



# Fairfax County Internal Audit Office

Department of Administration for Human Services  
Procurement Card Audit  
Final Report

December 2007

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# Executive Summary

Our review of the Department of Administration for Human Services (DAHS) procurement cards revealed that overall, internal control procedures were well documented and appeared adequate; purchases were well substantiated by receipts and other appropriate supporting documentation; and reconciliations appeared to be completed for all weeks of the audit period. DAHS appeared to be generally in compliance with the county's Procedural Memorandum 12-02, *Use of the County Procurement Card* (PM 12-02), with the following exceptions:

- Seven of the 50 transactions tested were logged but were missing evidence of supervisory approval.
- We noted 14 instances of split purchase transactions made in excess of the department's card limit for the applicable procurement cards.
- DAHS was following revised internal control procedures that had not been approved by the Department of Purchasing and Supply Management (DPSM), as required by Procedural Memorandum No. 12-02. The procedures were subsequently approved by DPSM prior to the completion of our audit.

## 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. Transaction Logs

Procurement card transaction authorizations were not always fully and completely recorded on the p-card activity logs. We noted that seven of the 50 transactions tested were missing a signature indicating supervisory approval, three of which appeared to be made by a p-card custodian.

Procedural Memorandum 12-02 indicates that a system that tracks expenditures as they occur must be in place. Entries must be contemporaneous to give up-to-date information on funds expended and the applicable card user. If transaction approvals are not indicated by a signature or initials, then agency management, as well as outside reviewing authorities such as IAO or DPSM may not be able to determine if the p-card purchase was approved by the appropriate supervisor/manager.

**Recommendation:** We recommend that DAHS maintain a transaction log which accurately reflects all procurement card activity, including the signatures and dates of both the person who authorized the transaction as well as the person who used the card to make the purchase, to ensure that card use is properly monitored. For situations when a p-card custodian must use the card to make a purchase, and it is not feasible for the custodian to obtain prior written approval from a supervisor, DAHS should revise its p-card policies and procedures to include a compensating control. A suggested control would be to require the card custodian to send an e-mail notification to the supervisor and the p-card program manager, and obtaining subsequent confirmation of the approval.

**Management Response:** An additional column will be added to the log sheet to provide a space for the person who used the card to sign the card out as well as back to the custodian. On occasions when it is not feasible to have the authorization signatures on the log sheet, a separate attachment of the approval, such as the Request for Goods and Services form, will be included with the log sheet for review.

To improve controls over a card custodian's use of the p-card in emergency situations, we have revised the DAHS p-card policies and procedures to require that a card custodian obtain approval within one business day of the purchase.

The corrective actions will be implemented immediately.

## 2. Split Purchases

There were 14 instances noted 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. 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:** DAHS 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 periodically reviewed to determine if monthly, daily, and single transaction spending limits are appropriate or need to be modified.

**Management Response:** A review of all p-card transaction spending limits will be conducted at least quarterly. Procurement card custodians will be reminded regularly to ensure the proper use of their cards and for users to stay within the transaction and total limits. For emergency situations when a p-card purchase amount exceeds the single transactions limit, we will revise the DAHS p-card policies and procedures to require card users to obtain prior authorization from DPSM to increase the limit for a specific requested transaction. The anticipated completion date is January 31, 2008.

## 3. DPSM Approval of Department's Internal Control Procedures

DAHS had been following revised internal control procedures that were not approved by DPSM, but obtained the required approval prior to the completion of our audit. Procedural Memorandum 12-02 requires all agencies to submit changes to their procurement card policies and procedures document to the DPSM program administrator for approval. Failure to obtain approval for updated departmental internal control procedures increases the risk that operating procurement card procedures may not be in compliance with county policy.

**Recommendation:** No further action or management response is required, as IAO has verified that DAHS obtained the required approval from DPSM prior to the completion of our audit.

## Other Observation

### Gift Cards

During our audit, we noted that accountability over the issuance of food gift cards purchased for flood victims was not sufficient to ensure the cards were issued only to authorized recipients. Although a log was kept, many of the cards listed on the log were unaccounted for. For the other cards, which were signed out by county staff, receipt of the cards by the flood victims was not indicated by signature and date in the log. Only the county staff signed and dated the log.

**Recommendation:** Internal controls would be strengthened if the card recipients were also required to sign and date the log to indicate they received the cards. The log maintained for gift cards should include a signature and date line for the card recipient to sign, in addition to the information that the department had already tracked, which included the printed name of card recipient, card number(s) and amounts of cards issued, and the case worker. A brief description as to why the card was issued should also be added. The manager responsible for the gift cards should periodically review the log to ensure that the required information is being recorded, and that all cards are accounted for. If the cards are maintained for a substantial period of time, then inventory counts should be conducted and reconciled to the gift card log.

**Management Response:** The DAHS procurement card manager will assist the human services departments in setting up better procedures and a more extensive log sheet to ensure appropriate signatures are obtained with the distribution of the gift cards. This will also include a brief description of the purpose for the gift card. In addition, assistance will be provided in ensuring the proper security and backup provisions for the undistributed gift cards. The anticipated completion date is January 30, 2008.