



## Chesterfield County, Virginia Internal Audit

10021 Iron bridge Road – P.O. Box 40 – Chesterfield, VA 23832  
Phone: (804) 748-1240 – Fax: (804) 768-9346 – Internet: chesterfield.gov

**GREG L. AKERS**  
Director

**DATE:** June 26, 2017

**TO:** Joseph P. Casey, Ph.D.  
Chesterfield County Administrator

**FROM:** Greg L. Akers  
Director of Internal Audit

**SUBJECT:** Fire Resource Management Vendor Special Project

### **CONCLUSION**

Internal Audit conducted this project based on a January 2017 Chesterfield Fire & EMS Resource Management (Resource Management) request to evaluate a vendor billing discrepancy. This report is limited to a review of controls, management oversight, and current policies and procedures as they relate to the transactions for the specific vendor. Our evaluation identified opportunities to strengthen accounts payable procedures to avoid erroneous payments in the future.

### **BACKGROUND**

Resource Management supplies fire stations with medical grade oxygen tanks used on Ambulances. Resource Management rents several dozen oxygen tanks and orders refills from a vendor, Praxair. Praxair separately bills Resource Management for tank rentals and refills each month. Deliveries are made as needed to drop off full and retrieve empty tanks at Resource Management's warehouse.

During invoice payment processing, Resource Management noted unknown charges on multiple invoices from Praxair. Resource Management contacted the vendor to explain the invoices. After receiving an unsatisfactory explanation, Resource Management believed they were being billed for rented oxygen tanks that the County did not have. Resource Management coordinated with the vendor to inventory all tanks on hand. This inventory resulted in Praxair no longer billing Resource Management for the disputed rentals.

Resource Management reviewed the current accounting system records dating back to FY09 for the vendor. Resource Management calculated that \$65,515 in questionable rental charges were paid to the vendor from July 2008 to October 2016. When the vendor did not offer any resolution for past erroneous billing, Resource Management notified Accounts Payable and Internal Audit was contacted.

## **OBJECTIVES, SCOPE & METHODOLOGY**

### **Objectives:**

- Evaluate concerns regarding vendor overpayments discovered by Resource Management.
- Identify improvements to avoid vendor overpayments going forward.
- Report results to County Administrator and other management.

We considered the following County Administrative Policies (CAP) during our investigation:

- CAP 01-05 Accounting – Bill Approval Documentation requires that payment requests are provided to Accounts Payable ten business days prior to the due date to ensure timely payment.
- CAP 12-17 Purchasing – Receiving/Payment Authorization of Goods and Services requires that departments document if goods and services are received as ordered prior to authorizing invoice payment (Sections II. A. and III. B. 1.)
- CAP 12-7 Purchasing – Delegated Purchasing Authority, 12-10 Purchasing – Small Purchase Procedures, and 12-11 Purchasing – Competitive Sealed Bidding establish purchasing authority levels and procedures:
  - Departments are authorized to make purchases of \$5,000 or less for legitimate business purposes without going through the Purchasing Department while accepting responsibility for complying with the policy.
  - Where the estimated aggregate sum exceeds \$5,000, Purchasing Department involvement is required under procedures for:
    - § small purchases (all phases is less than \$50,000) or
    - § competitive sealed bidding (all phases reaches or exceeds \$50,000)

### **Scope:**

Our investigation primarily covered Praxair invoices and payments from FY09 to FY17.

### **Methodology:**

Our methodology included evaluating Resource Management’s summary of disputed invoices and internal processes and controls over vendor payments which included:

- Reviewing vendor payments in accounting system to determine that Resource Management’s analysis included applicable Praxair rental invoices (2 per month from July 2008 through October 2016)
- Sampling vendor payments for:
  - Agreement to supporting vendor invoice
  - Disputed items match applicable invoice charges for disputed tank types
  - Lack of corresponding refill charges for the disputed tank types
  - Compliance with purchasing requirements
  - Segregation between payment requestor and approver
  - Evidence of fraud
  - Documentation that goods/services were received
  - Timeliness of vendor invoice processing

We conducted this special project as a performance audit in accordance with generally accepted government auditing standards, except the risk and internal control assessment was more targeted to the specific allegations versus a comprehensive evaluation of the department or program. 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. Chris Meade, Senior Auditor, performed the audit work. Chesterfield County Internal Audit is a department within the organization of Chesterfield County/Schools.

