



# Fairfax County Internal Audit Office

**Juvenile and Domestic Relations District Court  
Procurement Card Audit  
Final Report**

**January 2008**

*"promoting efficient & effective local government"*

# Executive Summary

Our review of the Juvenile and Domestic Relations District Court's (JDRC's) procurement card program found that three of the six procurement cards used by JDRC staff had proper internal controls in the areas of weekly reconciliation, clearing account reclassifications, transaction logs, and the maintenance of receipts, and each appeared to be in general compliance with the county Procedural Memorandum (PM) 12-02. The remaining three cards appeared to be in compliance with clearing account reclassifications and maintenance of receipts. However, controls for these three cards could be strengthened in the following areas:

- Card activity logs tested were not a complete, contemporaneous reflection of the department's procurement card spending.
- There was evidence that reconciliations had been done, but there was no evidence to indicate who performed procurement card reconciliations and when they were being performed.
- One procurement card, which had been in existence for some time, was being used as a special use card but there was no documentation on file at the agency or DPSM to support its use as such.
- Procurement card limits should be re-evaluated in light of current activity.

Finally, staff had not reconciled the monthly bank statement to the amounts posted as expenditures in FAMIS for 10 of the 12 months in our random sample and the office needed a more formal system of maintaining accountability over the distribution/issuance of food gift cards.

## 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 May 1, 2006, through April 30, 2007. Our audit objectives were to determine whether the department:

1. Developed and implemented written internal procedures in accordance with PM 12-02.
2. Followed county rules and procedures for the use of procurement cards.
3. Implemented adequate internal control procedures and ensured that these procedures were followed by cardholders/users.
4. 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 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

The card activity logs for three of the six JDRC procurement cards (p-cards) were not a complete, contemporaneous reflection of the department's p-card spending. Consequently, 18 of 25 randomly selected transactions were not properly logged. The issues were as follows:

- The logs were prepared from the weekly transaction reports instead of concurrently with p-card purchases
- Credits reflected on the p-card log and the weekly transaction report did not match
- Some transactions did not get posted to the logs because some vendors automatically billed the agency p-card for reoccurring purchases prior to agency approval
- One transaction log did not show who the card user was

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. Furthermore, the memorandum states that only county employees are authorized to make p-card purchases.

Failure to properly record purchase and credit transactions on the p-card log prevents staff from having an accurate reflection of the p-card spending, increases the difficulty of reconciliation and increases the risk of overpayment. Allowing vendors to automatically bill for purchases increases the risk of erroneous or fraudulent billings for goods not received.

**Recommendation:** We recommend the agency maintain transaction logs which accurately reflect all p-card activity to include both debit and credit transactions. Entries should be contemporaneous and include the card user. Finally, card charges should be done by county employees and vendors should not be allowed to directly place charges on the card.

**Management Response:** The Juvenile Court procurement card procedures have been revised as of November 19, 2007, and clearly indicate that the transaction log is to be contemporaneous with card use. In addition the units have been reminded that only authorized p-card users may charge with the card. There are to be no automatic charges to the p-cards. Corrective actions have been put into place.

## 2. **FAMIS Reconciliation**

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. These 25 transactions occurred in 10 of the 12 months included in our sample which covered the period May 2006 to April 2007. Procedural Memorandum 12-02 requires that on a monthly basis, at a minimum, user agencies reconcile the p-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, at minimum, reconciliations of p-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 revised Juvenile Court procedures state that on a monthly basis (at minimum) the program manager must reconcile the bank statements to the amounts posted as expenditures in FAMIS. The reconciliation will be documented by the initials and date on each monthly bank statement. Corrective actions have been put into place.

