



# Fairfax County Internal Audit Office

Office of the County Executive  
Procurement Card Audit  
Final Report

October 2007

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## Executive Summary

Our review of the Office of the County Executive's procurement cards for the period of July 2005 through December 2006 revealed that internal controls and compliance with county Procedural Memorandum (PM) 12-02 need to be strengthened. Several issues that were noted during our last procurement card audit, as well as during the last Department of Purchasing and Supply Management (DPSM) procurement assistance and compliance (PAC) program review were still outstanding.

Specific areas of which should be addressed are as follows:

- There was a lack of sufficient separation of duties among staff, as the program manager was the card custodian and was also assigned to perform reconcilements.
- Reconciliation to the bank records and to FAMIS was not performed during several months in our review.
- Required weekly transaction report reviews were not evidenced for three of the eleven months reviewed.
- There was no receipt documentation in file for seven purchase transactions.
- The procurement card (p-card) transaction log was not an accurate reflection of the department's spending as purchase transactions and anticipated credits were not consistently put on the log.
- Several restaurant and food purchases were made without sufficient documentation to document that they were not personal purchases.
- Clearing account activities associated with the p-card program were not being carried out in a timely manner.
- Procurement card internal control procedures had not been updated and approved by DPSM.

The previous Internal Audit Office report dated March 22, 2001, contained recommendations pertaining to item numbers 4, 7 and 8 above. The last PAC report, dated February 24, 2006, contained recommendations pertaining to item numbers 4, 5, 6, 7, and 8. Given the number of repeat findings from previous reviews, we recommend that card users take the new on-line p-card training course from DPSM.

## Scope and Objectives

This audit was performed based upon a management request and was conducted in accordance with generally accepted government auditing standards. The audit covered the period from July 1, 2005, through December 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. We extracted transactions from the procurement card management system, PaymentNet, 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. Separation of Duties

We noted a lack of sufficient separation of duties, as excessive responsibilities were assigned to the program manager position. The program manager was the card custodian and performed the reconciliation of the transaction reports with receipts. 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 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 duties of the card custodian and the reconciler will be separated. The procurement card internal control procedures will be updated to reflect the separation of duties. The management analyst II will serve as card custodian holding the card in a secure, locked location, maintaining an accurate purchase log, and keeping a file of all original purchase receipts/charge slips. The program manager will serve as reconciler – reviewing the weekly transaction report for unusual or unauthorized transactions, reconciling monthly all receipts/charge slips with the purchase log, bank statement, and FAMIS monthly transaction report. The anticipated completion date is September 2007. DPSM approved the revised Internal Control Procedures on September 18, 2007.

## 2. Reconcilements

### a. Monthly Reconciliation to Bank Records

There was no evidence to indicate that monthly procurement card reconciliations were performed in four of the 11 months we reviewed. PM 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.

Staff stated that the four months in which no reconciliations were performed occurred during a period after the departure of the previous program manager and before the appointment of a new program manager. Failure to reconcile these transaction reports increases the risk that inappropriate purchases will not be identified in a timely manner.

**Recommendation:** Reconciliations should be performed on a monthly or weekly basis as required by PM 12-02. Documentation supporting the reconcilement should be maintained and the reconciler should sign and date documents settled to evidence that the reconciliations are being performed in a timely manner by someone independent of card purchasers.

**Management Response:** The program manager will reconcile appropriate receipts/charge slips to the bank statement, purchase log, and FAMIS monthly transaction report to verify that all charges are proper and the correct amounts have been charged. The bank statement will be signed and dated to evidence the completion of the reconciliation. In addition, the program manager will review the FAMIS transaction report to verify that all charges posted to subobject code #3375 were moved to the appropriate expenditure account. The anticipated completion date is September 2007.

### b. Reconciliation of Bank Statement to FAMIS

Staff had not reconciled the monthly bank statement to the amounts posted as expenditures in FAMIS for any of the 25 transactions in our random sample. This

covered the period from July 1, 2005, to December 31, 2006. Procedural Memorandum 12-02 requires that on a monthly basis, at a minimum, user agencies reconcile the procurement card records to amounts posted as expenditures in FAMIS.

Failure to perform this reconciliation increases the chances that errors and omissions could go undetected.

**Recommendation:** The office should perform and document monthly reconciliations of procurement card transactions to FAMIS records. The person performing the reconciliation should sign and date the reconciliation to evidence a timely preparation and review process.

**Management Response:** The monthly bank statement will be reconciled to the amounts posted as expenditures in FAMIS by the program manager. The subobject code for procurement card charges will be corrected from the current #3310 to clearing account #3375. The bank statement and log will be signed and dated to evidence the completion of the reconciliation. In addition, the program manager will review the FAMIS transaction report to verify that all charges posted to #3375 were moved to the appropriate expenditure account. The subobject code correction was effective on September 4, 2007.

### 3. Weekly Transaction Reviews

There was no evidence to indicate that a weekly review of procurement card usage had been completed in three of the 11 months we reviewed. Staff stated the weekly reviews had been completed; however documentation supporting the weekly reviews had not been retained. Procedural Memorandum 12-02 requires that when bank statements are reconciled monthly all agencies are to review weekly transaction reports for unusual or unauthorized transactions.

