



Arlington County, Virginia

Formal Purchase Card Review of the Department of Environmental Services - Facilities Management and Equipment Bureaus

**Quarter 1 of Fiscal Year 2015
(July 1, 2014 – September 30, 2014)**

Prepared By:



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Pursuant to the contract and related statement of work for Arlington County, Virginia (“the County”), we hereby present the Formal Purchase Card (“PCard”) Review of the County’s Department of Environmental Services - Facilities Management and Equipment Bureaus. Our report is organized in the following sections:

Executive Summary	This section gives a background summary of the function and a detailed description of the issues noted during our internal audit, recommended actions, and management’s corrective action plan, including the responsible party and estimated completion date.
Background	This section provides an overview of the function within the process and pertinent operational control points and related compliance requirements.
Objectives and Approach	The internal audit objectives and focus are expanded upon in this section as well as a review of the various phases of our approach.
Process Maps	This section illustrates process maps, which identifies data flow, key control points and any identified gaps.

We would like to thank the County’s Department of Management and Finance and those involved from the Department of Environmental Services - Facilities Management and Equipment Bureaus in assisting McGladrey in connection with this Formal Purchase Card Review.

Respectfully Submitted,

MCGLADREY

Executive Summary

Executive Summary

Arlington County established a PCard program over twenty years ago to provide a more efficient method of purchasing and payment. A PCard is a form of a charge card that allows goods and services to be procured without using a traditional purchasing process. They are typically issued to employees who make low dollar, high volume transactions. The use of the PCard is not intended to avoid or bypass appropriate procurement or payment policies.

The primary objective of this internal audit was to assess whether the system of internal controls over the PCard process is adequate and appropriate for promoting and encouraging the achievement of management's objectives for an effective process. This involved the evaluation of the appropriateness of PCard purchases and the adequacy of program administration and oversight, including internal controls to safeguard the County from fraud, waste, and abuse. This also included a review and assessment of the design of the County's policies and procedures to determine the adequacy of internal controls over purchase cards.

The scope of this internal audit encompassed the process at its current state and the entire population of PCard transactions from Quarter 1 of Fiscal Year 2015 (July 1, 2014 – September 30, 2014), 548 transactions, encompassing 110 expense reports, totaling \$134,166) for the following departments:

- Department of Environmental Services ("DES") - Facilities Management Bureau
- Department of Environmental Services - Equipment Bureau

The following data shows how the transactions in these two bureaus during this period compare to the entire County.

Selected Statistical Data - Quarter 1 of Fiscal Year 2015 (July 1, 2014 – September 30, 2014)

Description	County-Wide Total	DES - Facilities Management Bureau	DES - Equipment Bureau
Approximate number of Card Holders*	472	26	13
Approximate number of transactions	6,343	380	168
Purchases (net of returns)	\$1,387,957	\$98,506	\$35,660
Average dollar amount per transaction	\$219	\$259	\$212

*The approximate number of Card Holders identified in October 2014

The following data shows the information for the entire previous fiscal year (FY 2014).

Selected Statistical Data - Fiscal Year 2014 (July 1, 2013 – June 30, 2014)

Description	County-Wide Total	DES - Facilities Management Bureau	DES - Equipment Bureau
Approximate number of Card Holders			
Approximate number of transactions	22,976	1,211	696
Purchases (net of returns)	\$5,167,999	\$ 265,419	\$ 220,248
Average dollar amount per transaction	\$225	\$219	\$316

Executive Summary - continued

A detail of the issues identified and their relative risk ratings is provided below, including recommendations and management's response. We have assigned relative risk factors to each issue identified. This is the evaluation of the severity of the concern and the potential impact on the operations. There are many areas of risk to consider in determining the relative risk rating of an issue, including financial, operational, and/or compliance, as well as public perception or 'brand' risk. Items are rated as High, Moderate, or Low.

- *High Risk Items* are considered to be of immediate concern and could cause significant operational issues if not addressed in a timely manner.
- *Moderate Risk Items* may also cause operational issues and do not require immediate attention, but should be addressed as soon as possible.
- *Low Risk Items* could escalate into operational issues, but can be addressed through the normal course of conducting business.

Issues	Risk Rating
1. Split Transactions	High
<p>Current County policy states:</p> <p><i>Appendix G, III, Purchase Card Participant Roles and Responsibilities, E. Card Holders, 2. Guidelines For Using The Purchase Card, Card Holders</i> are not allowed to split purchases to stay within the single transaction/daily dollar limit established for the PCard. Additionally, when purchasing a service, only services under \$500 may be charged on the PCard.</p> <p>We identified one instance during our testing of the DES - Equipment Bureau for which a Card Holder split a transaction for a service totaling \$957 into two transactions. The service was related to equipment troubleshoot, labor and mileage charges. Each transaction was for \$478.50, and was not identified during the monthly monitoring and review/approval process.</p> <p>Split transactions are a circumvention of established spending limits and defined purchasing processes. Prohibiting split card transactions assists in risk mitigation and fraud prevention of an effective PCard program. Also, County policy does not allow for split transactions and the purchase of services over \$500.</p>	
Recommendation	
<p>We recommend the following:</p> <ul style="list-style-type: none"> • Re-emphasis be provided to those involved with the PCard program (Card Holders, Card Managers, designated Approvers, and Department Directors) that circumvention of the PCard single transaction/daily dollar limits through split-purchase transactions will not be tolerated and County personnel are expected to comply with PCard policies and procedures. • In instances for which split payments are identified, appropriate follow-up should be conducted and resolution formally documented for record keeping. • In addition, repeated instances of PCard purchasing violations should be monitored by the department to determine the continued future privileges of the Card Holder. 	