## 3. **Weekly Reconciliation to Bank Records**

While there was evidence to indicate that p-card reconciliations of weekly transaction reports to receipts were being performed, there was no evidence to indicate who performed these reconciliations and when they were being performed for three of the p-cards used by the Juvenile and Domestic Relations District Court. These three cards represented 17 of the 24 weekly reconciliations tested and occurred in nine of the 12 months in our sample. PM 12-02 states that documentation supporting the reconciliation should be maintained and the reconciler should sign and date the documents settled to evidence that the reconciliations are being performed in a timely manner by someone independent of the card purchases or the card custodian. When these functions cannot be separated, a substantive supervisory review of transaction activities is required as a compensating control. The reviewer must also sign and date the reviewed document.

Failure to adequately document the completion of reconciliations performed weakens the ability to evidence that an effective separation of duties is in place. It also increases the risk that erroneous or inappropriate charges to the p-card would not be corrected in a timely manner.

**Recommendation:** The reconciler should sign and date the p-card reconciliations to evidence that they are being performed in a timely manner by someone independent of card users. When these functions cannot be separated, a substantive supervisory review of transaction activities is required as a compensating control. The reviewer must also sign and date the reviewed document.

**Management Response:** The Juvenile Court revised procurement card procedures now state the staff person responsible for the reconciliation of each p-card to the Weekly Transaction Report. They further state that since the person responsible for reconciliation is also a card “user,” the program manager will review each Weekly Transaction Reconciliation, and initial and date to so indicate. Corrective actions have been put into place.

#### 4. **Controls over Special Use Cards**

One p-card, which had been in existence for some time, was being used as a special use card with a \$3,500 single transaction limit and a monthly limit of \$35,000. However, there was no documentation on file at the agency or DPSM to support its use which resulted in confusion. The department thought the card could be used for any purchases up to \$3,500, while DPSM told us it could be used for food purchases and janitorial supplies only. Staff stated this card had been designated as a special use card some time ago and there was no documentation on file to support its designation. Procedural Memorandum 12-02 states that if there is a business need for a card with a higher single purchase limit, the request must be made by the agency director to the Director, DPSM, detailing the business need for higher limits and the dollar limit.

Failure to document and monitor this special use card does not provide the county with added safeguards against fraud and abuse for these cards that have higher limits.

**Recommendation:** Documentation for special use cards should be on file and provided to the card users to ensure procedures are followed and purchases are appropriate. This documentation should include a description of the card’s use and restrictions and DPSM’s approval. Additionally, all purchases on the special use card should adhere to the card’s restrictions.

**Management Response:** The card in question has been cancelled.

## 5. Card Limit Controls

P-card limit controls were weak. Documentation had not been maintained to support changes to p-card spending limits and differences were noted in the records maintained by JDRC staff and the limits shown in the Payment Net system for the monthly credit limits and single transaction limits on several cards. The JDC number 3694 card had a monthly credit limit of \$30,000 in the Payment Net system while records at JDRC showed the monthly credit limit should be \$10,000. Analysis of actual usage for this card showed monthly usage had ranged from a low of approximately \$3,900 to a high of \$12,000 with an average monthly usage of approximately \$7,800. The JDC number 0281 card, designated as a special use card by the department, had a monthly limit of \$35,000 and a single transaction limit of \$3,500. A large vendor accounted for the majority of the activity against this card. This vendor contract was discontinued which resulted in a significant decrease in charges to the card. However, the limits were not changed.

Procedural Memorandum 12-02 states that card limits should be based upon anticipated use, total number of cards, budget constraints and any other relevant factors. All limits should be supported by the card's business requirements and card limits should be set as close as possible to these requirements. PM 12-02 further states that program documentation should be retained for a minimum of three years.

Failure to maintain accurate card limits that are supported by business requirements do not provide the county with added safeguards against fraud and abuse. Failure to maintain this documentation pertaining to changing card limits weakens accountability over limit controls.

**Recommendation:** The agency should review current monthly usage and business needs and adjust the p-card limits accordingly. Program documentation pertaining to changes in p-card spending limits, including dates and DPSM approval, should be maintained for a minimum of three years.

