Fairfax County Internal Audit Office

Juvenile and Domestic Relations District Court
Business Process Audit
Final Report

May 2012

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Executive Summary

We performed a business process audit of the procurement card, eVA, purchase order, small purchase order, blanket purchase order, office supply, and financial reconcilement areas within the Juvenile and Domestic Relations District Court (JDRDC). Our audit found that proper separation of duties was in place, and the department generally appeared to be in compliance with internal controls outlined in county Procedural Memorandum (PM) 12-02. We noted exceptions where compliance and controls needed to be strengthened, including four items previously noted in the Department of Purchasing and Supply Management's (DPSM) procurement assistance and compliance (PAC) review and/or Internal Audit's procurement card (p-card) review as indicated below:

During the one-year period reviewed, JDRDC purchased approximately $10,000 in gift card transactions. We found there were insufficient controls and documentation to ensure their proper use including failure to reconcile gift card logs in order to account for the location or use of each card. These cards were purchased for both programmatic purposes as well as for use as employee awards.

a. Program Expenses - Our sample of gift card transactions identified $6,190 were program-related. Some gift card logs contained inadequate business justifications for card issuance or did not list the names of recipients (**Repeat finding** from March 2009 PAC review and also observation in January 2008 Internal Audit P-card Review).

b. Employee Awards - We also identified $1,465 in employee awards given out via gift cards (35% of JDRDC employees received awards). There were a number of reasons noted on JDRDC's gift card logs which did not appear to be in line with Personnel/Payroll Administration Memorandum Number 18 – Performance Awards Program, or were not documented in enough detail to know what the award was even for. This policy notes that departmental awards are designed to recognize achievement which furthers the mission of each department. However, some of the reasons listed on the logs included:

   - 'Ideas for awards' award…
   - Above and beyond AA work – cleaning fridge, kitchen, etc.
   - Cooking Thanksgiving
   - Most favorite Food award winner – Taste of JDRDC
   - Computer Entry
   - Clerk's Office Raffle (4 given, *no named recipients*)
   - Going above and beyond the call of duty (3 awards, *no named recipients*). No additional information was provided as to what this is about.
   - Clerk's 2-day training (7 cards, *no named recipients*)

- There were four instances where split purchases were made in excess of p-card limits (**Repeat finding** from January 2008 Internal Audit P-card Review).

P-card security was violated in one known instance by providing confidential p-card information to a vendor via e-mail.

- There was insufficient supporting documentation for 3 of the 15 office supply sample transactions tested. These transactions were missing original or sufficient alternative vendor receipts, invoices, or credit slips (**Repeat finding** from March 2009 PAC Review). Additionally, there appeared to be a high number of instances where original documentation was not on hand, whereby JDRDC instead had alternative receipt documentation in file to support office supply transactions (**Repeat finding** from March 2009 PAC Review).

- The department did not have a reconciliation plan or perform timely reconciliations for purchase orders, small purchase orders, blanket purchase orders, office supplies.

Scope and Objectives

This audit was performed as part of our fiscal year 2012 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 procurement card, eVA, purchase order, small purchase order, blanket purchase order, and office supply transactions, as well as financial reconcilements that occurred during the period of October 1, 2010, through September 30, 2011. For that period the department's related purchases totaled $1,474,629. Our audit objectives were to determine if the department was in compliance with the county policy and had adequate controls for processing purchasing transactions. We also reviewed the department's compliance with county requirements for monthly reconciliations.

Methodology

Audit methodology included a review of the department's procedures, procurement card expenditures, purchase expenditures and related accounting records of the department. Our audit approach included an examination of expenditures, records and statements; interviews of appropriate employees; and a review of internal manuals and procedures. We evaluated the processes for compliance with county policies and procedures. Information was extracted from various systems for sampling and verification to source documentation during the audit. Our audit did not examine the system controls over purchasing, financial, and payroll applications. We have relied on the testwork performed by the county's external auditors for the system controls.

Findings, Recommendations, and Management Response

1. Gift Card Accountability

We reviewed a sample of $7,655 in gift card transactions for our one year audit scope period. Of this sample, $6,190 was for program expenses and $1,465 was for employee awards. We found that there were insufficient controls and documentation to ensure their proper use. Some gift card logs contained inadequate business justifications for card issuance or did not list the names of recipients. Additionally, JDRDC's gift card logs were not reconciled to records of the gift cards purchased in order to account for the location or use of each card and information documented on the logs was inconsistent across the department. For the employee award gift cards, we noted a number of awards were handed out with reasons that did not appear to further the mission of the agency, as required by policy.

Gift cards pose the same risks as cash. Failure to maintain adequate accountability over the distribution of gift cards with proper audit trails increases the risk of potential misuse/personal use and negative publicity to the county.

Recommendation: Gift card logs should be maintained concurrently and consistently across the department. The logs should record the following information: name of recipient and date of issuance, number and amounts of cards issued, type of card (i.e., Target), signature/initials of receiver, contact information for receiver, and a brief description as to why the card was issued. Business justifications for card issuance should be carefully reviewed by a supervisor for appropriateness. The gift cards should be stored in a safe location and if the cards are maintained for a long period of time, monthly inventories should be conducted and reconciled to the gift card log. JDRDC should develop written departmental policies regarding their gift card programs that include these controls. Finally, JDRDC should diligently review the issuance of each card to ensure that its use is in line with proper stewardship of taxpayer dollars, and ensure that departmental awards programs conform with the intentions of county policy.

