



# **Fairfax County**

## **Internal Audit Office**

**Department of Tax Administration  
Business Process Audit  
Final Report**

**February 2019**

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

# Executive Summary

We performed a business process audit covering procurement, reconciliation, and personnel/payroll administration within the Department of Tax Administration (DTA). The audit included review of procurement cards, FOCUS marketplace cards, purchase orders, non-purchase orders, monthly reconciliations, and verifying compliance with Personnel/Payroll Administration Policies and Procedures (PPAPP). The areas covered in PPAPP included time/attendance system and controls, attendance/absence reporting, employee clearance record processing, and credit check requirements for positions of trust.

We found that the department had effective procedures and internal controls in place for the handling of purchasing functions and transactions had adequate evidence of compliance with county policy. However, we noted the following exceptions where compliance and controls needed to be strengthened:

- The department did not perform monthly reconciliations for purchase orders and non-purchase orders.
- P-card transactions in 5 out of 12 months reviewed were not being reclassified out of the clearing account in a timely manner.
- 10 P-card and 5 Marketplace PaymentNet weekly transaction reports were not reviewed timely. Additionally, there was no evidence of review for one p-card transaction and one Marketplace transaction.
- In our review of time entry and approval, we verified that for 8 employees, a delegate approved time and there was no documented evidence of supervisor approval.
- The department's Positions of Trust list was not finalized at the time of the audit. Additionally, one division director and one assistant director listed on the Positions of Trust list did not have credit checks performed.
- Employee Clearance Record Checklists were not properly completed for seven terminated employees and responsibilities for completing Employee Clearance Record checklists were not included in the job/position description(s) for staff assigned to this function.
- We noted control weaknesses in the time entry and approval process. Over a six-month period, there were 770 time entries in which the preparer was also the approver. These entries included 34 different approvers and 79 different employees.

# Scope and Objectives

This audit was performed as part of our fiscal year 2019 Annual Audit Plan and was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). 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 DTA's compliance with county policies and procedures for purchasing processes, personnel/payroll administration, 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 population included procurement card, FOCUS marketplace, purchase order, and non-purchase order transactions that occurred during the period of September 1, 2017 through August 31, 2018. For that period, the department's purchases were \$81,720 for procurement cards, \$79,603 for FOCUS marketplace, \$948,643 for purchase orders that were received, and \$2,165,019 for non-purchase order payments.

## 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. Monthly Reconciliations

In our review, we found that DTA did not perform a monthly reconciliation of purchase orders and non-purchase orders. However, DTA did reconcile the procurement card and FOCUS Marketplace transactions on a monthly basis and included the required reconciliation certification forms.

Per *Accounting Technical Bulletin (ATB) 020, Reconciliation of Financial Transactions*, "County management has fiduciary responsibility, as custodians of public funds, to ensure the integrity of financial transactions posted to FOCUS. To ensure the integrity of the county's financial records, county departments are responsible for performing monthly reconciliations on a timely basis at the transaction level. These reconciliations are to be carried out in accordance with a department reconciliation plan that has been approved by DOF."

Additionally, ATB 020 requires departments to complete a Reconciliation Certification Form. The form should be signed and dated by the director or designee indicating the reconciliation that was completed for a specific period. This is to verify that the department's transactions have been reconciled timely and authorizer/approver verified.

Failure to perform and document a monthly reconciliation of all expenditure documentation to data in FOCUS increases the risk that erroneous or inappropriate charges go undetected.

**Recommendation:** On a monthly basis, DTA should develop documentation to substantiate that the complete population of PO and Non-PO transactions have been reconciled from FOCUS records to the source documents. Additionally, the preparer and reviewer of the reconciliations should sign and date the Reconciliation Certification Form to evidence a timely preparation and review process. The forms should be maintained on file by the agency.

