



Arlington County, Virginia

Purchase Card Cycle Audit: Department of Community Planning, Housing and Development

**1st Quarter of Fiscal Year 2016
(July 1, 2015 – September 25, 2015)**



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March 2, 2016

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Pursuant to the contract and related statement of work for Arlington County, Virginia (“the County”), we hereby present the Purchase Card (“PCard”) Cycle Audit: Department of Community Planning, Housing and Development (“CPHD”). 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 this cycle 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 cycle 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 staff and all those involved in assisting RSM US LLP in connection with the Purchase Card Cycle Audit.

Respectfully Submitted,

RSM US LLP

RSM US LLP

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.

The scope of this cycle audit encompassed a sample of 30 PCard transactions chosen from the entire population of 224 PCard transactions in the Department of Community Planning, Housing and Development during the 1st Quarter of Fiscal Year 2016 (July 1, 2015 – September 25, 2015). As of September 25, 2015, there were 7 PCard Card Holders within CPHD. It should be noted that in November 2015, the County issued a revised *Appendix G Purchase Card Program Manual* (“PCard Manual”). Our testing was per the PCard Manual policies that were in effect at the time the transaction occurred.

A detail of the issues identified and their relative risk ratings is provided below, including recommendations and management’s response(s). 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. Documentation Required for PCard Issuance and Monitoring	Low
<p>The PCard Manual states:</p> <p><i>Appendix G – Section VIII. Terminating/Transfer of Card Holder or Card Manager B. Card Manager: Card Managers are required to be designated by the Department Director per the Card Manager Appointment Form.</i></p> <p>CPHD has six (6) Card Managers to facilitate the PCard process. During our testing, we noted that one (1) Card Manager did not have a completed <i>Card Manager Appointment Form</i> on file.</p> <p>Absence of the proper and required forms increases the risk that Card Managers do not understand their roles and responsibilities, which could result in misuse or inappropriate transactions and inconsistent application of County policies and procedures requirements.</p>	

Executive Summary - continued

Issues	Risk Rating
1. Documentation Required for PCard Issuance and Monitoring - continued	Low
Recommendation	
We recommend that the Department of Management and Finance (“DMF”) perform a review for completeness of the required documentation for each Card Manager per the PCard Manual.	
Management’s Response	
<p>Response: It is the responsibility of the PCard Administrator/designee to track the forms and scan them into Onbase. DMF has been using an electronic records management system for justification forms and employee agreements since 2012. DMF is working towards reconciling and loading paper based documentation for current cardholders and card managers this summer.</p> <p>Responsible Party: DMF</p> <p>Estimated Completion Date: September 2016</p>	
2. Monthly Reconciliation	Low
<p>The PCard Manual states:</p> <p><i>Appendix G – Section IV. Monthly Reconciliation A. Review the Statement and Section V. Approval Process B. Card Manager Review:</i> Card Holders are required 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>During our testing of the monthly reconciliation process, we noted that 1 of 13 expense reports included in our sample of 30 transactions, was approved 1 day after the stipulated deadline.</p> <p>Delays in the review and approval of PCard expense reports/support can lead to poor issue identification (ex. Inappropriate charges) and less effective discrepancy follow-up and resolution.</p>	
Recommendation	
We recommend that re-emphasis be provided to those involved with the PCard program (Card Holders, Card Managers, designated Approvers, and Department Directors or his/her designee) of the monthly reconciliation process, required documentation and review and timely approval.	
Management’s Response	
<p>Response: Inform PCard holders about the importance of on-time reconciliation and remind the approving Supervisors to forward their approval responsibilities while on leave.</p> <p>Responsible Party: PCard Managers and approving Supervisors</p> <p>Estimated Completion Date: April 30, 2016</p>	

Background

Background

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.

