Payroll Administration Policies and Procedures (PPAPP). The areas covered in PPAPP included the applicable time/attendance system and controls, employee clearance record processing, and credit check requirements for positions of trust.

We noted the following areas where controls will be strengthened as a result of this audit:

- The department did not perform monthly reconciliations for purchase orders and non-purchase orders. FRD will develop and implement an updated plan and methodology to complete PO and Non-PO reconciliations on a monthly basis, including a new Reconciliation Certification Form to document a timely preparation and review process.
- There was lack of evidence to indicate that a weekly review of procurement card transactions was being completed. FRD has implemented a corrective weekly review and documentation procedure.
- Thirty-six transactions made with either a procurement card or a purchase order were not supported by proper receipt documentation. Additionally, six transactions made with either a procurement card or a purchase order had a signature and date to evidence review, but the review was not timely. FRD has taken steps to ensure receipt documentation will be maintained and the department will explore options to pursue electronic receiving with DPMM/DOF for Marketplace.
- We noted two purchase orders that were created *after* receipt of the invoice. FRD will implement a new business process and SOP to ensure orders are placed only after an approved purchase order and adequate funding are in place.
- One purchase order was not properly received in FOCUS and resulted in incorrect payments to a vendor. FRD will update the open-ended purchase order checklist to include the verification of goods receipt against the encumbrance and the appropriate contract amount.
- Weaknesses were noted in tracking who was in possession of P-Cards when they were checked out for use. FRD will consolidate p-card purchase requirements into a new p-card log after the DPMM update to the related procurement technical bulletin.
- In a sample of eight employees, we noted four instances in which two employees did not accurately record or account for annual/compensatory leave during statutory holidays while working a compressed schedule. FRD corrected the applicable employee leave balances and will ensure holiday pay audits are conducted within the week of the holiday and before associated payroll is run.

- Procurement card limits were found to be excessive, based on card usage. FRD reduced limits and closed the accounts for the applicable cards. Going forward, the department will review p-card usage and card limits annually at the end of each fiscal year (at minimum).
- Procurement card transactions in seven out of twelve months reviewed were not reclassified out of the clearing account in a timely manner. FRD has begun allocating p-card charges monthly.

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 (GAGAS). 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 review FRD's compliance with county policies and procedures for purchasing processes, personnel/payroll administration, and financial reconciliation. We performed audit tests to determine internal controls were working as intended and transactions were reasonable and did not appear to be fraudulent.

The audit population included procurement card, FOCUS marketplace, purchase order, and non-purchase order transactions that occurred during the period of October 1, 2017 through September 30, 2018. For that period, the department's purchases were \$3,533,851 for procurement cards, \$173,454 for FOCUS marketplace, \$14,374,180 for purchase orders that were received, and \$1,433,930 for non-purchase order payments.

Methodology

Audit methodology included a review of the department's business process procedures with analysis of related internal controls. Our audit approach included an examination of expenditures, records and statements; interviews of appropriate employees; and a review of internal manuals and procedures. We evaluated the processes for compliance with county policies and procedures. Information was extracted from the FOCUS and PaymentNet systems for sampling and verification to source documentation during the audit.

Findings, Recommendations, and Management Response

1. Monthly Reconciliations

In our review, we found that FRD did not perform a monthly reconciliation of purchase orders and non-purchase orders. However, FRD did reconcile the procurement card transactions on a monthly basis and included the required reconciliation certification forms.

Per Accounting Technical Bulletin (ATB) 020, *Reconciliation of Financial Transactions*, "County management has fiduciary responsibility, as custodians of public funds, to ensure the integrity of financial transactions posted to FOCUS. To ensure the integrity of the county's financial records, county departments are responsible for performing monthly reconciliations on a timely basis at the transaction level. These reconciliations are to be carried out in accordance with a department reconciliation plan that has been approved by DOF."

Additionally, ATB 020 requires departments to complete a Reconciliation Certification Form. The form should be signed and dated by the director or designee indicating the reconciliation that was completed for a specific period. This is to verify that the department's transactions have been reconciled timely and authorizer/approver verified.

Failure to perform and document a monthly reconciliation of all expenditure documentation to data in FOCUS increases the risk that erroneous or inappropriate charges go undetected.