**Management Response:** DTA has been working under the previously approved Departmental Reconciliation Plan pursuant to ATB-020. This plan was reviewed and approved by the Department of Finance on June 11, 2014. Since these audit findings, DTA has consulted with the Department of Finance and has developed a new reconciliation process. The new reconciliation process will be done monthly, utilizing FOCUS reports.

**Note:** *Management has stated that they have completed these actions as of February 5, 2019. IAO will follow up on these actions after sufficient time has passed to be able to review enough transactions to determine that the new process is consistently applied.*

## 2. Transaction Clearing Accounts

Procurement Card transactions in 5 out of 12 months reviewed were not being reclassified out of the card clearing account in a timely manner. The reclassifications were performed 4 days to over 3 months after the closing date.

Procurement Technical Bulletin (PTB) 12-1009, *Use of the County Procurement Card*, states: "If the general use p-card transactions post to a clearing account (i.e., GL 544540 Credit Card Expense), the department must move those charges (debits and credits) to the appropriate expenditure account monthly (at minimum.)"

Failure to properly classify procurement card expenses in a timely manner misstates departmental financial reports, increasing the risk of management making decisions based on inaccurate financial information.

**Recommendation:** Transactions posted to a procurement card clearing account should be reclassified to the proper expenditure account on a monthly basis at minimum.

**Management Response:** DTA will ensure that all transactions posted to a procurement card clearing account are reclassified to the proper expenditure monthly.

**Note:** Management has stated that they have completed these actions as of February 5, 2019. IAO will follow up on these actions after sufficient time has passed to be able to review enough transactions to determine that the new process is consistently applied.

### 3. Weekly Transaction Reviews

In our review of procurement card and FOCUS marketplace transactions, we noted that ten P-Card and five Marketplace PaymentNet weekly reports were not reviewed timely, ranging from 2 to 18 days late. Additionally, there was no evidence of review for one P-Card transaction and one Marketplace transaction.

PTB 12-1009 states: "On a weekly basis (at minimum) the department is required to use the bank's transaction detail reports to reconcile charges for both general use p-card transactions and ghost p-card transactions. Departments should review the reports, looking for any abnormalities. Any charges that are not recognized or appear to be fraudulent should be addressed immediately."

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

**Recommendation:** We recommend DTA perform timely weekly reviews of all procurement card and marketplace ghost card transaction reports containing all items posted to the bank for the prior week. Once completed, the reviewer should sign and date the report to document the completion of the review.

**Management Response:** DTA will ensure that reviews of all procurement card and marketplace ghost card transaction reports are completed on a weekly basis. The reviewer will sign and date all reports to document completion.

**Note:** Management has stated that they have completed these actions as of February 5, 2019. IAO will follow up on these actions after sufficient time has passed to be able to review enough transactions to determine that the new process is consistently applied.

### 4. Approval of Compensatory Time Earned

In our review, we noted 122 instances over eight different employees in which one approver (a delegate) approved compensatory time earned. We sampled a single time entry for each of the eight different employees and in all eight instances, our verification noted that the delegate approved the time based on the supervisor's verbal approval and there was no documented evidence of supervisor approval maintained on file.

PPAPP Memorandum No. 8, *Time and Attendance System and Controls*, states: "Managers are responsible for approving in advance (verbally or in writing) all employee requests to work overtime (hours above the regular schedule), and for documenting that approval in a manner that can be audited by internal and external auditors. Approval of the employee's timesheet via MSS is adequate documentation that advanced approval for overtime was granted." In addition, Memorandum No. 8 states: "When advance approval of overtime is not possible, supervisory approval should be obtained and documented, to the extent possible, within one business day of the employee's overtime."

Failure to document the supervisor's time approval increases the risk of inaccurate time being approved and waste or loss of county funds.

**Recommendation:** We recommend DTA maintain documentation evidencing supervisor approval in situations where a delegate approves compensatory time earned in FOCUS.