Since 2009, PCards are issued through JPMorgan Chase Bank, N.A. (“JPMorgan”) , 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). As of September 25, 2015, there were 572 PCards issued throughout the County. In March 2015, the County received a rebate of \$65,945 (wire transfer), which was for Calendar Year 2014 (January 1, 2014 – December 31, 2014). 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 (“PCPA”). 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 and the Department where the Card Holder is assigned. The Department Directors or his/her designee 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 through DMF using the *Request Change to Current Purchase Card Limits – Amended Purchase Card Holder Justification Form*.

Background - continued

Card Holder Setup and Maintenance – continued

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. When an employee is transferred to another department, 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 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.

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 or his/her designee 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 or his/her designee. The Department Directors or his/her designee 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 Purchase Card Program Manual*. It should be noted that in November 2015, the County issued a revised *Appendix G Purchase Card Program Manual*.

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.

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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 representatives from the Department of Community Planning, Housing and Development, 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 within the Department 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 for a sample of 30 PCard transactions from the entire population of 224 PCard transactions during the 1st Quarter of Fiscal Year 2016 (July 1, 2015 – September 25, 2015). The sample selection was random from the use of the information technology tool IDEA™, and then supplemented to include highlighted transactions from the results of the Computer Assisted Audit Tools analysis. Specific procedures performed included:

- Performed testing of the purchasing card transactions for proper justification, approval, and documentation of receipt by the responsible persons, including verification of the following:
 - Employee conducting purchase was 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;
 - Purchases were in line with the assigned merchant category code(s);
 - Purchases were appropriate for Department;
 - Virginia sales and use tax was not paid;
 - Purchases were in line with the applicable PCard Manual;
 - Department follow-up and resolution for transaction purchases violating the applicable PCard Manual;
 - Purchases were in line with Virginia Public Procurement Act - Title 2.2, Chapter 43 of the Code of Virginia or " Virginia Public Procurement Act"; and
 - Purchase of services over \$500, which is disallowed.