Executive Summary - continued

Issues	Risk Rating
1. Split Transactions - continued	High
Management's Response	
<p>Response: The DES Equipment Bureau Chief has investigated this occurrence and addressed it with the involved employee. The Bureau Chief has distributed copies of the PCard policies and procedures to each of the 13 P-card holders in the Equipment Bureau. Using the split transaction noted in the report as an example, he reviewed with the 13 PCard holders and their supervisors the section concerning Split Transactions and reiterated that County policy does not allow for split transactions and will not tolerate the practice.</p> <p>The County-wide training conducted by the Department of Management and Finance on the PCard Policies and Procedures will emphasize the circumvention of the PCard single transaction/daily dollar limits through split transactions will not be tolerated.</p> <p>In any instance where split purchases are identified in the future, the Bureau Chief and Equipment Bureau PCard manager will ensure that corrective action will be taken with the employee involved as appropriate and the incident's resolution is documented. In the event of repeat occurrences of split purchases with an employee, the employee will be held accountable for not following the policy and the employee's PCard privileges will be revoked.</p> <p>Responsible Party: Equipment Bureau Chief, Department of Management and Finance</p> <p>Estimated Completion Date: Equipment Bureau Chief – Completed as of February 13, 2015; DMF – Training to occur annually</p>	

Executive Summary - continued

Issues	Risk Rating
2. Policies and Procedures	Moderate
<p><i>Appendix G Arlington County Purchase Card Policy of the current policy states:</i></p> <p>The purpose of this policy is to establish procedures under which Arlington County agencies, through their employees, may use charge cards (Purchase Cards) which are assigned to and utilized by selected employees (Card Holders) to purchase goods and services on behalf of the County.</p> <p>During our walkthroughs and inquiries, some of the persons interviewed had indicated that they were either unaware of the County's PCard policies or unaware of aspects, such as procedures if fraudulent activity is suspected and, procedures required for the updating of Card Holder information (name, address, position etc).</p> <p><u>Review of Existing and Draft Policies and Procedures and Current Practice</u></p> <p>We reviewed the existing and revised draft policies and procedures of the PCard program and compared them to current and industry best practices noting the following changes for consideration of improvement:</p> <ul style="list-style-type: none"> • Do not limit the title of the revised draft policy to just "<i>Card Holder and Card Manager Manual</i>" as others have PCard responsibility, such as the PCPA, Department Directors, Supervisors and DMF. • Include indication of the frequency and process of policy review as well as personnel involved. • Maintain the section detailing roles and responsibilities of those involved in the PCard program. I.e. – DMF, Card Holder, Card Manager, Supervisor and Department Directors. <ul style="list-style-type: none"> ○ Include the Supervisor's role with the related responsibilities/functions as they have review responsibilities. This is not in the existing approved policy in place. • Maintain the purpose statement noted above (can be included in the "Introduction" section of current draft). • Include a section for emergency purchases. Details of the section should include examples of reasonable emergency purchases, approval process, and documentation requirements. • <i>Card Holders Roles and Responsibilities and Receiving the Card Purchase Card Card Holder Agreement Form</i> – Include a statement clearly stating that the Card Holder is responsible for the safekeeping and safeguarding of their issued PCard. • <i>Card Holders Roles and Responsibilities</i> – Revise first bullet under purchasing guidelines in the revised draft to state: "Only the authorized PCard user may use the PCard and delegation of authority for use of the PCard is not allowed." • <i>Monthly Reconciliation Review and Approval</i> – Inclusion of the below examples for areas of consideration as part of the monthly review. <ul style="list-style-type: none"> ○ <i>Do all transactions adhere to County policies and procedures?</i> ○ <i>Was the expenditure for reasonable business purposes?</i> ○ <i>Was the merchandise received or services performed?</i> ○ <i>Was Virginia sales tax inappropriately paid? If so, did the Card Holder secure a credit?</i> ○ <i>If credits were due or errors made, were they received or corrected?</i> ○ <i>If items were shipped, were they shipped to a valid Arlington County government address and to an Arlington County employee?</i> ○ <i>Did expenditure include prohibited items per the prohibited transactions and activities listing, which are strictly prohibited?</i> 	

Executive Summary - continued

Issues	Risk Rating
2. Policies and Procedures - continued	Moderate
<p><u>Review of Existing Policies and Procedures and Current Practice - continued</u></p> <ul style="list-style-type: none"> • <i>Expired Cards</i> - Inclusion of the procedures necessary at card expiration. Suggested verbiage: All PCards are issued with an expiration date. A re-acknowledgement of the Purchase Card Holder Agreement is a requirement prior to issuance of the new PCard. The Card Manager must obtain and destroy the PCard and notify the Purchase Card Administrator when the PCard has been destroyed. • <i>Cash Rebates</i> - Inclusion of management's review and monitoring of cash rebates pursuant to the executed contract between the County and the merchant bank. <p><u>Additions to Policies and Procedures as a Result of Testing</u></p> <ul style="list-style-type: none"> • <i>Section III Purchase Card Participant Roles and Responsibilities B. Program Administrator</i> – Include a requirement that a review be performed of all Card Holder additions/changes/deletions submitted to JPMorgan to ensure changes were accurately updated by JPMorgan. <p>The County's existing centralized, standardized, and documented procedures provide vital information to employees in the event of absence and employee turnover, and assist with succession/back up planning or other occurrences. Documented policies and procedures provide detailed instruction to help ensure accurate and consistent process functioning, monitoring and reporting. This practice also provides management with a benchmark to monitor against to ensure that staff performs processes that are consistent, accurate, on schedule, and that are properly reviewed, where applicable.</p> <p>Consistent standardized policies and procedures reduce opportunities for misuse or fraud, strengthen the ability to provide proper management of purchase cards, promote compliance with County policy and applicable State Statutes, and provide guidance for adequate review and approval of purchase card documentation, including invoices, receipts, and monthly reconciliations.</p>	
Recommendation	
<p>We recommended that the County consider all of the above as revisions to the PCard policies and procedures.</p> <p>Once the PCard policies and procedures have been approved, we recommend that the Purchase Card Administrator provide training to those involved with the PCard program. This initial re-training should be mandatory, with updates on a periodic basis. The periodic training for updates can be attended by new persons involved in the PCard program and as a refresher to existing persons. Training attendance should be maintained for each employee that attends to ensure all personnel involved in PCard use or management complete the necessary training.</p>	
Management's Response	
<p>Response: The County will consider all of the recommendations provided in the report and revise the PCard Policies and Procedures. Once revised, the new policy will be posted on the County's intranet and training will be scheduled for all PCard Holders and Card Managers. Thereafter, periodic training will be scheduled up to two times per fiscal year for new persons involved in the PCard program and as a refresher for existing persons. Attendance will be maintained for all training sessions provided.</p> <p>Responsible Party: Department of Management and Finance</p> <p>Estimated Completion Date: Revised PCard Policies and Procedures – July 1, 2015; one training will be scheduled prior to the end of the calendar year for all PCard Holders and Card Managers and another one in the first half of 2016 for new persons involved in the program and existing persons who would like a refresher.</p>	

