# Fairfax County Internal Audit Office

**McLean Community Center**
**Business Process Audit**
**Final Report**

**April 2013**

***"promoting efficient & effective local government"***

# Executive Summary

We performed a business process audit of the procurement cards, FOCUS marketplace purchases, purchase orders (PO), non-purchase orders (Non-POs), cash receivable and handling, and financial reconciliation areas within the McLean Community Center (MCC).

Our audit found that there were a number of areas where internal controls needed to be strengthened to be in compliance with county Procedural Memorandum (PM) 12-02 and Accounting Technical Bulletin (ATB) 020. We noted the following exceptions with compliance and controls:

- At the MCC Old Firehouse Teen Center (OFTC), the cashier was not required to sign in/out using a unique user ID and password.
- Both the building manager and p-card program manager had individual access to the safe containing large amounts of cash located at the MCC site.
- There was no evidence to document that a review of the procurement card weekly transaction report was being performed.
- MCC was following revised internal control procedures that were not approved by DPSM.
- There were 14 instances noted where split purchases were made in excess of the department's card limit for individual procurement cards.
- The card activity log was not a complete reflection of the department's procurement card spending. We noted 6 out of 35 transactions tested were not accurately recorded or were completely omitted.
- MCC was unable to provide evidence that purchase orders, FOCUS marketplace purchases, and non-purchase orders were being reconciled to FOCUS from December 1, 2011, through November 30, 2012.
- There was no evidence to indicate that a weekly review of FOCUS marketplace procurement card usage was being completed.
- Virginia sales tax totaling $527 was inappropriately added on for 33 procurement card transactions.
- Seven of ten sample FOCUS marketplace transactions did not have signed and dated packing slips to indicate receipt of goods.

# Scope and Objectives

This audit was performed as part of our fiscal year 2013 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. Our audit objectives were to review the McLean Community Center's compliance with county policies for purchasing processes and financial reconciliation.

The audit population included transactions from procurement cards, FOCUS marketplace purchases, POs and Non-PO payments that occurred during the period of December 1, 2011, through November 30, 2012. For that period, the department's purchases were approximately $564,000 for FOCUS marketplace and general procurement cards, $2,107,000 for purchase orders, and $424,000 for non-purchase orders. The total revenue was approximately $5M for FY 2012.

# Methodology

Audit methodology included a review of the department's procedures with analysis of internal controls that were implemented. 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 the FOCUS and PaymentNet systems for sampling and verification to source documentation during the audit.

# Findings, Recommendations, and Management Response

**1. Controls Over Cash Register**

At the MCC Old Firehouse Teen Center, the cashier was not required to sign in/out using a unique user ID and password. It was the practice for a cashier to open a cashier drawer and not close it at the end of his shift. Instead, another cashier took over the register and continued cash drawer activity under the first cashier's batch number and user ID until his shift ended. Additionally, a supervisor approval was not required on the register to void a transaction. Per MCC staff, the cash register used at the Teen Center for collection of fees was an old machine and would be replaced with a point of sale (POS) system in the near future.

The effect of having multiple cashiers working out of the same cash drawer and sharing the same batch and user ID is that nobody knows who has been at the register all day and nobody is accountable for the specific transactions that took place. Such a practice is contrary to the county's ATB 036 Billing and Collection Procedures which requires that "a single on-duty cashier is to be responsible for each Batch opened using their user ID and that User identifications are not to be shared." Inadequate controls over the cash drawer increase the risk of theft or error. If a register must be shared, it must have sufficient controls to allow collections to be attributed to individual cashiers such as separate user ID and passwords to access the register. Additionally, voided transactions should be approved by the supervisor to decrease the risk of theft, fraud or error.

**Recommendation:** We recommend management ensure that all sites strictly comply with the established control procedures regarding cash handling and revenue collection, and sufficient controls are in place to allow collection to be attributed to individual cashiers such as separate user ID and password. Additionally, voided transactions should be well documented and adequately

reviewed and approved to help prevent and detect fraud. All copies of the voided receipts should be retained and the reason for the void should be documented. Managers should review voids on a routine basis to determine that adequate documentation exists to support the validity of the voided transaction.

**Management Response:** The cash register is only operated from 7-10 p.m. on Friday nights for the Teen Center Friday Night Dances. The manager opens the cash register with the key and there is only one cashier. We are now having the manager remove the key then reinsert it when performing a void. They are also documenting the reason for the void on the Z-print out at the end of the night.

## 2. Access to the Safe

The safe located at the MCC site stored the site's un-deposited receipts and security deposits. The building manager and p-card program manager both had individual access to the safe. Per the p-card program manager, the building manager was in charge of all the rentals in the building and collected the rental fees/security deposits. The security deposits were kept in the safe until they were returned to the vendors after the event.

Proper internal controls require that access to a safe be maintained either under sole control or dual access control to ensure accountability. Additionally, the department is responsible for safekeeping of all un-deposited cash receipts held by the department or activity and must ensure that such items are placed in a locked safe or other adequately secured container at all times. Access to the safe must be granted to authorized personnel only.

Having the safe accessible to several staff members, singly and individually, eliminates accountability in instances of loss of funds from thefts and mistakes.

**Recommendation:** We recommend the following: if limiting access to only two individuals is not workable, MCC management should consider implementing "dual access control" over the safes. This means that access to the safes should always be by two people to reduce the risk of loss of funds when only one person accesses a safe. To enforce dual control, safes should be equipped with a locking mechanism that requires two keys or two combinations under the control of separate individuals to open them.