Objectives and Approach - continued

Approach - continued

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

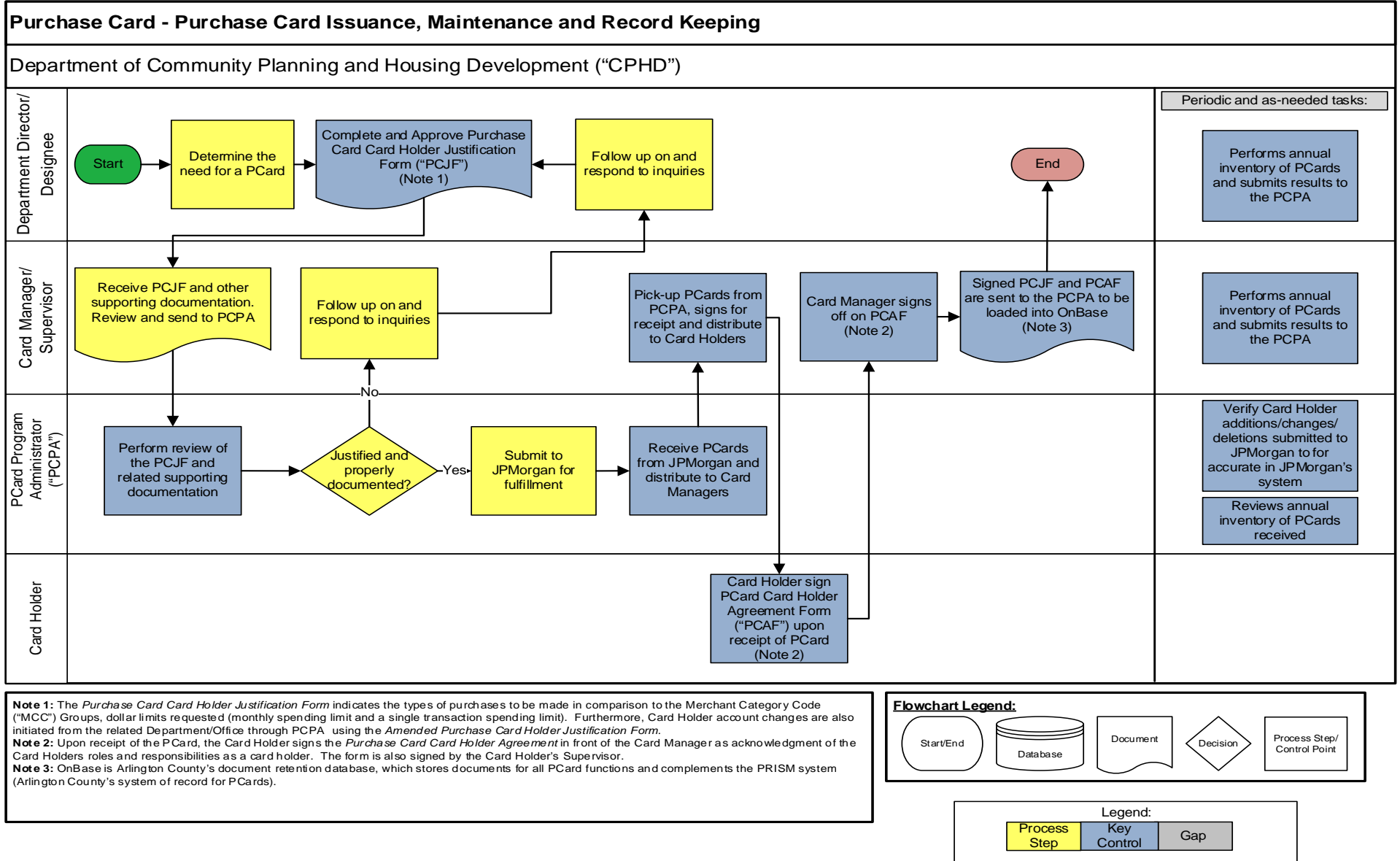
- Reviewed forms utilized;
- Reviewed segregation of duties within the Department over the PCard process;
- Performed testing of a sample population of monthly reconciliations for proper completion, documentation of expenditures and approval;
- Reviewed procedures performed around the weekly transaction reports for monitoring and awareness;
- Performed the following Computer Assisted Audit Tools on the entire population of PCard transactions:
 - Card Holder activity;
 - Duplicate or split transactions;
 - Round numbers;
 - Transactions made on holidays or outside of normal business hours;
 - Restricted purchase by use of keywords; and
 - Purchase of services greater than \$500.
- Assessed appropriateness of segregation of duties and authorization of the designated Card Managers; and
- Assessed appropriateness of segregation of duties of the PCard activity review and authorization process.