Executive Summary - continued

Issues	Risk Rating
3. Monthly Reconciliation	Moderate
<p><u>Required Documentation for the Monthly Reconciliation</u></p> <p>Current County policy states: <i>Appendix G, Appendix G. IV. Monthly Reconciliation A. Review the Statement 2.</i> After submitting the Purchase Card reconciliation you must attach all receipts, the completed and signed Purchase Card Log, and any other documentation that will explain or provides approval of the purchase, etc. to the Expense Report.</p> <p>During our testing of the monthly reconciliation process, we identified the following exceptions from the DES – Facilities Management Bureau:</p> <ul style="list-style-type: none"> • For 9 of the 548 transactions (encompassing 110 expense reports) reviewed, incorrect receipts were attached in PRISM. Per review of the hard copy of the <i>Monthly PCard Transaction Log</i> and corresponding receipts, we noted no exceptions. Subsequent to our review and follow-up with personnel, the required documentation was located and uploaded to the system appropriately. • For 1 of the 548 transactions (encompassing 110 expense reports) reviewed, the related receipt was missing from PRISM. This appears to have been lack of adequate review by Card Manager for support included in PRISM. The Card Manager conducts detailed review of the paper form and then uploads in PRISM. We obtained a hard copy of the receipt noting no exceptions. Subsequent to our review and follow up with personnel, the required documentation was located and uploaded to the system appropriately. <p>The DES - Facilities Management Bureau review and monitoring process is a two-fold process that includes manual procedures. This Bureau documents evidence of review via sign-off on the manual <i>Monthly Purchase Card Transaction Log</i> which is then uploaded into PRISM as part of the supporting documentation for the monthly reconciliation. The DES Card Manager and/or Supervisor also signs-off electronically in PRISM once the documentation has been uploaded. The other DES – Equipment Bureau performs their review on-line within PRISM, reviewing the already attached documentation. No exceptions were noted during the DES – Equipment Bureau’s review.</p> <p>Transactions lacking proper supporting documentation and review/authorization could result in misappropriation and overspending of funds.</p> <p><u>Expense Report Approval</u></p> <p>Current County policy states: <i>Appendix G-Purchase Card Policy, IV. Monthly Reconciliation, A. Review the Statement and V. Approval Process A. Card Manager Review,</i> requires each Card Holder to submit their purchase card expense support (receipts) and have their Supervisor and Card Manager approve it by the date set by the County DMF (20th of each month, or the next business day).</p> <p><i>Appendix G, Appendix G. IV. Monthly Reconciliation B. Card Holder Leave or Travel</i> It is the responsibility of the Card Holder to provide the Card Manager with the log and receipts for that month if travel or extended leave is scheduled at the time the statement is due and the Card Holder will not be able to complete the reconciliation process. The Card Manager will complete the reconciliation for the absent Card Holder. The original Card Holder statement shall be signed by the Card Holder at the time they return.</p>	

Executive Summary - continued

Issues	Risk Rating
3. Monthly Reconciliation - continued	Moderate
<p>During our testing we noted 3 out of 110 expenses reports, for the 548 transactions tested, were approved one, two and nine days after the stipulated timeline. Of those, one was for DES – Equipment Bureau and two were for DES – Facilities Management Bureau.</p> <p>Based on discussions with the Card Managers from both Bureaus, the delay in approval was due to Card Holders being on vacation as of the due date. As a result, Card Managers could not approve expense reports because the expense reports had not been submitted for approval.</p> <p>Untimely review and approvals delay the ability for identification of potentially inappropriate charges that would require follow-up and resolution.</p>	
Recommendation	
<p>We recommend that re-emphasis be provided to those involved with the PCard program (Card Holders, Card Managers, designated Approvers, and Department Directors) of the monthly reconciliation process, required documentation and review and timely approval. Including procedures required if the Card Holder is on leave or traveling during the scheduled time the statement is due and the Card Holder will not be able to complete the reconciliation process.</p>	
Management's Response	
<p>Response: <u>Facilities Management Bureau</u></p> <ol style="list-style-type: none"> 1. Review the current reconciliation process and formulate new procedures for purchase card reconciliation focusing on ensuring attachments/receipts have been scanned into PRISM before approvals are completed. Include in the procedures adjustments to be made for reconciliations when the Card Holder is on leave. The procedures will ensure checks and balances are in place. 2. Train and educate employees on the new procedures. Educate Trades Manager Leaders who approve purchase card reconciliations of their responsibilities. <p><u>Equipment Bureau</u></p> <p>The Bureau Chief and Equipment Bureau PCard manager will re-emphasize by individual and/or group training the need to meet the timeframes required by the policies and procedures, including making adjustments for scheduled leave.</p> <p>Responsible Party: PCard Managers in each Bureau, Equipment Bureau Chief, Custodial Section Chief, Trades Manager Leaders</p> <p>Estimated Completion Date: April 1, 2015</p>	

Executive Summary - continued

Issues	Risk Rating
4. Annual Inventory of PCards	Moderate
<p>Current County Policy states:</p> <p><i>Appendix G, Purchase Card Policy, XI Annual Inventory of Purchase Cards</i>, each department is required to conduct a physical inventory of Purchase Cards issued to their employees and provide a report to the PCPA of the results of the inventory by March 15th each year. This report shall list Purchase Cards not accounted for in the inventory, these Cards will be cancelled by the PCPA.</p> <p>We noted the following during our testing:</p> <ul style="list-style-type: none"> • The annual physical inventories of the PCards for both Bureaus were completed in September 2014, six months after the required deadline. The September 2014 date was determined by the email attaching the inventory that was submitted at completion. • During our comparison of the results of the annual PCard inventory to a report of existing Card Holders from JPMorgan, we noted that a Card Holder previously assigned to DES - Facilities Management Bureau transferred departments in May 2014. Upon transfer; the PCard was appropriately obtained and destroyed by the Card Manager. The Card Manager then notified the PCPA who is responsible for completing the necessary steps to properly document and cancel the purchase card in conjunction with JPMorgan. Although, it was indicated that the PCard was destroyed, the account remained active in the bank's system of record. Based on follow up with DMF, it was not clear as to whether if it was JPMorgan or the PCPA who did not complete the necessary procedures to ensure that the PCard was deactivated. • For the DES - Facilities Management Bureau, 1 of 28 Card Holders was not accounted for during the annual inventory. The physical inventory listing was missing the Card Holder signature and inclusion of a notation explaining that the Card Holder was on vacation. There was no documentation regarding follow-up to properly account for the Card Holder. Subsequent to our follow-up, the remaining purchase card was inventoried properly and confirmed. <p>Failure of timely and accurate completion of the annual inventory of PCards can delay the identification of missing PCards, which could be in use by unauthorized persons. Failure of timely and accurate review of PCard additions/changes/deletions submitted to and processed by JPMorgan increases the risk of unauthorized PCards being in use.</p>	
<p style="text-align: center;">Recommendation</p>	
<p>We recommend the following:</p> <ul style="list-style-type: none"> • Re-emphasis be provided to those involved with the PCard program (Card Holders, Card Managers, designated Approvers, and Department Directors) regarding the procedures for the annual inventory of PCards. • County policy be updated to include a review of Card Holder additions/changes/deletions submitted to JPMorgan to verify they were accurately updated by JPMorgan. See Issue #2 	

