



Fairfax County Internal Audit Office

**Office of Public Private Partnership
Procurement Card Audit
Final Report**

January 2009

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Executive Summary

Our review of the Office of Public Private Partnerships' procurement cards revealed that card reconciliations were performed timely and accurately; there was adequate separation of duties in place and internal control procedures were documented. However, we noted the following exceptions where controls needed to be strengthened:

- A vendor charged a card for two business card orders prior to issuing an invoice and delivering the orders, without notifying the agency.
- Receipt documentation for \$720 of book purchases was not adequate.
- The acknowledgement of receipt of \$800 of gift cards by an outside organization was not documented at the time our testwork was performed. We were subsequently able to verify that the cards were delivered to the organization.
- Sales tax totaling \$114 was paid on two card purchases.
- Procurement card limits were not in line with card usage.

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 2007 through August 2008, 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. Vendor Charges

Two orders were placed for business cards in which the vendor charged the procurement card before an invoice was issued, the orders were received and the agency was notified. Normally, the vendor billed the agency when business cards were delivered. The situation was resolved when the invoices were subsequently sent to the department, approved and reconciled to the bank statement. However, the vendor was not formally informed that this was not an allowable practice.

Premature vendor card charges increase the risk of duplicate payments, overpayments and payments for goods and services not received.

Recommendation: We recommend that the Office of Public Private Partnerships notify the vendor that county policy requires that invoices be issued and approved for purchases before the card is charged.

Management Response: The card custodian investigates all charges that occur on the p-card account that are not in the log, even if there is a proper receipt. The vendor has been informed that they must issue an invoice and have it approved prior to charging the card.

2. Receipt Documentation

We noted two instances where fax copies of credit charge slips, used to support procurement card transactions and card reconciliations, were not adequate. In addition, there was no evidence of sufficient alternate receipt documentation as required by PM 12-02. The transactions related to the purchase of \$720 of books at a college bookstore for students in an agency college nursing program.

Procedural Memorandum 12-02 requires that agencies maintain 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 of Public Private Partnerships should ensure that sufficient receipt documentation, as specified by PM 12-02, is maintained in file for all procurement card transactions.

Management Response: Original receipts that fully comply with county requirements will be required from all users of the p-card. Failure to comply will result in suspension of p-card privileges until a proper receipt is provided.

3. Sales Tax

Virginia sales tax totaling \$114 was added on for two procurement card transactions which should not have been taxable. Procedural Memorandum 12-02 states that most county purchases are exempt from Virginia state sales tax. The county's exempt number is printed on the face of each card.

Failure to ensure that sales tax is not charged on exempt purchases can lead to overpayment of county funds

Recommendation: The Office of Public Private Partnerships should ensure that card users are aware of the sales tax exemption for goods and services purchased in Virginia. Vendors should be reminded of the county's tax exempt status and receipts examined to verify that sales tax was not charged.

Management Response: Card users will ensure that Virginia sales tax is not paid on p-card purchases that are not eligible for taxation. The card custodian will review all receipts at the time the user turns in the card to ensure that no sales tax has been paid. If ineligible tax has been paid, the custodian will return the card and receipt to the user who will contact the vendor to arrange a credit for the ineligible sales tax.

4. Card Limits

An analysis performed on card limitation controls for the two procurement cards used for the period September 1, 2007, thru August 31, 2008, revealed the monthly spending limits and the daily and monthly authorization limits were set much higher than the actual usage for both of the cards. The Computer Learning Center Program card's average actual monthly spending and highest spending in one month were 18% and 46%, respectively, of the set limit. The average monthly spending and highest spending in one month for the office's main card represented 17.5% and 28%, respectively of the limit.

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 procurement card limits be set as close as possible to anticipated use. Setting card limits too high increases the county's exposure to liability in the event the card is lost, stolen or improperly used by a county employee.

Recommendation: The Office of Public Private Partnerships should review their procurement card usage to determine appropriate limits more in line with card usage, and

adjust the limits accordingly.

Management Response: The Office of Public Private Partnerships (OPPP) has reviewed its procurement card usage. Based on the transfer of the Computer Learning Centers Partnership to CRS and the establishment of the MCCP Foundation, OPPP will reduce monthly authorization from \$15,000 to \$5,000 with the maximum amount of \$1,500 in a single purchase. The anticipated completion date is January 2009.

Other Observations

5. Gift Cards

The documentation used to substantiate the issuance of gift cards was inadequate. We reviewed the purchase and subsequent issuance of \$800 of gift cards. Based on an agency list of recipients, the cards were issued as a holiday gift to participants in an outside organization program for needy families. There was no written acknowledgement of receipt by the outside organization on file for the gift cards.

Maintaining adequate written documentation which evidences the business purpose and the recipients of gift cards strengthens internal controls over their proper use and decreases the risk of bad publicity for the county.

Recommendation: We recommend the Office of Public Private Partnerships maintain adequate documentation on file to substantiate the issuance of gift cards, including agency supervisor approval and evidence of receipt by outside charitable organizations distributing the cards. From a program aspect, at a minimum, the outside organization should be requested to maintain documentation to evidence the issuance of each gift card for review if requested.

Management Response: The office will no longer be purchasing gift cards as all programs that utilized gift cards have been transferred out of the Office for Public Private Partnerships.