

**INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED-UPON PROCEDURES
FREDERICK COUNTY GOVERNMENT
FIRE & RESCUE SERVICES FINANCIAL TRANSACTIONS**

REPORT #15-03

March 6, 2015

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CONTENTS

AGREED-UPON PROCEDURES RESULTS	1
FINDING 1. VOUCHER PURCHASES LACKED DOCUMENTATION SUPPORTING THE NECESSITY OF PURCHASES FOR EQUIPMENT, UNIFORMS, AND SUPPLIES.	2
FINDING 2. P-CARD PURCHASES LACKED ADEQUATE DOCUMENTATION AND EXPLANATIONS TO SUPPORT THE NECESSITY OF THE PURCHASE.....	3
APPENDIX: SUMMARY OF AGREED-UPON PROCEDURES	7



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Cotton & Company LLP performed the agreed-upon procedures (AUP) summarized in the appendix to this report, which were agreed to by the Interagency Internal Audit Authority (IIAA). These procedures were performed solely to assist IIAA in evaluating the financial policies and procedures of the Frederick County Government (FCG) Division of Fire & Rescue Services (Fire & Rescue) for fiscal years (FYs) 2012, 2013, and 2014, as detailed below:

- Through disbursement testing, determine if departments under Fire & Rescue were spending budgeted funds in large quantities which appear unnecessary and in an attempt to maintain budget levels.
- Validate that general controls over cash receipts and disbursements (including purchasing controls through the County Purchasing and Contracting Department) within Fire & Rescue appear adequate with an appropriate level of segregation of duties and controls to eliminate fraud, waste and abuse and review and approval of transactions. For large purchases, verify that County, State, and Federal procurement laws were followed.
- Validate that general controls exist over cash management practices, that there is appropriate segregation of duties of cash accounts held by the department and that appropriate levels of review and approval are occurring and that account signors are appropriate.
- Test that Fire and Rescue is following policy in funding volunteer stations [through Senator Amos (State 508 Funds) guidelines].

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

AGREED-UPON PROCEDURES RESULTS

We selected a sample of 140 transactions for testing. This sample consisted of 50 transactions from FY 2012, 50 transactions from FY 2013, and 40 transactions from FY 2014. The sample included 66 procurement card (PCard) transactions and 74 non-PCard transactions (including 65 vouchers and 9 journal entries). We found that the majority of the sampled transactions were supported by documentation as required by FCG purchasing controls, including price quotes, purchase requisitions,

purchase orders, contracts, and invoices. We also found that large purchases followed established FCG purchasing controls, including using price agreements in making purchases, using term contracts, obtaining bids from prospective vendors, and piggybacking off other entities' contracts or using cooperative purchasing agreements where possible. In addition, we found that Fire & Rescue followed controls for obtaining approval for purchases; purchases were approved by the Fire & Rescue director, the FCG purchasing director, the FCG budget director, the FCG finance director, the FCG county manager, and the Board of County Commissioners. We did identify weaknesses related to purchase requisitions and PCards, which we discuss below.

We found that Fire & Rescue did not hold any cash accounts. We interviewed a representative from the FCG Accounts Payable Department regarding Fire & Rescue's payment process and found that the FCG Finance Office is responsible for making payments for Fire & Rescue expenditures.

We reviewed state requirements and FCG policies and procedures for the Senator Amoss (State 508 Funds) grant program. We found that Fire & Rescue followed State of Maryland code and FCG policies and procedures in funding volunteer stations. Volunteer fire, rescue, and ambulance companies demonstrated need by submitting written justification letters to Fire & Rescue explaining how they planned to use the funds; the FCG Finance Department then distributed the Senator Amoss grant funds equally. This distribution method complies with State of Maryland code and county policy and was approved by Fire & Rescue, the FCG Volunteer Fire & Rescue Association, and the Board of County Commissioners. We also found that FCG had procedures in place to comply with the non-funding requirements of the Senator Amoss grant program, including requirements for separate bank accounts, check signers, allowability of costs, and submission of annual reports to the State of Maryland.

Finding 1. Voucher purchases lacked documentation supporting the necessity of purchases for equipment, uniforms, and supplies.

