



# Fairfax County Internal Audit Office

Department of Human Resources  
Procurement Card Audit  
Final Report

March 2007

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## Executive Summary

Our review of the Department of Human Resources' procurement cards revealed that overall the internal controls were adequate. Internal control procedures were well documented, a well-designed separation of duties was in place, and the department appeared to be in compliance with internal controls outlined in the county Procedural Memorandum (PM) 12-02 with the exception of the following:

- Receipts were not on file for 20% of the transactions reviewed.
- A split purchase transaction was noted during the review period.
- Some exceptions were noted in the areas of timely reclassifications and the dating of reconciliations.
- There were instances where transactions were not listed on the expenditure logs or were listed with incomplete information.

## 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 July 2005 through October 2006, 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

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 manuals and procedures. We evaluated the processes for compliance with county PM 12-02 *Use of the County Procurement Card*. 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. Receipts or Other Supporting Documentation

Five of the 25 transactions (20%) tested did not have a receipt on file or a memorandum to explain lack of receipts, as required by the PM 12-02. Most of these were related to staff training/conference and only the outgoing faxed registration forms were on file. There was no evidence from the vendor confirming the amounts paid.

Per county PM 12-02, “agencies shall retain original vendor receipt, invoice, or credit slip for each transaction.” Also, the agency’s internal control procedures (ICP) state, “When unable to get receipt for items purchased from vendor, document attempts at communicating with vendor and items purchased on the Purchase Receipt Form (Attachment D), the program manager will initial and date these statements.” Failure to require an original receipt for every procurement card transaction or a documented reason why a receipt could not be obtained could result in the unauthorized or fraudulent use of the procurement card by agency staff.

**Recommendation:** The agency should more strictly enforce the requirement for original receipts to be maintained on file to support procurement card transactions.

**Management Response:** A vendor confirmation requirement has been included in the department’s ICP and on the authorized card user agreement form. DHR will send an e-mail to management and authorized card users on the revised procedures to be followed when utilizing the procurement cards for purchases via phone, on-line and/or fax. In addition, staff will review all charges after the card is logged back into log book, to ensure that sufficient receipt documentation is maintained on file, in accordance with PM 12-02. The anticipated completion date for all items is March 5, 2007.

### 2. Split Purchase Transaction

The Department of Human Resources made a split purchase on November 7, 2005, for advertising services from Clear Channel, Rockville. Both transactions were for the same amount of \$1,312.50 totaling \$2,625. The two purchases exceeded the card single transaction limit of \$2,500.

According to county Procedural Memorandum 12-02, splitting a purchase to circumvent a card's spending or authorization limit is prohibited. The memorandum provides a definition of a split purchase as "one in which 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." In most cases, a split purchase transaction circumvents 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. Using the procurement card to make split purchases can also result in improper approval of purchases.

**Recommendation:** DHR should utilize proper purchasing methods in accordance with the county policy. The procurement card usage should be reviewed to determine if monetary limits need to be modified.

**Management Response:** DHR has developed internal purchasing policy and training material and held training for all staff. The policy and procedures were put on the DHR Web site. A reminder was sent to management and authorized card users on not splitting a purchase to circumvent a card's authorization limit, and staff will review all charges during the reconciliation process to ensure compliance with PM 12-02.

### 3. Procurement Card Reconciliations

For 14 out of 16 months tested the procurement card reconciliations to the monthly bank statements did not contain evidence of when they were performed. Also, there were instances where procurement card transactions were not posted to the expenditure logs but the monthly reconciliation noted that they were on the "P-Card logged" column.

According to county PM 12-02, the reconciler is required to date the document reconciled to verify that the reconciliation was performed in a timely manner. Not dating the reconciliations performed decreases the accountability for processing the reconciliations in a complete and timely manner. Checking off columns on the reconciliation reports without proper verification, results in misstating the information on the reconciliations, and increases the risk of improper purchases not being caught.

**Recommendation:** Once the procurement card reconciliation to the monthly bank statement reports is completed, the preparer should date the reconciliation. Also, the preparer should verify the completion of all items reflected on the reconciliation report before checking off the columns on the report. The preparer's supervisor should check a random sample of transactions on the reconciliation to ensure that they are properly documented.

**Management Response:** The importance of ensuring all fields on logs are completed will be discussed with the procurement card custodian and an e-mail will be sent to management and authorized card users on completing the department's

log. A review of all log entries will be performed during procurement card return logging, to ensure that all fields are completed. Staff will review all log entries during the monthly reconciliation, to determine that all fields are completed and that the reconciliation is signed and dated.

In addition, staff will review a random sample of transactions of monthly reconciliations, to ensure that all log fields are completed, before signing and dating. The anticipated completion date is March 5, 2007.

#### **4. Reclassification of Procurement Card Clearing Account**

The Department of Human Resources uses one FAMIS transfer voucher (TV) document to reclassify one week's total procurement card expenses. We performed a detailed review of all the 73 TV documents reclassifying expenses out of the clearing account during the audit period July 2005 to October 2006 and found that 20 of the 73 (27%) were done late. Some of the reclassifications for the total month were delayed due to a single pending credit or vendor reimbursement which could have been individually posted in a future month when it was received.

PM 12-02 requires that if transactions post to a clearing account (sub-object 3375) the agency is required to clear all charges and credits to the proper expenditure account within one month. Failure to do this may impair the management's ability to track budget-to-actual expenses by misstating expense categories.

**Recommendation:** We recommend that DHR implement procedures that require more frequent management reviews to ensure proper and timely reclassifications from the clearing account so that the department financial reports are stated properly.

**Management Response:** DHR staff will review the weekly transaction report and follow up monthly whenever charges are not disbursed from prior month reports. An e-mail will be sent to management and authorized users reminding them that all requests and backup documentation are to be turned back into the procurement card custodian when the card is returned, unless otherwise arranged. DHR will ensure that requests and backup documentation are turned in with the return of card and all charges will be reviewed during the monthly reconciliation process to ensure that all prior months' charges have been disbursed from clearing account. The anticipated completion date is March 5, 2007.

#### **5. Incomplete Expenditure Logs**

Twelve of the 25 transactions (48%) tested were not listed on the procurement card expenditure logs. Additionally, numerous logged transactions were incomplete. For example, in the December 2005 log, 7 out of 9 procurement card transactions did not have entries posted to the column titled "Initial Card Returned Date w/Receipts."

Procedural Memorandum No. 12-02 requires that all agencies maintain a system that tracks card transactions as they occur. Agencies may use an appropriate

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 card user. Failure to properly complete an entry into the expenditure log in a timely manner increases the risk of improper use of the procurement card.

**Recommendation:** We recommend that the agency provide proper training to card users as well as the person who maintains the log to ensure that the transaction log is properly completed with sufficient details when the card is checked out and checked in. Additionally, the logs should be periodically reviewed for completeness by another staff member.

**Management Response:** The importance of ensuring all fields on logs are completed will be discussed with the procurement card custodian. An e-mail will be sent to management and authorized card users on the department's log procedures. Review will be done of all log entries during card return to ensure that all fields are completed. All log entries will be reviewed during monthly reconciliation to ensure that all fields are completed. In addition, staff will review a random sample of transactions of monthly reconciliations to ensure that all log fields are completed, before signing and dating. The anticipated completion date is March 5, 2007.