



Fairfax County Internal Audit Office

Department of Family Services
Business Process Audit
Final Report

April 2015

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Executive Summary

We performed a business process audit covering procurement and reconciliation within the Department of Family Services (DFS). 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 always properly secured.
- Split purchases were made in excess of the department's card limit for individual procurement cards.
- Monthly FOCUS reconciliations were not properly documented.
- The Departmental Reconciliation Plan was not approved in a timely manner.

Scope and Objectives

This audit was performed as part of our fiscal year 2015 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 Department of Family Services' 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 orders that occurred during the period of October 1, 2013, through September 30, 2014. For that period, the department's purchases were \$1,841,538 for procurement cards, \$603,800 for FOCUS marketplace, \$40,460,398 for purchase orders, and \$22,904,075 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. Physical Security Over P-cards

In nine of the twenty DFS and School Aged Child Care (SACC) locations visited, the procurement cards were not properly secured. Each of the p-cards was stored within a lockbox that was kept in a locked cabinet. However, the keys that access the lockboxes and cabinets were not properly secured. In these locations, keys were either kept in unlockable cabinets or stored in public locations within the SACC room.

Procedural Memorandum (PM) 12-02 states that “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 is increased.

Recommendation: 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. To properly secure the p-cards the keys to access the cards should be kept in locked and secure drawers. For p-cards with multiple users, we recommend the p-cards themselves be stored in a combination lockbox.

Management Response: DFS p-card custodians for the nine p-cards were contacted and advised to immediately secure the keys. Follow up contact was made to ensure action had been taken. The Department of Administration for Human Services (DAHS) administers the p-card program for DFS and other Human Services agencies. Designated p-card custodians and authorized p-card users are accountable for maintaining the integrity of the p-card program within their agencies. The DAHS P-card program manager will continue to provide timely guidance to all DAHS P-card custodians regularly regarding the importance of card, as well as key security.

In addition, specific notice will be provided to all DAHS managed P-card custodians (includes DFS, as well as other Human Services departments) to ensure they are aware of the requirement to secure all keys to cabinets and lockboxes where P-card storage keys are maintained. The notice will communicate that keys to areas where cards are stored will also be locked in their designated spaces when not in use. Custodians will also be required to share this guidance with all Human Services staff who request use of the p-cards, and will be noted when cards are signed out for use, as required by the internal DAHS P-card policy and PM12-02. Follow up will occur monthly when log sheets and the sign-out sheets are submitted for reconciliation.

DAHS will update its P-card policies and procedures, which DFS follows, to include key storage security as a specific requirement. Management anticipates completing this item by June 30, 2015.

2. Split Purchases

There were three instances noted where split purchases were made in excess of the department's card limit for individual procurement cards.

- a) Metro Bulk Sales – A total purchase of \$3,600, which exceeds the single purchase limit of \$2,500, was split into two transactions of \$1,800.
- b) Thermal Bags – A total purchase of \$4,566, which exceeds the single purchase limit of \$2,500, was split into one transaction of \$2,400 and one transaction of \$2,166.
- c) Jennifer Smith – A total purchase of \$1,200, which exceeds the single purchase limit of \$1,000, was split into two transactions of \$600.

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. PM 12-02 prohibits split purchases and states that “in most cases, a split purchase is created to circumvent a card's single purchase or cycle spending limit. In some cases, a split purchase is made to circumvent the county's monetary threshold for the competitive bidding process.”

Recommendation: We recommend DFS utilize proper purchasing methods in accordance with county policy. When exceptions to policy are made they should be clearly documented and approved. In addition, procurement card usage should be reviewed to determine if monetary limits need to be modified.

Management Response: DAHS staff reviewed the transaction documentation for the three split transactions. The DFS p-card custodians who maintain the cards were then contacted to determine whether extenuating circumstances necessitated the split purchases. The custodians were reminded of the p-card policies and procedures, including their prior knowledge about the intended uses of the p-cards and to ensure appropriate uses by staff that “sign out” agency cards for their use. The DFS staff responsible for each purchase was contacted also, and the split purchase prohibition was explained to each of them.

The DAHS P-card Program Manager has communicated with all card custodians that requests for card use must be reviewed for accuracy, completeness and intent of card usage before permitting the card to be signed out for use. Upon review if it is noted that the request is not deemed suitable for this method of procurement, the requestor will be directed to the DAHS Contract and Procurement Management (CPM) Division for further guidance in procuring what is needed.

DAHS will be requesting the recently authorized “higher limit” cards that will facilitate procurement needs which fall within these new higher per transaction limits of up to \$4,999.00 to help address such situations.

The DAHS P-card policies and procedures currently address split p-card purchases as prohibited, as does PM12-02. Staff will be reminded that split purchases are prohibited. Management anticipates completion of this item by April 30, 2015.

3. FOCUS Reconciliations

While there was evidence that monthly FOCUS reconciliations were being performed, there was no evidence to indicate who performed the reconciliations and when they were performed for all the three months reviewed. In addition, the Reconciliation Certification Form was not used to document the completion of the reviews.

Accounting Technical Bulletin (ATB) 020, Reconciliation of Financial Transactions, requires that a detailed review of expenditures be completed and documented on a monthly basis. Additionally, ATB 020 provides a Reconciliation Certification Form that is to be signed by the director or designee indicating that reconciliation was completed for a specific period for the financial transactions. This is to verify that the department's transactions have been reconciled and authorizer/approver verified.

Recommendation: We recommend DFS appropriately document the reconciliation of all FOCUS financial transactions and the approvals by a supervisor. Additionally, DFS 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: Currently, DFS has an approved Financial Reconciliation Plan on file with the Department of Finance (DOF). The plan will be reviewed to assign roles and responsibilities to specific staff so that an overall monthly Reconciliation Certification Form can be prepared and on file, as required by the ATB. Staff that perform reconciliations have been reminded to initial and date the reconciliation documents on file, and staff that are new to the reconciliation process will be instructed to do the same. Management anticipates completion of this item by June 30, 2015.

4. Departmental Reconciliation Plan

A final signed copy of the Departmental Reconciliation Plan was not submitted to DOF before the March 2014 due date. Per staff, a draft of the reconciliation plan was submitted to DOF prior to the due date with the expectation that the finalized version would be completed once the required staff feedback was obtained.

Per ATB 020, Reconciliation of Financial Transactions, each department should "Develop a reconciliation plan and department desk procedures outlining steps specific to your department's reconciliation process that are not stated in this ATB and submit them to DOF for approval." Failure to obtain approval for departmental reconciliation plan increases the risk that reconciliation procedures might not be in compliance with county policy.

Recommendation: We recommend DFS submit a final departmental reconciliation plan to DOF for approval.

During the audit, a signed copy of the departmental reconciliation plan was submitted to and approved by DOF. No follow-up is needed for this item.