Fire & Rescue incurs costs through voucher payments, which are processed through FCG's PeopleSoft system. Fire & Rescue provided purchase requisition memoranda to support the sampled voucher transactions. These memoranda serve as the basis for the issuance of a purchase order; however, many of these documents did not provide sufficient information to verify the necessity of the purchase. According to the 2009 revision of FCG's *Purchasing Rules and Regulations*, Purchasing Rules, Section VI., Paragraph F. *Purchase Requisitions*, a purchase requisition must include a complete description of the goods or services ordered, as well as authorized approval verifying that the goods or services are necessary to the agency's operation and that sufficient funds are available in the appropriate budget account. Improperly or insufficiently filled out requisitions are to be returned to the agency.

Of the 65 sampled voucher transactions, 20 lacked sufficient information to verify the necessity of the purchases. These 20 transactions included FY 2012, FY 2013, and FY 2014 equipment and uniform purchases. As noted, the supporting documentation for the purchases included requisition memoranda that contained descriptions of the purchases. The memoranda were typically prepared by a Fire & Rescue bureau chief and approved first by the Fire & Rescue director and then by the FCG purchasing director. The memoranda discussed the type of contracting method, where approval of the method was required (e.g., when piggybacking off another contract or using a sole-source justification); whether the equipment and uniforms were included in the approved Fire & Rescue budgets; and whether the budgeted funds were available. After the purchasing director approved a memorandum, they submitted it to the Board of County Commissioners for approval.

The Fire & Rescue purchase requisition memoranda included generic descriptions of the goods ordered and stated only that the goods were necessary for the operation of Fire & Rescue (e.g., personal protective equipment for firefighters); they lacked specific details regarding why the purchases were necessary.

In FY 2014, Fire & Rescue implemented a new inventory management system that addresses some of the above documentation issues. The new system is intended to enable Fire & Rescue to more efficiently track and maintain lower inventory levels, as well as conduct inventory audits and track uniforms by size and by the name of the associated employee. Fire & Rescue implemented this system after determining that excess purchases resulted in more inventory on hand than was necessary.

Recommendations: We recommend that:

- 1a. Fire & Rescue ensure that purchase requisitions submitted for large purchases contain an explanation for why the purchased items are necessary and include supporting documentation such a needs assessment or inventory counts.
- 1b. Prior to approving Fire & Rescue requisitions for large purchases, the FCG purchasing director verify that the requisitions include documentation to support the necessity of the purchase.

Management Responses:

- 1a. Fire & Rescue will work in close coordination with the FCG Purchasing Department to ensure that all future purchase requisitions include detailed supporting documentation that describes why the purchase is necessary at that time. In order to implement this in an efficient manner, the focus will be on large purchase request items. Purchases over \$25,000 will include an explanation of the necessity of the purchase rather than only the purpose. This may include a study or audit that was conducted on behalf of Fire & Rescue verifying the necessity. The documentation of necessity is not required within County purchasing policies, however Fire & Rescue will make this step a best practice.
- 1b. FCG purchasing policies do not require necessity to be included with the purchasing documentation. Therefore, this practice will be performed by Fire & Rescue as a best practice rather than by the Frederick County Government Purchasing Director.

Finding 2. PCard purchases lacked adequate documentation and explanations to support the necessity of the purchase.

Fire & Rescue incurs costs through PCard purchases made by cardholders within Fire & Rescue. We determined that some sampled PCard transactions lacked price quotes, itemized invoices, and adequate explanations to support the necessity of the purchase, as follows:

- Of the 66 sampled PCard transactions, 4 lacked price quotes. These transactions occurred in May 2013, September 2013, November 2013, and February 2014. Fire & Rescue was required to obtain three quotes for each of these purchases because they were each in excess of \$2,500 and did not use term contracts or pricing agreements. Fire & Rescue personnel stated that all quotes obtained are submitted to the FCG Purchasing Department; however, the FCG Purchasing Department was unable to provide copies of the quotes.

FCG's Purchasing Rules and Regulations Section VI. *General Purchasing Procedures*, Paragraph E states, "All purchases between \$2,500 and \$15,000 not made utilizing term contracts or pricing

agreements shall require a minimum of three prices quoted from vendors registered on the prospective vendor list. A full explanation must be made if less than three vendors were solicited.”

Further, the January 2014 *Frederick County Procurement Card Policies and Procedures*, Paragraph 3.1.2 *Procurement Rules*, states, “Cardholders must obtain best value and follow established County procurement guidelines when making purchases.”

