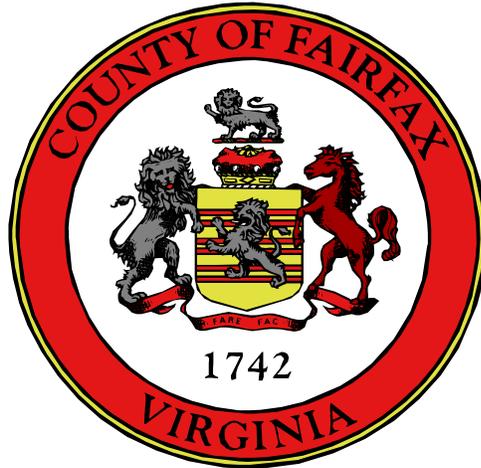


**INTERNAL AUDIT REPORT**

**REVIEW OF CONTROLS OVER**

**PROCUREMENT CARDS**



*Fairfax County Internal Audit Office*

**FAIRFAX COUNTY, VIRGINIA  
INTERNAL AUDIT OFFICE  
M E M O R A N D U M**

**TO:** Anthony H. Griffin  
County Executive

**DATE:** March 22, 2000

**FROM:** Ronald A. Coen, Director  
Internal Audit Office

**SUBJECT:** Report on the *“Review of Controls Over the Procurement Cards”*

This is a report on the *“Review of Controls Over the Procurement Cards”*. It was performed as part of our FY 2000 Annual Audit Plan.

The findings and recommendations of this audit were discussed with the Department of Purchasing and Supply Management. We have reached agreement on all of the recommendations and I will follow up periodically until implementation is complete. Their responses are incorporated into the report and the full response is attached at the end of the report. After your review and approval, we will release the report to the Board of Supervisors.

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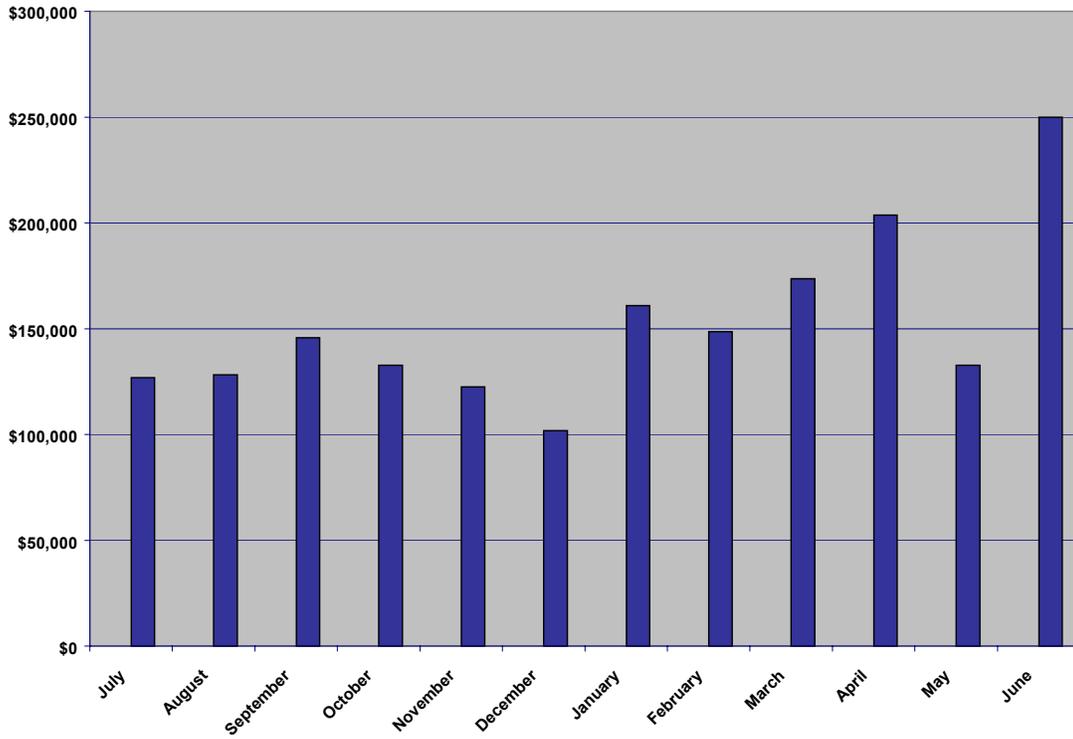
## Introduction

The purpose of the County's Procurement Card Program is to offer County departments a procurement process for purchase and payment of low-dollar, non-inventory, non-capital items. The intent is to streamline the traditional procurement process by reducing the number of requisitions, purchase orders, invoices and checks needed for handling miscellaneous low-dollar transactions. The procurement card system enables users to obtain goods and services faster and easier. The Department of Purchasing and Supply Management (DPSM) introduced the procurement card in November 1994. At that time, a one-year pilot program was implemented consisting of five user departments. At the end of Fiscal Year (FY) 1999, the program had grown to thirty user departments, with 343 cardholders, making purchases in excess of \$1.8 million.

