Fairfax County Internal Audit Office

DPWES Solid Waste Management

- *Solid Waste Collection and Recycling Division*
- *Solid Waste Disposal and Resource Recovery Division*

Business Process Audit
Final Report

July 2013

"promoting efficient & effective local government"

Executive Summary

We performed a business process audit covering procurement and reconciliation within the Department of Public Works and Environmental Services (DPWES) Solid Waste Management Program: Solid Waste Collection and Recycling Division (DSWCR), and Solid Waste Disposal and Resource Recovery Division (DSWDRR). The audit included review of procurement cards; FOCUS marketplace cards; and purchase orders, non-purchase orders and value line purchase order payments.

We commend the Solid Waste Collection and Recycling Division for having effective internal controls in place for the handling of purchasing functions. We found that transactions had adequate evidence of compliance with county policy. The division was also performing reconciliations independently and completing them in a timely manner. We did note two reportable findings for DSWCR, as follows:

- The procurement card internal control procedure (ICP) had not been updated to reflect current operating processes involving the FOCUS system.

- Reconciliation Certification Form provided in Accounting Technical Bulletin (ATB) 020 was not used by the division to document the completion of the reconciliation

The Solid Waste Disposal and Resource Recovery Division had a number of findings identified during our audit. Several of these indicate a need to place additional emphasis on improving the level of supporting documentation on hand, as well as compliance with county procurement card policies. Reportable findings noted were as follows:

- The card activity log was not a complete and accurate reflection of the department's procurement card spending. The purpose of spending was not always documented or accurately recorded.

- The business purpose of purchases for items that were not evident to the division's functions was not documented in 19 out of 60 transactions reviewed. **This finding is a repeat from a prior audit in 2008.**

- In 24 out of 48 weeks reviewed, the weekly review of the procurement card transaction report was not performed in a timely manner.

- There was no evidence to indicate that a weekly review of FOCUS marketplace procurement card usage was being performed.

- The monthly spending limits were set significantly higher than the actual and required usage for five of the eleven agency procurement cards.

- The procurement card internal control procedures (ICP) had not been updated to reflect current operating processes involving the FOCUS system.

- In one instance an employee who used the procurement card did not have a signed Employee Acknowledgement Disclosure Form on file. In addition, this individual had not taken the online p-card training and was not an authorized card user.

- The Reconciliation Certification Form used by DSWDRR did not provide the authorization signature of the director or designee as required by ATB 020.

- Two procurement cards were being kept in a locked safe at the department's front desk and were accessible by multiple individuals.

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 audits 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 DPWES Solid Waste Management Program's compliance with county policies for purchasing processes and financial reconciliation. We performed audit tests to determine internal controls were working as intended and transactions were reasonable and did not appear to be fraudulent.

The audit populations included transactions from procurement cards, FOCUS marketplace cards, purchase orders, non-purchase orders, value line purchase order payments, and financial reconciliations that occurred during January 1, 2012, through December 31, 2012. For that period, the departments' purchases were as follows:

- *Collection and Recycling Division* had $153,383 for procurement cards, $31,541 for FOCUS marketplace, $4,078,759 for purchase orders and value line purchase orders combined, and $316,404 for non-purchase orders.

- *Disposal and Resource Recovery Division* had $375,862 for procurement cards, $33,981 for FOCUS marketplace, $16,334,360 for purchase orders and value line purchase orders combined, and $17,083,317 for non-purchase orders.

Methodology

Audit methodology included a review of the departments' 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

Collection and Recycling Division

1. Internal Control Procedures

The Collection & Recycling Division (DSWCR) had developed internal control procedures according to PM 12-02; however, the stated procedures referred to FAMIS, the county's past financial system, while the county is currently using the FOCUS system. The report names need to be revised to reflect the new FOCUS structure and functionality.

Recommendation: We recommend DSWCR update their procedures to accurately reflect the design of the office's procurement card program, and submit it to the Department of Purchasing and Supply Management (DPSM) for approval. The procedures should refer to the current system(s) in use, i.e. FOCUS.

Management Response: Solid Waste Management Program staff will consolidate both DSWCR and DSWDRR p-card; internal control procedures (ICP) into one coherent and uniform policy, in conformance with DPSM PM 12-02, updated to include all proper references to SAP FOCUS – FILO procurement activities. Management anticipates completing this action by October 31, 2013.

