



Fairfax County Internal Audit Office

**DPWES Solid Waste Management Program
Business Process Audit
Final Report**

April 2016

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Executive Summary

We performed a business process audit covering procurement, reconciliation, and revenue collection within the Department of Public Works and Environmental Services (DPWES) Solid Waste Management Program (SWMP). The audit included review of procurement cards; FOCUS marketplace cards; and purchase orders, value line purchase orders, non-purchase order payments; monthly reconciliations and revenue collections.

We found that the department had effective procedures and internal controls in place for most purchasing processes; reconciliations were independently performed and were completed in a timely manner. However, we noted the following exceptions where compliance and controls needed to be strengthened:

- Two purchases, totaling \$1,661, requiring technical review were placed on the department procurement card, circumventing the technical review process.
- Sales taxes totaling \$159.26 were inappropriately paid on five of the 60 procurement card transactions tested.
- SWMP lacked adequate controls over the procurement and handling of employee awards and the planning of employee recognition events.
- Procedures for processing monetary receipts were not updated to reflect current processes and approved by the Department of Finance (DOF).

Scope and Objectives

This audit was performed as part of our fiscal year 2016 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 SWMP'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. For revenue collections we performed an inquiry into the controls over the process.

The audit population included transactions from procurement cards, FOCUS marketplace, purchase orders, and non-purchase order payments that occurred during the period of October 1, 2014, through September 30, 2015. For that period, the department's purchases were \$485,261 for procurement cards, \$37,599 for FOCUS marketplace, \$20,342,555 for purchase orders, \$16,619,952 for non-purchase order payments and revenue collections totaled \$103,383,763.

Methodology

Audit methodology included a review of the department's business process procedures with analysis of related internal controls. 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. Technical Review

In our review of procurement card transactions, two purchases requiring technical review were noted. Using the department procurement card, SWMP staff purchased a heat pump for \$835 and two scanners for \$413 each. These items were not purchased through the appropriate procurement method to ensure the performance of a required technical review.

Procedural Memorandum (PM) 12-04, Technical Review of Purchase Requisitions, states that: "Unless formally exempted by the responsible technical review agency, no agency may purchase an item or service requiring technical review without first completing the review process. For this reason items and services requiring technical review may not be purchased using a procurement card." The Technical Review Category Matrix provides that a technical review is required for any purchase of a heat pump or a scanner costing more than \$100.

Purchasing technical items on the procurement card increases the risk of purchases not being compatible with county's systems or compliant with county's standards, and from a vendor that does not offer adequate technical support or acceptable pricing.

Recommendation: We recommend SWMP staff review PM 12-04 and the Technical Review Category Matrix prior to making any purchases of technical equipment. When required, SWMP should create purchase orders in FOCUS to procure equipment requiring technical review. The responsible technical review staff listed in the Technical Review Category Matrix should be contacted if clarification is needed or questions arise regarding the procurement of technical equipment or software. In instances when exemptions from technical review are granted by a technical review agency, documentation of the exemption should be maintained on file.

Management Response: Solid Waste Management concurs with this finding and revised its p-card policy in November of 2015 to prohibit usage of p-cards for any good or service that requires tech review. DPSM approved this revision to our policy. All card custodians have received the revised policy and have been advised about the specifics of the tech review policy. Management states that these steps were completed during the audit; however, IAO will perform follow-up procedures for this item.

2. Sales Tax Exemption

Virginia sales tax totaling \$159.26 was inappropriately paid on five of the 60 procurement card transactions tested. These transactions were online orders from vendors such as Amazon, Lowes, and Harbor Freight.

Procedural Memorandum (PM) 12-02, Use of the County Procurement Card, states that:

- The agency is responsible for pursuing credit adjustment for items that were incorrectly billed.
- When making a p-card purchase, card users should remind the vendor of our tax exempt status and examine the receipt to verify sales tax was not charged.

Failure to ensure sales taxes were not paid on exempt purchases leads to a waste of county funds. We did note two instances in other transactions tested where SWMP did seek and receive refunds of sales tax paid.

Recommendation: SWMP should ensure that card users and purchase approvers are aware of the county's Virginia sales tax exempt status. Prior to approval, purchase requisition approvers should confirm with the card user that the payment of sales tax is or is not applicable. Card users should notify vendors of the county's tax exempt status and review receipts immediately after a purchase to ensure that sales tax was not inappropriately charged. Card custodians should review transaction documentation to ensure that sales tax was not inappropriately charged for the purchase. When staff who review weekly transaction detail reports note that sales taxes were inappropriately paid, they should contact the card custodian(s) and instruct them to seek a refund. Consideration should be given to revoking the card use privileges of card users who repeatedly improperly pay sales tax.