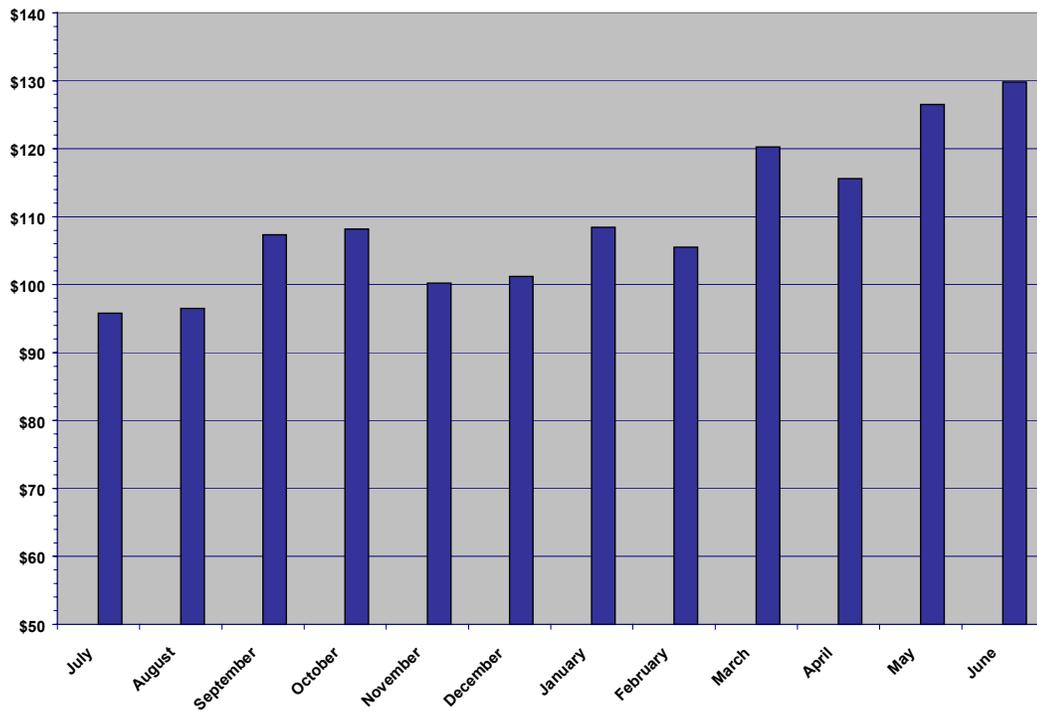
Unique controls have been developed for the Procurement Card Program that does not exist in a traditional credit card environment. Limits have been placed on the cards, which established certain restrictions, such as: the maximum dollar amount for a single purchase, the number of transactions authorized in a day, and the maximum credit limit for each card. Also, restrictions placed on cards prevent its use for certain types of purchases (e.g., cash advances, betting) or types of vendors (e.g., bars, pawnshops, financial and related institutions). These controls help ensure that the card is used only for specific purposes and within specific dollar spending limits.

The charts on the next page show the Monthly Card Purchases and the Average Card Transaction Amount for Fiscal Year 1999.

Monthly Card Purchases FY99



Average Card Transaction Amount - FY99



Source: FAMRCORE Report FY 1999

## Purpose and Scope

We included a review of internal controls over procurement cards in our FY 2000 Audit Plan. We selected nine user departments that represented 50% of the total cards available at fiscal year end 1999. The audit reviewed internal controls over processing by the Department of Purchasing and Supply Management (Card Administrator) and nine user departments. Our test objectives were to determine if user departments are following County procedures and rules governing the use of the cards. These rules are outlined in Procedural Memorandum 12-02 “*Use of the County Procurement Card*”. We also determined if those rules and procedures provide reasonable assurance that the cards are used for authorized small business purchases within card restrictions and that payments are processed, paid, and charged correctly. When card users implement effective internal control structure, the card program can serve its intended purpose without causing unmitigated risks, thereby increasing operating efficiency and cost savings for the County.