Recommendation: We recommend FRD collaborate with DOF to create a specific plan and method to reconcile purchase orders and non-purchase orders on a monthly basis. The method should be approved by DOF prior to implementation. Once implemented, on a monthly basis, FRD should develop documentation to substantiate that the complete population of PO and Non-PO transactions have been reconciled from FOCUS records to the source documents. Additionally, the preparer and reviewer of the reconciliations should sign and date the Reconciliation Certification Form to evidence a timely preparation and review process. The forms should be maintained on file by the agency.

Management Response: The FRD Resource Management section has recently revisited the FRD and DOF guidelines and the specific details needed to satisfactorily accomplish PO reconciliations on a monthly basis and will adapt current business practices to align with expectations. The FRD fiscal services section has done Non-PO reconciliations for EMS billing payments since the program's inception (i.e., April 2005), and implemented other Non-PO reconciliations on a monthly basis in FY19 to better adapt current business practices to align with expectations. For POs, Resource Management will develop and implement updated plan and methodology for reconciliations on a monthly basis, including documentation of FOCUS records to source documents. For Non-POs, Fiscal Services recently updated plans and

methodologies for reconciliations in FY19. A new Reconciliation Certification Form to better document timely/monthly preparation and review process will be developed and implemented for FY20 use. FRD anticipates completing these actions by 9/30/2019 (for Purchase Orders) and 12/31/2019 (for Non-Purchase Orders).

2. Weekly Transaction Reviews

There was lack of evidence to indicate that a weekly review of procurement card transactions was being completed.

PTB 12-1009, *Use of the County Procurement Card*, requires that all agencies review weekly transaction reports for unusual or unauthorized transactions. The reviewer should then sign and date the transaction report to verify that the review was performed in a timely manner.

Failure to review the weekly transaction reports increases the risk that inappropriate purchases will not be identified in a timely manner.

Recommendation: We recommend FRD perform weekly reviews of procurement card transaction reports which contain all items posted to the bank for the prior week. Once the review is performed, the reviewer should sign and date the report to document the completion of a timely review.

Management Response: FRD acknowledges recent lapses in documenting the weekly review of p-card transaction reports with a signature and date on the weekly PaymentNet report. In the past, this function was typically carried out by Resource Management during the journal entry reallocation posting process. Following the FY19 transition to fiscal services performing these journal entries, FRD did not adjust its practices to ensure that the p-card program manager weekly review was documented with a proper signature and date. Resource Management has implemented a corrective weekly review and documentation procedure. The P-card program manager will document weekly review of p-card transaction reports.

Note: *Management has stated that they have completed these actions as of June 2019. IAO will follow up on these actions after sufficient time has passed to be able to review enough transactions to determine that the new process is consistently applied.*

3. Receipt Documentation

In our review of p-card transactions and purchase orders, we noted 36 out of 115 purchases that were not supported by a signed and dated packing slip or other evidence indicating who confirmed the receipt of goods/services and when it was confirmed. Additionally, we noted 6 transactions made with either a p-card or a purchase order that had evidence of review, but the review was not timely, ranging from about 2 months to 1 year after the transaction or invoice date.

Procedural Memorandum (PM) 12-16, *On-Line Procurement of Office Supplies*, requires that agencies verify goods received against the packing list and the original

order. The packing list should then be signed and dated to document proper receipt of goods. In addition, PM 12-09, *Delegated Purchasing Procedures for Orders Under \$10,000*, requires departments to: “verify that items have been received as ordered” and “sign and date the vendor packing slip to indicate proper receipt and to establish acceptance date.”

Failure to adequately document the receipt of purchases prevents the assurance of an adequate separation of duties and increases the risk of paying for items that were not received.

Recommendation: We recommend FRD ensure that receipt of all ordered goods and services is adequately documented in a timely manner. If a packing slip is not included with the shipment, receipt of the ordered goods should be documented on the invoice or a separate receiving report with the receiver’s initials and date. All receiving documentation should be maintained on file with the supporting documentation for the transaction.

Management Response: Since FRD filled the p-card program manager position, performing p-card transaction reviews in a timely manner and receiving p-card receipt documentation has been a point of focused attention. For marketplace transactions, Resource Management will explore options to pursue electronic receiving with DPMM/DOF. If electronic receiving is not approved, in-service education/training sessions with station captains will be scheduled on goods receipt obligations. For purchase orders, Resource Management will develop and implement an internal control procedure outlining the minimum requirements to validate goods receipt. FRD anticipates completing these actions by 11/30/2019 (for Purchase Orders) and by 12/31/2019 (for Marketplace).