Management Response: SWMP concurs with this finding. SWMP is in the process of requiring all users who have not taken the p-card training in the last year to retake the training and pass the p-card policy test. Those who do not pass the test will be removed as users. The p-card program manager is responsible for ensuring that any inadvertent sales tax is refunded to the county as part of our reconciliation process. Accounting staff will also perform quarterly, unannounced field audits of each p-card custodian to ensure that all policies and processes are being adequately addressed at the custodian level. Additionally, SWMP has created a "Card Custodian Certification Form" to be filled out weekly by each custodian and complex manager, certifying that all policies and processes have been followed. It will also serve as a checklist to remind custodians of all required documents and processes they are

required to perform as part of their custodial responsibilities. SWMP will also initiate periodic meetings with all custodians to go over any developing issues or policy changes that need to be addressed. Management anticipates completing these actions by April 30, 2016.

3. Employee Recognition Awards & Events

A. Purchase of Departmental Awards Greater Than \$50

Our audit noted SWMP staff purchased a total of 23 departmental awards valued at \$60 each. Personnel/Payroll Administration Policies and Procedures Memorandum No. 18, Performance Awards Program, provides that the value of a departmental honors award must not exceed \$50.00. Total spending on these awards exceeded the allowable threshold by \$230.

Purchasing departmental awards with a value greater than \$50 is not in compliance with county policy and leads to excessive expenditure of county funds.

Recommendation: SWMP should ensure staff is aware of Memorandum No. 18 prior to the purchase of any departmental awards. Prior to approval, purchase requisition approvers should confirm that individual awards being purchased do not exceed policy limit.

B. Planning Employee Recognition Events

Our audit noted weaknesses in SWMP procedures over employee recognition events and awards. SWMP did not have agency-specific policies and procedures for employees charged with planning and conducting employee recognition events. Given the dollar-value spent on events and awards by SWMP, controls over this spending would be strengthened if agency-specific procedures were developed for employees tasked with planning the events.

Planning employee recognition events without agency-specific policies and procedures, including budgetary guidance, may lead to excessive spending on such activities.

Recommendation: SWMP should develop and implement agency-specific policies and procedures to provide guidance to employees who are tasked with planning employee recognition events. These procedures should provide budgetary guidance to ensure spending is not excessive.

C. Tracking Departmental Awards

In our review of documentation used to track departmental awards, we noted that eight actual awards certificates and \$120 in award value were unaccounted. The noted variances indicate inaccuracy in the supporting documentation for both the number and value of awards purchased, distributed, and still on-hand. SWMP

primarily issues certificates as awards that are redeemable for catalog items with a single vendor.

When handling awards that have redeemable values, a system must be in place that accurately tracks the number and value of each award purchased, distributed and held. Inaccuracy in the tracking of departmental awards increases the risk of theft or inappropriate use.

Recommendation: SWMP should develop and implement a method of accurately tracking departmental awards. The tracking method used should, at a minimum, include the following: number of awards purchased, custodian of the awards, cost of each award, award recipient, and awards still on hand. An additional control SWMP could consider is requiring award recipients to sign a confirmation of receipt. Lastly, a periodic verification of awards on-hand should be performed by someone other than the actual custodian.

Management Response for Items A, B, and C Above: SWMP concurs with this finding and notes that the issues are primarily with safety awards and a lack of formal documentation. SWMP will consult with DPWES Financial Management Team to review best practices. SWMP will formalize in writing a successful process that DPWES has utilized for agency/departmental awards so similar processes and procedures can be used for SWMP safety awards as well. SWMP will retrain all staff who coordinate award ceremonies to ensure that Personnel/Payroll Administration Policies and Procedures Memorandum No. 18, Performance Awards Program is adhered to. SWMP procedures will be documented and internal authorization forms will be updated to ensure the policy is followed and verified by awards coordinators, P-Card custodians, account payable staff, and quality controlled through the reconciliation process. Management anticipates completion of these actions by July 31, 2016.

4. Procedures for Processing Monetary Receipts

SWMP procedures for processing monetary receipts, which were included in the agency's Billing and Collections Plan and were last updated in 2010 (prior to the implementation of FOCUS), do not represent current processes. SWMP updated their Billing and Collections Plan in FY2016. However, the revised Billing and Collections Plan did not include updated procedures for processing monetary receipts.

Collecting monetary items without up-to-date procedures increases risk of agency staff operating outside of current agency and county guidelines. Additionally, outdated internal controls may not be operating effectively to prevent or detect fraudulent activity.

Recommendation: SWMP should ensure procedures for processing monetary receipts reflect current processes. However since DOF is in the process of updating ATB 40070, SWMP should postpone finalization of updated procedures and submission to DOF until the updated monetary receipts guidance is issued.

Management Response: SWMP concurs with this finding. When the Department of Finance issues the revised policy, SWMP will prepare draft procedures that accurately outline process and submit the final for approval. Note that SWMP has begun working on the required Accounts Receivable reconciliation. Management anticipates completion of these actions by July 31, 2016.