Management Response: A gift card section will be added in the JDRDC Policy and Procedure Manual. The gift card policy and procedure will contain the business justifications for card issuance, and the manner in which employees will be recommended for gift card receipt. Gift card logs will be standardized and include: name of the recipient, date of issuance, number and amount of cards issued, card vendor (i.e. Target, Starbucks), signature/initials and contact information of receiver, card issuer, and a brief description of why the card is issued. All divisions of JDRDC will maintain their own standardized gift card log for each assigned card. The gift card logs will be reconciled monthly to the gift cards purchased and any unissued gift cards will be inventoried.

2. P-card Split Purchases

There were three instances noted where split purchases were made in excess of the department's card limit for individual procurement cards. Card limits of $2,500 incurred the following split transactions:

a) $2,495.50 + $975.24 = $3,470.74
b) $2,133.10 + $610.82 = $2,551.84
c) $1,714.56 + $837.28 = $2,743.92

Split transactions occur when the original purchase requirement for the same or related goods or services is broken into multiple smaller purchases which are made over a short period of time.

Procedural Memorandum 12-02 prohibits split purchases and notes that these types of transactions are usually done to circumvent a card's single purchase or cycle spending limit. Requirements which are divided for other purposes, such as to accommodate accounting needs or to facilitate delivery to separate locations are also considered split purchases.

Recommendation: The JDRDC should utilize proper purchasing methods in accordance with county policy. When exceptions to policy are made they should be clearly documented and approved. In addition, procurement card usage should be reviewed to determine if monetary limits need to be modified.

Management Response: To avoid these split transactions, JDRDC will provide additional guidance to all p-card custodians, users and management. We will ensure staff is aware of county policy stating split purchases are not permitted. Management will review transaction reports to monitor split transactions are not created.

3. P-card Security

P-card security was violated in one known instance whereby a card-user e-mailed her named p-card account name, number, expiration date and PIN to a vendor to pay an invoice. This is inconsistent with PM 12-02 which states that, "In addition to protecting the card, protect all card information such as the card account number, name, and expiration date. Assure security of card materials that are maintained electronically."

Recommendation: Card users should have periodic reminders/training about card security with a focus on the Fraud and Misuse section of PM 12-02.

Management Response: This issue has been addressed with the individual. Management will ask DPSM to issue a new card to replace the card that may have been compromised. JDRDC will revise the p-card procedures and begin to do periodic reminders about card security, with a focus on fraud and misuse.

4. Documentation of Office Supply Transactions

We noted in three of the 15 office supply purchasing samples we tested there was no original vendor receipt, invoice or credit slip on file to support office supply transactions. In addition, there was no evidence of sufficient alternate receipt documentation as required by PM 12-16.

Also, the number of alternative receipt documentation transactions appeared to be high. There were nine instances where there was missing supporting documentation with either no original vendor receipt, invoice, or credit slip on file to support office supply transactions.

Per PM 12-16, On-line Procurement of Office Supplies, "Documentation: Retain all order and receipt documentation. Order acknowledgments, faxes, packing lists (with agency notations of acceptance by signature and date), invoices and a copy of the associated FAMIS monthly reconciliation report should be kept together to represent a complete procurement action." Without transaction receipts or other adequate supporting documentation on file, the propriety of individual transactions cannot be determined.

Recommendation: The JDRDC should ensure that sufficient receipt documentation is maintained, as specified by PM 12-16, for all procurement card transactions, including office supplies.

Management Response: The JDRDC will be writing a new procedure on the ordering of office supplies in the new FOCUS system. This will include the documentation that will be maintained for all office supply orders. In the future, every order placed in the marketplace in FOCUS will require the purchase receipt, the order confirmation, and the original invoice. Once the order is received the purchaser will use the original invoice to check off each item that is received, sign and date the original invoice, and scan to the Director of Administrative Services.

5. Timely Reconcilements and Existence of a Reconciliation Plan

P-card reconcilements were performed timely by the JDRDC department. However, they did not perform regular, timely reconciliations in their other purchasing areas. Further, JDRDC did not have a written reconciliation plan approved by the Department of Finance (DOF). Formerly, ATB 10020 stated that each agency must develop a written reconciliation plan, approved by DOF, and adhere to internal control procedures which govern financial transaction reconciliations. DOF replaced this ATB with ATB 020 in March 2012. Departments requiring direct assistance can contact the Financial Reporting Division within DOF.

Recommendation: We recommend that the JDRDC department develop a reconciliation plan using DOF Guidelines. The implementation of this recommendation may be dependent upon guidance from DOF. Also, monthly reconcilements should be performed on a consistent and timely basis.

Management Response: JDRDC will develop a written reconciliation plan using the DOF guidelines. Monthly reconciliations will be performed on a consistent and timely basis.