



Fairfax County Internal Audit Office

**McLean Community Center
Business Process Audit
Final Report**

November 2018

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Executive Summary

We performed a business process audit covering procurement, reconciliation, and personnel/payroll administration within the McLean Community Center (MCC). The audit included review of procurement cards, FOCUS marketplace cards, purchase orders, non-purchase orders, monthly reconciliations, limited review of accounts receivable and revenue collections, 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, credit check requirements for positions of trust, and procedures for completing criminal background investigations for employment in sensitive positions.

We noted the following exceptions where compliance and controls needed to be strengthened:

- MCC did not have a list of Positions of Trust on file.
- Employee Clearance Record Checklists were not properly completed for three terminated employees; signed checklists were not provided to employees; and responsibilities for completing Employee Clearance Record checklists were not included in the job/position description(s) for staff assigned to this function.
- Six items were purchased using their p-card without going through required, documented technical reviews prior to purchase.
- The cycle spending limits for six of MCC's 12 P-cards were set too high compared to the actual usage.
- Our audit noted two instances where non-purchase order items were not in compliance to Financial Policy Statement (FPS) 630's list of approved purchases.
- MCC's controls over processing monetary receipts were not compliant with FPS 470 (*Processing Monetary Receipts*) – the agency Cash Management Plan was not current, the Department Operating Procedures Form (Form 470-1) was not completed, deposits were not made within one business day after receipt of funds, and checks were not endorsed immediately upon receipt.

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 the McLean Community Center'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. Our review of accounts receivable and revenue collections was limited to inquiry through an internal control questionnaire.

The audit population included procurement card, FOCUS marketplace, and non-purchase order transactions that occurred during the period of August 2017 through July 2018. For that period, the department's purchases were \$317,616 for procurement cards, \$12,071 for FOCUS marketplace, \$661,086 for purchase orders, and \$ 3,230,145 for non-purchase order payments. The department's revenue for the period was \$ 5,796,631.

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. Positions of Trust

MCC did not have a list of Positions of Trust on file. According to the *Personnel/Payroll Administration Policies and Procedures* (PPAPP) Memorandum No. 56, Credit Check Requirements for Positions of Trust, "Employees who occupy positions of trust are subject to a credit check. Credit checks will be completed upon initial hire and for promotions, transfers, or demotions to a position of trust and every four years thereafter. 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."

Additionally, this PPAPP requires that the department director or designee complete the Positions of Trust Delineation Form (Attachment A) to delineate the positions in the department designated as positions of trust subject to the credit check requirement and retain in the department files.

Lack of a list of Positions of Trust prevents the department from performing required credit check on employees who occupy positions of trust. It also increases the potential for abuse or fraud by staff who have access to sensitive/confidential financial information.

Recommendation: The department should complete the Position of Trust Delineation Form and perform credit checks on employees who occupy positions of trust.

Management Response: MCC will maintain a Position of Trust list and the Credit Checks for the employees in the positions of trust list will be completed. Management anticipates completing this action by January 31, 2019.

2. Employee Clearance Record Checklist

We noted the following when reviewing Employee Clearance Record Checklists:

- Of the ten employees tested, three checklists were only partially completed - the checklists were either missing the MCC's staff's signature or the appropriate boxes were not checked.
- Employees were not provided signed copies of the checklists upon departure from the Community Center.
- Responsibilities for completing Employee Clearance Record checklists were not included in the job/position description(s) for staff assigned to this function.

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: MCC 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, and responsibilities should be included in the job descriptions for staff assigned to complete these checklists.

Management Response: MCC will complete the Employee Clearance Record Checklist and adhere to the memorandum 33. Management anticipates completing this action by December 1, 2018.

3. Technical Review

We noted the following when reviewing items requiring technical review:

- Five tablets were rented/leased without technical reviews being performed.
- One instance where technical review items (license subscriptions \$817) were purchased through the p-card, without evidence of technical review prior to the purchase of the items.

The tech reviewer confirmed that reviews for rented/leased equipment were required. DIT stated that they could not verify that the data collected via the rented tablets had been cleaned (wiped) like they did for machines that were procured in the county. Additionally, DIT could offer loaner equipment for events which these tablets were used, thereby saving funds and verifying that the data was secure and not compromised.

Procurement Technical Bulletin (PTB) 12-1010, *Technical Review Program*, states: “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.”

Items purchased without going through the required technical review process increases the risk of overpayment for goods, purchasing items that are not compliant with the county’s standards, items incompatible with the county’s systems or security requirements, and purchasing from a vendor that does not offer proper technical support.