Executive Summary - continued

Issues	Risk Rating
4. Annual Inventory of PCards - continued	Moderate
Management's Response	
<p>Response: The updated PCard Policy will identify the date the annual inventory of PCards is required to be conducted, and will adhere to the established date. In 2014, the request for the inventories was sent out six months after the required deadline because DMF was short staffed at the time. Having additional staff will ensure the date identified in the policy is adhered to. The PCard Administrator will also send out an email with the list of active PCards to each PCard manager prior to the date of the annual inventory reminding them of the requirement. The PCard manager in each department will conduct the inventory of the PCards in their department and submit the results to the PCard Administrator. The PCard manager should immediately report any missing PCards to the PCard Administrator. Any missing PCards will be cancelled by the PCard Administrator. The PCard Administrator will compare the results of the annual inventory with the inventory of cards maintained by JPMorgan. DMF will continue to practice of requiring all department heads sign-off on all PCard users every year.</p> <p>Responsible Party: Department of Management and Finance</p> <p>Estimated Completion Date: PCard Policy – July 1, 2015; Inventory - annually</p>	

Executive Summary - continued

Issues	Risk Rating
5. Documentation Required for PCard Issuance	Low
<p>Current County policy states: <i>Appendix G-Purchase Card Policy, II. General Information, (C) Requesting A Purchase Card and Eligibility Requirements and Appendix G. III. Purchase Card Participant Roles and Responsibilities (E) Card Holders (1)</i>, each Card Holder is required to complete appropriate forms prior to obtaining a Purchase Card. Each Card Holder must have a corresponding completed and approved "Purchase Card Card Holder Justification Form" and each Card Holder must sign the "Purchase Card Employee Agreement" upon issuance of the PCard. These documents are required to remain on file.</p> <p>We noted that the <i>Purchase Card Employee Agreements</i> could not be located and provided for 4 out of 38 Card Holders reviewed. Three were from PCards issued in 2009, in which the documentation retention was manual in nature, and one was from a PCard issued in 2011. Three were from DES – Equipment Bureau and 1 was from DES – Facilities Management Bureau.</p> <p>Absence of the <i>Purchase Card Employee Agreement</i> increases the risk that Card Holders do not understand their responsibility as PCard users, which could result in misuse or inappropriate transactions and inconsistent application of County policies and procedure requirements.</p>	
Recommendation	
<p>We recommend that the Card Managers perform a review for completeness of the required documentation for each Card Holder per Policy.</p>	
Management's Response	
<p>Response: For PCards issued prior to 2012, only paper copies of the Employee Agreements were maintained, and some were difficult to locate. The agreements noted in the audit report that could not be located were paper copies from 2009 and 2011. DMF is now using an electronic records management system which will make documents easier to locate and to track when they are not received. To ensure there are signed Employee Agreements for all PCard Holders, DMF is requiring all card holders to re-sign the Employee Agreement when their cards expire. The new agreements have been modified to include recommendations from McGladrey.</p> <p>Responsible Party: Department of Management and Finance</p> <p>Estimated Completion Date: May 1, 2015</p>	

Executive Summary - continued

Issues	Risk Rating
6. Sales Tax Paid on Transactions	Low
<p>Current County policy states:</p> <p><i>Appendix G. E. Card Holders (2) Guidelines For Using the Purchase Card (q)</i>, There should be no charges for sales tax on the purchase of goods made with your Purchase Card. The tax exempt number is printed on your Purchase Card.</p> <p>Also, <i>Virginia Retail Sales and Use Tax Act</i> provides that the Virginia sales and use tax shall not apply to tangible personal property for use or consumption by the State (Virginia), any political subdivision of the State, or the United States.</p> <p>During our testing we noted that the County paid sales tax for 3 of 548 transactions, without evidence/identification indicating that this was paid in error and credit was received from the vendor. These exceptions were from the DES – Facilities Management Bureau.</p> <p>Although, the dollar amount of the sales tax paid on the 3 transactions is minimal (approximately \$11 in total for the three transactions), it is a violation of County policy and State Statute.</p>	
Recommendation	
<p>We recommend that re-emphasis be provided to those involved with the PCard program (Card Holders, Card Managers, designated Approvers, and Department Directors) that there should be no charges for sales tax, as the County is tax exempt and the tax exempt number is printed on the PCards for reference. Violations of this kind should be identified as part of the Card Managers/ Supervisors review.</p> <p>Within JPMorgan's system of record, sales tax is displayed separately from the transaction amounts based on the merchant's level of transaction detail that can be provided. It is recommended that the County collaborate with JPMorgan, so that when the transaction data is loaded into PRISM, any transaction that includes tax would be flagged for review and follow-up by Card Managers, for those merchants where that level of detail can be provided. The listing of flagged transactions should be retained by each Card Manager for follow-up and monitoring.</p>	
Management's Response	
<p>Response: Reinforce with PCard Holders that they must not be charged VA sales tax at the time of purchase. The new Employee Agreement that all PCard holders will be re-signing reminds them to familiarize themselves with the PCard Policy which provides information on not paying VA sales tax. If card holders observe that they have been charged, they must request the charges be removed at the time of purchase. Educate card holders on the tax exempt number on each credit card and what it is used for. If the PCard holder encounters a vendor who does not accept the sales tax exemption, they should attach a note to the reconciliation informing the PCard Manager of this, who will then follow-up with the vendor. The PCard Manager will continue to review every transaction for sales tax.</p> <p>Responsible Party: Card Holders, PCard Manager, Trades Managers Leaders</p> <p>Estimated Completion Date: April 1, 2015</p>	

Executive Summary - continued

Proposed Three Year Audit Rotation Plan

To assist with continued success of the County's PCard program, the County is planning on performing periodic audits for continued evaluation of the appropriateness of PCard purchases and the adequacy of program administration and oversight, including internal controls to safeguard the County from fraud, waste, and abuse.

Specifically, the goal of the audit rotation would be to:

- Review for compliance with applicable County and state policies and procedures;
- Determine purchases are valid, appropriately reviewed, and properly supported; and
- Determine that purchases are appropriately monitored and controlled by Management.

