



Fairfax County Internal Audit Office

**Facilities Management Department
Procurement Practices Audit
Final Report**

March 2011

"promoting efficient & effective local government"

Introduction

Internal Audit reviewed the adequacy and effectiveness of internal controls over the purchase of goods and services by the Facilities Management Department (FMD). FMD consists of four branches: Building Services; Operations and Maintenance; Projects, Engineering and Energy; and Real Estate Development and Planning. The department's total cost of purchases and capital equipment for FY 2010 was approximately \$47 million. FMD purchases goods and services for maintenance, repair, capital renewal, utilities, security services, event and meeting management services, space planning, interior design, renovations, energy conservation, custodial services, and moving services. The department utilizes procurement methods such as purchase order (PO), blanket purchase order (BP), small purchase order (SO), financial contracts, direct pays and standard contracts.

Executive Summary

We found that, in general, controls in place appeared to be adequate and effective to ensure the purchase of goods and services was proper and complied with county policies and procedures. However, there were some areas in which controls could be strengthened and they were as follows:

- FMD did not have written internal procedures and controls for **some** purchasing methods which inherently incurred higher risks. FMD utilized a significantly large amount of purchases using these methods. These purchase methods were meant either to streamline recurring small purchases (blanket purchase orders) or facilitate payments that were not compatible with the PO process (direct pay transactions). FMD was using BPs to pay for custodial and security services as well as small capital projects. Direct pays were used for utilities, rentals and equipment leases. The reasons for using these methods were found to be proper; however, due to the large dollars involved, we recommend that FMD put into place appropriate departmental controls above and beyond the procedures required by county policy.
- One specific added departmental control that Internal Audit has recommended is for FMD to strengthen controls over its BP expenditures by requiring staff to complete a departmental purchase request form with proper approvals until their BP transactions can be converted to the upcoming FOCUS system that is expected to have adequate controls.
- Finally, due to staff shortages, the segregation of duties controls were not optimal and could be strengthened by periodic supervisory review of reconciliations as a compensating control.

We would like to commend the Facilities Management Department staff for their support and invaluable time spent conducting walkthroughs, meetings and providing assistance to ensure a thorough understanding of the steps and functions involved in each procurement process reviewed by Internal Audit.

Scope and Objectives

This audit was performed as part of our fiscal year 2010 Annual Audit Plan and was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit covered the period of March 1, 2009, to March 31, 2010, and our audit objectives were to determine that:

- The purchase of goods and services was in compliance with county policies and procedures;
- Controls were in place to ensure cost-effective and efficient procurement practices;
- Procurement activities were appropriate, authorized, and accurate; and
- Bidding and contract award activities complied with the county Purchasing Resolution.

Methodology

Our audit approach included reviewing county and departmental policies and procedures for POs, BPs, SOs, financial contracts, direct pay transactions, and interviewing staff from FMD and the Department of Purchasing and Supply Management (DPSM) to obtain an understanding of the requirements for these processes. We performed analytical procedures on the audit population data, and identified potentially higher risk sub-populations of purchases for which we planned and conducted detailed testing of various transaction samples to evaluate the controls and compliance with policy.

Our audit did not examine the system controls over purchasing and financial applications. Our transaction testing did rely on those controls; therefore, this was a scope limitation. The potential impact of this circumstance on our findings was that some portion of transaction data may have been erroneous.

Findings, Recommendations, and Management Response

1. Internal Policies and Procedures

FMD did not have written internal procedures specific to the department for BP and direct pay transactions. For instance, we did not find any documentation specifying how the reconciliation of direct payments should be performed and by whom. Lack of documentation for department specific procedures increases the potential for inconsistent work processes causing errors, omissions, and control weaknesses. Furthermore, it increases the time it takes to train staff in the event of employee turnover and decreases controls over employee accountability for properly fulfilling their responsibilities.

Recommendation: We recommend FMD develop, document, and implement procedures for their departmental specific processes as they relate to blanket purchase order-type payments and direct pay transactions. These procedures should include, but not be limited to, processes for reconciling payments for utilities, lease agreements, equipment master leases; the frequency of the reconciliation; and the staff position title responsible for performing the review. Management should involve staff in the process to ensure resulting policies and procedures are operationally effective and efficient.

Management Response: Based on the new FOCUS system, FMD will develop, document, and implement internal procedures for purchasing activities as recommended. The anticipated date for completion is August 31, 2011.

