Fairfax County Internal Audit Office

Facilities Management Department
Procurement Card Audit
Final Report

April 2009

"promoting efficient & effective local government"

Executive Summary

Our review of the Facilities Management Department administration procurement cards for the period of July 1, 2007, through August 31, 2008, revealed that internal controls and compliance with county Procedural Memorandum (PM) 12-02 needed to be strengthened. A concern noted was the level of expenditures on food for retirements, award programs and staff meetings.

Other areas where controls needed to be strengthened were as follows:

- While there was evidence to indicate that procurement card reconciliations of bank statements to procurement card receipts were performed, there was no evidence to indicate who performed the reconciliations and when they were performed. In addition, there was no evidence of weekly review of transactions for unusual/unauthorized purchases.
- There was no evidence of reconciliations from the bank statements to FAMIS records. In addition, clearing account reclassifications were not being carried out in a timely manner.
- Employee Acknowledgement Disclosure (EAD) Forms for 12 out of 16 users in our transaction testing were not signed by the program manager, supervisor or both. In addition, the EAD Form for one employee was not on file.
- The procurement card transaction logs omitted the identity of card users and in most instances the sign in/out log did not contain signatures and card issue/return dates.
- Internal Control Procedures had not been sent to the Department of Purchasing and Supply Management (DPSM) for approval since the fall of 2006 when updates to the document were recommended by the PAC Review conducted by DPSM.
- None of the 28 new card users had taken the required card user online training effective May 1, 2007, per county policy.
- While the number of procurement cards was significantly reduced, card limits were not found to be in line with card usage and needed to be adjusted.

Scope and Objectives

This audit was performed as part of our fiscal year 2009 Annual Audit Plan and was conducted in accordance with generally accepted government auditing standards. The procurement cards covered by this audit related to the Facilities Management Department administration. The cards maintained at the Burke Station facility are handled through a separate audit. The audit covered the period of July 1, 2007, through August 31, 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

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. Unusual/Questionable Purchases

FMD administration spent a total of $ 7,358 from July 2007 to August 2008 on food, gift cards, softball supplies and purchases from florists. The details of these charges are as follows:

a. Food purchases totaled $5,724 which included food for award ceremonies, awards committee meetings, retirement receptions and staff meetings. While the business purpose for food purchases was documented, approval for most of the purchases was limited only to the procurement card program manager. Other pertinent details such as dates of events, number and names of attendees, etc. were missing.
b. Gift card purchases totaled $1,454 and included gift cards purchased from 7-Eleven, CVS, Dunkin Donuts, Subway, Giant Food and Home Depot. We were told that the gift cards were used as awards for employees; however, controls over gift card distribution were found to be weak. No proper log was maintained except for spot awards.
c. We noted one transaction for $68 for supplies purchased for softball.
d. A transaction for $112 was made for a plant and fruit basket sent to one of the staff members recovering in hospital.

According to the guidelines for food purchases issued by DPSM, food purchases made with county funds for events such as retirement receptions and staff meetings may not have a legitimate business purpose and might be considered inappropriate.

The guidelines recommend that the agency fully document each approved purchase to include the specific business purpose, purchase authorization signature, original/itemized receipts or invoices, number of attendees and names of attendees. Since gift cards are equivalent to cash, adequate controls over gift card distribution is essential. Allowing these types of purchases increases the risk of inappropriate card charges and possible negative publicity for the county.

Recommendation: FMD should follow the guidelines for food purchases issued by DPSM in determining the appropriateness of using government funds. Proper controls over gift cards should include maintaining a detailed log with a section for the recipient's signature. We recommend that purchases for softball and florist supplies not be permitted, regardless of amount, since they do not represent a proper use of county funds.

Management Response: The purchase of gift cards and items for sick or injured co-workers has ceased. The purchase of food is restricted to emergency situations where such purchases would be considered legitimate and appropriate as determined by the agency director or designee. Whenever possible, prior approval must be obtained from the director. The director or designee shall initial and date the receipt to signify authorization.