To assist the County in establishing this plan, we obtained and evaluated PCard data by department and related divisions for the periods FY 2014 (July 1, 2013 through June 30, 2014) and Q1 FY 2015 (July 1, 2014 through September 30, 2014). Based on the data provided by the County, we calculated and identified the percentage coverage for each of the data fields. Based on evaluation of the data fields, we determined that coverage of volume and dollar (based on % of PCards issued, total dollar of PCard expenditures and number of transactions) should be the factors for determination of the proposed three year audit rotation plan, and that at least 30% coverage each year would minimize the County's risk. We also looked at the departments and divisions in the rotation to obtain a varied mix. The proposed rankings are as follows:

- **Ranking 1** - Represents divisions selected and recommended for audit for Year 1
- **Ranking 2** - Represents divisions selected and recommended for audit for Year 2
- **Ranking 3** - Represents divisions selected and recommended for audit for Year 3

Although, rankings were based on percentage coverage of the above mentioned areas, rankings should be reviewed by the County on a periodic basis to determine potential changes/updates. Rankings may need to be modified based on new factors that may include information not limited to the following:

- Change in department/division personnel involved with the PCard program;
- Change (increase/decrease) in PCard volume and expenditure;
- Potential infractions reported for further review;
- Issues identified in previous internal audit reports; and
- Other relevant factors that may affect the PCard program.

Currently, the County's goal is for all departments/divisions with PCards to be subject to audit on a three year rotation plan. The County may decide to extend the rotation of some departments for over three years, based on audit results, volume and risk to the County.

Background

Background

Overview

Arlington County established a PCard program over twenty years ago to provide a more efficient method of purchasing and payment. A PCard is a form of a charge card that allows goods and services to be procured without using a traditional purchasing process. They are typically issued to employees who make low dollar, high volume transactions. The use of the PCard is not intended to avoid or bypass appropriate procurement or payment policies.

PCards are issued through JPMorgan Chase Bank, N.A. (“JPMorgan”), since 2009, and earn an approximate range of 0.96 % and 1.750% rebate (per the County’s contract with JPMorgan) based on total average charge volume of all purchases made by the County and corresponding days to pay (payment cycle length). Currently, there are 472 PCards issued throughout the County. In March 2014, the County received a rebate of \$62,262 (wire transfer), which was for Calendar Year 2013 (January 1, 2013 – December 31, 2013). In March 2013, the County received a rebate of \$60,440, which was for Calendar Year 2012 (January 1, 2012 – December 31, 2012).

The County currently has two employees, Deputy Director of Management and Finance and a Procurement Officer, with administrator access to add or delete Card Holders as well as modify (change transaction limits, suspend, etc.) their cards. The Deputy Director of Management and Finance is the current PCard Program Administrator. No employee is allowed to enter into an agreement with any provider or apply for a credit card or purchase card on behalf of the County with any vendor independent of this program.

PRISM and OnBase are two separate systems utilized for the monitoring and recordkeeping of PCard transactions. PRISM is an Oracle ERP and the County’s financial system. OnBase is the County’s document retention database. OnBase stores all of the County’s PCard documentation and integrates with PRISM only for the receipts. Documentation stored includes receipts, transaction statements, transaction logs (where utilized), inventories, card holder setup and maintenance approval forms etc. PRISM is the system of record for expense reports, so users (including card holders) can log in, identify an expense report, and see all the corresponding supporting information. Card Holders use PRISM for their monthly expense report reconciliation, so they can validate that all their support matches the transactions recorded in PRISM. Additionally, when a user wants to see the support for an expense report, they can click a button in PRISM and OnBase will open with the corresponding support for that expense report.

We segregated the purchasing card management process into the following areas:

Card Holder Setup and Maintenance

The purchasing card issuance and maintenance function is the responsibility of the Department of Management and Finance (“DMF”) and the Department/Bureau where the Card Holder is assigned. The Department Directors/Bureau Chiefs determine the need for a purchase card, and complete and approve the *Purchase Card Holder Justification Form*. The justification form indicates the types of purchases to be made in comparison to the Merchant Category Code (“MCC”) Groups, dollar limits requested (monthly spending limit and a single transaction spending limit), and the specific duties of the Card Holder. The signed forms and other necessary documents are provided to the Card Manager who in turn submits it to the PCPA. Upon receiving the request, the PCPA reviews the form to ensure that the form is properly filled out and that the appropriate authorization is given. Additionally, the PCPA reviews the justification and then makes the final determination whether to issue a card to the requesting employee. The PCPA may also make adjustments to the MCC and requested credit limits. If documentation is deemed reasonable and complete the PCPA will then process the request for a card by submitting the request to JPMorgan for fulfillment and files the original form in OnBase. Card Holder account changes are also initiated from the related Department/Bureau through DMF using the *Request Change to Current Purchase Card Limits – Amended Purchase Card Holder Justification Form*. PCard issuance is completed centrally by DMF and notification is provided to the Card Manager for pickup. The Card Manager is then responsible for ensuring the Card Holder signs the *Purchase Card Card Holder Agreement* as an act of receipt and that the signed agreement is returned to PCPA in a reasonable and timely fashion. Those forms are kept on file in DMF and as of 2012, they are maintained in OnBase.

Background - continued

Card Holder Setup and Maintenance – continued

When an employee is transferred to another department/bureau, or another Card Manager's area of responsibility, the Card Holder is required to complete a new *Purchase Card Card Holder Justification Form*, following the same process described above. However, when an employee is terminated, the PCard is collected and destroyed by the designated Card Manager and notification is provided to the PCPA to request the card be closed in JPMorgan's system of record. The loss or theft of a PCard requires the Card Holder to immediately notify JPMorgan (by telephone), the Card Manager and the PCPA.

Monthly Reconciliation

The Card Holder or designated Department/Bureau Representative/Card Manager is required to track all purchases by following a reconciliation process utilizing the Internet Expense Reports function within the PRISM system. Individual Card Holder merchant transactions are electronically uploaded and transmitted by JPMorgan to the County's PRISM system. The Card Holder uploads all receipts for the month into the PRISM system to complete the reconciliation of merchant statements and receipts. There are instances for which the Card Manager performs the reconciliations for the Card Holder. This includes instances for which the Card Holder is on leave and/or in the field. The reconciliations are then approved by the Card Holder's Supervisor. An immediate Supervisor may also review the reconciliations where necessary. The review process verifies that expense reports have proper documentation and purchases are in compliance with County requirements. Evidence of review and approval is identified through sign-off in PRISM.

