



Fairfax County Internal Audit Office

**Retirement Administration Agency
Business Process Audit
Final Report**

December 2018

"promoting efficient & effective local government"

Executive Summary

We performed a business process audit covering procurement, reconciliation, and personnel/payroll administration within the Retirement Administration Agency (RAA). The audit included review of procurement cards, FOCUS marketplace cards, purchase orders, non-purchase orders, open-ended purchase order payments, 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 purchase orders and non-purchase orders and transactions had adequate evidence of compliance with county policy. 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:

- Employee Clearance checklist was not completed for one employee that left during the audit period.
- The department director's name was not included on the Positions of Trust List. In addition, four individuals on the department's Positions of Trust list did not have a credit check performed
- In our review of approvals of compensatory time earned, we noted 27 instances where the supervisor approval was not documented.
- Our audit noted two instances where the procurement card transaction log date did not match the transaction date and four transactions that were not logged in chronological order in the transaction log.
- The weekly transaction reports for procurement card transactions were not signed and/or dated, and five of the FOCUS Marketplace weekly transaction report reviews were not signed and/or dated or completed timely.
- Four procurement card purchases did not have proper evidence of receipt of goods.
- Three items requiring technical review were purchased using the procurement card without going through the proper technical review.
- Deficiencies were noted in the approval of Travel Authorization Forms for one of the sampled transactions.
- Our audit noted that proper controls were not in place for the purchase and safeguarding of gift cards.

Scope and Objectives

This audit was performed as part of our fiscal year 2018 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 the Retirement Administration Agency'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, open-ended purchase order, and non-purchase order transactions that occurred during the period of May 1, 2017, through April 30, 2018. For that period, the department's purchases were \$68,029 on procurement cards, \$16,560 for FOCUS marketplace, \$297,623 for purchase orders received, and \$1,461,738 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. Employee Clearance Record Checklist

Employee Clearance checklist was not completed for one employee tested. Consequently, a signed copy of the checklist could not be provided to the employee upon departure from the County. Additionally, the responsibility for completing the checklists was not included in the job description of the staff who is/are responsible for completing the checklists.

Per *Personnel/Payroll Administration Policies and Procedures (PPAPP)* Memorandum No. 33, *Employee Clearance Record*, "Departments are required to complete an Employee Clearance Record Checklist with each employee transferring from one department to another or leaving County service for any reason, employees receive a copy of the Employee Clearance Record Checklist and sign verifying receipt, and 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 Checklists increases the risk of County property not being returned; terminated employees having access to County systems; and disputes between the County and prior employees, should an issue arise at a later date.

Recommendation: RAA should complete and retain an Employee Clearance Record Checklist for employees transferring from one department to another or leaving the County service. Additionally, a copy of the signed checklist should be provided to the employee upon departure from the County, 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: The payroll contact will include the off-boarding checklist to document Retirement Agency clearance requirements to be used for transfers or terminations. A copy of the completed checklist will be provided to the transferred or terminated employee. The responsibility for completing the checklist will be included in the job description of the staff who is/are responsible for completing this function.

Note: *During the audit, IAO received the updated Employee Clearance Checklist that RAA will be using going forward. IAO will follow up after sufficient time has passed to be able to review enough transactions to determine that the new process is consistently applied.*

2. Positions of Trust List and Credit Checks

The department director’s name was not included on the Positions of Trust List. In addition, four individuals on the department’s Positions of Trust list did not have a credit check performed.

Personnel/Payroll Administration Policies and Procedures Memorandum (PPAPP) No. 56, *Credit Check Requirements for Positions of Trust*, states “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”. Further, the PPAPP states “Employees who occupy positions of trust are subject to a credit check.” Moreover, “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 a positions of trust (i.e., those with fiduciary responsibility) decreases the risk of potential for abuse or fraud.

Recommendation: RAA should ensure their Positions of Trust List includes all names required by the County policy, and obtain credit checks in a timely manner for all individuals on the Positions of Trust list. The credit checks should be completed upon initial hire, promotion, transfer, or demotion to a position of trust.

Management Response: RAA has updated and will maintain its Positions of Trust List. RAA has also requested and received credit checks for these positions of trust, and will continue to do so as recommended. Management has completed action.

Note: *During the audit, IAO verified that RAA implemented this item, therefore, no follow-up will be performed for this item.*

3. Approval of Compensatory Time Earned

We noted 27 instances over two different employees in which the delegate approved compensatory time earned; however, there was no documented evidence of the supervisors' approval on file.

Per PPAPP Memo #8, *Time and Attendance System Controls*, "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, it 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: For situations where the delegate approves compensatory time earned in FOCUS, we recommend RAA to maintain documentation evidencing supervisory approval.