2. Procurement Card Reconciliation

While there was evidence to indicate monthly procurement card reconciliations were being performed between bank statements and procurement card receipts, there was no evidence to indicate who performed those reconciliations and when they were performed for the months of June 2008 through August 2008. In addition, the reconciliation for the month of August 2008 was not signed by the supervisor, indicating a lack of separation of duties, since the reconciliation was performed by the card custodian. Moreover, there was no evidence of weekly reviews of transactions for erroneous or fraudulent charges. Procedural Memorandum 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. Once completed, the reconciler is required to sign and date the documents settled. In addition, PM 12-02 states that if a department decides to perform monthly reconciliations, they must review transactions on a weekly basis for erroneous or fraudulent charges.

Failure to document the date after a reconciliation is performed and the name of the reconciler decreases the accountability for performing it in a complete and timely manner, by someone independent of card purchases. Failure to review the weekly transaction reports increases the risk that inappropriate purchases will not be identified in a timely manner.

Recommendation: Once the procurement card reconciliation is completed, the preparer should sign and date the report. In addition, besides performing monthly procurement card reconciliations, the department should perform a weekly review of transactions so that inappropriate or unauthorized purchases are identified in a

timely manner. Whenever the reconciliation is performed by the card custodian, it should be reviewed by the supervisor which serves as a compensatory control for lack of separation of duties.

Management Response: The department will print a hard copy of the Procurement Card Weekly Transaction Report weekly, and reconcile receipts received against it. The staff member performing the reconciliation will initial and date the report them forward it to the department's program manager or custodian for record retention.

3. FAMIS Reconciliation

FMD was unable to provide evidence of monthly bank statement reconciliations to FAMIS for the months of June 2008 through August 2008. Further, we noted that transfers to reclassify transactions from the procurement card clearing account (subobject 3250) were not made on a timely basis. Transfer vouchers were done only twice (November and June) during the fiscal year. 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. Also, for card billings posted to a clearing account, all charges must be moved to an appropriate expenditure account at least monthly.

Lack of a documented reconciliation to FAMIS decreases the accountability that the process is being performed in a complete and timely manner. In addition errors and omissions could go undetected.

Recommendation: The office should perform and document monthly reconcilements 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. Additionally, all charges posted to the clearing account should be transferred to the appropriate expenditure account on a monthly basis.

Management Response: The department will utilize subobject code 3375 (Credit Card Expenditures) as a clearing account for all Administration, Real Estate, and PE&E credit card transactions. The clearing account will not be utilized for O&M credit card transactions as expenditures are posted directly into the correct subobject code. Department staff will begin reconciliation of credit card transactions to the FAMIS Monthly Transaction Detail Report. Upon completion, the staff member performing the reconciliation will initial and date the FAMIS report. Currently the department does not receive this report in hard copy or electronic format. Staff will work with the Department of Finance to obtain this and other financial reports on a monthly basis. In the meantime, FAMIS screen prints will be utilized to perform reconciliations. The utilization of the clearing account will be effective immediately. The anticipated completion date for obtaining FAMIS reports is August 31, 2009.

4. Employee Acknowledgement Disclosure (EAD) Forms

During our transaction testing, we noted one instance where the employee who used the procurement card did not have a signed Employee Acknowledgement Disclosure Form on file. Additionally, the EAD forms for 12 out of 16 employees in our transaction testing were not signed by the program manager, supervisor or both. PM 12-02 requires that all first-time card users complete an Employee Acknowledgement Disclosure Form. The form acknowledges the employees' responsibilities regarding card use and sets forth consequences for misuse. The agency program manager is to maintain the signed forms for at least two years following the employee's departure from the agency.

Recommendation: FMD should ensure that each employee using a procurement card sign and date an Employee Acknowledgement Disclosure Form, with the forms retained as required by PM 12-02. The forms should also be signed by the program manager and supervisor.

