Fairfax County Internal Audit Office

Fairfax County Park Authority
Procurement Card Audit
Final Report

August 2007

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Executive Summary

Our review of the Fairfax County Park Authority's (FCPA's) procurement cards revealed that overall the internal controls were adequate, and the agency appeared to be in compliance with internal controls outlined in the county Procedural Memorandum (PM) 12-02 with the exception of the following:

- A significant amount of split purchases were made and not detected with FCPA's p-card review process
- P-card expenditure approval and review controls were weak
- Employee Acknowledgement Disclosure Forms did not require a supervisor's signature for approval
- Procurement card (p-card) internal control procedures were not updated to reflect the changes to the reconciliation process
- Controls over required employee apparel and food purchases needed to be strengthened

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 from October 1, 2005, through October 31, 2006. Our audit objectives were to determine whether the department:

- Developed and implemented written internal procedures in accordance with PM 12-02.
- Followed county rules and procedures for the use of procurement cards.
- Implemented adequate internal control procedures and ensured that these procedures were followed by cardholders/users.
- Transactions were reasonable, in line with county policy and did not appear to be split or fraudulent.

Methodology

Our audit methodology included a review and analysis of internal control procedures, procurement card expenditures and related accounting records for the department. Our audit approach included a review of internal policies and procedures, an examination of procurement card expenditures, records and statements as well as interviews with appropriate employees. We evaluated the processes for compliance with the county's PM 12-02. Our Internal Audit Office extracted transactions from the Procurement Card Management System, PathwayNet, for sampling and verification to source documentation. Our audit did not examine the system controls over purchasing, financial, and payroll applications. Our transaction testing did not rely on those 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 generally accepted 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

1. Split Purchases

We noted 60 instances where split purchases were made in excess of the department's card limit for individual p-cards. In most cases, there was no indication that they had been caught by the FCPA p-card reconciliation and review processes put into place prior to this audit. 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 60 instances consisted of 260 individual transactions which were made on 37 different p-cards (or 26% of the active card population). The cards containing the most instances of split purchases were the Welder II card (13) and the Facilities Maintenance card (6). Of the 260 individual transactions that qualified as split purchases, 130 of them did not include a user name on the p-card log. (These were all from the maintenance worker cards.) and 103 did not include an item description.

Procedural Memorandum 12-02 prohibits split purchases and notes that these types of transactions are usually 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.

Recommendation: The FCPA should utilize proper purchasing methods in accordance with county policy. When exceptions to policy are made they should be clearly documented and approved. Procurement card usage should be reviewed to determine if monetary limits should be modified. FCPA Purchasing should review their p-card reconciliation process to ensure that split transactions are detected. Lastly, if a card has continued violations of the policy after given a warning, it should be removed from the department until they can demonstrate operational changes and comply with the policies.

Management Response: As recommended, exceptions to policy will be clearly documented including the circumstances and documentation of approval. In response to business needs for use of procurement cards, some p-cards have been granted increased transaction limits. In addition, the Purchasing Branch has developed a database to track and detect split transactions which will be reviewed on a weekly basis. Lastly, if an account reflects repeat violations of the policy after given a single warning,

we will remove it from the site pending a report from the site on training, operational changes or other actions taken to ensure compliance with policies. This item has been completed.

2. Site Controls Over Approval of P-Card Purchases

In six of the 50 (12%) transactions tested, card users at the sites did not obtain a supervisor's signature on the card logs and were allowed to sign off on their own purchases. FCPA p-card procedures state that p-card logs must be signed by an approving supervisor/manager indicating review and approval; but compliance with this requirement was not enforced. FCPA Administration staff did not maintain a list of approving supervisors/managers to verify signatures. As a compensating control, FCPA Administration reviewed the appropriateness of purchases. However, FCPA Administration staff were not directly involved in day-to-day operations and thus did not have on-site knowledge of program operations. Given the broad range of items (i.e. recreational goods, food, resale merchandise and clothing) legitimately purchased for FCPA programs, the control may not be sufficient. Good internal control practices require expenses to be reviewed and approved by supervisory staff that has adequate knowledge of the operations.

Recommendation: FCPA Purchasing should enforce their policy that the site manager sign off on the printed p-card logs submitted for reconciliation. FCPA Purchasing should maintain a list of who is authorized to sign off on each card's log. Division directors should be notified of p-card users in their division that repeatedly violate p-card policies and informed how these actions (or the lack there of) expose them to fiscal and public relations risks. If the problem persists after this initial warning, the card should be removed from the department until they can demonstrate operational changes and comply with the policies.

Management Response: As recommended, FCPA Purchasing will enforce the policy that the site manager sign off on the printed p-card logs submitted for reconciliation. We will obtain a list of who is authorized to sign off on each card's log along with two back-ups. We will advise division directors of any p-card users in their division who repeatedly violate p-card policies. If the problem persists after our initial warning, the card will be removed from the division until they can demonstrate operational changes to comply with the policies. The anticipated completion date is October 2007.

