



# Fairfax County Internal Audit Office

Fairfax County Park Authority  
Procurement Card Audit  
Final Report

June 2011

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# Executive Summary

We performed an audit of the procurement card program within the Fairfax County Park Authority (FCPA) which consisted of 285 cards at the time of our review.

Our review of procurement cards revealed that internal controls were adequate. Internal control procedures were well documented, a well designed separation of duties was in place, and FCPA appeared to be in compliance with internal controls outlined in the county Procedural Memorandum (PM) 12-02, *Use of the County Procurement Card*. We would like to commend FCPA for the significant improvements of its p-card processes since the last audit. However, we noted the following exceptions where controls needed to be strengthened:

- Transactions were not always recorded on the p-card Sign-In/Out log for departmental cards.
- There was no evidence of a supervisory review for two out of 60 transactions reviewed.
- While the amounts did not appear to be significantly material in dollar value, Virginia sales tax was inappropriately added on for a number of procurement card transactions.

## Scope and Objectives

This audit was performed as part of our fiscal year 2011 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 population included 14,329 transactions worth \$3,608,920 that occurred during the period of December 1, 2009, through November 30, 2010. 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 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.

## Findings, Recommendations, and Management Response

### 1. Sales Tax Exemption

Virginia sales tax was inappropriately added on to a number of procurement card transactions. According to the PaymentNet report, the total number of p-card transactions for the period December 1, 2009, through November 30, 2010 was 14,329. Of this number, Virginia sales tax was added on to 243 transactions. Due to the large number of transactions, IAO requested the department to pull the back-up documentation for the transactions where the sales tax was over \$5. Of the 60 transactions reviewed, no sales tax was shown on the receipt for 38 transactions. Some of the charges shown on the PaymentNet report as sales tax were shipping and/or handling costs. In 17 cases, either the item was returned to the merchant or the department received a credit. For the remainder, the sales tax was added on to the purchase and the department was not refunded. We did not review the supporting documentation for the transactions with a sales tax less than \$5.

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 make sure that sales tax was not charged on exempt purchases can lead to a waste of county funds.

**Recommendation:** FCPA 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.

During the audit, the p-card program manager sent out a reminder e-mail to the card users regarding the county's exemption from Virginia sales tax for most goods and services, and required all card users to re-take the p-card examination online as a refresher. Further management response is not required for this recommendation.

### 2. Transaction Logs (Sign-In/Out Logs)

The card activity log was not a complete reflection of the department's procurement card spending. We noted that three of the 60 transactions tested were not recorded on the procurement card log, and one log was not complete. Procurement card sign in/out logs should properly reflect all cards in/out activities for departmental cards for tracking and accountability.

**Recommendation:** We recommend FCPA ensures that areas with departmental p-cards maintain a sign-in/out log which accurately reflects all procurement card activities, and card use is properly monitored.

**Management Response:** FCPA has transitioned from departmental p-cards to individual named cards effective December 2010. Currently, the FCPA has 289 named cards, which increase the county's dispute rights with the bank as well as focusing on accountability for staff. For the remaining four departmental cards, staff will ensure cards have a sign-in/out log that accurately reflects all procurement card activities. On May 4, 2011, an e-mail reminder was sent to our four departmental p-card custodians and the FCPA purchasing staff who review the Tours 1/Tours 2 and Administration 01/02 cards reminding them of the requirement for in/out logs. This item was completed on May 4, 2011.

### 3. **Supervisory Review of Purchases**

We noted two instances where the p-card transaction was approved by the same individual who made the purchase. There was no evidence of independent supervisory review of these transactions. FCPA's procurement card internal control procedures require the card user's immediate supervisor to sign and review the p-card logs for appropriateness of spending, proper budget coding and completeness of the log.

Procedural Memorandum 12-02 indicates that whenever separation of duties cannot be achieved, there must be a compensating control consisting of a substantive supervisory review of transaction activities. This verification should be evidenced by the reviewer signing and dating documents reviewed.

The ability of staff to review and reconcile their own purchases without any supervisory review increases the risk of that unauthorized or inappropriate procurement card spending will go undetected.

**Recommendation:** We recommend FCPA maintain separation of duties between card users and the reviewers. If the department cannot separate the card user and approval functions, then it should establish sufficient compensating controls whereby substantive independent supervisory reviews are performed and documented.

**Management Response:** On May 4, 2011, a broadcast e-mail was sent to all FCPA staff reminding them that all procurement card logs require an immediate supervisor signature and that the supervisor is required to review the p-card logs for appropriateness of spending, proper budget coding and completeness of the log per the FCPA procurement card internal control procedures, which are posted on the FCPA Infoweb for all to access.

In addition, all FCPA p-card customers were required to re-take the on-line p-card examination in March 2011, to reinforce procedures and the need for supervisory signatures. This item was completed on May 4, 2011.