



DEPARTMENT OF MANAGEMENT AND FINANCE
INTERNAL AUDIT

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Internal Audit Purchase Card Monitoring Program April 2022

Background

Arlington County established a PCard program over twenty years ago to provide an efficient, cost-effective method of purchasing and payment to vendors. 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 PCards is not intended to avoid or bypass appropriate procurement or payment policies.

PCard holders receive training provided by the Department of Management and Finance (“DMF”) as well as have access to Purchase Card Program Manual (“PCard Manual”), which provides guidance to employees on the use of PCards. The PCard Program as a whole is monitored by DMF and the Purchasing Card Program Administrator (“PCPA”).

Objective and Scope

The County’s Purchase Card Program (PCARD) was initially part of the 2016-2018 annual Internal Audit Work Plans to perform cycle audits of each department. Over this time, Internal Audit and, RSM US LLP, concluded that the results of the audits continued to improve over the three years and that internal audit resources should be focused on other areas which have greater risks. RSM recommended PCARD Cycle Audits be excluded from the Internal Audit Work Plan and be replaced with monitoring procedures to evaluate compliance with County PCARD policies and procedures that is not just focused on a particular department, but rather takes a broader look at the program. DMF Internal Audit started its monitoring program in FY 2019 and has performed detailed reviews for selected months since then with a plan to conduct one review each quarter depending on workload and staffing.

The primary objective of the PCARD monitoring procedures are:

- Identify any misuse, misappropriation, or potential fraud,
- Determine opportunities to improve the effectiveness of the County PCard Program,
- Obtain insight into the overall use of the County PCARD Program based on testing transactional data.
- Test controls currently in place over the PCARD process.

Overall Summary/Highlights – April 2022

As a result of the objectives identified above, **Internal Audit found internal controls were generally operating as intended with minimal exceptions.** However, during our review, we did discover the following issues and/or made the following observations:

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- We noted sales tax payments as part of the total credit card charge for some transactions. We inquired of the Departments on the reason for paying sales tax. Most stated that it was an oversight and will pursue a credit. We reiterated with the Departments that the County is exempt from sales taxes for certain purchases. The Departments stated that they will reinforce this with their staff. As a follow-up to our last review, we performed additional tests on the PCARD report that supposedly identified sales taxes paid. (Earlier this year, we worked with the DMF System Analyst, and he developed a new PCARD reconciliation report that identified the estimated amount of sales tax for each transaction. We were hoping that Departments could use this report to monitor for unallowable sales taxes paid.) We found that the taxes paid field is not accurate with a very high error rate. The Comptroller coordinated with JP Morgan and they reviewed the issue and found that it is based on the merchant’s recordation of sales tax into the system whether it is paid or not. There is no consistency and since it does not impact the total paid amounts, JP Morgan will not pursue it any further since the merchants’ practices vary greatly. We determined that we can no longer utilize this field due to the high error rate.
- Inconsistencies in the documentation and occurrence of food-related purchases continued to be identified across all Departments. Some of the inconsistencies found related to food purchased for employee trainings and other Department-specific events. In December 2022, to strengthen controls over food purchases, DMF issued a comprehensive County-wide Meals Policy providing criteria for allowable food expenses associated with County related activities. The policy contains detailed senior level pre-approval requirements. We anticipate the execution of this policy will provide for more consistent food purchase processes strengthening the controls over food purchases.
- As part of our review of food purchases, IA identified transactions that had a purpose statement but did not have estimated number of people for each of the food transactions, which is required by PCARD policy. According to the Purchase Card Policy, it states that: “For all non-travel meal purchases, a “purpose statement” and a list of attendees must be attached to the receipt or written on the receipt. If this is for a sizeable group (i.e. more than five) – then a description of the event and estimate of number of people fed should be included.” IA inquired about the number of people for each of the transactions as required by PCARD policy and determined the costs to be reasonable. IA also identified food transactions that had an estimated number of people for the event but did not have a business purpose statement for the event. We obtained the business purpose during the review and took no exceptions. The meal policy referenced above will strengthen compliance with this requirement as this information is required as part of the pre-approval process.

- During our review, we identified two cases where the PCARDS were being used for personal expenses. In both cases, the Departments previously identified the cases through their review process and ensured the employees paid back the personal charges. In one case, the employee erroneously charged over \$1,000 of groceries to her PCARD over several transactions. Evidently, the employee loaded her dept PCARD on her computer and when she purchased her groceries on-line, the purchase defaulted to the County PCARD. The Department did an investigation to ensure all personal charges were reimbursed to the County and removed the PCARD from the employee. We recommended to the Department that they coordinate with the Comptroller when they disclose PCARD violations of this significance. Another employee loaded the PCARD holder's account into the Office Depot Account using his computer causing the PCARD to be saved to the employee's computer. When the employee used his County computer to purchase "Google Play Accessories" for personal use, the transaction defaulted to the County credit card. The Department ensured the employee reimbursed the County. We recommended to the Comptroller/PCARD Administrator to advise PCARD holders of the potential issues when PCARD holders have saved the County PCARD to their computers for ease of transactions, while also using their County computers for making personal purchases.
- IA identified 32 transactions that had missing justifications. We notified the Departments and also worked with the DMF System Analyst and the PRISM team to attempt to make this field a required entry. At this point, the PRISM team is unable to make this change. The Purchase Card Program Administrator will continue to remind Departments on the requirement to complete the justification field.
- IA identified two Departments that held retirement events where the costs exceeded the PCARD policy amount of \$50. In one case, the Department spent \$64 for a retirement celebration. IA informed the Department that \$14 should be returned to the County and the Department was to followup. In another case, we found the Department spent \$315 in excess of the allowed amount for three retirements. We informed the Department that they should reimburse the County and the Department was to follow up.
- IA continued to identify overnight lodging being charged by employees over applicable GSA rates. Although the majority contained documented approvals for the trip, we noted that many approval documents do not indicate that the employee intends to go over the applicable GSA rate as required by County policy. We requested that the Departments remind their staff that when they are submitting their pre-approval request, they should identify that they expect to exceed GSA lodging rates and provide the necessary justification. The new DMF Travel form clearly provides the traveler the opportunity to list the GSA rate and the lodging expense they intend to incur for supervisory visibility and review.
- Although not related to overnight travel, IA identified charges of over a \$1000 spent on "no show" hotel rooms. The Department explained that these hotels were booked for staff to stay over in Arlington during emergency operations. In this case, the need for staying

overnight did not arise and therefore the hotels were cancelled late. The hotel charged for the night stays due to the late cancellations. The Department stated that they will work with Purchasing and a local hotel chain that would be willing to accommodate the County for last minute cancellations due to emergency situations.

- IA selected a sample of Amazon transactions to understand the different types of items being purchased from Amazon and whether any items were available for a better price from Office Depot, the County's contracted vendor for office supplies. IA found several transactions where the price was cheaper at Amazon than Office Depot and some Amazon transactions where the price was marginally better at Office Depot. For the items we identified to the Departments, most said that they were not available on Office Depot when needed or the specific item was not available on Office Depot.
- For other minor PCARD violations found (e.g., furniture purchase), departments were notified, and corrective actions taken.