The DES - Facilities Management Bureau documents evidence of review through sign-off on the manual *Monthly Purchase Card Transaction Log* which is uploaded into PRISM as part of the supporting documentation for the monthly reconciliation (this is not a requirement per County policies and procedures). The DES Card Manager and/or Supervisor also signs-off electronically in PRISM once the documentation has been uploaded. The DES – Equipment Bureau conducts the review process within PRISM and does not utilize the *Monthly Purchase Card Transaction Log*. The Monthly Reconciliation documents are maintained on file (within the PRISM system) in accordance with County record retention policies.

General Monitoring of Program

It is the responsibility of the Supervisor and Card Manager to review each purchasing card expenditure to ensure the goods or services were for official use and were necessary in accordance with applicable County policies, laws and regulations. Currently, all Department Directors receive a transaction report of PCard purchases on a monthly basis for review. DMF considers the approving official's electronic signature in PRISM as proper approval of expenditures. On a weekly basis, the PCPA generates a *Weekly Transaction Report* which lists transactions by department, Card Holder, merchant/vendor, amount and date. For monitoring and awareness purposes, this Report is submitted to DMF staff for review of potentially inappropriate charges that would require follow-up and resolution. Furthermore, periodically, the PCPA sends out a file listing each Card Holder's, monthly and daily dollar limits, limits on number of transactions in a month and in any day, and merchant code categories to the Department Directors/Bureau Chiefs. The Department Directors/Bureau Chiefs are responsible for the review of the list to determine whether the Card Holders are still active employees and still need PCards, as well as identify any need for a different transaction limit and to verify the merchant code categories are appropriate. If any changes are necessary, notification is provided to the PCPA. To ensure governance and monitoring of the PCard Program, the County has issued *Appendix G Arlington County Purchase Card Policy*.

Objectives and Approach

Objectives and Approach

Objectives

The primary objective of this internal audit was to assess whether the system of internal controls over the PCard process is adequate and appropriate for promoting and encouraging the achievement of management's objectives for an effective process. This involved the evaluation of the appropriateness of PCard purchases and the adequacy of program administration and oversight, including internal controls to safeguard the County from fraud, waste, and abuse. This also included a review and assessment of the design of the County's policies and procedures to determine the adequacy of internal controls over purchase cards. The scope of this internal audit encompassed the process at its current state and the entire population of PCard transactions from Quarter 1 of Fiscal Year 2015(July 1, 2014 – September 30, 2014, 548 transactions, encompassing 110 expense reports, totaling \$134,166) for the DES -Facilities Management and Equipment Bureaus.

Approach

Our audit approach consisted of the following phases:

Understanding and Documentation of the Process

During the first phase, we performed the following:

- Conducted an entrance conference with the Director of DES, representatives from the Facilities Management and Equipment Bureaus, and representatives from DMF (including the Purchasing Card Administrator) to discuss the scope and objectives of the internal audit work, obtain preliminary data, and establish working arrangements;
- Obtained copies of financial information and other documents deemed necessary;
- Reviewed the applicable State and County policies related to this internal audit;
- Conducted interviews with responsible personnel from each Bureau to obtain an understanding of the unique aspects of each in order to perform the walkthroughs and our testing; and
- Developed flowcharts of the process(es), which are included in this report.

Evaluation of the Process and Controls Design and Testing of Operating Effectiveness

The Process and Control Evaluation phase of this engagement consisted of an evaluation of the design and testing of operating effectiveness. We performed walkthroughs and detailed testing of transactions of the entire population of purchase card transactions for the Facilities Management and Equipment Bureaus from the time period of Quarter 1 of Fiscal Year 2015(July 1, 2014 – September 30, 2014). Specific procedures performed included:

- Testing of the entire population of purchasing card transactions (548 purchase card transactions, encompassing 110 expense reports) for proper justification, approval, and documentation of receipt by the responsible persons, including verification of the following:
 - Employee conducting purchase is an active employee;
 - Transactions were not split to avoid single transaction limit;
 - Purchases were not backordered or for prohibited/restricted items;
 - Purchases were not greater than the assigned credit limit;
 - Timeliness and approval of the Internet Expense Reports;
 - Purchase is in line with the assigned merchant category code(s);
 - Purchase is appropriate for Department/Bureau;
 - Virginia sales and use tax was not paid;
 - Purchases were in-line with County policy;
 - Department/Bureau follow-up and resolution for transaction purchases violating County policy;
 - Purchase is in line with Virginia Public Procurement Act - Title 2.2, Chapter 43 of the Code of Virginia or " Virginia Public Procurement Act"; and
 - Review for purchase of services over \$500, which is disallowed.

Objectives and Approach - continued

Approach - continued

Detailed Testing - continued

- Reviewed forms utilized;
- Reviewed segregation of duties within the Bureaus over the PCard process;
- Performed testing of the entire population of monthly reconciliations for proper completion, documentation of expenditures and approval;
- Reviewed procedures performed around the weekly transaction reports for monitoring and awareness;
- Reviewed management review process for Card Holders with no activity;
- Assessed appropriateness of segregation of duties and authorization of the designated Card Managers;
- Assessed appropriateness of segregation of duties of the PCard activity review and authorization process;
- Reviewed and assessed appropriateness of the periodic PCard inventory performed;
- Benchmarked the County's existing and revised draft PCard policies and procedures to industry best practices; and
- Reviewed financial data and statistical information and proposed a three year rotating scope.