2. Controls Over Blanket Purchase Orders

FMD developed and utilized a Purchase Request form as a departmental control over BPs; however, the use of the form was inconsistent. Per FMD staff, the form was not used for recurring services such as security and custodial fees, and available but not required for other purchases. We found that completed Purchase Request forms were not on file for 12 out of 18 invoices paid through BPs that were not for custodial or security services. The dollar amounts for these invoices were between \$9K and \$1M. Additionally, of the six Purchase Request forms reviewed, one was not signed and dated by the requestor. Finally, of the 30 invoices paid through BPs, one was not signed and dated by the approver.

The invoices that are paid through blanket purchase orders do not get routed to DPSM for review and approval, increasing the risk of unauthorized purchases/payments to vendors. A departmental purchase request form that is complete and approved by a supervisor is a control that should be maintained to assure the payment is accurate, appropriate, and authorized. This control becomes especially important given the large dollar values of the BP transactions in FMD.

Recommendation: It is our understanding that the BP process will be significantly altered with the implementation of the FOCUS system in July 2011. Per the FOCUS project team, a mixed use purchase order process will replace the CASPS master blanket, blanket purchase order, and blanket call. The mixed use PO and all related POs will be subject to the same internal controls including routing and approval, technical review, etc. as a regular purchase order. This should resolve the control weaknesses currently present. We recommend FMD staff work with FOCUS team members to ensure that their transactions currently performed through blanket purchase orders use the appropriate processes within FOCUS to maximize effectiveness, efficiency, and controls.

In the interim, we recommend FMD strengthen the controls over its BP orders by requiring staff to utilize Purchase Request forms for non-recurring high dollar value purchases. The form should be checked for completeness and maintained along with the invoice and other supporting documentation by the department. Approval should be performed by a supervisor of the requestor.

Management Response: FMD will utilize and adhere to the new FOCUS procurement processes upon system implementation. In the interim, the use of Purchase Request form for non-recurring high dollar value purchases will be required. The form will be reviewed by appropriate agency staff for completeness prior to entering into CASPS. Forms not complete will be returned to the requester. Invoices will be attached to their request form and filed. FMD will implement the interim process immediately.

3. Segregation of Duties

There were some instances where reconciliations of direct pay transactions were performed by the same staff that posted the payment, and we did not see evidence of supervisory reviews of the reconciliations. For instance, lease payments were reconciled by the same individual who initiated the payment in FAMIS. Additionally, staff at the same level reviewed and approved each others work. Per FMD staff, the reconciliation used to be performed by a Leasing Agent; however, the position was vacant as of this audit. We also noted that the reconciliations were not performed on a regular basis.

Per Accounting Technical Bulletin, ATB 10020, Reconciliation of Financial Transactions, *Separation of Duties*, "individuals should not have complete control over all aspects of a financial transaction." For example, an employee who is directly responsible for recording receipts or invoices for payment in FAMIS should not perform the reconciliation of the same financial transaction posted to FAMIS. If separation of duties cannot be achieved in the performance of the reconciliation, then a supervisor should perform a detailed review of the transaction activity. The supervisor must sign and date the document reviewed. Adherence to the two-person rule, which provides that no one person may both initiate and approve the same document, must be monitored and enforced. Lack of adequate internal controls could result in unauthorized, inaccurate, and invalid payments to vendors.

Recommendation: FMD should require periodic supervisory review of all reconciliations for direct pays. The frequency of the review should be determined by management, based on resources. This requirement should be included in the written departmental internal control procedures recommended in Finding #1.

Management Response: With regard to interim process of reconciliation of real estate lease payments: the administrative assistant IV will produce a monthly payment report, indicating all payment amounts and associated Voucher Payable numbers. This report will be forwarded to the supervisor for reconciliation. Upon completion of the reconciliation, the supervisor will initial, date, and return the report back to the administrative assistant IV to file.

With regard to reconciliation of real estate lease payments through the FOCUS: the department has been informed under the new system, lease payments will be processed utilizing a mixed use purchase order and will be subject to the same internal controls including routing and approval, technical review, etc. as a regular purchase order. It is anticipated the department will utilize a "Scheduler" program to process monthly payments automatically. Based on FOCUS processing payments automatically, the administrative assistant IV will reconcile transactions monthly against a system generated report; and upon completion, will initial, date, and file the report. A supervisory review will be conducted on a quarterly basis and indicated by initialing and dating the monthly report. FMD will implement this process immediately.