- The invoices provided for the 66 sampled PCard transactions supported the general purpose of the purchase but did not include documentation verifying its necessity. The 2011 revision of FCG’s PCard policies and procedures states that supporting documentation for PCard transactions must support the legitimate business purpose of the transaction, including the name of the supplier, location, date, and dollar amount. The policy does not require supporting documentation to support the necessity of the transaction; however, this information should be made available as a best practice to assist purchase reviewers in verifying that purchased items are necessary and not excessive, just as is required for FCG requisitions.

In FY 2013, FCG switched PCard providers from Bank of America to JP Morgan Chase and began using the online JP Morgan Chase PaymentNet system to manage PCard transactions. This system includes a “Transaction Detail” screen with a “Transaction Notes” field in which cardholders can enter details about each transaction, such as its purpose and necessity. We obtained downloads of the 42 sampled FY 2013 and 2014 Fire & Rescue PCard transactions and noted that for 27 of the transactions, the “Transaction Notes” field was blank. We also noted that, of the 15 transactions that included notes in the “Transaction Notes” field, 13 contained generic purpose descriptions such as “ATR FY13 EQUIPMENT,” “ATR FY RESCUE EQUIPMENT,” “3 SEASON COATS,” “JOB SHIRTS,” “TURNOUT GEAR NAMEPLATES,” and “TRAFFIC VEST.” These descriptions do not indicate why the purchases were necessary. Including detailed explanations regarding the purpose of and need for purchased items in the “Transaction Notes” field will assist purchase approvers in verifying the appropriateness of purchased items.

- The FCG Purchasing Department and Fire & Rescue were unable to locate invoices for 3 of the 66 sampled PCard transactions. These purchases were made in June 2013 by two Fire & Rescue employees and were for self-contained breathing apparatus supplies, gas detection supplies, and a subscription fee. Cardholders are required to obtain itemized invoices and receipts and submit them to the FCG Accounts Payable Department with the monthly card statement; however, FCG Accounts Payable Department and Purchasing Department personnel stated that they had provided all of the documentation submitted by Fire & Rescue. Fire & Rescue stated that the invoices for one of the cardholders might have been discarded because the cardholder left Fire & Rescue.

According to the December 2011 *Frederick County Procurement Card Program Policies and Procedures*, Section VIII. *Processing Statements for Payment*, original receipts and any other supporting documentation must be mailed to the Accounts Payable Department. In addition, cardholders must maintain copies of all receipts, credits, and any other supporting documentation.

In January 2014, the FCG Purchasing Department updated the *Frederick County Procurement Card Program Policies and Procedures* with additional policies and procedures regarding missing invoices. If a cardholder loses an invoice or credit receipt, they must immediately contact the vendor to obtain a new copy. If the cardholder cannot obtain a copy, they must complete a Missing Receipt Affidavit explaining the loss of the receipt, invoice, or credit; the efforts made to

obtain the lost documentation; and a list of all items purchased. The cardholder must send the affidavit to the purchase card coordinator through their supervisor and the division director. If a cardholder has an excessive number of instances in which they fail to provide an invoice, they will face disciplinary action, and the card may be revoked.

- Of the 66 sampled PCard transactions, 6 were only supported by payment receipts and did not include itemized invoices. These purchases were made by five Fire & Rescue employees in May 2012, June 2012, May 2013, September 2013, November 2013, and December 2013, and were related to cable television, training, uniforms, repairs, and miscellaneous supplies. Cardholders are required to obtain itemized invoices and receipts and submit them to the FCG Accounts Payable Department with the monthly card statement; however, FCG Accounts Payable Department and Purchasing Department personnel stated that they had provided all of the documentation submitted by Fire & Rescue.

According to the December 2011 *Frederick County Procurement Card Program Policies and Procedures*, Section VII. *Use of Card*, the cardholder must obtain an itemized receipt.

As previously discussed, the FCG Purchasing Department updated its *Frederick County Procurement Card Program Policies and Procedures* in January 2014 with additional policies and procedures regarding missing invoices. If a cardholder loses an invoice or credit receipt, they must immediately contact the vendor to obtain a new copy. If the cardholder is unable to obtain a copy, they must complete a Missing Receipt Affidavit explaining the loss of the receipt, invoice, or credit; the efforts made to obtain the lost documentation; and a list of all items purchased. The cardholder must send the affidavit to the purchase card coordinator through their supervisor and the division director. If a cardholder has an excessive number of instances in which they fail to provide an invoice, they will face disciplinary action, and the card may be revoked.