Reporting

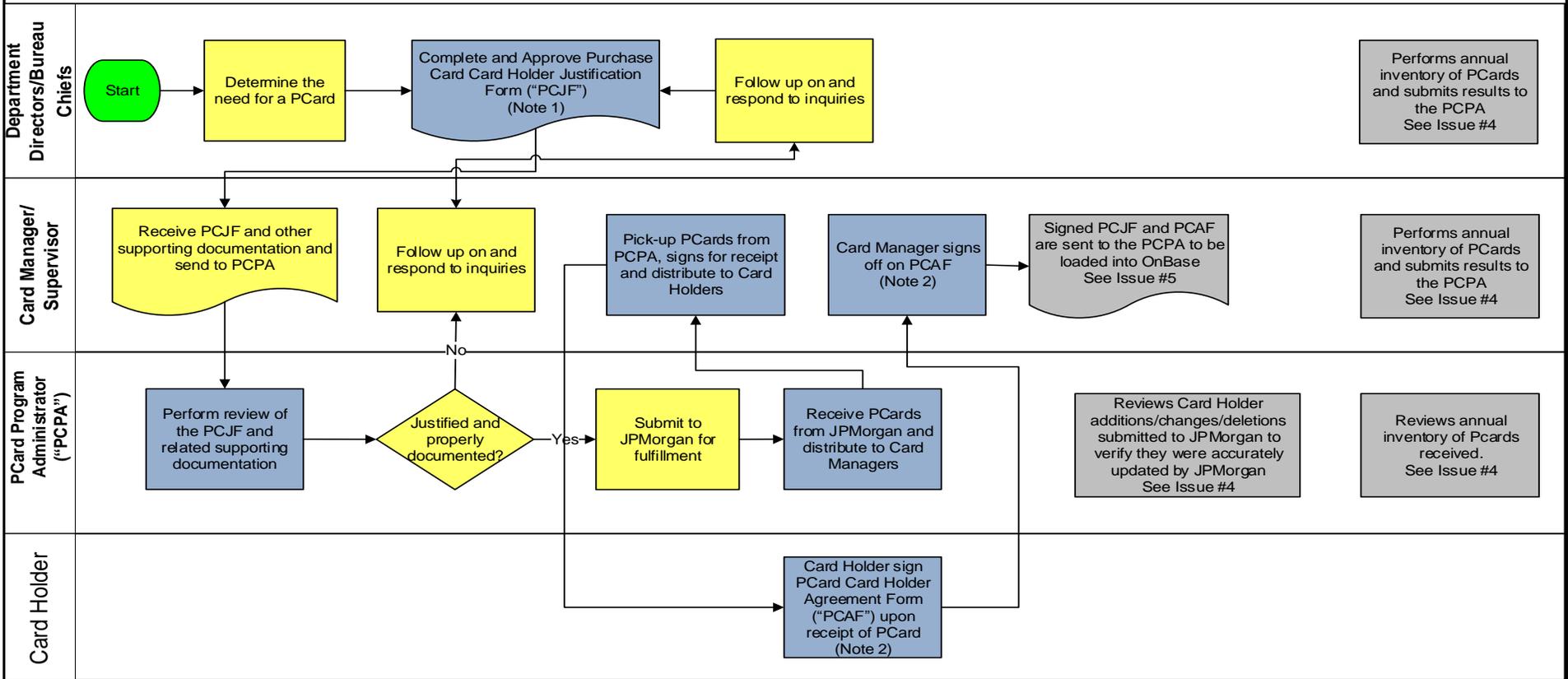
At the conclusion of this audit, we vetted the facts and exceptions noted with the DES - Facilities Management and Equipment Bureaus, along with the Department of Management and Finance. The draft report was submitted to DMF, and then to the Auditee after review. An exit meeting was held with the Auditee and County Management to formally review and discuss the draft report and modify accordingly. Management's corrective action plan with estimated completion dates has been provided and included in the report.

Process Maps

Process Maps

Purchase Card - Purchase Card Issuance, Maintenance and Record Keeping

DES Facilities Management Bureau (DES-FM) and Equipment Bureau (DES-EQ)



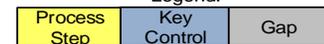
Note 1: The *Purchase Card Card Holder Justification Form* indicates the types of purchases to be made in comparison to the Merchant Category Code ("MCC") Groups, dollar limits requested (monthly spending limit and a single transaction spending limit). Furthermore, Card Holder account changes are also initiated from the related Department/Office through PCPA using the *Amended Purchase Card Holder Justification Form*.

Note 2: Upon receipt of the PCard, the Card Holder signs the *Purchase Card Card Holder Agreement* in front of the Card Manager as acknowledgment of the Card Holders roles and responsibilities as a card holder. The form is also signed by the Card Holder's Supervisor.

Flowchart Legend:



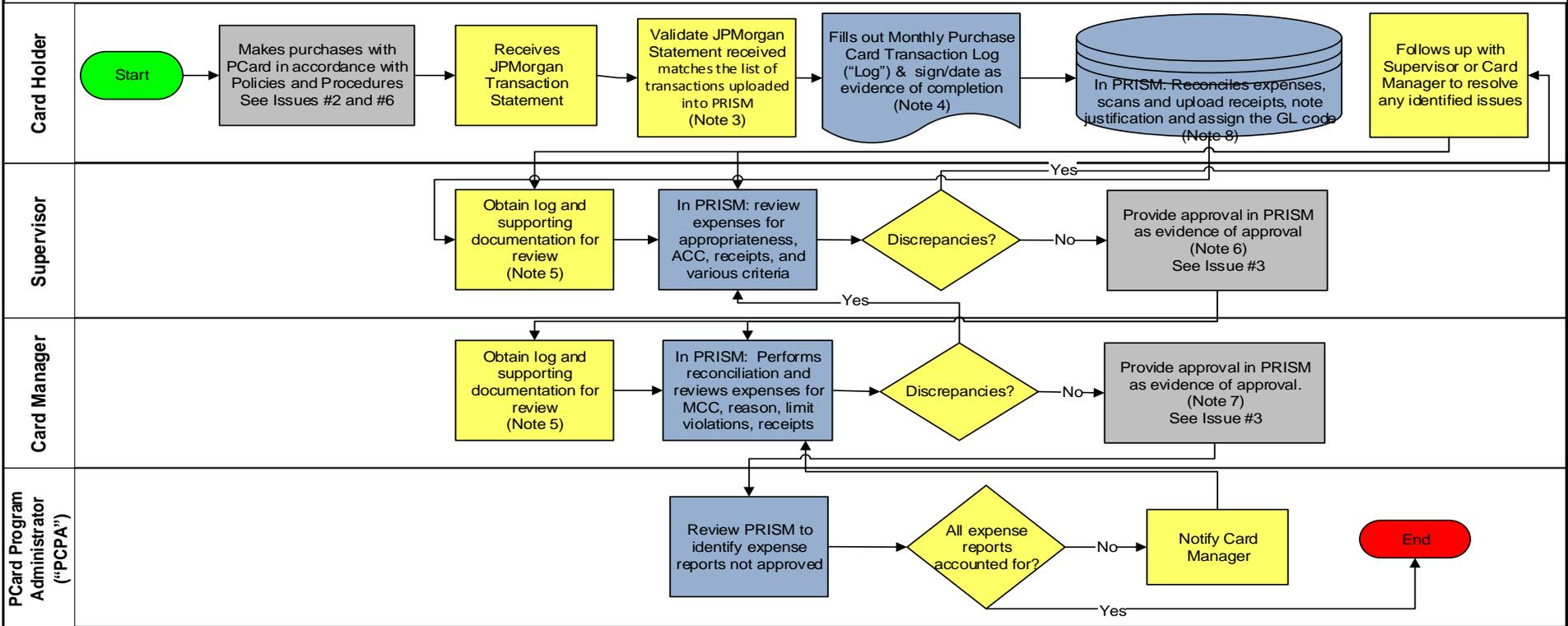
Legend:



