



Fairfax County Internal Audit Office

**Fire and Rescue Department
Procurement Card Audit
Final Report**

September 2007

"promoting efficient & effective local government"

Executive Summary

Our review of the Fairfax County Fire and Rescue Department's (FRD's) procurement cards (p-cards) revealed that overall, the internal controls were adequate. Internal control procedures were well documented and the department generally appeared to be in compliance with internal controls outlined in the county Procedural Memorandum (PM) 12-02 with the exception of the following:

- Nine instances were noted where there was no receipt documentation in files to support the propriety of transactions.
- A significant amount of split purchases were made and not detected with FRD's procurement card review process.
- A lack of separation of duties between card custodian and card reconciler was noted with no supervisory review performed as a compensatory control.
- Weekly p-card reconciliations were not performed in seven instances and none of the reconciliations performed were dated to evidence that they were performed in a timely manner.
- There were two instances where Employee Acknowledgement Disclosure Forms were not on file and 13 transactions with no evidence of being recorded on a transaction log. In addition, three EAD forms and transaction logs contained incomplete or inaccurate information.

Effective May 2007, FRD has implemented their own extensive internal Business Meals and Refreshment policy that strengthens controls over food purchases above those required by PM 12-02.

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 2006 through April 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

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 PaymentNet 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. Receipt Documentation

We noted nine instances where there was not an original vendor receipt, invoice, or credit slip on file to support procurement card transactions. In addition, there was no evidence of sufficient alternate receipt documentation as required by PM 12-02.

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. Without procurement card receipts or other adequate supporting documentation on file, the propriety of individual transactions cannot be determined.

Recommendation: FRD should ensure that sufficient receipt documentation, as specified by PM 12-02, is maintained on file for all procurement card transactions.

Management Response: There were nine instances when the department couldn't locate the original receipts.

- During the relocation of the Urban Search and Rescue section, four of the original receipts were not available because the documentation was in a storage facility.
- During the Huntington floods, two original receipts were lost.
- In one instance, we had a photocopy of the receipt, but failed to provide a written explanation why a receipt wasn't available.
- In two instances, we had original receipts; however, since the amount on the receipts didn't match the charge on the statement, they were not provided to the auditors.

FRD will ensure that adequate receipt documentation is received and maintained. When original receipts cannot be obtained, a memo will be prepared to provide the purchase details and reason why a receipt is not available. The memo will be attached to the weekly transaction report.

In addition, FRD will take the following steps:

- Provide additional training for card custodian and authorized users.
- During the weekly cost redistributions, paperwork will be audited by the program manager to ensure documentation is complete and accurate. If the package is incomplete, it will be returned to the appropriate card custodian for action.

Corrective actions will be put into place immediately.

2. Split Purchases

We found 97 instances of split transactions where multiple transactions occurred on the same day on the same card with the same vendor whose total exceeded the card single transaction limit. These instances consisted of 900 individual transactions on 11 cards. The vendors with the highest incidence of split transactions were ZEP Manufacturing and Bound Tree Medical, LLC for cleaning and medical supplies. These vendors accumulate charges from orders from various fire stations on different days and send one bill at the end of the month. The cards containing the most instances of split transactions were the Dean Cox1 card, replaced later by FRD ZEP card (total 40 transactions), and the Dean Cox3 card, replaced later by FRD First Aid card (total 38 transactions). FRD worked with DPSM to set up these two cards as special use cards for FRD to purchase cleaning and medical supplies; however, the single transaction limit on these cards was not increased which led to bypassing the limit for these transactions. Additionally, some split transactions resulted from emergency purchases made for the Huntington floods which did not have supporting documentation for authorizations from DPSM after the fact.

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. Purchases 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: FRD should utilize proper purchasing methods in accordance with the county policy. In addition, 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 should be modified.

Management Response: FRD will monitor all cards and if the multiple transactions exceed the monetary limit FRD will take appropriate action and request an increase in the single purchase limit.

During the Huntington floods, split purchases took place because FRD was responding to an incident categorized as an emergency. As required, FRD made contact with various vendors on contract to procure goods; however, some of the vendors could not meet FRD's immediate delivery needs. As a result, FRD used local merchants to supply the remaining required supplies that day so that the

volunteers could begin the cleanup of the Huntington area.

FRD plans to take the following actions to address this finding:

- Obtain and file DPSM written concurrence on current methods for use of procurement cards: FRD First Aid; FRD Med Ox and FRD Zep.
- Provide additional training to staff on proper procedures concerning split purchases.
- The program manager will monitor weekly transaction report.
- If a split purchase is found on a weekly transaction report, the cardholder will be re-educated on procurement card policy and counseled. If the situation continues and there is a second violation, the program manager will discuss it with cardholder's supervisor. If there is a third occurrence, the program manager will suspend p-card use privileges to the cardholder.
- During an emergency in which a split purchase might be necessary, a written approval from DPSM will be attached to the weekly transaction report, after the fact.

Corrective actions will be put into place immediately.

3. Reconcilements

We noted seven instances where weekly p-card reconciliations were not performed. For all the remaining transactions in our test work sample, while there was evidence to indicate that the reconciliations were being performed; there was no evidence to indicate when they were being performed.