Recommendation: We recommend MCC create purchase orders in FOCUS to procure all items requiring technical review in accordance with PTB 12-1010. Written approval documentation should be maintained for technical review purchases if the procurement card method is used. If exemptions from technical review are granted by a technical review agency, then documentation of the exemption should be maintained on file. We also recommend that MCC check with DIT prior to leasing any computer hardware as loaner equipment might be available for use.

Management Response: MCC will create Purchase Orders for items requiring technical review. MCC will reach out to DIT prior to leasing equipment to check and see if they have loaner equipment available for use. Management anticipates completing this action by December 1, 2018.

4. Procurement Card Limits

An analysis performed on card limitation controls for the 12 Department’s cards for the period August 2017 through July 2018, revealed that the monthly spending limits were set too high compared to the actual usage for six out of the 12 cards. For instance, the credit limit for card “Facility” was \$10,000; however, the highest amount

spent on the card during one month was \$618 over the 12-month audit scope period. MCC noted that lower usage was largely due to the closure of the Center during renovation.

The county has limited dispute rights for fraudulent charges on work group 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 MCC 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: MCC will look at the agency's procurement card usage over the first six months the center is open and determine if lower limits are needed. Management anticipates completing this action by June 1, 2019.

5. Non-Purchase Order Payments

The Non-Purchase Order method was used to pay for two items that were not listed as exemptions in Financial Policy Statement (FPS) 630, *Non-PO Payments*. These payments totaled \$12,800. The payments were for performance-artist fees. These costs were encumbered and had associated contracts. Requests for exceptions were not obtained from the County Purchasing Agent. Additionally, we noted that one Travel Authorization Form was completed and approved *after* the travel return date.

Per FPS 630, "All distinct business units (departments, agencies, etc.) of the county are responsible for ensuring that Non-PO payments are used appropriately and processed in accordance with regulations and county policy. All purchases from nongovernmental or governmental sources for goods or services shall be conducted with a purchase order or procurement card (p-card) unless exempted by this policy." Using a Non-PO to purchase an unapproved item circumvents established purchasing controls and reviews, increasing the risk for inappropriate purchases.

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." 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: We recommend MCC use the Non-PO payment method only for purchases that are listed as approved categories for Non-PO payment vouchers in FPS 630. A purchase order or p-card should be used for all other purchases. Exemptions for procurement other than those identified in FPS 630 must be approved by the County Purchasing Agent. Additionally, the department should ensure a Travel

Authorization Form is completed and approved *before* any non-local or overnight travel arrangements are made.

Management Response: The Non-PO Payments are made for the Theatre Performers (Artists). Vendors who have county contracts will be processed with PO's. Other one time vendors will be processed as Non-PO payments as reflected in FPS 630. Travel Payments will be preapproved. Management anticipates completing this action by December 1, 2018.

6. Processing Monetary Receipts

We noted the following when reviewing how MCC processes monetary receipts:

- MCC's Cash Management Plan was not current. The Plan was dated January 2015, prior to the initial issuance of FPS 470 in June 2016.
- The Department Operating Procedures Form required by FPS 470 *Processing Monetary Receipts*, was not completed.
- Deposits were usually made twice weekly instead of within one business day after receipt of funds.
- Checks were not endorsed immediately upon receipt but were endorsed prior to making deposit.

FPS 470 states, "At a minimum, all departments are required to complete the Department Operating Procedures Form (Attachment 1)." In addition, per the statement, in order to document adherence to FPS 470, the form must be completed and retained on file for the Department of Finance (DOF) and audit review. Any exceptions to the requirements listed on the form must be approved by the DOF Director, using the Waiver Request Form.

Per FPS 470, "Deposits are to be made within one business day unless the department has an approved waiver on file from DOF on the Processing Monetary Receipts Waiver Request Determination (FPS 470-3)."

Not following established policy, including not having a current Cash Management Plan, a lack of a completed Department Operating Procedures Form, and not depositing and endorsing receipts as required, increases the risk for fraud or error to occur, and inadequate safeguarding and handling of monetary receipts.

Recommendation: MCC should update the Cash Management Plan, including completion of the Department Operating Procedures Form, and identify any exceptions to the requirements in the form. If there are exceptions, MCC should obtain DOF approval for the exceptions. MCC should also update processes so that they comply with FPS 470, including the depositing and endorsing of checks.

Management Response: MCC will update our Cash Management Plan and complete the Department Operating Procedures Form once we resume business in the Center. Management anticipates completing this action by March 1, 2019.

MCC will endorse checks upon receipt and make deposits within one business day after receipts of funds. Management anticipates completing this action by December 1, 2018.