Department of Housing & Community Development
Business Process Audit
Final Report

August 2013

“promoting efficient & effective local government”
Executive Summary

We performed a business process audit covering procurement and reconciliation within the Department of Housing and Community Development (DHCD). The audit included review of procurement cards; FOCUS marketplace cards and purchase orders, non-purchase orders and value line purchase order payments.

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:

- DHCD made several food and restaurant purchases where original receipts, proper business purpose and approvals were not included
- Nineteen instances were noted where there was no original receipt or documentation on file to support the business purpose of transactions
- DHCD was following revised internal control procedures that were not approved by the Department of Purchasing and Supply Management (DPSM)
- There were 13 instances where split purchases were made in excess of the department’s card limit for individual procurement cards
- Supervisory approval for maintenance p-card purchases was not documented at site locations for p-card program manager’s review
- Procurement card limits were significantly higher than card usage for most cards
- The goods receiving process for FOCUS marketplace transactions was not found to be in compliance with Procedural Memorandum 12-16
- There was no evidence to indicate that a weekly review of FOCUS Marketplace procurement card usage was being performed
- Marketplace purchases totaling $52,000 were overstated in the general fund expenditures account and the clearing account was not cleared by the same amount

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 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 effectiveness of the Department of Housing and Community Development’s processes, and compliance with county policies, over the areas of purchasing 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 transactions from procurement cards, FOCUS marketplace cards, purchase orders, non-purchase orders, value line purchase order payments and financial reconciliations that occurred during the period of January 1, 2012, through December 31, 2012. For that period, the department’s purchases were approximately $891,000 for procurement cards; $98,500 for FOCUS marketplace; $9,305,000 for purchase orders; and $80,580,000 for non-purchase order payments.

Methodology

Audit methodology included a review of the department’s 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

1. Food Purchases

We noted several food and restaurant purchases where original receipts and proper business purpose were missing, and there was no approval on the master card request form. Out of the eight food and party transactions tested in our original audit sample, one had no receipt, one had only a photocopied receipt, two had no itemized receipts, two had no approval, and three were for holiday parties. We expanded our testing and found the following additional issues:

a. During the first week of October 2012, there were four transactions charged to the Olley Glen procurement card by the same card user for food and other party purchases. These purchases had no documentation of approval. Only a spreadsheet log attached indicated the business purpose as marketing expense - social event.

b. During the first week of August 2012, there were six transactions charged to the South County Administration card by the same card user for food and other party purchases. These purchases had no signature of approval on the master card request forms. One of these purchases noted an office meeting, and the others had either no business purpose listed or the business purpose listed was not clear to justify the purchases.

The guidelines for food purchases issued by DPSM state that the agency fully document each approved purchase to include the specific business purpose, purchase authorization signature, and original itemized receipts or invoices. Allowing
these types of purchases increases the risk of inappropriate card charges and negative publicity for the county.

**Recommendation:** We recommend that all DHCD staff follow the DPSM guidelines more consistently, and ensure proper approval and business purpose documentation for restaurant and food purchases is maintained on file.

**Management Response:** DHCD will require all positions involved in the purchasing of food to undergo refresher training on the rules and procedures as required by PM 12-02. Future food purchases will include a more detailed documentation of the business purpose and be approved by the responsible director or deputy director. For “partnership” properties, original receipts are required to be kept onsite for “partnership” auditors. DHCD will seek an exemption from DPSM for original receipts for partnership properties. Management anticipates completing this action by September 1, 2013.

### 2. Receipt Documentation

We noted 19 (24% of sample) instances where there was not an original vendor receipt or invoice on file to support procurement card transactions. In addition, there was no evidence of sufficient alternate receipt documentation as required by Procedural Memorandum (PM) 12-02.

PM12-02 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 or alternate receipt is not available or a photocopied receipt is retained instead of an original, 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.

**Recommendation:** We recommend DHCD maintain sufficient receipt documentation, on file for all procurement card transactions, as specified by PM 12-02.

**Management Response:** Receipt documentation is now being maintained for all purchases. DHCD will require a memo for any instance where an itemized or original receipt is not obtained. For “partnership” properties, original receipts are required to be kept onsite for “partnership” auditors. DHCD will seek an exemption from DPSM for original receipts for partnership properties. Management anticipates completing this action by September 1, 2013.

### 3. Internal Control Procedures (ICP)

The Department of Housing and Community Development revised their procurement card internal control procedures in June 2012; however, an updated ICP was not sent to DPSM for approval. Furthermore, several items in the ICP document did not
reflect requirements of PM 12-02 and DHCD’s actual operations. For instance, PM 12-02 states that if a photocopied receipt is retained instead of an original, the record should provide a short explanation as to why the original receipt was unavailable. However, according to DHCD’s ICP document, a photocopied receipt is acceptable in the absence of an original receipt.

Procedural Memorandum 12-02 requires all using agencies establish procurement card internal control procedures that govern card security, use, and accounting, specific to their operations. These procedures should be submitted to the DPSM program administrator for approval. Failure to obtain approval for updated departmental internal control procedures increases the risk that operating procurement card procedures may not be in compliance with county policy.

**Recommendation:** We recommend DHCD update their ICP document to the actual business policy and the requirements of PM 12-02, and submit the document to DPSM for approval.

IAO verified DHCD implemented this recommendation during the course of our audit. No follow-up is needed for this item.

4. **Split Purchases**

We found 13 instances of high-dollar value split transactions where multiple transactions occurred on the same day on the same card with the same vendor exceeding the single transaction limit. One of the vendors had the highest incidence of split transactions and the PIMD Warehouse card contained the most instances of split transactions.