Procedural Memorandum 12-02 requires that all agencies reconcile receipts and charge slips to the weekly transaction report or to the monthly bank statement in a timely manner. Once completed, the reconciler is required to sign and date the documents settled. Failure to reconcile these transaction reports increases the risk that inappropriate purchases will not be identified in a timely manner. Failure to document a date when reconciliation is performed decreases the accountability for processing the reconciliation in a complete and timely manner.

Recommendation: FRD should take steps to ensure that reconcilements are being performed for *all* procurement card transactions. Documentation supporting the reconcilement should be maintained, and the reconciler should sign and date the documents settled in order to evidence that the reconciliations are being performed in a timely manner by someone independent of card purchases.

Management Response: The person reviewing and authorizing the p-card cost distribution documents in FAMIS will review the corresponding weekly transaction report printed from PaymentNet to ensure all transactions listed have been reconciled.

FRD will use best practices by confirming weekly and monthly reconciliation with a signature and date from reconciler. Corrective actions will be put into place immediately.

4. Separation of Duties

We noted a lack of sufficient separation of duties, as excessive responsibilities were assigned to the management analyst III in the Purchasing and Accounts Payable Section. The management analyst III was the card custodian and performed the weekly reconciliation of the transaction reports with receipts. There was no evidence of substantive supervisory review of transaction activities as a compensating control.

Procedural Memorandum 12-02 indicates that the card custodian function and the reconciliation function may not be performed by the same position. Further, it states that if the department cannot reasonably separate these two duties, there must be a compensating control consisting of a “substantive supervisory review” of transaction activities. This verification should be evidenced by the reviewer signing and dating the documents reviewed. Controls are weak or non-existent when there is a lack of segregation of duties between the card custodian and the person who performs the reconciliation function. This could lead to unauthorized or inappropriate spending via the procurement cards that goes undetected.

Recommendation: We recommend the duties of card custodian and the reconciler be separated. If the department cannot separate the card custodian and reconciliation functions, then it should establish sufficient compensating controls whereby substantive independent supervisory reviews are performed and documented.

Management Response: The Administrative Assistant V position was vacant from July to October 2006 in the Purchasing and Accounts Payable section and the Management Analyst III assumed the duties which included the weekly reconciliation of the transaction reports with receipts. FRD will separate the duties and take the following actions:

- The buyer II position will reconcile the weekly transaction report and process cost distribution documents in FAMIS.
- The MAIII position will review and authorize weekly reconciliations and all FAMIS cost distribution documents.
- The accountant II will reconcile the monthly FAMIS report.

Corrective actions will be put into place immediately.

5. Employee Acknowledgement Disclosure Forms

During our transaction testing, we noted two instances where the employee who used the procurement card did not have a signed Employee Acknowledgement Disclosure Form on file. Additionally, EAD forms for three staff members were either not signed by the supervisor or the p-card program manager or both.

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.

Recommendation: FRD 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. The forms should also be signed by a supervisor and program manager.

Management Response: The importance of ensuring all fields are completed on the EAD will be discussed with staff during training. FRD has revised the Agency Internal Control Procedures to state all new users must complete the online training, read PM12-02 and the department's ICP, and complete the Employee Acknowledgement Disclosure Form. The program manager will maintain a completed EAD form for authorized users and will verify all fields are completed on the EAD form. Corrective actions will be put into place immediately.

6. Transaction Log

The card activity log was not a complete reflection of the department's procurement card spending. We noted that 3 of 50 transactions tested were not accurately recorded on the transaction log. Furthermore, in 13 of 50 transactions tested, there was no evidence that the transactions were recorded on a transaction log. In the absence of transaction logs, in three of those instances the user could not be identified; therefore, we could not determine whether the Employee Acknowledgement Disclosure Forms for those transactions were on file. Additionally, we noted that only a few sections of the department were maintaining a procurement card log that would document the procurement card sign in/out activity.

Procedural Memorandum 12-02 indicates that a system that tracks expenditures as they occur must be in place. Agencies may use an appropriate manual or computer log to record both debit and credit transactions. Entries must be contemporaneous to give up-to-date information on funds expended and the applicable card user.

Recommendation: We recommend that FRD maintain a transaction log which accurately reflects all procurement card activity, to ensure that card use is properly monitored. Furthermore, transaction logs should properly reflect all card sign in/out activity for proper tracking of p-cards.

Management Response: The department has a transaction log, but not every cardholder manually completes it because transactions are entered in the tracking database which prints a transaction log. Transactions are entered in the database after the good or service has been purchased. We are asking card custodians to complete a manual transaction log when handing out their cards to other p-card certified users in their sections.

The importance of ensuring that all fields on the transaction log are completed will be discussed with cardholders and additional training will be provided on completing the log. The program manager will ensure the completed transaction log is attached with original receipts during the weekly reconciliation. FRD has revised the

transaction log to include the sign-in/sign-out column. Corrective actions will be put into place immediately.

7. Internal Control Procedures

FRD was following revised internal control procedures that had not been approved by DPSM. Procedural Memorandum 12-02 requires all agencies to establish procurement card internal control procedures that govern card security, use, and accounting specific to their operations. These procedures are to be submitted 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 might not be in compliance with county policy.

Recommendation: We recommend that the Fire and Rescue Department submit updated internal control procedures to DPSM for approval, in accordance with PM 12-02.

We have verified that FRD has submitted the updated internal control procedures and DPSM has approved them. No further management response will be required.

Management Response: None required.