The Nine User Departments selected were:

- Department of Information Technology – 9 Cards
- Solid Waste Disposal and Resource Recovery Division – 6 Cards
- Department of Vehicle Services – 37 Cards
- Department of Finance – 4 Cards
- Fire and Rescue Department – 9 Cards
- Department of Human Resources – 2 Cards
- Wastewater Treatment Division – 5 Cards
- Department of Administration For Human Services – 10 Cards
- Park Authority – 91 Cards

## Methodology

We reviewed and analyzed internal control procedures, procurement card expenditures, and related accounting records at the nine user departments. Our review included inquiries from appropriate County employees, examination of procurement card expenditures, records and statements, interviews with users, and review of internal manuals and procedures. Our objective was to determine if adequate internal control procedures are in place and being followed by the nine user departments. We reviewed procurement card statements that were processed for May, June, and July 1999 to determine that procurement card usage was in compliance with County Procedural Memorandum 12-02 “*Use of the County Procurement Card*”. We reviewed a sample of Department of Purchasing and Supply Management’s (DPSM) accounts payable files and wire transfer records for May, June, and July 1999 to determine if payments were processed, paid, and charged correctly. The audit was conducted in accordance with Generally Accepted Government Auditing Standards.

Throughout this report, we frequently used the term's user department, program manager, program coordinator, and Bank One. These terms are defined as follows:

- **User Department** – A County department that participates in the procurement card program
- **Program Manager** – An employee who is responsible for all aspects of the procurement card program within the user department
- **Program Coordinator** – An employee in Department of Purchasing and Supply Management who administers the procurement card program for the County
- **Bank One** – Procurement card (MasterCard) system contractor

## Executive Summary

Our review of the procurement card program found that, overall, internal controls are adequate. Department of Purchasing and Supply Management (DPSM) is conscientiously administering the program. The following opportunities for enhancements to controls and limiting County liability are discussed in detail in the report.

- The County is at risk for lost/stolen procurement cards up to each card's single and monthly transaction dollar limit. We recommend that DPSM negotiate with Bank One (Procurement Card Service Contractor), at the next contract renewal date, to establish a dollar limitation on liability.
- To control risk, periodic monitoring by DPSM and Internal Audit is required to ensure that adequate internal controls are in place and followed by the user departments.
- Procurement card purchasing activity at eight of the nine user departments reviewed was well below the card(s) maximum limits. User departments with larger dollar limits than needed increases County liability if the card is used for improper or fraudulent activity. Lowering the card dollar limits will reduce County liability. The current agreement with Bank One does not protect the County from any liability on fraudulent charges until the bank is notified. We recommend that program managers project future procurement card activity as it relates to the department's fiscal year budget and adjust the maximum dollar limits accordingly.
- User departments need to adhere to internal controls as required by PM No. 12-02. "Use of County Procurement Card". Internal control procedures at the nine user departments were well documented and included most of the elements of internal control as outlined in PM 12-02. However, six of the user departments need to address certain internal written procedures to comply with PM 12-02. We presented specific recommendation to each user department in a separate memorandum.

## Comments and Recommendations

During our limited review of the Procurement Card Program, we identified certain practices and procedures, which we believe, could be enhanced to strengthen internal controls, increase efficiencies, and help to prevent fraudulent activities. This review was not designed or intended to be a detailed study of every procedure or activity. Accordingly, the findings and recommendations presented in this report should not be considered as all-inclusive of areas where improvements may be needed.

### **1. County is at risk for lost/stolen procurement cards up to each card's single and monthly transaction dollar limit until the bank is notified.**

The procurement card agreement with Bank One stipulates that the County is responsible for all transactions until they report a card lost or stolen. Immediately upon notification, Bank One becomes responsible for all subsequent transactions. Bank One's liability begins immediately upon notification; there is no waiting period. In our opinion, this arrangement exposes the County to considerable liability. As of the date of our audit, no cards have been reported lost or stolen at the nine user departments. It is certainly possible that a user may not notice a missing card for a few days. In the meantime, the person who stole or found the card could make purchases up to the card's limit. All user departments have established spending limits for their individual cards. Our sample of nine user departments revealed that card restrictions range from \$100 to \$2,500 single purchase limit and \$300 to \$150,000 total credit limit.

#### **Recommendation**

We recommend that DPSM negotiate with Bank One to amend the agreement by establishing a maximum liability amount for fraudulent charges on lost/stolen cards. The current procurement card services contract period with Bank One is February 12, 1999 through February 13, 2003.