Process Maps - continued

Purchase Card – Use of PCard, Monthly Reconciliation and Approval Process

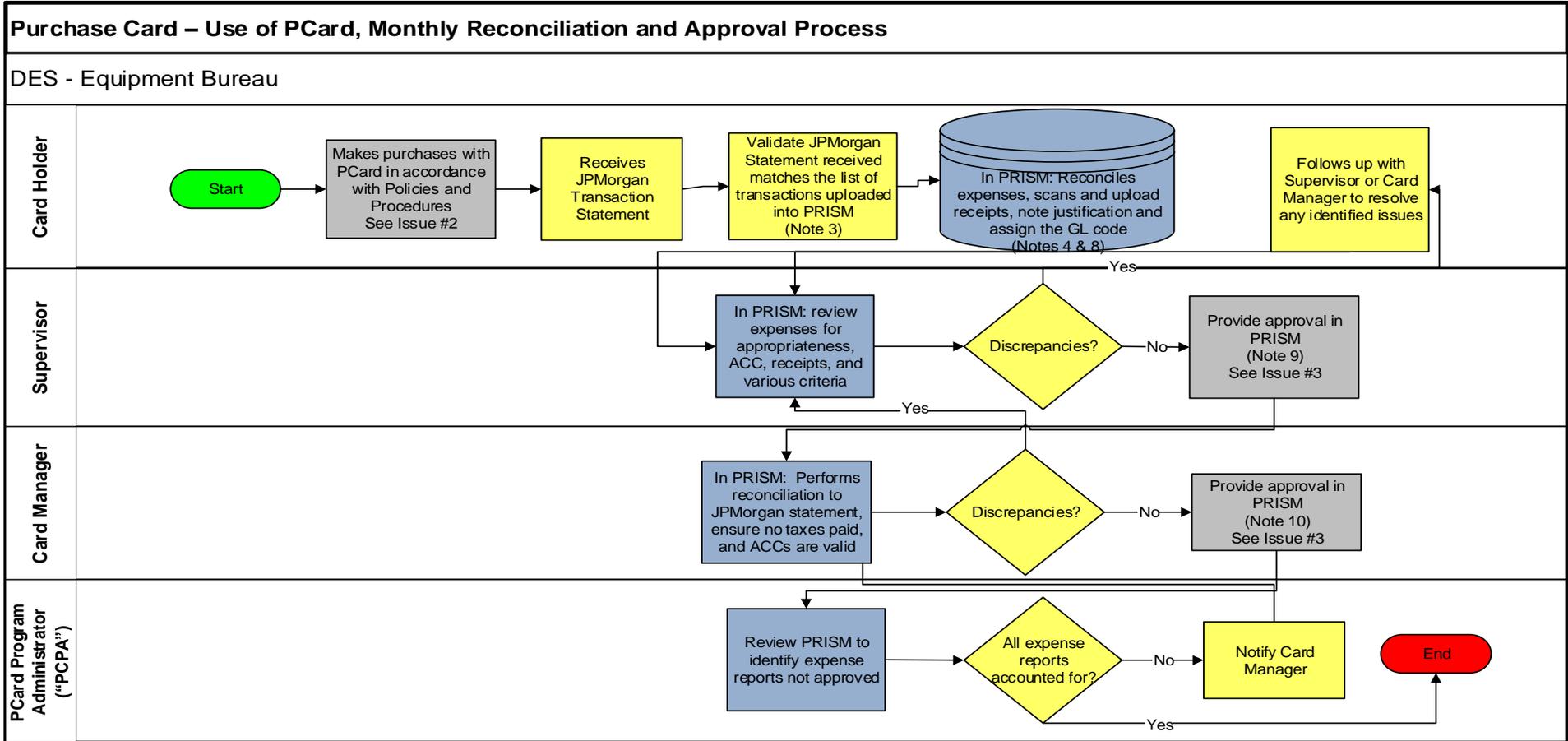
DES - Facilities Management Bureau



- Note 3:** Individual Card Holder merchant transactions are electronically transmitted by JPMorgan and uploaded to the County's PRISM system. Each Card Holder is required to compare the JPMorgan transaction statement they received in the mail to the transactions found in PRISM to validate they are the same.
- Note 4:** While it is no longer a requirement of the County, the Card Holders in the Facilities Management Bureau also fill out a Monthly Purchase Card Transaction Log with the date of purchase, item description, vendor, amount, reason for purchase and the Account Code Combination.
- Note 5:** Monthly reconciliation review performed utilized paper support via the transaction log, which is uploaded into PRISM and approved. The transaction logs are re-scanned multiple times after obtaining signatures. These efforts lead to increased inefficiencies.
- Note 6:** The Supervisor and/or the Card Manager perform the review of the Card Holder's expenses to identify inappropriate charges, improper expense reporting, and various criteria. The Supervisor and/or the Card Manager provide approval in PRISM which also provides evidence of completion.
- Note 7:** Card Manager performs a reconciliation in PRISM between JPMorgan transaction statements, submitted expenses and receipts. The Card Manager inspects the justification, amount, MCC, and vendor to validate compliance with policy. Furthermore, when the Card Manager is the Card Hold holder, the reconciliations prepared are reviewed and approved by the Card Manager's Supervisor.
- Note 8:** PRISM is Arlington County's system of record. PRISM is Arlington County's financial system of record. It contains all expense reports and interfaces with OnBase. OnBase is Arlington County's document retention database. Independent review of transactions is conducted by the Card Holder's immediate supervisor. Approval of expense reports is required to be conducted by the 20th business day of each month.



Process Maps - continued



Note 9: Supervisor performs review of cardholder expenses to identify any inappropriate charges, improper expense reporting, and various criteria. The Supervisor provides approval in PRISM.

Note 10: Card Manager performs a reconciliation in PRISM between JPMorgan transaction statements, submitted expenses, and receipts. Additionally, the card manager validates the amounts and codes (ACC) are correct. The Card Manager relies on the Supervisor to perform a more detailed review unlike DES-Facilities Management. Approval of expense reports is required to be conducted by the 20th business day of each month.



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