Failure to review the weekly transaction reports increases the risk that inappropriate purchases will not be identified in a timely manner and the failure to adequately document the completion of reconciliations performed weakens the ability to evidence that an effective separation of duties is in place.

**Recommendation:** We recommend that the Office of the County Executive perform and document weekly reviews of procurement card transaction reports which contain all items posted to the bank for the prior week.

**Management Response:** The weekly transaction report will be produced by the program manager at the beginning of each week. It will be reviewed by the program manager and MA II for unusual or unauthorized transactions by comparing the report to the purchase log. Both individuals will sign and date the report to evidence their review. The anticipated completion date is September 2007.

#### 4. Receipt Documentation For Purchases

In seven of 23 (or 30%) randomly selected p-card purchase transactions there was not an original vendor receipt or invoice 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:** The office should ensure that sufficient receipt documentation, as specified by PM 12-02, is maintained in file for all procurement card transactions. All card users in the Office of the County Executive should be required to submit documentation in a timely manner. Should card users not provide receipts on a timely basis, the authority to use the card should be suspended.

**Management Response:** Sufficient receipt documentation as specified by PM 12-02 (vendor receipts, invoices, and delivery documentation) will be retained for each procurement card purchase. The management analyst II will keep a file of all original purchase receipts/charge slips, maintain an accurate purchase log, and retain all documentation when goods are received. The anticipated completion date is September 2007.

#### 5. Transaction Logs

##### a. Purchases on Transaction Log

The card activity log was not an accurate reflection of the department's spending. Five of 23 (or 22%) randomly selected purchase transactions had not been properly logged on the p-card log. Specifically, two of these p-card transactions were completely omitted from the transaction log and the other three transactions had not been logged contemporaneous with the transaction. Further review of the complete transaction log for the period July 1, 2005, through December 31, 2006, disclosed a total of 53 (or 25%) fewer purchase transactions were listed on the log than the total number of purchase transactions shown on the bank records. While some individual transactions may have been combined into one entry on the p-card log, this does not appear to account for all 53 transactions that appear not to be recorded on the log. 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.

Failure to properly record purchase transactions on the p-card log prevents staff from having an accurate reflection of the p-card spending.

**Recommendation:** We recommend that the office maintain a transaction log which accurately reflects all procurement card activity to ensure that card use is properly monitored.

**Management Response:** The management analyst II will maintain an accurate log of all procurement card activity recording transactions as they occur. The anticipated completion date is September 2007.

b. Credits on Transaction Log

We found that anticipated credits for purchased items incorrectly billed, or for items cancelled or returned, were not posted to the procurement card transaction log. Procedural Memorandum 12-02 requires that all activity against procurement cards be recorded on the transaction log regardless of whether the entries are debits or credits.

Failure to record credits due on the log increases the risk of overpayment of expenses.

**Recommendation:** We recommend that all credit transactions be recorded on the transaction log and that steps be taken to investigate any credit adjustments due that are not posted on the bank statements in a timely manner.

**Management Response:** The management analyst II will maintain an accurate log of all procurement card activity recording transactions as they occur and will resolve billing disputes in a timely manner. The anticipated completion date is September 2007.

**6. Food Purchases**

Several restaurant and food purchases were made without sufficient documentation to ensure these were not personal purchases. PM 12-02 prohibits the use of the p-card for personal purchases. Failure to sufficiently document these transactions increases the risk for inappropriate charges to the procurement cards and potential negative press for the county.

**Recommendation:** The approval of and business purpose justification of restaurant and food purchases should be documented and maintained in file.

**Management Response:** The management analyst II will maintain an accurate purchase log with appropriate approval and business justification recorded on or with the original receipt. The anticipated completion date is September 2007.

**7. Clearing Account**

Transfers to reclassify transactions from the department's Other Operating Expenses (subobject code 3310) clearing account were not made on a timely basis. We found 14 transfers that occurred more than a month after the posting date. The average elapsed time, after the 30 day period, for these transfers was 21 days, with actual delays ranging up to 68 days. Procedural Memorandum 12-02 requires that whenever card billing is posted to a clearing account, all charges are to be moved to the appropriate expenditure account at least monthly.

Failure to classify/reclassify all card charges increases the risk of misstatement on department financial reports thereby increasing the risk of management making decisions based on inaccurate financial information.

**Recommendation:** Transactions posted to a procurement card clearing account should be reclassified to the proper expenditure account within one month in accordance with PM 12-02.

**Management Response:** The subobject code for procurement card charges was corrected from the current #3310 to clearing account #3375. The management analyst II will move charges posted to the clearing account (3375) to the appropriate expenditure account each month. The anticipated completion date is September 2007.

## 8. Internal Control Procedures

While the Office of the County Executive had developed written internal control procedures, the procedures had not been approved by DPSM. The draft procedures had been submitted for approval in late 2005. DPSM had responded to the agency in November 2005 with a list of changes that needed to be made before final approval could be given. The changes were not made to the procedures and resubmitted for approval. As a supplement to Procedural Memorandum 12-02, all agencies are required 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 to ensure they are consistent with PM 12-02.

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 office revise and submit updated internal control procedures to DPSM for approval, in accordance with PM 12-02.

**Management Response:** The Office of the County Executive submitted revised and updated internal control procedures (ICP) which include actions to address the recommendations in this report to DPSM which were approved on September 15, 2007.