#### **Department Response**

When DPSM recently proposed this change to Bank One, the bank advised us that they were unwilling to do so at this time. Per Bank One, they have no commercial card customers with a maximum liability limit. As stated in the draft audit report, the initial contract period ends February 13, 2003. At that time, DSPM will again attempt to negotiate a maximum liability.

In addition, although current monthly credit limits range from \$200 to \$150,000, other controls, such as daily spending limits, daily frequency limits and merchant blocking limits, help reduce the total risk presented by lost or stolen card.

### **2. To control risk, periodic monitoring by DPSM and Internal Audit is required to ensure that adequate internal controls are in place and being followed by the user departments.**

The Procurement Card Program within the County has steadily increased since its inception in November 1994. More and more departments are acquiring the card to increase their efficiency in processing small purchase transactions. Currently, the County has in excess of 500 procurement cards. Due to this growth in popularity and the limited personnel resources available to conduct periodic audits, DPSM's program coordinator is not conducting on-site reviews of using department's procedures and supporting documentation as prescribed by Section 10 of PM 12-02.

DPSM's program coordinator does review and approve the user department's internal control procedures prior to card issuance.

To help with this monitoring responsibility, the DPSM program coordinator should utilize the procurement card data reports that are available from Bank One. The reports are a good indicator of improper or fraudulent activity that may go undetected at the user departments. The reports should be reviewed periodically and any infractions should be called to the attention of the department's program manager.

Without some periodic system oversight user departments (cardholders) may not be in compliance with management's intended goals for the program and some may even circumvent the control techniques.

### **Recommendation**

DPSM program coordinator should conduct periodic reviews of department's program procedures and supporting documentation. One way to aid this monitoring is to establish a process that reviews specific systems reports to determine cardholder's compliance with procurement card procedures prescribed in PM 12-02.

### **Department Response**

Starting in the fourth quarter of FY 2000, DPSM will begin review of agencies' procurement card activities as part of the Procurement Assistance and Compliance (PAC) Program. The PAC Program will include the periodic review of bank and systems generated reports, as well as on-site visits to agencies to review compliance with procurement card procedures and required documentation. The PAC Program is charged with the Countywide review of *all* delegated procurement, including Small Purchase Orders, Blanket Purchase Orders, and Office Depot orders, as well as procurement card purchasing. Because the scope of PAC Program review is so wide, in depth review of individual areas, including procurement card activity, is not feasible.

As per the Procurement Card Agreement with Bank One, the bank shall provide the County with various procurement card data reports. The following two Bank One reports are an important source of information for card management:

- **Multiple Transaction Exception Report** – This report includes any cardholder who had multiple transactions made on the same day at the same merchant totaling more than the cardholder's single purchase limits. This report could be used to identify split-purchases on users trying to circumvent the single purchase restriction.
- **Sales Tax Report** – The report shows all taxable transactions for each credit card. The report could be used to identify transactions where the user paid sales tax. Except for meals, lodging and catering, the County is exempt from paying State Sales Tax within the State of Virginia.

### **3. Procurement card purchase activity is well below authorized card maximum limits. Lowering card dollar limitations will reduce County liability.**

Procurement cards are issued by Bank One upon receipt of the Request for New Procurement Card Form. As part of the application process, the department must set appropriate limits for each card requested. Based on anticipated use, number of cards, budget constraints and any other relevant factors, the department must set dollar limitations on single purchases and monthly spending. The number of authorizations per day and month are also set. These limits are electronically coded and stored in the Bank One computer system. Any card that exceeds their limits is rejected by the Bank One system. In reviewing the purchasing activity on 70 user statements for May, June and July 1999, we found eight of the nine departments were well below their established maximum dollar limits. User departments having larger dollar limits than needed increases County liability if the card is used for improper or fraudulent activity.

#### **Recommendation**

Lowering card dollar limits could reduce the County's maximum liability for lost/stolen cards. The current agreement with Bank One does not protect the County from any liability on fraudulent charges until the bank is notified. The program manager should determine future procurement card activity as it relates to the department's fiscal year budget. An evaluation of card purchasing activity over a 6-12 month period could identify a card purchasing history that could be used to set realistic card(s) purchasing limits. DPSM program coordinator should train program managers to address appropriate card limitations as it relates to the single and monthly dollar spending limit and the number of daily and monthly transactions.