Management Response: Department staff will develop a centralized list of authorized procurement card users and establish a hard copy file for completed EAD forms. Upon completion of the above we will reconcile the hard copy file against the central list and take appropriate action to obtain missing or incomplete EAD forms. Periodically, through review of receipts received, we will verify that the card user has an EAD form on file or take appropriate action to obtain a completed form. An EAD form is now included as part of the New-Hire packet. New staff authorized to use a credit card will complete the EAD form with their supervisor then forward it (along with completed on-line training certification) to the department's program manager. The addition of EAD forms in the New Hire packet will be effective immediately. The anticipated completion date for the development of a centralized list and EAD forms is April 30, 2009.

5. Transaction Log and Sign-in/out Log

The procurement card sign-in/out log was not provided to us at the time we obtained the other documentation for our procurement card audit sample. Additionally, the daily credit card transaction log and the procurement card sign-in/out log often lacked sufficient card user information for transactions and 8 out of 50 transactions tested were not recorded on the procurement card sign-in/out log. Moreover, all the transactions tested were missing either sign-in/out signature or card issue/return date on the sign-in/out log. The card custodian either initialed the sign-in/out log or wrote the name of the user instead of having the user sign in and out on the log. PM 12-02 requires that entries to the procurement card transaction log "should identify the card user." Missing information such as sign-in/out signatures and card issue/return date makes it difficult to track procurement card activity and to determine user accountability for transactions.

Recommendation: We recommend that FMD maintain a transaction log which identifies card users for all procurement card activity, to ensure card use is properly monitored. Furthermore, procurement card sign-in/out logs should properly reflect all card sign-in/out activity for proper tracking and maintaining accountability.

Management Response: Department staff will develop and maintain a transaction log sheet. In addition, develop a sign-in/out sheet for cards not specifically assigned to a staff member. The anticipated completion date is March 20, 2009.

6. Internal Control Procedures

FMD was asked by DPSM to revise their internal control procedures (ICP) as a result of the PAC Review conducted in the fall of 2006. Changes to the ICP were made in March 2007 but an updated ICP was never sent to DPSM 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.

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 FMD submit updated internal control procedures, including the updates recommended by DPSM, for approval.

Management Response: The department will submit updated internal control procedures to the DPSM program administrator for approval. The anticipated completion date is April 30, 2009.

7. Procurement Card User Online Training

Per discussion with the procurement card staff and the test work performed, IAO noted that FMD had not been requiring first time procurement card users to take the procurement card user online training. We noted that a total of 28 new users had not taken the online training as required. According to PM 12-02 and guidelines issued by DPSM, effective May 1, 2007, all new p-card users must first take the online training and complete a certification exam prior to using a county p-card.

Without training, card users increase the risk of not knowing or understanding the procedures necessary to obtain, use and properly account for agency cards, which may lead to inappropriate purchases.

Recommendation: We recommend that FMD require all the new procurement card users since May 1, 2007, to complete the procurement card user online training as required by PM 12-02.

Management Response: New authorized users are required to pass an on-line certification exam. A screen print verifying certification will be attached to their EAD form. All authorized users will be required to pass the certification exam to receive a replacement card. The implementation is effective as of March 2009.

8. Credit Card Limitation Controls

An analysis performed on card limitation controls for the period July 1, 2007, to August 31, 2008, revealed that the monthly spending limits for all cards were not in line with the actual usage. There were six cards currently in operation after FMD closed most of their procurement cards in the later part of September 2008 and replaced them with new cards. Our credit limit analysis was based on the activity for the old cards mapped to the new card numbers. In one instance, card # 4557 had the highest monthly actual spending of only 4% of the set limit. A comment about the level of card limits was also made in the PAC review conducted by the Department of Purchasing and Supply Management in the fall of 2006.

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 improperly used by a county employee.

Recommendation: FMD should review their procurement card usage to determine the appropriate limits that should be set and adjust them accordingly.

Management Response: Replacement procurement cards were issued September 2008. A six and twelve month review of spending limits will be conducted. Card limits to be adjusted based on usage (count) and total transaction amount. The six and twelve month reviews of spending limits will be conducted by March 31, 2009, and September 30, 2009, respectively.