Management Response: When the HR Manager approves time entries of anyone directly reporting to the Director in his absence, there is an agreement that the approval is delegated to the HR Manager. Even though there was no written evidence of this agreement, the Director verifies time approval upon his return. As a result of this audit, the agency is now going to require a written instruction from the Director of the approval delegation when he is away or unable to approve time for his direct support.

Note: *During the audit, IAO verified that RAA implemented this item, therefore, no follow-up will be performed for this item.*

4. Transaction Logs

We reviewed the procurement card transaction log for period of May 1, 2017 to April 30, 2018. We noted that on two occasions the actual transaction date did not match the dates on the transaction log. For instance, one purchase made on October 25, 2017, was logged on October 31, 2017. Additionally, the dates for four other transactions were not in chronological order.

Procurement Technical Bulletin (PTB) 12-1009 states “the department shall maintain a log that records purchases as they occur and tracks who is in possession of p-cards. Departments may use a manual or electronic log to record both debit and credit transactions. Entries must be contemporaneous so that they provide up-to-date information on funds expended and should identify the p-card user. Department staff may use the example in this PTB, Attachment D, as a guide when developing a p-card transaction log. Departments should ensure that it contains all of the elements as shown in Attachment D.”

Recommendation: We recommend RAA accurately reflect all procurement card activity in the transaction log.

Management Response: Since the beginning of this fiscal year 2019, the P-Card Manager is the only one who inputs the transaction information into the Log. The purchasers will input their initials as they receive the card and after they return the card back to the P-Card manager. All the authorized purchasers are given strict instruction that they can only make a purchase once the transaction is logged and authorized. In addition, the P-Card Authorization form can now be approved by the accounting manager, if the director is not available or able to sign the form. This will ensure that the authorization is in place prior to making the purchase and the transaction is logged in chronological order. Management has completed action.

Note: During the audit, IAO verified that RAA implemented this item, therefore, no follow-up will be performed for this item.

5. Weekly Transaction Reviews

While there was evidence of review of procurement card weekly transaction reports, the reports were not signed and dated, therefore, timeliness of review could not be determined. Additionally, five FOCUS Marketplace weekly transaction report reviews were not signed and/or dated or completed timely. For example, weekly transaction report for period 7/11/17 to 7/17/17 was printed, signed and dated on 12/19/17.

Procurement Technical Bulletin (PTB) 12-1009, Use of the County Procurement Card, 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 RAA perform and document weekly reviews of procurement card transaction reports which contain all items posted to the bank for the prior week.

Management Response: All reconciliations are done after each month end. Beginning this fiscal year 2019, the accountant is responsible for making sure that all weekly transactions for procurement card are printed and signed at each week instead of monthly.

Note: *During the audit, IAO verified that RAA implemented this item, therefore, no follow-up will be performed for this item.*

6. Receipt Documentation

Of the 30 procurement card transactions tested, we noted four purchases were not supported by a signed and dated packing slip or other evidence indicating who confirmed receipt of ordered goods and when it was confirmed. In addition, one PO invoice was dated, but not signed by the receiver.

Procurement Technical Bulletin (PTB) 12-1009, *Use of the County Procurement Card*, requires that agencies maintain all original receipts, invoices, or credits for each transaction. Receipts should show all details pertinent to the transaction. If for any reason an original, alternate or photocopied receipt is not available a memorandum providing the purchase details and the reason why the original receipt is not available must be included with the monthly statement or weekly transaction report and be signed by the program manager. Without procurement card receipts or other adequate supporting documentation on file, the propriety of individual transactions cannot be determined. Procedural Memorandum 12-16, *On-Line Procurement of Office Supplies*, requires that all agencies verify goods received against the packing list and the original order. The packing list should then be signed and dated to document proper receipt of goods. Financial Policy Statement FPS 630, Non-PO Payments, requires that agencies “ensure that all documentation (e.g., vendor invoice, exception approvals from the County Purchasing Agent (if warranted), etc.), are prepared, reviewed, and approved by the department prior to forwarding to DOF for processing and posting.” The packing slip should be signed and dated to document proper receipt of goods.

Recommendation: Retirement Administration Agency should ensure that sufficient receipt documentation is maintained on file for all procurement card, FOCUS Marketplace and PO transactions. If a packing slip is not included with the shipment, receipt of the ordered goods should be documented on the invoice or a separate receiving report with receiver’s initials and date. All receiving documentation should be maintained on file with the supporting documentation for the transaction, and received by an individual other than the purchaser/approver.

