



Fairfax County Internal Audit Office

**Fairfax-Falls Church Community Services Board
Procurement Card Audit
Final Report**

November 2007

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Executive Summary

Our review of the Fairfax-Falls Church Community Services Board procurement cards revealed that overall the internal controls were adequate. Internal control procedures were generally well documented and the department generally appeared to be in compliance with internal controls outlined in the county Procedural Memorandum (PM) 12-02. However, the following areas could be strengthened:

- In 35 of the 50 (70%) transactions we tested, card users were not required to obtain a supervisor's signature on the card logs and in some cases allowed to sign off on their own purchases.
- No documentation including receipts, invoices and reconciliations could be obtained for two of the transactions tested.
- Supporting documentation could be strengthened. Users were not required to submit sufficient documentation for internet orders, telephone orders and training classes. Four restaurant/food purchases and one plant purchase from our sample of 50 test transactions (10%) did not document the business purpose for the transaction.
- There were seven instances where split purchases were made in excess of the department's card limit for individual procurement cards.
- In six instances employees who used the procurement card did not have a signed Employee Acknowledgement Disclosure Form on file. Additionally, the form had a section to confirm that the card user read and understood the departmental internal control procedures, but did not mention agreeing to comply with PM 12-02 Use of the County Procurement Card.

Finally, we noted an opportunity for process improvement for CSB procurement card reclassifications. The transfer voucher process could be automated by downloading data from the CSB procurement card database directly into FAMIS. Given the high volume of transactions for this department, this would produce significant reductions in resources needed to process the transfers and human error.

Scope and Objectives

This audit was performed as part of our fiscal year 2007 Annual Audit Plan and was conducted in accordance with generally accepted government auditing standards. The audit covered the period of May 1, 2006, through April 30, 2007, and our audit objectives were to determine if the department:

1. Had developed written internal procedures in accordance with PM 12-02.
2. Followed the county rules and procedures for the use of procurement cards.
3. Had adequate internal control procedures in place and that these procedures were being followed by cardholders.
4. Transactions were reasonable, in line with policy, and did not appear to be fraudulent.

Methodology

Our audit methodology included a review and analysis of internal control procedures, procurement card expenditures, and related accounting records of the department. Our audit approach included an examination of procurement card expenditures, records and statements; interviews of appropriate employees; and a review of internal policies and procedures. We evaluated the processes for compliance with the county's PM 12-02. Information was extracted from the procurement card management system for sampling and verification to source documentation during the audit; however, our audit did not include an independent review of the system controls. Our transaction testing did not rely on system controls; therefore, this was not a scope limitation.

The Fairfax County Internal Audit Office 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, and reports are available to the public.

Findings, Recommendations, and Management Response

1. Site Controls over Procurement Card Purchases

In 35 of the 50 (70%) transactions we tested, card users were not required to obtain a supervisors signature on the card logs and in some cases were allowed to sign off on their own purchases. CSB Procurement Card Procedures require that the users' immediate supervisors sign off on the procurement card log; however, compliance to this requirement was not enforced. Additionally, CSB currently does not maintain a list of managers authorized to sign off on the procurement card logs sent up to administration. As a compensating control, CSB finance staff reviewed the appropriateness of purchases. Given the range of items that may be considered legitimate purchases for CSB due to the nature of their operations, they may not have enough knowledge of site operations to perform an adequate review. Failure to obtain on site supervisory or independent review of procurement card purchases increases the risk of inappropriate or unapproved spending.

Recommendation: CSB should enforce their policy that a manager with hands on knowledge of daily operations sign off on the printed procurement card logs submitted for reconciliation. CSB should maintain a list of who is authorized to sign off on each card's log. Procurement card users that repeatedly violate this procurement card policy should be issued a warning. If the problem persists after this initial warning, the card should be removed from the department until they can demonstrate operational changes they will make to comply with the policies.

Management Response: The p-card log will be redesigned to clearly indicate the requirement for the program supervisor's review and approval. The anticipated completion date is January 31, 2008.

2. Supporting Documentation

The CSB procurement card ICP only required a print out of the order screen, order form or catalog/brochure page of the item purchased as supporting documentation for the purchase for internet and telephone orders. The current document requirement did not provide confirmation that the order was received or the service was provided. Additionally, the supporting documentation provided for a sample transaction selected for employee training was not adequate. The documentation provided was the registration form for the training which did not provide confirmation from the vendor confirming the amounts paid.

PM 12-02 requires agencies to retain original vendor receipt, invoice, or credit slip for each transaction. Additionally, alternative documentation to original receipts, invoices or credit slip should contain the same level of information as the originals. Failure to provide written confirmation of receipt of goods or services increases the risk of fraud or error in procurement card transactions.

Recommendation: For internet, telephone and training course orders the vendor should be requested to send an e-mail or fax confirming that the item has been shipped or class has been scheduled. Receiving reports and original invoices should be provided when possible.

Management Response: The CSB p-card internal control policy and procedures will be updated to include the requirement for a confirming email and/or fax, or receiving report, and disseminated to all custodians and program supervisors. The anticipated completion date is January 31, 2008.