Reporting

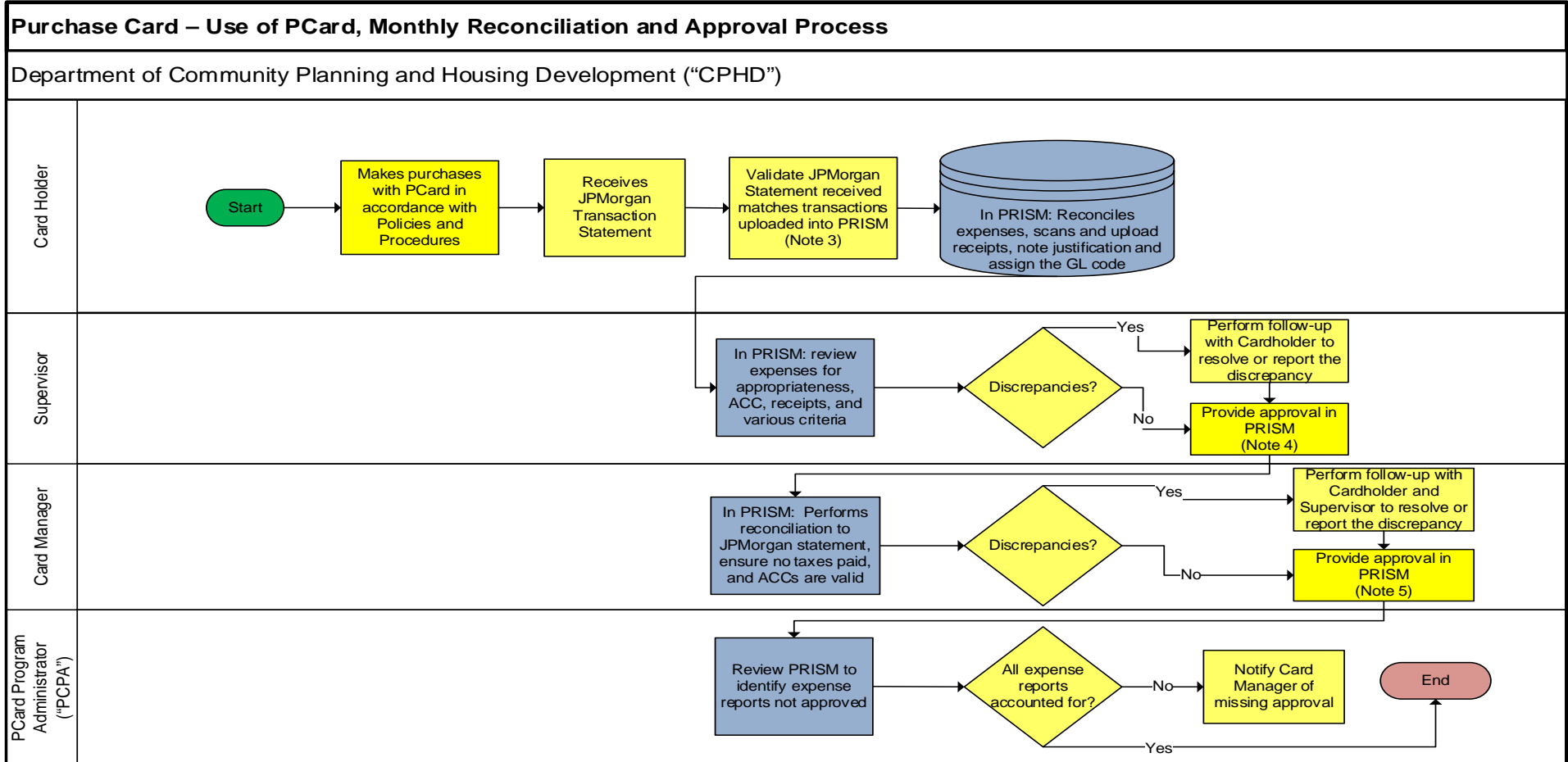
At the conclusion of this audit, we vetted the facts and exceptions noted with the Department of Community Planning, Housing and Development, along with the Department of Management and Finance. The draft report was submitted to DMF, and then to the Auditee after review. An exit meeting was held with 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



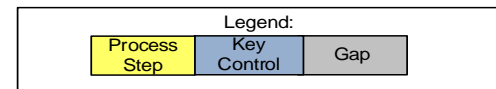
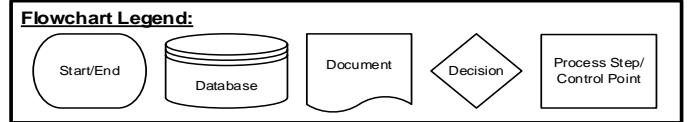
Process Maps - continued



Note 3: OnBase is Arlington County’s document retention database, which stores documents for all PCard functions and complements the PRISM system (Arlington County’s system of record for PCards).

Note 4: Supervisor performs review of cardholder expenses to identify any inappropriate charges, improper expense reporting, and various criteria. The Supervisor provides approval in PRISM.

Note 5: 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. Approval of expense reports is required to be conducted by the 20th business day of each month.



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