## **FINDINGS**

Resource Management verifies delivery tickets against invoices for refill orders, but did not have a verification process for tank rental charges. After noting unexpected rental charges and no refill activity for certain tanks during 2016, Resource Management communicated the suspected error to the vendor. Resource Management inventoried all rented tanks with the vendor. The inventory confirmed that the vendor invoices included additional tank types not used by Resource Management. The vendor corrected future charges starting November 2016.

Internal Audit testing of payments to the vendor since FY09 noted:

- Resource Management's summary of \$65,515 in questionable rental charges was accurate and complete for disputed tank types. We also did not find refill charges for the disputed tanks.
- Payments made to vendor had approved supporting invoices, with a process to match supporting tank refill delivery tickets to vendor invoices. However, Resource Management did not regularly inventory rental tanks and rental charges were paid without documentation that tanks existed.
- No indication of fraud by Fire personnel for these payments. The transactions had separate creators and approvers, and the assigned personnel processing and approving invoices changed periodically.
- Resource Management has been regularly spending between \$15,000 to \$20,000 on oxygen tanks annually with vendor since 2009. However, most invoices were processed by Resource Management through a standard under \$5,000 Purchase Order without involving the Purchasing Department. Resource Management has not followed procurement requirements for goods and services exceeding \$5,000. If Resource Management had sought a competitive procurement defining oxygen service requirements, the erroneous tank rental billing may have been prevented or discovered sooner.
- 30 of 490 invoices (6%) over the 8 year period were not paid timely. The reason for delay was not documented with the invoice.
  - 13 invoices were paid 1 month late
  - 8 invoices were paid 2 months late
  - 9 invoices were paid over 3 months late

## **ACTION(S) TAKEN**

Resource Management has taken an inventory of rental tanks in September 2016 for reconciliation to vendor invoices.

**RECOMMENDATION(S):**

We recommend Fire Resource Management:

1. Examine invoice approval procedures across the department to ensure receipt of goods and services is consistently documented.
2. Maintain rental tank inventory and document rental charge verification prior to payment.
3. Comply with purchasing policy for future oxygen services procurement.
4. Review total payments to vendors periodically against purchasing authority thresholds to verify compliance with County Purchasing competitive procurement requirements.
5. Establish a consistent process to ensure all expected monthly invoices for routine services are received and processed in a timely manner.
6. Seek reimbursement from vendor for erroneous charges.

**MANAGEMENT'S RESPONSE(S):**

1. *Concur. Matthew A. Coffin, Battalion Chief Division Head is responsible for implementing by 07/01/2018. In September of 2016, an internal pilot process was implemented to improve the receiving of goods and services. Shortly after implementation, Resource Management Division (RMD) identified erroneous billing charges. This discovery led to RMD's formal notification to Accounting, Internal Audit, and the County Attorney for redress. RMD currently manages \$5 million in commodities annually via email, Microsoft Excel and paper file/folders. The volume of transactions processed by RMD has outgrown the manual processing methods and we believe automation is critical to ensure accurate and efficient processing. RMD has finalized procurement requirements with County Purchasing (Reference: RFP#17-1605), which will seek to secure an electronic inventory management system.*
2. *Concur. Matthew A. Coffin, Battalion Chief Division Head implemented 11/01/2016. In September 2016, tank rentals were inventoried, in response to erroneous billing revealed through internal process improvements. Those tank rental numbers were vetted and verified with Praxair to ensure the accuracy of future tank rental billing.*
3. *Concur. Matthew A. Coffin, Battalion Chief Division Head is responsible for implementing by 02/01/2018. On June 15, 2017, RMD will begin working with Purchasing to establish an FY18 oxygen procurement contract.*
4. *Concur. Matthew A. Coffin, Battalion Chief Division Head is responsible for implementing by 02/01/2018. RMD will seek to develop a reporting process with Fire-Finance staff, Accounts Payable and Purchasing to track cumulative purchases to ensure adherence to procurement policies.*
5. *Concur. Matthew A. Coffin, Battalion Chief Division Head is responsible for implementing by 10/01/2017. Effective October of 2016, a consistent process, moved from pilot status to guide the receipt and review of monthly invoices and services for timely processing and payment\*. It is estimated that nearly 90% of incoming mail is destined for Fire-RMD in the form of billing and invoice documentation. We believe that the division should pilot receiving the initial mail drop to RMD from County mail rooms. Mail should then be vetted for billing/invoice items with remaining mail routed to Fire-Administration through existing delivery mechanism for regular distribution. This process improvement may eliminate delays and ensure the expedient processing of billing invoices on receivables. (\*Note, this pre-established process culminated into the discovery of erroneous billing, resulting in Resource Management's notification to leadership, Accounting, and Internal Audit).*
6. *Concur. Matthew A. Coffin, Battalion Chief Division Head is responsible for implementing by 6/01/2018. RMD has worked with the County Attorney's Office to initiate the reimbursement process through the June 2017 issuance of a certified letter to Praxair Headquarters Incorporated and Praxair Distributing Incorporated.*

