



Fairfax County Internal Audit Office

Department of Human Resources
Business Process Audit
Final Report

May 2014

"promoting efficient & effective local government"

Executive Summary

We performed a business process audit covering procurement and reconciliation within the Department of Human Resources (DHR). 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. 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:

- Procurement cards were not properly secured.
- There was a lack of separation of duties assigned to the Program Manager for the LiveWell procurement card.
- Eighteen out of twenty FOCUS Marketplace transactions tested had no indication of who received the items or when they were received.
- FOCUS Marketplace and LiveWell Procurement card activity was not reviewed on a weekly basis.
- Internal Control Procedures had not been updated and approved by the Department of Purchasing and Supply Management.
- A monthly review of all FOCUS transactions was not being completed.
- The Reconciliation Certification Form was not used to document the review of the weekly procurement card reconciliations and the monthly clearing account reconciliation.

Scope and Objectives

This audit was performed as part of our fiscal year 2014 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 DHR'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.

The audit population included transactions from procurement cards, FOCUS marketplace, purchase orders, and non-purchase order payments, and financial reconciliations that occurred during the period of November 1, 2012, through October 31, 2013. For that period, the department's purchases were \$151,801 for procurement cards, \$29,001 for FOCUS marketplace, \$874,338 for purchase orders, \$871,177 for non-purchase order and \$334,958 for value line 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. Physical Security Over P-cards

The procurement cards were being stored in a locked cabinet; however, the key to access the cabinet was not properly secured. This was inconsistent with Procedural Memorandum (PM) 12-02, Use of the County Procurement Card, which states "p-cards should be in a locked location when not in use. Access to the location should be limited to those individuals who require access to the card." When a procurement card is not properly secured the risk that it could be stolen and used for unauthorized purchases increases.

Recommendation: As stated in PM 12-02, p-cards should be kept in a secure location while not in use. Access to the location should be limited to those individuals who require access to the card.

Internal Audit verified that the key used to access the cabinet where the procurement cards are stored was properly secured. No management response is needed for this item.

2. Duties Assigned to the Program Manager

We noted a lack of sufficient separation of duties, as excessive responsibilities were assigned to the program manager position for the LiveWell procurement Card. The program manager was the card custodian, occasionally used the card, and performed the reconciliation of the transaction reports with receipts. Procedural Memorandum 12-02 indicates that the card custodian function and the reconciliation function may not be performed by the same position. Further, it states that if the

department cannot reasonably separate these two duties, there must be a compensating control consisting of a “substantive supervisory review” of transaction activities. This verification should be evidenced by the reviewer signing and dating documents reviewed.

Controls are weak or non-existent when there is a lack of segregation of duties between the card custodian, card user, and the person who performs the reconciliation function. This could lead to unauthorized or inappropriate spending via the procurement cards that goes undetected.

Recommendation: We recommend the duties of card custodian, user, and the reconciler be separated. If the department cannot separate the card custodian and reconciliation functions, then it should establish sufficient compensating controls whereby substantive independent supervisory reviews are performed and documented.

Management Response: We have reassessed the roles and the process for the LiveWell P-card to be in compliance with PM 12-02. However, the administrator role associated with this issue is now a vacant position so the actual implementation cannot take place until the new person is hired and trained. The recruitment process was started in April 2014. Management anticipates completing this item by June 30, 2014.

3. Receiving Marketplace Purchases

There was no documented evidence, for eighteen out of the twenty FOCUS Marketplace transactions tested, that goods received were counted and compared to the packing slip and to the original order. Procedural Memorandum 12-16 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.

Failure to review the items received and compare them against the packing slip and the original order could cause the department to pay for goods that were not actually received.

Recommendation: We recommend the receiving individual perform and document a review of items received against the packing slip and the original order.

Management Response: We have reviewed the process and determined how we will consistently manage the receiving of goods so that the contents of the shipments will be checked against the packing slips (with discrepancies noted), signed and dated. We are now working on implementing the process and managing the change so it will be completed before year-end. Management anticipates completing this item by June 30, 2014.

4. Weekly Transaction Report Review

There was no evidence to indicate that a weekly review of the LiveWell procurement card usage and FOCUS Marketplace activity were being completed. Additionally, for three of the four procurement cards the weekly review was not timely. Procedural Memorandum 12-02 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 that the procurement card administrator perform and document weekly reviews of procurement card transaction reports, which contain all items, posted to the bank for the prior week.

Management Response: The LiveWell Administrator will do the weekly verification of charges. In addition, the function will be assigned for the marketplace virtual cards. The process is being performed for the remaining three physical p-cards but the timing of the review will be brought into compliance. Management anticipates completing this item by June 30, 2014.

5. Internal Control Procedures

The Department of Human Resources was following a revised internal control procedure that was never approved by the Department of Purchasing and Supply Management (DPSM). 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 are to 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 might not be in compliance with county policy.

Recommendation: We recommend that DHR submit updated internal control procedures to DPSM for approval, in accordance with PM 12-02.

Management Response: DHR will submit our revised plan for approval. Management anticipates completing this item by June 30, 2014.

6. Timely Review of FOCUS

The Department of Human Resources did not perform regular, timely reviews of their purchasing functions with the exception of procurement card reconciliations, which were performed timely by the agency. Accounting Technical Bulletin (ATB) 020, *Reconciliation of Financial Transactions*, requires that a detailed review of expenditures be completed and documented on a monthly basis.

Recommendation: We recommend that on a monthly basis DHR conduct a review of all FOCUS financial transactions and associated documentation in accordance with ATB 020. The department should appropriately document the review and the approval by a supervisor.

Management Response: The marketplace and PO purchases will be reviewed timely. We will use the suggested reports in ATB 020. Management anticipates completing this item by June 30, 2014.

7. Reconciliation Certification Form

The Reconciliation Certification Form was not used during the monthly reconciliation process.

Accounting Technical Bulletin 020 provides a Reconciliation Certification Form that is to be signed by the director or designee indicating reconciliation was completed for a specific period for the procurement card transactions and clearing account. This is to verify that the department's procurement card transactions and clearing account have been reconciled and verified by the authorizer/approver.

Recommendation: The Department of Human Resources should use the Reconciliation Certification Form provided by ATB 020 to complete the reconciliation of the financial transactions for a specific period. This form should be maintained on file by the agency.

Management Response: DHR will begin using the reconciliation certification form immediately.