Fairfax County Internal Audit Office

Department of Neighborhood and Community Services
Business Process Audit
Final Report

July 2013

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Executive Summary

We performed a business process audit covering procurement and reconciliation within the Department of Neighborhood and Community Services (NCS). The audit included review of procurement cards; FOCUS marketplace cards; and purchase orders, non-purchase orders and value line purchase order payments.

We found that the department usually had effective procedures and internal controls in place for the handling of purchasing functions, and transactions had adequate evidence of compliance with county policy. We commend NCS central Financial Management staff on their maintenance of procurement card transaction documentation and general adherence to county policy.

However, we noted four reportable findings during our audit:

- Card security was weak, as many of the NCS p-cards were stored together in safes where multiple staff had access to the card, compromising accountability over card control and use.

- High frequency shopping at stores such as Wal-Mart, BJ's, Target and various grocery stores was noted at three of the community centers.

- NCS reconciled procurement card transactions on a weekly basis; however, lack of timely receipt of all required supporting documentation from off-site locations appeared to cause the reconcilements to be completed in a longer timeframe than required by county policy.

- Cash access controls were weak, as cash secured in community center safes was accessible by more than one individual, for each of the five sites reviewed. Additionally, cash counts and required supporting documentation were not fully completed by staff at Southgate Community Center and Mott Teen and Community Center.

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 effectiveness of the Department of Neighborhood and Community Services' processes, and compliance with county policies, over the areas of purchasing and financial reconciliation. We performed audit tests to determine that internal controls were working as intended and transactions were reasonable and did not appear to be fraudulent.

The audit population included transactions from procurement cards, FOCUS marketplace cards, purchase orders, non-purchase orders, value line purchase order payments, and financial reconciliations that occurred during the period of January 1, 2012, through December 31, 2012. For that period, the department's purchases were approximately $546,272 for procurement cards, $119,394 for FOCUS marketplace, $20,100,586 for purchase orders, $667,716 for non-purchase orders and $721,166.46 for value line purchase order payments.

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. We did not test procurement card transactions of the Gum Springs Community Center, as the transactions within the scope of this audit were sufficiently covered by our review of the center's financial processes conducted earlier this year.

Findings, Recommendations, and Management Response

1. Procurement Card Access

Weak card security was noted, as 38 of the NCS p-cards were stored in different safes where staff, other than the authorized card custodian, had access to the card.

Procedural Memorandum 12-02 states that "the card custodian is the cardholder and responsible for the physical security of the card and access to the (card) location should be limited to those individuals who require access to the card."

When staff members have access to cards that they are not the assigned custodian of, the card custodian is unable to ensure the physical security of the card and is unable to ensure that access to the secured location is limited to staff who require access to the card. Weak card security could lead to lost or stolen cards or inappropriate procurement card activity.

Recommendation: We recommend that access to locations where cards are stored be restricted to the card custodian.

Management Response: Financial Management staff will confirm the list of card custodians. Financial Management, division directors, division managers and regional managers will ensure only the card custodian and one back-up staff is

assigned and has access to the procurement cards. Due to renovations at the Pennino Building, staff are sharing safes. This renovation should be complete by the fall of 2013. Management anticipates completing this action by December 31, 2013.

2. Procurement Card Purchasing Habits

High frequency shopping at stores such as Wal-Mart, BJ's, Target and various grocery stores was noted at three of the community centers. Additionally, regional operations managers did not perform periodic site visits to verify recent purchases and current inventory. The following quantifies purchases made at these types of stores during 2012:

- Staff at the South County Teen Center made 115 purchases totaling $17,432
- Staff at the Southgate Community Center made 128 purchases totaling $15,004
- Staff at the Mott Teen & Community Center made 82 purchases totaling $21,002

These purchasing habits increase the risk of inappropriate procurement card usage and can lead to inefficient use of employee time.

Recommendation: The community/teen centers should reduce the number of shopping trips and center directors or staff other than the card user should perform periodic receiving to verify that purchase receipts match goods purchased. Operations managers should perform periodic site visits to review and verify that recent purchases, recent participant sign-in logs and the current inventory of items purchased are reasonable.

Management Response: Regional managers will work together to reduce the number of shopping trips. Based on the recommendations of the regional managers; both financial management and regional managers will educate staff on p-card usage expectations. Regional managers will establish a checklist for planned and unannounced site visits to include inventory associated with recent p-card purchases.
Management anticipates completing this action by December 31, 2013.

3. P-Card Reconciliation

NCS Financial Management appeared to have strong reconciliation procedures. However, delays in receiving additional backup documentation from off-site locations prevented Financial Management staff from finalizing weekly procurement card reconciliations in a timely manner, as required by Accounting Technical Bulletin 020.

Accounting Technical Bulletin (ATB) 020 states that reconciliations must be performed on a timely basis, no later than the last day of the following month. Failure to complete a timely reconciliation increases the risk that erroneous or improper transactions will not be identified in a timely manner.

Recommendation: We recommend that NCS work with off-site staff to ensure all required documentation is promptly provided to central Financial Management, so that reconciliation of procurement card transactions can be fully completed on a timely basis, as stated in ATB 020.

Management Response: Regional managers will re-address this policy with staff. Financial Management will consider reducing card limits to $1 for those that do not comply. Management anticipates completing this action by December 31, 2013.

4. Cash Collection & Security

A. Daily Cash Count and Report

Staff at Southgate Community Center did not perform daily cash counts nor did they prepare daily cash reports, documenting that receipts were matched to cash and checks received. Staff at Mott Teen and Community Center did not prepare daily cash reports documenting and verifying the daily cash count they performed.

Accounting Technical Bulletin (ATB) 40070 requires that total daily receipts be matched to the cash and checks on hand and a daily cash report prepared. Failure to match receipts to cash and checks and document this review increases the risk of loss of funds from thefts and mistakes.

Recommendation: We recommend that staff at the Southgate Community Center and the Mott Teen and Community Center perform and document daily cash counts in accordance with ATB 40070.

Management Response: Regional and operations managers will re-address this policy with staff. Operations managers will have the "daily cash summary report" on their checklist for auditing. Management anticipates completing this action by December 31, 2013.

B. Cash Access

Cash secured in safes was accessible by more than one staff member, individually, for each of the five sites interviewed. Cash secured in the safe at the Mott Teen and Community Center, South County Teen Center, Southgate Community Center, James Lee Senior Center and Groveton Senior Center was individually accessible by five, four, three, two and two staff members, respectively.

Proper internal controls require that access to a safe be maintained under dual access control to ensure accountability. Having the safe fully accessible by multiple staff members eliminates accountability in instances of loss of funds from thefts and mistakes.

Recommendation: We recommend that NCS management consider implementing dual access control over the safes. This means that access to the safes should require two people to open them via multiple combinations and/or keys. In addition, safe combinations should be changed when staff who had access to the safe leave their position or no longer require access.

Management Response: Financial Management and regional managers will redefine the way safes are currently being used. NCS will meet with staff at the Fairfax County Park Authority to seek input regarding cash access. NCS management will research purchasing a different type of safe and will reduce the number of employees who have access to each safe. Management anticipates completing this action by December 31, 2013.