#### **Department Response**

As part of the procurement card Program Manager Training that all new agency program managers are required to attend, program managers are advised to set realistic limits based on anticipated usage. Future training will advise new program managers to revisit their card limitations at approximately six to twelve months into the program.

In addition, within the next four weeks, the DSPM director will issue a memorandum to all current program managers to report the findings and recommendations made by the audit report. The memorandum will advise all program managers to re-evaluate their card limitations based upon experience and anticipated card activity. Agency card limitations will also be subject to review as part of the PAC Program's overall procurement activity review for each agency.

### **4. User departments need to adhere to internal controls as required by Procedural Memorandum No. 12-02."Use of County Procurement Card".**

We selected 70 card statements from nine user departments to review and test the purchasing activity for the months of May, June and July 1999. Our test objectives were to determine compliance with PM12-02 "*Use of the County Procurement Card*" and to evaluate card-purchasing activity to established limits. Some of the attributes we tested and the corresponding test results were:

- Written Internal Control Procedures
- Propriety of Purchases
- Vendor Receipts of Statement Approval
- Employee Acknowledgement Disclosure Form

- Card Use by the Program Manager
- Expenditure Log
- Card Security
- Reconciliation to FAMIS

### **Written Internal Control Procedures**

Internal control procedures were well documented and included most of the elements of internal control as outlined in PM 12-02 “*Use of County Procurement Card*”. However, six of the nine card user departments' internal procedures needed updating. Some of the issues that users need to address in order to comply with PM 12-02 are:

- Updating card limitations (single and monthly dollar spending limit and the number of daily and monthly transactions)
- Updating internal procedures to reflect current procedures
- Establishing procedures to verify that adequate funding before each purchase is made
- Retention of receipts/sales slips
- An acceptable receipt, if the department is unable to obtain an original receipt
- Procedures for reconciling FAMIS and bank statement
- Update billing information for the current card contractor –Bank One
- Document the process for reporting disputed items

### **Recommendation**

The DPSM's program coordinator should advise all program managers to periodically review their written internal procedures. Appropriate changes should be made to correspond with current card operations. A copy of the revised procedures should be forwarded to the DPSM's program coordinator for review. The program coordinator should advise program managers that revised procedures will be reviewed as part of the on-site review performed by the procurement oversight program.

### **Department Response**

Program Manager Training currently advises all program managers to revise their internal control procedures whenever any changes in policy or procedure occurs. Program Managers are advised that their internal control procedures should reflect the way purchasing activity is actually conducted in the agency. In addition, when the revised PM 12-02 was issued in November 1999, DPSM distributed a copy to each participating agency with an accompanying memorandum advising program managers to make appropriated changes to their internal control procedures.

In the future, Program Manager Training will advise program managers that their internal control procedures will be subject to review as part of the PAC Program review for their agency. DPSM will continue to advise program managers when changes in overall program policy may necessitate changes to agency internal control procedures. However, with over forty agencies currently involved in the card program, the task of reviewing and approving *all* revisions by *all* agencies is beyond the Program coordinator's resources.

**Propriety of Purchases**

While the approving official is in the best position to decide whether any purchase is improper, our review did not disclose any charges, which appeared questionable, improper, or non-business related. However, we did note three instances which appeared to be split purchases so the user would stay within the card's single purchase limit. Single transaction limits provide an important safeguard against card misuse. The splitting of a single purchase transaction should be considered a direct violation of County policy.

**Recommendation**

We recommend that the DPSM's program coordinator issue a warning to users, who are engaged in split purchases, to circumvent their single purchase limit. If the practice continues, DPSM should consider revoking the user's card privileges.

**Department Response**

Split purchases will be review as part of the PAC Program review. If review indicates a user is engaged in splitting purchases, the agency program manager will be advised that the activity is considered misuse of the card and future splitting may result in revocation of card privileges. DSPM will consider card cancellation for users, who continue this practice.

**Vendor Receipts and Statement Approvals**

Accounting Operations' staff review statements to ensure that users attach supporting receipts. If they cannot be found, the user is contacted to provide the appropriate documentation. This review process appears to be thorough, however we did find three charges at one user department without appropriate documentation. We concluded that the charges were proper and that the documentation had been misfiled.

The program manager is required to review and sign the user's bank statement to indicate approval of the charges. Statements at three of the nine user departments did not have the program manager's signature. However, the program manager was reconciling the original receipt/charge slips to the *Weekly Transaction Report*. The Weekly Transaction Report lists all transactions by user's card number from the prior week. The download reports are available online to those departments that have installed specialized vendor-provided software. Those departments that have not installed the software will receive a copy of their transactions weekly on a report sent to the them by DPSM.