**CLOSING**

We appreciate the cooperation and assistance received from Fire & EMS and the Resource Management staff throughout this special project.

cc: Edward "Loy" Senter Jr., Chief of Fire & EMS  
Jeffrey L. Mincks, County Attorney  
Keith S. Gagnon, Director of Purchasing

# Highlights

Internal Audit Report to the Board of Supervisors/School Board

## Why We Did This Review

Internal Audit conducted this investigation based on notification from Accounts Payable and Fire & EMS Resource Management about a billing discrepancy with a vendor that dated back several years.

Our objectives were to:

- Evaluate concerns regarding vendor overpayments discovered by Resource Management.
- Identify improvements to avoid vendor overpayments going forward.
- Report results to County Administrator and other management.

## What We Recommend

- Examine invoice approval procedures across the department to ensure receipt of goods and services is consistently documented.
- Maintain rental tank inventory and document rental charge verification prior to payment.
- Comply with purchasing policy for future oxygen services procurement.
- Review total payments to vendors periodically against purchasing authority thresholds to verify compliance with County Purchasing competitive procurement requirements.
- Establish a consistent process to ensure all expected monthly invoices for routine services are received and processed in a timely manner.
- Seek reimbursement from vendor for erroneous charges.



For more information, please contact  
Greg L. Akers at 804-748-1240 or  
akersg@chesterfield.gov

## Fire Resource Management Vendor Special Project



## What We Found

### Background

Chesterfield Fire & EMS Resource Management (Resource Management) supplies fire stations with medical grade oxygen tanks used on Ambulances. Resource Management rents several dozen oxygen tanks and orders refills from a vendor, Praxair. Praxair separately bills Resource Management for tank rentals and refills each month. Deliveries are made as needed to drop off full and retrieve empty tanks at Resource Management's warehouse.

Resource Management discovered vendor invoices included rental charges for oxygen tanks they did not have. Resource Management reviewed the current accounting system records dating back to FY09 for the vendor. Resource Management calculated that \$65,515 in questionable rental charges were paid to the vendor from July 2008 to October 2016.

### Summary of Findings

Resource Management verifies delivery tickets against invoices for refill orders, but did not have a verification process for tank rental charges. After noting unexpected rental charges and no refill activity for certain tanks during 2016, Resource Management communicated the suspected error to the vendor. Resource Management inventoried all rented tanks with the vendor. The inventory confirmed that the vendor invoices included additional tank types not used by Resource Management. The vendor corrected future charges starting November 2016.

Resource Management's summary of \$65,515 in disputed oxygen tank rental charges was accurate and complete.

Payments made to vendor had approved supporting invoices, with a process to match supporting tank refill delivery tickets to vendor invoices. However, Resource Management did not regularly inventory rental tanks and rental charges were paid without documentation that tanks existed.

Resource Management has been regularly spending between \$15,000 to \$20,000 on oxygen tanks annually with vendor since 2009. However, most invoices were processed by Resource Management through a standard under \$5,000 Purchase Order without involving the Purchasing Department. Resource Management has not followed procurement requirements for goods and services exceeding \$5,000.

### Action(s) Taken

Fire Resource Management has taken an inventory of rental tanks in September 2016 for reconciliation to vendor invoices.

Management concurred with 6 of 6 recommendations implemented through 7/01/2018.

We appreciate the cooperation received from Fire & EMS and the Resource Management staff throughout this special project.