**Management Response:** The safe is used to store cash that was collected at an event over the weekend. Cash is not regularly stored in the safe. We are buying a separate safe to store cash when it is collected at weekend events. Management anticipates completing this action by June 30, 2013.

## 3. Procurement Card Weekly Transaction Report Review

While there was evidence that a review of the procurement card weekly transaction report was performed, there was no evidence to document who performed the review and when they were being reviewed for 28 weeks reviewed. 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. In addition, these reports are to be reconciled to amounts posted as expenditures in FOCUS. Once completed, the reconciler is required to sign and date the documents.

Failure to document the date reconciliation is performed and the name of the reconciler decreases the accountability for processing the reconciliation in a complete and timely manner, by someone independent of card purchases.

**Recommendation:** We recommend MCC perform and document weekly reviews of procurement card transaction reports which contain all items posted to the bank for the prior week. Once the procurement card reconciliation is complete, the preparer should sign and date the report.

**Management Response:** The report has always been reviewed weekly and reconciled against the p-card receipts. The evidence of the review is the written allocation of the cost center and GL numbers on the report. The report was not being signed and dated, which has now been rectified. We are now signing and dating the report.

IAO verified that the review of the procurement card weekly transaction report was performed and documented by the reviewer during the audit. No follow-up is needed for this item.

## 4. Internal Control Procedures

The McLean Community Center was following revised internal control procedures that were not approved by DPSM. Procedural Memorandum 12-02 requires all using agencies 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 MCC submit updated internal control procedures to DPSM for approval, in accordance with PM 12-02.

**Management Response:** We are updating the ICP and submitting it to DPSM. Management anticipates completing this action by June 30, 2013.

## 5. Split Purchases

There were 14 instances noted where split purchases were made in excess of the department's card limit for individual procurement cards. 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:** MCC 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:** Multiple invoices over a period were charged by the vendor to the credit card on the same day totaling more than the limit of the card. The vendor is being requested to avoid this type of charge. We are also working with DPSM to raise the single charge limit on the Media card. Management anticipates completing this action by June 30, 2013.

## 6 Transaction Logs

The card activity log was not a complete reflection of the department's procurement card spending. We noted that 6 of 35 transactions tested were either not accurately recorded or were completely omitted from the transaction log.

Procedural Memorandum 12-02 indicates that a system that tracks expenditures as they occur must be in place. Agencies may use an appropriate manual or computer log to record both debit and credit transactions. Entries must be contemporaneous to give up-to-date information on funds expended and the applicable card user.

**Recommendation:** We recommend MCC maintain a transaction log which accurately reflects all procurement card activity, to ensure that card use is properly monitored.

**Management Response:** We are requiring that all staff use the p-card transaction log when checking out the p-card. Management anticipates completing this action by June 30, 2013.

## 7. Monthly Reconciliation

MCC was unable to provide evidence that purchase orders, FOCUS marketplace purchases, and non-purchase orders were being reconciled to FOCUS from December 1, 2011, through November 30, 2012.

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

**Recommendation:** MCC should perform and document monthly reconcilements to FOCUS records. The person performing the reconciliation should sign and date the reconciliation to evidence a timely preparation and review process.

**Management Response:** We have started performing monthly reconciliations and signing and dating them.

## 8. Weekly FOCUS Marketplace Procurement Card Transaction Report Review

There was no evidence to indicate that a weekly review of FOCUS marketplace procurement card usage was being completed. Staff did not know a PaymentNet report was needed to be generated and reviewed on a weekly basis. They also were not aware they needed to access PaymentNet to generate this report. Procedural Memorandum 12-02 requires that all agencies review weekly transaction reports for unusual or unauthorized transactions.

Failure to review the weekly transaction reports increases the risk that inappropriate purchases will not be identified in a timely manner.

**Recommendation:** We recommend that MCC perform and document weekly reviews of FOCUS marketplace procurement card transaction reports which contain all items posted in FOCUS for the prior week.

**Management Response:** Staff did not have proper access to print out the FOCUS marketplace procurement card transaction report. We requested access on March 27, 2013. We are now using the PaymentNet report to reconcile the FOCUS marketplace p-card

IAO verified that the review of the procurement card weekly transaction report was performed and documented by the reviewer during the audit. No follow-up is needed for this item.

## 9. Sales Tax Exemption

Virginia sales tax totaling $527 was inappropriately added on for 33 procurement card transactions. 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:** The department 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:** The staff is being trained that we are tax exempt for goods and services in Virginia. We are also checking receipts for sales tax charges. Purchasers are documented for infractions.

## 10. FOCUS Marketplace Receiving and Logging

Seven of ten sample transactions maintained on file did not have signed and dated packing slips for the FOCUS marketplace purchases. Additionally, one packing slip was dated; however, it was not initialed by the receiver.

Failure to adequately document the receipt of purchases prevents the assurance of an adequate separation of duties. It also increases the risk that erroneous or inappropriate charges to the procurement card could go undetected or not be corrected in a timely manner.

**Recommendation:** MCC should ensure all packing slips are consistently recorded on a receiving log, reviewed, initialed and dated by the receiving staff member. Receiving and logging of transactions should be reviewed weekly against the PaymentNet Hierarchy report and monthly when reconciling purchase orders to FOCUS.

**Management Response:** We are now reviewing the transactions with the PaymentNet report. We are also initialing and reviewing all packing slips.

IAO verified MCC was documenting the receipt of FOCUS marketplace purchases during the audit. No follow-up is needed for this item.