**Recommendation**

Technically, all transactions that appear on the Weekly Transaction Report should appear on the bank statement. To avoid duplication of effort and to comply with PM 12-02, we recommend that user departments with a large number of transactions reconcile the receipts/sale slips to the Weekly Transaction Report. As an alternative, the department may reconcile receipts/charge slips to the monthly bank statement. However, if this method is chosen, the department must review the transaction reports on a weekly basis to verify that all charges are proper and the correct amounts have been charged. In either case, the program manager should initial and date the monthly bank statement or weekly transaction report to indicate approval.

**Department Response**

The recently revised PM 12-02 (issued 11/99) advises users of the reconciliation and approval procedures discussed above.

**Employee Acknowledgement Disclosure Form**

Eight of the nine user departments had a number of employees who had used the card, but had not completed a Disclosure Form. PM 12-02 requires all first time users to sign a Disclosure Form. This form acknowledges the employee's responsibility in regards to card use and sets forth consequences for card misuse.

**Recommendation**

The DPSM's program coordinator should advise all program managers that Disclosure Forms will be reviewed during DPSM's periodic program reviews. The department's program manager should maintain the signed form for auditing purposes

**Department Response**

DPSM Program Manager Training advises new program managers that their agency's completed Disclosure Forms are subject to review. PM 12-02 states that program managers "shall maintain the signed forms." This point will also be included in the upcoming memorandum to program managers discussed above in the "Response" to Issue 3.

**Card Use by the Program Manager**

The program manager at two of the nine card user departments had used the card to make departmental purchases. PM 12-02 states that the program manager should be an individual who does not use the card.

**Recommendation**

If an urgent need arises, the program manager may use the card. When this occurs, another staff member at the same level or senior to the program manager must perform the reconciliation for that period. The program manager may use the card for travel purposes. When this occurs, the department must follow the same procedures as when the program manager uses the card to meet an urgent requirement. This recommendation concurs with DPSM's control procedures.

**Department Response**

The recently revised PM 12-02 (issued 11/99) advises users of this change in policy.

**Expenditure Log**

Two of the nine card user departments were not recording all of their purchases on the Expenditure Log. PM 12-02 requires, at a minimum, a system that tracks expenditures as they occur. Departments may use appropriate manual or computer log. Entries must be current to give up-to-date information on funds expended.

**Recommendation**

The DPSM's program coordinator should advise all program managers that Expenditure Logs will be reviewed for completeness during DPSM's periodic program reviews. The department's program manager should periodically review the logs to determine that purchases are being entered by the cardholders.

**Department Response**

DPSM Program Manager Training will advise program managers that agency Expenditure Logs will be subject to review as part of the PAC Program review. This information will also be included in the upcoming memorandum discussed above in the "Response" to Issue 3.

**Card Security**

One procurement card at one user department was not being kept in a secure location. PM 12-02 states that cards should be kept in a secured or locked location while not in use.

**Recommendation**

Program managers and program coordinators should conduct periodic reviews on existing cards to determine that they are properly secured.

**Department Response**

DPSM Program Manager Training will advise program managers of the above recommendation. This information will also be included in the upcoming memorandum discussed above in the "Response" to Issue 3. Card security will be addressed as part of the periodic PAC Program review. However, it may be difficult for the program coordinator to gain a high level of assurance regarding the physical security of all cards for agencies with large card programs, such as the Police Department and the Park Authority.

**Reconciliation to FAMIS**

Card expenditures at three of the nine user departments were not moved on a monthly basis from the designated clearing account to the appropriate FAMIS expenditure account. On a weekly basis, DPSM will upload card transactions to FAMIS through an automated program. The program will post each card transaction to the FAMIS account associated with the individual card used to execute the transaction. If weekly billing is posted to a clearing account, the charges must be moved to the appropriate expenditure account. PM 12-02 requires that on a monthly basis, at a minimum, the using department must reconcile the bank statement or the weekly transaction reports to the amounts posted as expenditures in FAMIS.

**Recommendation**

The program manager should establish internal procedures to ensure that the clearing account is completely distributed each month. The program manager should periodically review transfer vouchers to determine that the transfers are being processed monthly. As evidence of the review, the program manager should initial and date the copy of the transfer voucher.

**Department Response**

This recommendation is directed to agency program managers, however, Program Manager Training advises all program managers that the clearing account must be cleared each month. The recommendation will be included in the upcoming memorandum discussed above the "Response" Issue 3.