Note: *Management has stated that they have completed the action for p-card as of 12/1/2018. IAO will follow up on these actions after sufficient time has passed to be able to review enough transactions to determine that the new process is consistently applied.*

4. Purchase Orders Created *After* Receipt of Invoice

In our review, we noted two purchase orders that were created and approved *after* receipt of the invoice. One purchase order was created on 8/8/18, but the invoice was dated 6/28/18. The second purchase order was created on 6/27/18, but the invoice was dated 12/14/17.

Agencies are required to create and approve a purchase order in FOCUS *prior* to placing an order with a vendor. If an agency fails to process a purchase through a purchase order, they must comply with the provisions of PTB 12-1007, *Unauthorized Purchases/Confirming Orders*, and process the payment as a confirming order.

Failure to create and approve a purchase order in FOCUS prior to placing an order with a vendor circumvents the approval process, promises payment to a vendor for funds that have not yet been encumbered for that purpose, and prevents an adequate

separation of duties. Additionally, purchases made without the signature of the County's purchasing agent are the responsibility of the purchaser should anything go wrong.

Recommendation: FRD should submit all procurement requests through FOCUS and have them approved prior to placing an order with a vendor. If an order is placed without an approved purchase order, FRD should comply with the remediation provisions of PTB 12-1007.

Management Response: Resource Management will formalize and implement a new business process and SOP to ensure orders are placed only after an approved purchase order and adequate funding are in place. FRD anticipates completing these actions by 12/31/2019.

5. Incorrect Payments to Vendor

During our review of purchase orders, we noted an underpayment of \$30K to a vendor due to a purchase order for a contract not being properly received in FOCUS. Over a span of one year, the amount on the invoice per month was for \$32.5K, but the amount listed as goods receipt in FOCUS was for \$35K.

The open-ended purchase order was set up for the amended contract amount for FY18, which was \$35K per month, or \$420K annually. Upon review of the invoicing and receiving, FRD determined that each monthly payment was completed for the *previous* year's amount, which was based on the vendor-provided invoice. Although receiving was completed for \$35K each month, the vendor only invoiced FRD \$32.5K, and DOF accounts payable only issued payment for each monthly invoice amount of \$32.5K.

Purchase orders should be properly received in FOCUS, based on the provisions of the contract. The amount on the invoice and the amount in FOCUS should agree with the contracted amount and any discrepancies should be resolved promptly with the vendor upon discovery to avoid the risk of under/overpayments and breach of contract terms.

Recommendation: FRD should properly receive all POs in FOCUS. When FRD receives an invoice, it should be reviewed to ensure it accurately reflects the services/goods that were ordered and that the amount listed on the invoice agrees with the contracted amount. Any variances should be promptly investigated and resolved. The PO should then be received for the proper amount and quantity in FOCUS.

Management Response: FRD acknowledges an opportunity to improve processes related to the receiving of POs, verification of current contract terms, and issuance of proper payment amounts. As part of the contract administration plan, Resource Management will update the open-ended purchase order checklist to include the verification of goods receipt against the encumbrance and against the appropriate contract amount. FRD anticipates completing these actions by 12/31/2019.

Note: During the audit, IAO verified that FRD issued a corrective payment of \$30k to the vendor. FRD was prompt in responding to and following-up on this matter. Regarding the process improvements for POs, IAO will follow up on these actions after sufficient time has passed to be able to review enough transactions to determine that the new process is consistently applied.

6. Weaknesses in P-Card Tracking

For 38 out of 50 transaction log entries tested, the transaction log was missing data fields necessary to track when p-cards were checked out for use (i.e., no fields for sign out/in dates) or data fields included in the transaction logs were not completed. In addition, two purchases were not recorded in the transaction log.

The department also maintained a "Purchase Request Form" (FRD-010), which served as a compensatory control in the event of errors or irregularities related to a transaction. However, the form did not record p-card sign in/out information concurrently as a transaction occurred to facilitate accountability for a p-card while checked out.

Procurement Technical Bulletin (PTB) 12-1009, *Use of the County Procurement Card*, states: "the department shall maintain a log that records purchases as they occur and tracks who is in possession of p-cards. Departments may use a manual or electronic log to record both debit and credit transactions. Entries must be contemporaneous so that they provide up-to-date information on funds expended and should identify the p-card user."

If possession of the p-card is not accurately tracked, the risk of not identifying fraudulent transactions in a timely manner is increased. Additionally, accountability is reduced in the event a card is lost or inappropriate charges are placed on the card when it is checked out.