3. Split Transactions

We noted seven instances where split purchases were made in excess of the department's card limit for individual procurement cards. Split transactions occur when the original purchase requirement for the same or related goods or services is broken into multiple smaller purchases which are made over a short period of time. These instances consisted of 15 individual transactions on six cards (5% of active card population). The items purchased through split transactions most frequently were for groceries, household items and furniture.

Procedural Memorandum 12-02 prohibits split purchases and notes that these types of transactions are often done to circumvent a card's single purchase or cycle spending limit. Requirements which are divided for other purposes, such as to accommodate accounting needs or to facilitate delivery to separate locations are also considered split purchases. This increases the risk for inappropriate purchases.

Recommendation: The CSB should utilize proper purchasing methods in accordance with county policy. When exceptions to policy are made they should be clearly documented and approved. Lastly, procurement card usage should be reviewed to determine if monetary limits need to be modified.

Management Response: The CSB reviews monetary limits frequently and requests adjustments in order to avoid improper usage. Copies of all adjustments will be on file for auditors. County policy will be reinforced with p-card custodians. The anticipated completion date is January 31, 2008.

4. **Missing Documentation**

No documentation including transaction supporting documentation, procurement card logs and reconciliations could be obtained for two of the 50 transactions tested. Procedural Memorandum 12-02 requires that agencies maintain all original receipts, invoices, or credits for each transaction. Receipts should show all details pertinent to the transaction. If for any reason an original or alternate receipt is unavailable, a photocopied receipt or a memorandum providing the purchase details and the reason why a receipt is not available must be included with the monthly statement or weekly transaction report and be signed by the program manager. Additionally, all agencies must reconcile receipts and charge slips to bank statements and FAMIS in a timely manner. Once completed, the reconciler is required to sign and date the documents settled.

Failure to provide proper supporting documentation and adequately document the completion of reconciliations performed weakens the ability to evidence that an effective separation of duties is in place. It also increases the risk that erroneous or inappropriate charges to the procurement card could go undetected or not be corrected in a timely manner. The reconciliation also provides a means of ensuring that all charges and credits are cleared to the proper expenditure account at least monthly.

Recommendation: The CSB should ensure that sufficient receipt documentation is maintained and reconciliations are performed for **all** procurement card transactions, as specified by PM 12-02. These documents should be maintained for three years.

Management Response: The county policy will be reinforced with p-card custodians. The anticipated completion date is January 31, 2008.

5. **Employee Acknowledgement Disclosure Forms**

During our transaction testing, we noted six instances where the employee who used the procurement card did not have a signed Employee Acknowledgement Disclosure Form (EAD) on file and in one instance there was no card user's supervisor signature on the Employee Acknowledgment Disclosure Form. Additionally, the EAD had a section confirming that the card user read and understood the departmental internal control procedures, but did not mention PM 12-02.

Procedural Memorandum 12-02 requires that all first-time card users sign and date an Employee Acknowledgement Disclosure Form. The form acknowledges the employee's responsibilities regarding card use and sets forth consequences for misuse. The agency program manager is to maintain the signed forms for at least two years following the employee's departure from the agency. The template form included in PM 12-02 includes a section for the user to acknowledge that they have read and understood PM 12-02 and signature lines for the user's supervisor and the program manager. Weaknesses in EAD controls decrease user accountability for proper card use and increase the risk of unauthorized access to the card.

Recommendation: CSB should ensure that each employee using a procurement card sign and date an Employee Acknowledgement Disclosure Form, with the forms retained as required by PM 12-02. All forms should be properly approved by the user's supervisor and the program manager. Additionally, CSB should include a clause in their Employee Acknowledgement Disclosure forms requiring users to read and familiarize themselves with PM 12-02 as well as their own ICP, or reference PM 12-02 directly in their ICP.

Management Response: The county policy will be reinforced with p-card custodians. The anticipated completion date is January 31, 2008.

6. Transaction Documentation

Four restaurant/food purchases and one plant purchase from our sample of 50 test transactions (10%) did not document the business purpose for the transaction.

Failure to document the business purpose for food or other purchases at high risk for personal use increases the chance for inappropriate charges to the procurement cards and potential negative press for the county. PM 12-02 prohibits the use of the procurement card for personal purchases.

Recommendation: Card users should be required to include the business purpose in the item description field of the procurement card logs for all food/meal/plant purchases. This documentation should be maintained along with other supporting documents for the transaction as evidence that the use of the procurement card was for business purposes.

Management Response: The p-card log will be redesigned to clearly indicate the requirement to include a business purpose for all food/meal purchases. Plant purchases will be added to the CSB list of ineligible p-card purchases. The anticipated completion date is January 31, 2008.

Other Observations

Transfer Vouchers

Inputting the data into FAMIS to process the transfer voucher for reclassifying procurement card expenses was done manually even though CSB maintained a procurement card

database that contained all the fields necessary to import the information directly into FAMIS. This created a situation where duplicate entry of a significant amount of data was required. Failure to automate data input functions when it is possible, increases the risk of mistakes due to human error and is a less efficient use of human resources.

Recommendation: Internal Audit understands that the Department of Finance has worked with at least one other department to automate the reclassification process. We recommend that CSB meet with DOF to investigate the possibility of downloading the transfer voucher data directly into FAMIS.

Management Response: The CSB will meet with DOF to investigate the possibility of downloading the transfer voucher data directly into FAMIS. The anticipated completion date is March 31, 2008.