Management Response: Over the period reviewed, the individual formerly

responsible for administrative purchasing was out of the office for a significant period of time and was unable to work due to personal reasons. This work has been reassigned to someone else, as of July 2018, which will greatly improve the agency's ability to comply with all requirements. We have agreed that both invoices and packing slips must be signed and dated, even if accompanied by a payment request form. All authorized P-card purchasers or the designated receiver will provide the packing slip, or a memorandum to document the receipt of the goods.

Note: *During the audit, IAO verified that RAA implemented this item, therefore, no follow-up will be performed for this item.*

7. Technical Review

Three items requiring technical review were purchased using RAA procurement cards without going through the proper technical review from the Department of Information Technology (DIT). These items should have been purchased using either the FOCUS marketplace or a FOCUS purchase order. By using either of these purchasing methods, DIT could review the additional hardware being purchased and approve its use with county computers.

Procurement Technical Bulletin (PTB) 12-1010, Technical Review Program, 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 service requiring technical review may not be purchased using a procurement card."

If computer equipment is purchased without proper review by DIT, a couple of issues may arise. First, the equipment purchased may not be compatible with the current network or computing equipment. Secondly, DIT may not have the capability or availability to support or troubleshoot issues with the device or the device is known for having constant major issues and should not be used.

Recommendation: We recommend all applicable computer equipment be purchased through the FOCUS Marketplace or FOCUS purchase order system to allow the proper technical review to take place. If exemptions from technical review are granted by a technical review agency, then documentation of the exemption should be maintained on file.

Management Response: We will obtain tech review approval prior to making any purchases for monitor, phone cable, projector and any other tech review items. Request for tech review items will be reviewed by IT Manager prior to any purchase.

Note: *Management has stated that they have implemented these actions as of this audit report. 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.*

8. Travel Authorization Form

Our audit tested five non-purchase order payments for travel reimbursement. Deficiencies were noted in the approval of Travel Authorization Forms for one of the sampled transactions. The travel authorization form for one board of trustee member was not signed by the County Executive or Deputy County Executive. Procedural Memorandum (PM) 06-03, *Fairfax County Travel Policies and Procedures*, states: "A completed Travel Authorization Form is required for all non-local and overnight travel including trips where the procurement card is used for any or all expenses." Additional guidance provided in the Travel Tips and Reminders document on the Department of Finance (DOF) website states: "Before you purchase any tickets or pay for registration you MUST complete a Travel Authorization Form and have department approval. Items purchased without prior approval may not be reimbursed." Also, the policy requires that when a department head travels, the form must be approved by the County Executive or Deputy County Executive.

Failure to complete a travel authorization form prior to incurring expenses for non-local or overnight travel increases the risk of inappropriate or unauthorized travel expenses and incurring expenses that may not be reimbursed.

Recommendation: The department should ensure a Travel Authorization Form is completed and approved *before* any non-local or overnight travel arrangements are made. In addition, when board members travel, the form must be signed by the County Executive or Deputy County Executive, or a written memo should be created delegating approval to the executive director.

Management Response: The RAA Executive Director has formerly requested by memo that the County Executive delegate this approval responsibility to him.

Note: *During the audit, IAO verified that RAA implemented this item, therefore, no follow-up will be performed for this item.*

9. Gift Card Controls

A review of the gift cards purchased for the department identified there were insufficient controls. Gift cards were purchased through a personal Amazon account and shipped to an employee's personal address with no documentation to verify receipt of the initial purchase. While there was adequate documentation of distribution of gift cards to recipient, controls over the unused gift cards were not adequate. Good internal controls for the safeguarding of county assets and proper accountability over their use would require a log for cards for such items having a high risk of inappropriate use.

Procurement Technical Bulletin (PTB) 12-1011 states "The use of a personal Amazon account for the purchase of county goods is prohibited, even for the use of "Prime" services." Failure to maintain adequate accountability over the issuance of gift cards does not provide the county the necessary safeguards against misuse/ personal use of such cards and potential negative publicity to the county. Also,

failure to maintain such documentation does not provide a sufficient audit trail and weakens internal controls over their use.

Recommendation: Purchases made from Amazon should be made using the county's Amazon Business Account. A log should be maintained for the undistributed gift cards. The gift cards should be stored in a safe location and if the cards are maintained for a long period of time inventories should be conducted and reconciled to the gift card log.

Management Response: As agreed, this agency will not allow purchase from the employees' personal Amazon account and no such purchase will be shipped at their residence. The Awards Committee was responsible for its safekeeping prior to the audit. After the audit, the accounting staff took responsibility for its safekeeping and will do so until all the gift cards are utilized or replaced. These gift cards are stored in a safe and are inventoried monthly.

Note: *During the audit, IAO verified that RAA implemented this item, therefore, no follow-up will be performed for this item.*