Recommendation: We recommend FRD maintain a log that records purchases as they occur and track who is in possession of the p-card(s). We also recommend FRD update the transaction logs that are missing data fields for sign out/in dates to include those fields. The department may use the example in PTB 12-1009, Attachment D, as a guide when developing a p-card transaction log. FRD should ensure that the log contains all the elements as shown in Attachment D.

Management Response: Resource Management will consolidate p-card purchase requirements into a new p-card log following DPMM update to related procurement technical bulletin. FRD anticipates completing these actions by 1/31/2020 (dependent upon DPMM).

7. Statutory Holiday Reporting

In a sample of eight employees, we noted four instances in which two employees at FRD did not accurately record or account for statutory holidays while working a

compressed schedule. One employee did not record 6 hours (over three holidays) and the second employee did not record 2 hours (on one holiday), resulting in an overstatement of annual/compensatory leave balance by a total of 8 hours.

PPAPP 13, *Attendance/Absence Reporting for All Employees Except 24-Hour Shift Fire Protection and Law Enforcement Personnel*, requires agencies to comply with Personnel Regulations and with the Fair Labor Standards Act (FLSA) as it applies to local government. The policy states: "If an employee's scheduled hours for a day on which a holiday falls are greater than the maximum number of holiday hours that the employee may be granted, the employee must take annual or compensatory leave to receive a full day's pay. This applies to employees who elect to work a compressed workweek or flex schedule."

Failure to accurately record statutory holiday leave increases the risk of paying an employee for hours for which they did not work due to overstated leave balances.

Recommendation: We recommend FRD require employees working a compressed schedule to comply with the County policy for statutory holiday leave reporting. In addition, the overstated employee leave balances should be corrected.

Management Response: FRD Payroll has already corrected the cited employee leave balances. To avoid future instances of holiday leave-with-pay processing errors, the payroll office supervisor will ensure holiday pay audits are conducted within the week of the holiday and before associated payroll is run.

Note: Management has stated that they have completed these actions as of June 2019. IAO will follow up on these actions after sufficient time has passed to be able to review enough transactions to determine that the new process is consistently applied.

8. Procurement Card Limits and Use

A credit limit analysis performed on all FRD procurement cards noted that 6 cards had low or minimal usage in comparison to the available limits on the cards. Additionally, 7 active cards had no usage during the audit scope.

PTB 12-1009, *Use of the County Procurement Card*, states: "P-Card limits provide an important safeguard against fraud and misuse. It is important that p-card limits be set as close as possible to anticipated use."

Failure to set card limits at reasonable levels increases risk of fraud and misuse of the county procurement card.

Recommendation: We recommend FRD review card usage and card limits and reduce limits that are well in excess of card usage. We also recommend that unused accounts be closed.

Management Response: All six of the FRD procurement cards that were recommended for monthly limit decreases had their limits reduced; six of the seven p-

cards that were recommended for closure due to no use were closed; and the last p-card recommended for closure was reassigned to another FRD program with higher usage and limit needs. Resource Management will review p-card usage and card limits annually at the end of each fiscal year (at minimum).

Note: *During the audit, IAO verified that FRD reduced limits and closed the accounts for the applicable cards. FRD was prompt in responding to and following-up on these matters. No follow-up will be performed for this item.*

9. Transaction Clearing Accounts

Procurement card transactions in 7 out of 12 months reviewed were not being reclassified out of the card clearing account in a timely manner. The reclassifications were performed 11 days to about 6 months after the closing date.

PTB 12-1009, *Use of the County Procurement Card*, states: "If the general use p-card transactions post to a clearing account (i.e., GL 544540 Credit Card Expense), the department must move those charges (debits and credits) to the appropriate expenditure account monthly (at minimum)".

Failure to properly classify procurement card expenses in a timely manner misstates departmental financial reports, increasing the risk of management making decisions based on inaccurate financial information.

Recommendation: Transactions posted to a procurement card clearing account should be reclassified to the proper expenditure account on a monthly basis at minimum.

Management Response: As of FY19, the process of clearing the p-card clearing account and distributing/allocating the p-card charges on a monthly basis has been transitioned to fiscal services section and the p-card manager position in Resource Management has been filled. The p-card manager and fiscal services will regularly allocate p-card charges monthly, as prescribed. With automated processes now in place, this function is currently on-track with the timeframes between actual transaction dates and cost distribution/allocation reduced to no more than 2-3 weeks.

Note: *Management has stated that they have completed these actions as of January 2019. IAO will follow up on these actions after sufficient time has passed to be able to review enough transactions to determine that the new process is consistently applied.*