Recommendations: We recommend that:

- 2a. The FCG Purchasing Department ensure that Fire & Rescue obtains quotes for PCard purchases when required and retains documentation of the quotes.
- 2b. As a best practice, PCard cardholders enter a detailed explanation regarding the purpose of and need for purchased items in the "Transaction Notes" field of the PaymentNet system.
- 2c. Reviews of PCard transactions ensure that all invoices and payment receipts or receipt affidavits are included with the PCard submissions sent to the FCG Purchasing Department.

Management Responses:

- 2a. The FCG Purchasing Department will ensure that Fire & Rescue obtains quotes for PCard purchases when required and retains all documentation for these quotes.
- 2b. Fire & Rescue will communicate guidelines to all PCard holders that will require any large PCard purchase to include a written explanation of why the item is needed. If this explanation is not provided in the P Card system, Fire & Rescue Finance will not provide final approval and the charge will not be processed. If the PCard holder is unable to meet this requirement, the cardholder's PCard capabilities may be terminated.
- 2c. Fire & Rescue implemented a monthly process that requires all statements and receipts to be received and reviewed by Fire & Rescue prior to submission to FCG Purchasing Department. This process should allow Fire & Rescue to notify staff of any missing documentation prior to the

monthly submission due date to the FCG Purchasing Department. If the PCard holder is unable to meet this requirement, the cardholder's PCard capabilities may be terminated.

This AUP engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants and generally accepted government auditing standards. The sufficiency of these procedures is solely the responsibility of IIAA. Consequently, we make no representation regarding the sufficiency of the procedures, either for the purpose for which this report has been requested or any other purpose.

We were not engaged to and did not perform an examination, the objective of which would be expression of an opinion on the subject matter. Accordingly, we do not express such an opinion. Had we performed other procedures, other matters might have come to our attention that would have been reported.

This report is intended solely for the information and use of IIAA and is not intended to be and should not be used by anyone other than these specified parties.

COTTON & COMPANY LLP

A handwritten signature in black ink, appearing to read 'M W Gillespie', is positioned above the printed name.

Michael W. Gillespie, CPA, CFE
Partner
March 6, 2015

APPENDIX: SUMMARY OF AGREED-UPON PROCEDURES

- Participate in an entrance meeting with the FCG IIAA and Fire & Rescue; document meeting minutes.
- Obtain and review FCG procurement policies and procedures, Senator Amoss guidelines, and any logistics policies and procedures.
- Interview logistics personnel involved in procuring Fire & Rescue goods to obtain an understanding of established controls for procuring the different types of items included in the disbursement listing.
- Interview logistics or other finance personnel involved in accounts payable to obtain an understanding of the controls established for disbursing payment to vendors for the goods and services included in the disbursement listing.
- Interview logistics personnel involved in the distribution of goods to Fire & Rescue stations to obtain an understanding of established controls.
- Document in narrative format the stated controls over procurement, disbursement, and distribution of goods. Determine if the stated controls agree to FCG requirements, note any deviations, and identify any inherent weaknesses in the process.
- Obtain an electronic file of disbursements made during the period from July 1, 2011, through March 31, 2014. Stratify these disbursements by type and size and select a sample of 50 transactions in FY 2012, 50 transactions in FY 2013, and 40 transactions in FY 2014 (July 1, 2013, through March 31, 2014).
- Review documentation for the selected sample to determine whether stated controls were utilized in the procurement of goods and the disbursement of payment to vendors, noting any deviations from stated processes.
- Review documentation for the selected sample to determine whether stated controls were utilized in the procurement of goods and the disbursement of payment to vendors, noting any deviations from stated processes.
- Interview logistics personnel to determine established controls over any cash accounts. Document controls in narrative format, identifying any weaknesses in stated controls.
- For each cash account, take a sample of periods and test to determine whether accounts were properly controlled throughout the audit period.
- Interview logistics personnel to determine whether Fire & Rescue has established processes to comply with Senator Amoss guidelines. Document these processes in narrative format and note any weaknesses.
- Obtain evidence to support compliance with Senator Amoss guidelines.
- Hold a formal exit meeting with FCG Fire & Rescue to discuss findings; document meeting minutes.
- Provide an AUP report to the FCG IIAA.