Split transactions occur when the original purchase requirement for the same or related goods or services is broken into multiple smaller purchases which are made over a short period of time. Procedural Memorandum 12-02 prohibits split purchases and notes that these types of transactions are usually done to circumvent a card’s single purchase or cycle spending limit. Purchases which are divided for other purposes such as to accommodate accounting needs or to facilitate delivery to separate locations are also considered split purchases.

**Recommendation:** DHCD should utilize proper purchasing methods in accordance with county policy. Procurement card usage should be reviewed to determine if monetary limits need to be modified. When exceptions to policy are made they should be clearly documented and approved. Lastly, users of the cards should be reminded of the policy related to split purchases and continued non-compliance of the policy could result in the loss of card user privileges.

**Management Response:** The purchases suspected of being “split purchases” were being made against a Fairfax County contract. Instead of using the p-card for these purchases, DHCD will now use a value line purchase order (PO). HCD will review its procurement limits to determine if any modifications are needed. PIMD warehouse staff will be reminded of county policy and will have review training.
5. Maintenance Procurement Cards

Supervisory approval for maintenance p-card purchases was not documented at site locations for the p-card program manager’s review. DHCD had 15 maintenance procurement cards including one warehouse procurement card (PIMD Warehouse). These cards were maintained at various sites and procurement card purchases were based on work orders maintained and approved at those sites. The total purchases made through maintenance procurement cards during the period January 1, 2012, through December 30, 2012, was approximately, $700,000. The person making purchases at the site office completed a master-card form (warehouse master-card form in the case of PIMD Warehouse) which became part of the documentation package that was sent to the procurement card program manager. The program manager filed the transaction document package as received from the site location; however, since the master-card form was not signed by a supervisor, there was no assurance for the program manager that the purchase was properly authorized. According to PM 12-02, the agency program manager remains responsible for the overall management of the procurement card program.

Failure to document supervisory approval increases the risk that unauthorized or inappropriate procurement card spending will go undetected.

**Recommendation:** We recommend that all purchases made through procurement cards maintained at sites be properly documented including proper approvals so that the program manager has an assurance the purchase was legitimate and properly authorized.

**Management Response:** All of these purchases were documented and supported by work orders which authorized the purchases necessary to complete the maintenance and repairs at over 3,000 residential units. DHCD will review its operations to determine if there is a better method of documenting authorization and to also include quality control checks during the process.

6. Card Limitation Controls

An analysis performed on card limitation controls for DHCD’s 32 procurement cards for the period January 1, 2012, to December 31, 2012, revealed the monthly spending limits were set significantly higher than the actual usage for a number of cards. We noted 11 of the 32 cards had the highest monthly actual spending equal to or less than 30% of the set monthly credit limits and two cards had no purchases during that year.

According to PM 12-02, card limitations should be based on anticipated use, total number of cards, budget constraints and any other relevant factors. It is important that card limits be set as close as possible to anticipated use. Failing to properly set procurement card limitations increases the county’s exposure in the event the card is lost, stolen or misused by a county employee.
**Recommendation:** We recommend DHCD review their 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:** While DHCD has not experienced any issues due to monthly spending limits being set above average usage, the p-card program manager has reviewed the monthly spending usage and has made the appropriate adjustments on several p-cards. No follow-up is needed for this item.

7. **FOCUS Marketplace Receiving**

We noted that DHCD was not following the receiving process for receipt of office supplies as required by PM 12-16. No order acknowledgement was retained, no packing slips were used to verify receipt of goods and no invoices were retained. We were informed that the receiving process was conducted via email correspondence. The only documentation retained was the original purchase order and the PaymentNet statement of account referencing the particular transaction. We were informed that from January 28, 2013, DHCD started the process of verifying the receipt of supplies; however, the process involved verifying goods receipts with invoice only, which may or may not arrive along with the goods.

Failure to physically verify receipt of goods against shipping documents such as packing slips increases the risk of erroneous or inappropriate charges to the card not being detected and/or corrected in a timely manner.

**Recommendation:** PM 12-16 requires that proper receiving procedures should be developed and followed by all agency staff. Receipt of goods, by individual line item, should be verified against the packing list and the original order. Packing lists should be signed and dated, acknowledging accurate receipt. Order acknowledgements, packing lists, invoices and a copy of the associated FOCUS monthly reconciliation report should be kept together to represent a complete procurement action.

**Management Response:** DHCD will require that packing slips be retained with the reconciliation documentation. Management anticipates completing this action by October 1, 2013.

8. **Weekly Transaction Reviews (FOCUS Marketplace Procurement Card)**

There was no evidence to indicate a weekly review of FOCUS Marketplace procurement card usage was being completed. PM 12-02 requires that all agencies review weekly transaction reports for unusual or unauthorized transactions. Performing weekly reviews of all card activity reveals unauthorized or fraudulent 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 DHCD perform and document weekly reviews of FOCUS marketplace procurement card transaction reports which contain all items posted to the bank for the prior week.

Internal Audit verified that DHCD started performing weekly reviews in March 2013. No follow-up is needed for this item.

9. **FOCUS Marketplace Clearing Account**

We noted for FY 2012, DHCD overstated their marketplace purchases by $52,000 in the general fund account (GL) and the marketplace clearing account was not cleared for the same amount at FY 2012 year end. This was due to office supply expenses being re-distributed to various funds in the office supplies GL account from a liability account in the general fund, instead of re-distributing from the office supplies GL account in the general fund.

PM 12-02 requires agencies to clear all charges and credits to the proper expenditure account within one month. Failure to clear amounts in the clearing account in a timely manner misstates departmental financial reports, increasing the risk of management making decisions based on inaccurate financial information.

**Recommendation:** We recommend DHCD make the appropriate entry to clear the balance in the liability account within the general fund account.

Internal Audit verified this entry to clear the balance in the liability account within the general fund account was performed. No follow-up is needed for this item.