2. Certification Reconciliation Form

The Collection & Recycling Division (DSWCR) did not use the Reconciliation Certification Form provided by ATB 020, *Reconciliation of Financial Transactions* to document the completion of the reconciliation.

ATB 020, *Reconciliation of Financial Transactions,* provides a Reconciliation Certification Form that is to be signed by the director or designee indicating that reconciliation was completed for a specific period for the financial transactions. This is to verify that the department's transactions have been reconciled and authorizer/approver verified.

Recommendation: DSWCR should use the Reconciliation Certification Form provided by ATB 020 to complete the reconciliation of the financial transactions for a specific period. The form should be maintained on file by the division.

Management Response: Effective immediately, SWM staff will implement use of the Reconciliation Form provided by DOF ATB 20.

Disposal and Resource Recovery Division

1. Transaction logs

The card activity log was not always a complete and accurate reflection of the department's procurement card spending. We noted that seven of sixty transactions tested were either not accurately recorded or were completely omitted from the transaction log. Additionally, we were not able to verify the card user for one of the transactions tested. "DVS West Ox" was entered in the transaction log for the card user.

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 DSWDRR maintain a transaction log which accurately reflects all procurement card activity, to ensure that card use is properly monitored.

Management Response: SWM staff have already developed and submitted to IAO a p-card transaction log template that comprehensively addresses completeness, accuracy, timeliness and states the business purpose. In addition, staff have already reiterated and will enforce adherence to these protocols by individuals designated as p-card custodians or authorized users. The log will be further revised to ensure that appropriate managerial approval has been obtained for all purchases. Management anticipates completing this action by October 31, 2013.

2. Supporting Documentation for Purchases

We reviewed 60 procurement card transactions of which more than 30% percent did not document the business purpose for the purchase. These instances had a higher risk for personal use and consisted of purchases such as food, electronics, and hotel room charges. A description of the business purpose for all purchases was subsequently provided by DSWDRR during the audit. Lack of a documented business purpose for transactions increases the risk that inappropriate charges to the procurement card will not be detected.

Recommendation: We recommend DSWDRR document and maintain the approval and business purpose for all items that are not evident to the division's functions so that the business purpose of transaction is clearly transparent.

Management Response: SWM staff have already coordinated with, developed and submitted to IAO a generic p-card transaction log template that comprehensively addresses completeness, accuracy, timeliness and states the business purpose. In addition, staff has already reiterated and will enforce adherence to these protocols by individuals designated as p-card custodians or authorized users. The log will be further revised to ensure that appropriate managerial approval has been obtained for

all purchases. Management anticipates completing this action by October 31, 2013.

3. Procurement Card Weekly Transaction Report Review

In 24 out of 48 weeks reviewed, a weekly review of the procurement card transaction report was not performed in a timely manner. Additionally, in three incidents, while there was evidence to indicate that procurement card reviews were being performed, there was no evidence to indicate who performed the reviews and when they were being reviewed.

Procedural Memorandum 12-02 requires that all agencies review the weekly transaction report in a timely manner to determine transaction appropriateness. Failure to promptly review the weekly transaction reports increases the risk that inappropriate, fraudulent or erroneous purchases will not be identified in a timely manner. Additionally, failure to document the date the review was performed and the name of the reviewer decreases the accountability for completing the reconciliation in a timely manner, by someone other than the card user.

Recommendation: We recommend DSWDRR 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 review is complete, the preparer should sign and date the report.

Management Response: We have informed custodians and users that a delay in remittance of p-card logs and credit card receipts to the agency program manager is unacceptable and timely remittal is essential and mandatory for timely reconciliation of p-card purchases. In some instances logs were not submitted on a timely basis and were awaiting a missing receipt. In other instances, enforcement (or lack thereof) was the issue. Staff will strictly enforce agency p-card transaction logs in a timely manner to facilitate reconciliation protocols. Management anticipates completing this action by October 31, 2013.

4. 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 performed. 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.

Recommendation: We recommend DSWDRR 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: SWM staff have already begun weekly review and documentation of the FOCUS Marketplace Procurement Card Transaction Report.

Management anticipates completing this action by October 31, 2013.