3. Employee Acknowledgement Disclosure Forms

FCPA Employee Acknowledgement Disclosure Forms did not have a line for card user supervisory sign off to authorize staff use of the card. Additionally, this form was easily accessible to all employees via the web. The Employee Acknowledgement Disclosure Form template provided in PM 12-02 requires card user supervisory sign off. Failure to follow this procedure increases the risk of unauthorized card users gaining access to procurement cards and making inappropriate purchases.

Recommendation: The signatures of card user supervisors should be required on all Employee Acknowledgement Disclosure Forms.

Management Response: As recommended, we have revised out Employee Acknowledgement Disclosure Forms and are in the process of collecting signatures. The anticipated completion date is September 2007.

4. Internal Control Procedures (ICPs)

The Fairfax County Park Authority's Pilot Instructions on Using the Automated Procurement Card Reconciliation Program (Pilot Instructions) were not integrated into the approved procurement card procedures issued on October 18, 2002. During our review we noted that the Pilot Instructions had been circulated to FCPA p-card users to assist them in the implementation of a new departmental p-card database and distributed to DPSM. However, FCPA's p-card approved internal control procedures were not updated to reflect the changes. Certain aspects of the Pilot Instructions were inconsistent with the approved departmental ICP which may create confusion for the users. Some examples are as follows:

- In the ICP procedures Procurement Card Transaction Log purchases/credits are to be logged as they are made and submitted weekly to the Purchasing Branch. Per the Pilot Instructions, the Procurement Card Transaction Log is produced at the time of the reconciliation process and only contains those transactions reconciled to that week's PVS report, not a listing of all p-card transactions.

- The FCPA departmental ICP references the bank statement as a document received on a monthly basis that is to be used in the reconciliation process if transactions are not reconciled to the PVS report weekly. The new Pilot Instructions use the term bank statement to refer to the weekly transaction report.

- Name changes to reports and systems were not reflected in the Pilot Instructions.

Procedural Memorandum 12-02 states that an "agency's ICPs should be revised periodically to reflect any program changes." Updated and accurate ICPs are extremely important due to the number of cards and users, the diverse locations and the number of transactions in the FCPA p-card program. Compliance with procedures may be compromised when ICPs conflict with other instructions that pertain to the same program. The last procurement and compliance review conducted by DPSM in June 2003 also recommended that the FCPA update their ICP document.

Recommendation: The FCPA should update their procedures to accurately reflect the design of the office's procurement card program and should incorporate appropriate sections of their Pilot Instructions into their ICPs including the section on instructing the sites on how they are to use the p-card database.

Management Response: As recommended, the FCPA will update their procedures to accurately reflect the design of the agency's procurement card program and will incorporate appropriate sections of our Pilot Instructions into their ICPs including the section on instructing the sites on how they are to use the p-card database. The anticipated completion date is November 2007.

5. Required Apparel Purchases

Approximately 575 p-card purchases, totaling approximately $147,480, were recorded under sub object code 3367 “Uniforms” from approximately 87 different vendors. Good internal controls would require standardization of required employee apparel purchases and attempt to negotiate with selected vendors to get quantity discounts. Consolidating required employee apparel purchases may present cost savings and increase security on FCPA facilities by insuring that Park Authority required employee apparel standards are being met. Purchases from retail clothing stores carry a higher risk for personal purchases.

Recommendation: The Park Authority should develop agency-wide guidelines for required employee apparel and consider consolidating vendors used for these purchases to those that specialize in this area. The Park Authority should consult with DPSM to determine what uniform contracts are used by the county and the best practices for purchasing employee apparel. Any purchases for employee apparel from vendors outside the ones specified by the Park Authority should be documented with a description of the item purchased and an explanation.

Management Response: As recommended, the Park Authority will develop agency-wide guidelines for agency funded employees wearing apparel. The Park Authority will review uniform contracts used by the county and the best practices for purchasing employee apparel and will evaluate the cost and benefits of consolidating vendors used for these purchases. Any purchases for employee apparel from vendors outside the ones specified by the Park Authority will be documented with a description of the item purchased and an explanation. The anticipated completion date is December 2007.

6. P-Card Custodian Assignments

The list of p-card custodian assignments by title was not included in FCPA’s ICP as required by Procedural Memorandum 12-02. Failure to do so increases the risk of improper segregation of duties.

Recommendation: A list of p-card custodians by job title should be documented and included in the department’s ICP.

Management Response: As recommended, we have updated our list of p-card custodians by job title. We will document and include this information in our department’s ICP. The anticipated completion date is November 2007.

7. Food Purchases

A significant number of restaurant and food purchases were included in the Merchant Category Codes (MCC) description for “Grocery Stores” without any documentation describing the business purpose. PM 12-02 prohibits the use of the p-card for personal purchases. Failure to document the business purpose for food purchases increases the

risk for inappropriate charges to the procurement cards and potential negative press for the county.

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

Management Response: As recommended, card users are required to include the business purpose in the item description filed of the FCPA p-card database for all food and meal purchases. Documentation will be maintained along with other supporting documents for the transaction as evidence that the use of the p-card was for business purposes. An e-mail reminder of this requirement was sent out to all of out p-card users on July 11, 2007.