Fairfax County Internal Audit Office

Department of Public Works and Environmental Services - Wastewater Planning & Monitoring Division
Procurement Card Audit Report
Final Report

April 2008

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Executive Summary

Our review of the Department of Public Works and Environmental Services (DPWES) – Wastewater Planning and Monitoring Division (WPMD) procurement cards revealed that overall the internal controls needed to be improved. The following control weaknesses were found:

- The Weekly Transaction Detail Reports were not being reconciled on a timely basis.
- One of the procurement cards was being kept in an unlocked staff desk drawer during the day.
- In two of the 25 transactions tested, adequate supporting documentation could not be obtained.
- The internal control procedures had not been updated to reflect current operations.
- Seven of the 22 card users' Employee Acknowledgement Disclosure forms were not signed by the program manager.
- Procurement card clearing accounts were not being reclassified in a timely manner.
- Controls to ensure adequate funding prior to making purchases with the procurement card were weak.

We did note that separation of duties was found to be sufficient, and the transaction logs were maintained in compliance with Procedural Memorandum (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 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

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. Reconciliation of Transaction Detail Reports

We reviewed 25 transactions that occurred on 21 Weekly Transaction Detail Reports and noted the following:

- Eighteen reconciliations were not performed in a timely manner (three were not reconciled for three months, while 15 were not reconciled for two months).
- Four reports were not signed and/or dated upon reconciliation.

County PM 12-02 requires the agency to reconcile the Weekly Transaction Detail Reports on a weekly basis or the Bank Statements on a monthly basis. Failure to reconcile p-card transaction to bank reports on a timely basis increases the risk of erroneous or inappropriate charges to the procurement card. Failure to document the date a reconciliation is performed and the name of the reconciler decreases the accountability for processing the reconciliation in a complete and timely manner, by someone independent of card purchases.

Recommendation: The Weekly Transaction Detail reports should be reconciled on a weekly basis and the reconciliation should be initialed and dated by the preparer.

Management Response: Weekly Transaction Detail reports are currently reconciled weekly.

2. Physical Security Over P-cards

One procurement card was being kept in an unlocked desk drawer during the day. This is inconsistent with PM 12-02 which states that “p-cards should be in a locked location when not in use. Access to the location should be limited to those individuals who require access to the card.” When a procurement card is not properly secured, the risk that it could be stolen and used for unauthorized purchases increases.

Recommendation: As stated in PM 12-02, p-cards should be kept in a secure location while not in use. Access to the location should be limited to those individuals who require access to the card.

Management Response: As a result of this audit, the p-card custodian has started locking up the p-card at all times. The custodian no longer waits until the end of the work day to secure the p-card.

3. Receipts and Supporting Documentation

We noted two instances of the 25 transactions tested where there was not adequate supporting documentation on file for procurement card transactions. In one instance the transaction was missing a receipt. In the other the memo prepared in lieu of a receipt did not adequately describe the purchase and was not signed by the program manager.

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

Management Response: Efforts to acquire receipts and other supporting documentation are now being documented. When a receipt is missing, a memo to the program manager will be prepared by the card user to include use, vendor, date of purchase and amount expended; and why the original receipt isn't available. Violators will be retrained on proper procedures.

4. Documented Internal Control Procedures (ICP)

The ICP had not been updated to reflect current operations. The ICP on file at WPMD was last revised in September 2002 and in the five years subsequent, duties and responsibilities had changed. Position titles of personnel who actually performed p-card duties were different than those identified in the ICP. Additionally, the name and phone number of the bank to notify in the event a card is lost or stolen was not current.

Per county PM 12-02, agencies must establish and adhere to their own internal control procedures that govern card security, use and accounting. The procedures must describe the assignment of card related responsibilities and the flow of card related documentation within the agency. Additionally, the agency must submit their

ICP to the DPSM program administrator for approval. Inherent in this requirement is that the ICP be current and up-to-date.

An outdated ICP may create confusion in processing p-card transactions especially with staff turnover leading to an increased risk for card misuse. Failure to properly identify responsibilities, duties and important contract information weakens the internal controls designed for the county's use of the p-card especially in the area of segregation of duties. Finally, incorrect bank contact information on an ICP could increase the time period in which the card is vulnerable to unauthorized charges being made after the card is lost or stolen.

Recommendation: The WPMD should update their procedures to accurately reflect the design of the office's procurement card program. The procedures should clearly define the assignment of all procurement card related responsibilities by position title. Additionally, WPMD should refer the ICP reader to PM 12-02 to properly identify the current bank and phone number to contact in the event a card is lost or stolen. This will ensure that the contact numbers are accurate. Once the updates are made, WPMD should submit the updated ICP to DPSM for approval.

Management Response: As a result of the audit, the p-card program manager updated WPMD's ICP and it was approved by DPSM.

5. Employee Acknowledgement Disclosure Forms

Seven of the 22 current Employee Acknowledgement Disclosure Forms (EADs) were not signed by the program manager. County PM 12-02 requires the agency's program manager to maintain signed EADs at least two years after the employee's departure from the agency. The program manager's signature on the EAD indicates that they are aware that each card user has read and understands proper rules for p-card use failing to do so could result in card misuse.

Recommendation: The program manager should maintain a signed EAD for each p-card user for at least two years following the employee's departure from the agency. We noted that the program manager signed all EADs in the auditor's presence during the audit. No management response is required.

Management Response: No response required.

6. Transaction Clearing Accounts

Transfers to reclassify transactions from the agency's procurement card clearing account were not made on a timely basis. Of the 25 transactions reviewed, we found that three transfers were done three months after the transaction date, 15 transfers were done two months after the transaction date, and three transfer vouchers were not signed. 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 properly classify procurement card expenses in a timely manner misstates department financial reports, increasing the risk of management making decisions based on inaccurate financial information.

Recommendation: Transactions posted to a procurement card clearing account should be classified to the proper expenditure account on at least a monthly basis in accordance with PM 12-02.

Management Response: The p-card reconciler is now moving all charges to the appropriate expenditure account on a weekly basis.

7. Adequate Funding

WPMD's controls to determine the adequacy of funding prior to making purchases with the p-card were weak. Staff solely relied on the card monthly limits to control spending and did not check the department's budget. Unlike the encumbrance system where the necessary funding is encumbered prior to the purchase, the procurement card purchases are charged directly to FAMIS regardless of available funding.

WPMD's failure to check for adequate funding in the department budget before making a purchase increases the risk that it will create a liability for the county without the resources necessary to satisfy the resulting obligation.

Recommendation: Prior to making a purchase on the p-card, WPMD should ensure that funding is available in the department's budget.

Management Response: The p-card program manager is now making sure that funding is available in the department's budget. The budgetary parameters are being checked on a weekly basis. If funding is getting low, the p-card program manager will consult with the management analyst III, who is responsible for the budget.