5. Card Limits Control

An analysis performed on card limitation controls for DSWDRR cards for the period January 1, 2012, through December 31, 2012, revealed that the monthly spending limits were set significantly higher than the actual amount charged for five of the eleven agency procurement cards.

The county has limited dispute rights for fraudulent charges on departmental cards and agencies are liable for fraudulent charges until such cards are reported to the bank as lost or stolen. Setting the procurement card limits higher than necessary increases the county's exposure in the event the card is lost, stolen or improperly used by a county employee.

Recommendation: We recommend DSWDRR review procurement card usage and determine appropriate limits for each procurement card. The limits for each card should then be set accordingly, based on actual usage and needs.

Management Response: The financial staff at SWM will examine the expenditure levels for each card. We will be lowering the card limits for most cards as recommended by Internal Audit. However, we will need to maintain one card at each location with a limit that is higher than the actual average historical usage. These limits are based upon the potential for higher level procurement needs that operational staff may encounter due to an urgent operational need or emergency situation. Given that SWM operates some sites that function seven days per week and/or 24 hours a day, staff at the Government Center may not be available to request an emergency increase to card limits at the time these situations arise. Management anticipates completing this action by October 31, 2013.

6. Internal Control Procedures

While DSWDRR had developed internal control procedures according to PM 12-02; the stated procedures were not a true reflection of the actual number of p-cards and their credit limits. Also, the document mentioned FAMIS, the county's past financial system, while the county is currently using the FOCUS system. The report names need to be revised to reflect the new FOCUS structure and functionality.

Recommendation: We recommend DSWDRR update their procedures to accurately reflect the design of the office's procurement card program, and submit it to DPSM for approval. The procedures should state the accurate number of p-cards and their credit limits, and refer to the current system(s) in use, i.e. FOCUS.

Management Response: Solid Waste Management staff will consolidate both DSWCR and DSWDRR p-card; internal control procedures (ICP) into one uniform policy, in conformance with DPSM PM 12-02. The ICP will be updated to include all proper references to SAP FOCUS – FILO Procurement activities. Management anticipates completing this action by October 31, 2013.

7. Employee Acknowledgement Disclosure Forms

During our transaction testing, we noted one instance where the employee who used the procurement card did not have a signed Employee Acknowledgement Disclosure EAD) Form on file. In addition, this individual had not taken the online p-card training and was not an authorized card user. Procedural Memorandum 12-02 requires that all first-time card users sign and date an Employee Acknowledgement Disclosure Form. The form acknowledges the employee's responsibilities regarding card use and sets forth consequences for misuse. The agency program manager is to maintain the signed forms for at least two years following the employee's departure from the agency.

Recommendation: DSWDRR should ensure that each employee using a procurement card take the online p-card training, sign and date an Employee Acknowledgement Disclosure Form, and retain the forms as required by PM 12-02.

A signed and dated EAD form was provided during the audit. No management response is needed for this item.

8. Certification Reconciliation Form

While the DSWDRR used an internal form to document the completion of the reconciliation for a specific time for their financial transactions, the form did not provide the authorization signature of the director or designee.

ATB 020, Reconciliation of Financial Transactions, provides a Reconciliation Certification Form that is to be signed by the director or designee indicating that reconciliation was completed for a specific period for the financial transactions. This is to verify that the department's transactions have been reconciled and authorizer/approver verified.

Recommendation: DSWDRR should use the Reconciliation Certification Form provided by ATB 020 to capture the department's director or designee's signature. The form should be maintained on file by the division.

Management Response: Effective immediately, SWM staff will implement use of the Reconciliation Form provided by DOF ATB 20.

9. Physical Security Over P-cards

Two procurement cards were being kept in a locked safe at the department's front desk that was accessible by multiple people. The safe was in a locked desk drawer and a log-in sheet was used at the time of check out; however, there were two sets of keys held by the card custodian and the receptionist.

Access to the location where the cards are stored should be limited to sole control of the card custodian. When a procurement card is not properly secured, the risk that it could be stolen and used for unauthorized purchases increases.

Recommendation: As stated in PM 12-02, p-cards should be kept in a secure location while not in use. Access to the location where the cards are stored should be limited to the sole control of the card custodian.

Internal Audit verified the p-cards were removed from the front desk and kept with the card custodian during the audit. No management response is needed for this item.