



Fairfax County Internal Audit Office

**Department of Public Works and Environmental
Services – Wastewater Treatment Division
Procurement Card Audit
Final Report**

January 2008

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Executive Summary

Our review of the Department of Public Works and Environmental Services (DPWES) – Wastewater Treatment Division (WTD) procurement cards revealed that overall the internal controls were adequate. A well-designed separation of duties was in place, and the department appeared to be in compliance with internal controls outlined in the county Procedural Memorandum (PM) 12-02 with the exception of the following:

- Two instances of split purchase transactions were noted during the review period.
- Department internal control procedures currently in operation did not reflect the actual business policy and were not approved by the Department of Purchasing and Supply Management (DPSM).
- Procurement card limits were not in line with card usage for all of the cards.

Scope and Objectives

This audit was performed as part of our fiscal year 2008 Annual Audit Plan and was conducted in accordance with generally accepted government auditing standards. The audit covered the period of September 1, 2006, through August 31, 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. Split Purchases

We found two 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 total six individual transactions on the NMCP Plant 1 card. The first instance involved four separate orders for machine repairs but charged to the credit card on the same day. The second instance consisted of two separate orders for chemicals purchases also charged to the credit card on the same day.

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: WTD should utilize proper purchasing methods in accordance with the county policy. When exceptions to policy are made they should be clearly documented and approved. Further, procurement card usage should be reviewed to determine if monetary limits should be modified. Lastly, users of the NMCP Plant 1 card should be reminded of the policy related to split purchases and continued non-compliance of the policy could result in the loss of card user privileges.

Management Response: Split purchases discovered by Internal Audit were the result of ordering chemicals and sending equipment out for repair on different days, being charged by the vendor on the same day. To ensure compliance with existing policies the agency will encumber open ended small purchase orders for equipment repair and chemical requirement vendors that are not currently contracted. The agency will seek contractual agreements if anticipated purchase amounts will exceed \$20,000 in a fiscal year.

2. Internal Control Procedures (ICP)

WTD had not sent their revised internal control procedures to DPSM for approval since 2002. A PAC review conducted by DPSM in May 2005 also suggested that the agency revise the ICP document and submit to DPSM for approval; however, the approval from DPSM was not obtained. Furthermore, the procedures were not current and needed revisions. A discussion with the procurement card program manager revealed the following differences between the actual operations and what was stated in the ICP document:

- a) The management analyst III had taken over as the procurement card program manager recently, whereas the ICP still identified the warehouse specialist as the program manager.
- b) Verification of funding before procurement card purchases was performed by the program manager whereas the ICP identified this function being performed by the Administrative Assistant III.
- c) The procurement card records and receipts were being retained by the agency for at least three years as opposed to two years as stated in the ICP document.

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 WTD update their ICP document to the actual business policy and submit the document to DPSM for approval, in accordance with PM 12-02. While it is noted that DPWES Wastewater Management plans to consolidate the procurement card programs for Wastewater Treatment, Collections and Planning and Monitoring Divisions in the future, updates should still be made in the interim until the consolidation is complete.

Management Response: Internal Control Procedures have been revised and submitted to DPSM for approval.

3. Card Limitation Controls

An analysis performed on card limitation controls for the seven procurement cards for the period September 1, 2006, to August 31, 2007 revealed that the monthly spending limits and the daily and monthly authorization limits were set higher than the actual usage for all the cards. In one instance, card #6723 used an average actual monthly spending in dollars, average monthly authorizations and average daily authorizations of only 4.33%, 5.42% and 0.36%, respectively, of the set limits. A comment about the inappropriateness of one or more types of card limits was also made in the procurement card internal audit performed in May 2003 and in the PAC review conducted by the Department of Purchasing and Supply Management in May 2005.

According to PM 12-02, card limitations should be based on anticipated use, total number of cards, budget constraints and any other relevant factors. It is important that card limits be set as close as possible to anticipated use. Failing to properly set procurement card limitations increases the county's exposure in the event the card is lost, stolen or improper use by a county employee.

Recommendation: WTD should review their procurement card usage to determine the appropriate limits that are more in line with card usage and adjust the limits accordingly.

Management Response: Card limits for the seven procurement cards have been appropriately adjusted.