**Management Response:** JDRC will review the monthly usage and business needs at least yearly, and make adjustments to the p-card limits accordingly. The Juvenile Court will keep documentation pertaining to changes in spending limits, including dates and DPSM approval for a minimum of three years.

## 6. Split Purchases

There were 145 instances noted where split purchases were made in excess of the department's card limit on one p-card. These transactions were with one vendor on a card that was supposed to be designated as a special use card. Each transaction consisted of multiple invoices issued over a period of time that were paid on the same day. The vendor had been given all the credit card information and allowed to bill for recurring purchases of food that was subsequently approved by Juvenile Detention Center staff. As a result of this practice, the sum of these transactions on any one day would range from a low of \$3,755 to a high of \$9,745. This particular card had a limit of \$3,500. Even though this vendor is no longer used, staff should

ensure split transactions are not used.

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.

These types of transactions increase the risk of purchasing items that are unallowable as p-card purchases.

**Recommendation:** The agency should utilize proper purchasing methods in accordance with county policy. When exceptions to policy are made they should be clearly documented and approved by DPSM. Additionally, p-card limits should be reviewed to determine if monetary limits need to be modified. Finally, as mentioned previously, vendors should not be able to initiate charge transactions on county p-cards. This should be done by a county employee.

**Management Response:** The card in question has been cancelled. P-card limits will be reviewed yearly.

## 7. Controls over Authorized P-card Users (Non Reportable)

JDRC did not properly maintain its list of approved agency p-card users, some of the Employee Acknowledgement Disclosure Forms (EADFs) were not signed by the program manager, and several forms were filed at the site location instead of with the program manager. The system of obtaining and maintaining the EADFs were not current and maintained consistent with PM 12-02 and JDRC p-card procedures. Procedural Memorandum 12-02 requires that the agency program manager maintain the signed forms for at least two years following the employee's departure from the agency. While 12-02 does not require agencies to maintain a "list" of approved agency p-card users, such an up-to-date list, that accurately reflects all authorized p-card users, which would be evidenced by copies of the EADFs, would greatly assist the program manager in overseeing the program.

Furthermore, the JDRC p-card procedures state the program manager is ultimately responsible for all aspects of the p-card program and includes, among other things, approval of the use of the cards.

Failure to maintain a current record of p-card users increases the risk that purchases could be made by staff that are not authorized to use the card.

**Recommendation:** The program manager should sign and date all EADFs submitted by p-card users, and periodically review the EADFs on file and compare them to current p-card users as reflected on the logs to ensure they are appropriate. Should an authorized users' list be maintained, as is the current practice, it should be an accurate reflection of the authorized p-card users.

**Management Response:** The revised Juvenile Court procedures state that all new p-card users must complete the procurement card user training and that all EADFs will be kept at the Administrative Office of the Juvenile Court.

## Other Observations

### Gift Card Controls

Accountability over the distribution of food gift cards totaling approximately \$4,400 purchased from vendors such as Subway, Starbucks, Chipotle, Target, Giant, etc., for program operations was not sufficient to ensure the cards were issued only to authorized recipients. We did note that in some instances e-mails did designate the proposed recipients. However a formal mechanism to account for the total population of cards purchased was not maintained. Proper internal controls for the safeguarding of county assets and accountability over their use would require a system to track card distribution.

Failure to maintain adequate accountability over the distribution of gift cards increases the risk of misuse/personal use of such cards and potential negative publicity to the county. Also, failure to maintain such documentation does not provide a sufficient audit trail.

**Recommendation:** A log should be maintained for gift cards that reflects the following information: name of recipient, date of issuance, number of cards, amounts of cards issued, and a brief description as to why the card was issued. The gift cards should be stored in a physically secured location and if the cards are maintained for a long period of time independent inventories should be conducted periodically and reconciled to the gift card log.

**Management Response:** A log will be maintained for all gift card disbursements. Corrective actions will be taken immediately.