**Management Response:** DTA has notified all agency delegates regarding the procedures for approving compensatory time earned in FOCUS. Delegates and supervisors should maintain records of supervisor approval in situations where compensatory time was approved by a delegate.

**Note:** *Management has stated that they have completed these actions as of February 5, 2019. IAO will follow up on these actions after sufficient time has passed to be able to review enough transactions to determine that the new process is consistently applied.*

## 5. Positions of Trust

Our audit noted that one division director and one assistant director on the department's Positions of Trust list did not have a credit check performed. Furthermore, the department's Positions of Trust list was not finalized at the time of our audit.

PPAPP Memorandum No. 56 states: "Employees who occupy positions of trust are subject to a credit check. Positions of trust include all Director, Deputy/Assistant Director and Division Director Positions as well as positions identified by the department director as having significant fiscal or information security responsibility." Memorandum No. 56 also states: "Credit checks will be completed upon initial hire and for promotions, transfers, or demotions to a position of trust and every four years thereafter. The department director or designee will ensure that new hires, as well as employees promoted, demoted or transferred to a position of trust, are processed for a credit check in a timely manner."

Obtaining credit checks for those in Positions of Trust decreases the risk of potential for abuse or fraud.

**Recommendation:** We recommend DTA finalize its Positions of Trust list and ensure credit checks are performed on the division director and assistant director.

**Management Response:** DTA has been working with the Department of Human Resources regarding its positions of trust listing and the current county credit check vendor. DTA has finalized its positions of trust listing and will perform the credit checks. DTA anticipates completing this action by July 31, 2019.

## 6. Employee Clearance Record Checklist

Of the 10 employees tested, 7 Employee Clearance Record Checklists were only partially completed. The checklists were incomplete in terms of the signature/date of the terminated employee and/or the required checkboxes. Additionally, the responsibility for completing the checklist was not included in the job description of the staff who is/are responsible for completing this function.

PPAPP Memorandum No. 33, *Employee Clearance Record*, states: "An employee transferring from one department to another or leaving County service is required to meet with a person designated by the department head to complete the Employee Clearance Record Checklist." Memorandum No. 33 further states: "Responsibility for completing Employee Clearance Record Checklists must be included in the job description(s) for staff assigned to this function."

Failure to maintain adequate controls over the process for completing Employee Clearance Record Checklists increases the risk of county property not being returned; failure to terminate access to county systems; and unresolved disputes between the county and prior employees, should an issue arise at a later date.

**Recommendation:** DTA should fully complete and retain an Employee Clearance Record checklist for employees transferring from one department to another or leaving the county service for any reason. Additionally, a copy of the signed checklist should be provided to the employee upon departure, and the responsibility for completing the checklist should be included in the job description of the staff who is/are responsible for completing the checklist.

**Management Response:** DTA will ensure that all Employee Clearance Record checklists are completed in their entirety upon employee termination/separation. In addition, the responsibility for reviewing all checklists for completion has been added to the position description of the Administrative Assistant IV in DTA payroll.

**Note:** *Management has stated that they have completed these actions as of February 5, 2019. IAO will follow up on these actions after sufficient time has passed to be able to review enough transactions to determine that the new process is consistently applied.*

## 7. Time Entry & Approval Separation of Duties

Our audit noted a control weakness in DTA's time entry and approval process. Over a six-month period, we noted 770 time entries that were initiated and approved by the same individual. These instances involved 34 different approvers and 79 different employees.

An adequate separation of duties in time entry and approval is important in preventing erroneous or fraudulent time reporting.

**Recommendation:** DTA should implement adequate internal controls to prevent initiation and approval of time entries by the same individual.

**Management Response:** DTA has made all time approval staff aware of PM No. 8 - Time and Attendance System and Controls. Managers/Supervisors are not to enter and approve time for the same employee.

**Note:** *Management has stated that they have completed these actions as of February 5, 2019. IAO will follow up on these actions after sufficient time has passed to be able to review enough transactions to determine that the new process is consistently applied.*