



Richmond Office of the City Auditor

Office of the Inspector General

Fighting government waste, fraud and abuse

Umesh Dalal, CPA, CIA, CIG

Richmond City Auditor/Inspector General

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Dr. Carolyn Graham, DCAO, Human Services

Dr. Norman Merrifield, Director of Parks, Recreation, and Community Facilities

The Office of the Inspector General (OIG) has completed an investigation of the use of Sam's Club Credit Cards by the Department of Parks, Recreation and Community Facilities (DPR). During Fiscal Year (FY) 2008 through FY 2011, DPR spent over \$200,000 at Sam's Club. Numerous cards were provided to DPR employees, who made over 900 purchases, approximately one every 1.5 days for four years.

The following is the summary of salient findings:

1. The internal controls over these purchases were very weak. These cardholders were allowed to make purchases at Sam's Club as they deem fit. Numerous employees indicated that no prior approval from a supervisor or manager was needed to make purchases. This lack of supervisory approval could result in unnecessary purchases and increases the risk of misappropriation.
2. DPR did not have proper recordkeeping of the purchases. The electronics and other items that can be personally used by employees or customers are susceptible to the risk of theft or misappropriation. Currently, DPR does not create an inventory list of such items and does not verify their physical existence.
3. According to DPR personnel, 84 gift cards and 38 other valuable gifts were distributed to employees or citizens. There was no documentation indicating appropriate authorization or distribution of all these gifts. There is no way to verify if all of the following gifts were actually distributed:

Category	Undocumented Gifts				Total Undocumented Gifts
	Employees		Citizens		
	Quantity	Amount	Quantity	Amount	
Gift card	46	\$1,445	38	\$1,046	\$2,491
Television	4	\$989	0	\$-	\$989
IPOD	6	\$459	6	\$263	\$722
Other	6	\$640	0	\$-	\$640
Camcorder	2	\$280	2	\$339	\$619
Digital Camera	4	\$517	0	\$-	\$517
Computer Printer	2	\$80	0	\$-	\$80
DVD	0	\$-	6	\$74	\$74
	70	\$4,410	52	\$1,722	\$6,132

4. The table below shows 45 items purchased in FY 2010 and FY 2011 that were missing. This represents 26% of the items the investigators attempted to locate.

Category	Qty	Total
Digital camera	9	\$1,156
DVD	11	\$204
IPOD	3	\$429
Other	4	\$400
Television	1	\$728
Video game	15	\$534
Video game system	2	\$498
TOTAL	45	\$3,949

Of these 45 items, DPR staff was already aware that three items worth \$393 were stolen. The investigators attempted to find only the items purchased in FY 2010 and FY 2011 due to the availability of superior records. However, DPR management must attempt to find all the missing items that were purchased in FY 2008 and FY 2009.

5. Two pairs of sandals were purchased for \$19. While this dollar amount is not significant, this purchase is personal in nature, and demonstrates how the Sam's Club cards could be used for inappropriate purposes.
6. According to DPR staff, 26 items (e.g. digital cameras, televisions, video games systems, etc) totaling \$4,186 were purchased for staff use at specific events. DPR could have used existing items for a limited period event rather than purchasing new items. There was no accountability over these items.

As the result of this investigation, all DPR employees were required to turn in their Sam's Club cards to DPR's Finance Division. Currently, employees must check out a card and request approval to make a purchase. DPR also created a policy and procedure document that governs usage for the department's charge cards/accounts. The City Auditor's Office will review effectiveness of these procedures in the future.

Sincerely,



Umesh Dalal, CPA, CIA, CIG
City Auditor/Inspector General

Cc: Byron C. Marshall, Chief Administrative Officer

Details of Investigative Findings

Complaint

In a previous investigation, the Office of the Inspector General (OIG) determined that gift cards and electronics purchased from Sam's Club were missing or improperly controlled by a Manager in the Department of Parks, Recreation, and Community Facilities (DPR). Due to the risks identified in that investigation, the auditors referred it to the OIG for further investigation.

Legal Requirements

In accordance with the Code of Virginia, §15.2-2511.2, the City Auditor is required to investigate all allegations of fraud, waste and abuse. Also, the City Code 2-231 requires the Office of the Inspector General to conduct investigations of alleged wrongdoings.

Process that does not promote accountability

During Fiscal Year (FY) 2008 – 2011, DPR spent over \$200,000 at Sam's Club. DPR made over 900 purchases, approximately one every 1.5 days for four years. In May 2011, DPR had 31 employees with active credit cards with Sam's Club. These cardholders were allowed to make purchases at Sam's Club as they deem fit. Bills were sent on a monthly basis to DPR covering all purchases made by these 31 employees. The OIG obtained a listing of all purchases made by the 31 employees during FY10 and FY11. The investigators noted that the majority of purchases were food or beverages. The investigators did not have adequate information to evaluate appropriateness of the food and beverage purchases. DPR management must review the food and beverage purchases to determine their appropriateness.

The investigators discussed the approval process for Sam's Club purchases with 11 of the 31 employees who had active cards. Of these 11, five (or 45%) employees indicated that no prior approval from a supervisor or manager was needed to make purchases. This lack of supervisory approval could result in unnecessary purchases and increases the risk of misappropriation. The investigators also determined that a few employees across several locations were responsible for remitting payments to Sam's Club and that many payments were not made by DPR's Finance Division. Therefore, it is unlikely that the employees making the payments were in a position to question the necessity and appropriateness of the purchases.

Background

There were numerous purchases of gift cards, electronics, and other items the investigators reviewed due to their dollar value and risk of misappropriation. The investigators identified the following 492 items that were purchased at a cost of \$44,595, and consulted DPR personnel to locate these items. The investigators were informed that the type of items they were looking for would primarily be located in 18 community centers or other similar specific facilities. Prior to visiting these 18 locations, the investigator discussed 294 items purchased in FY 2010 and FY2011 with the employees who made purchases. These employees indicated the reason for the

purchase and the location the item was purchased for. The investigators also separately noted the location the item was purchased as documented on the sales receipts. Utilizing the above information, the investigators visited the recommended locations and took a complete physical inventory with the assistance of DPR employees for each category of items listed below. A few additional locations were visited to find a small number of items where the location identified by the purchaser or the sales receipts differed from the initial 18 locations recommended by DPR Management.

The following is a listing of the 492 items:

FY 2008 – 2011 Purchases Reviewed		
Category	Qty	Total
Camcorder	8	\$1,408
Computer printer	5	\$329
Cordless phone	4	\$347
Digital camera	46	\$8,885
DVD	145	\$2,773
DVD player	10	\$911
Gift card	99	\$2,888
IPOD	26	\$1,796
Other	37	\$5,731
Television	19	\$9,874
Video game	70	\$3,400
Video game system	23	\$6,253
TOTAL	492	\$44,595

Note: The above list does not include purchases of canopies and folding chairs which are addressed later in this report.

Potentially Missing Items

The investigators compared the physical inventory and the list of purchases made during the period from FY 2008 through FY 2011 and observed the following purchases were not included in the physical inventory:

Category	Qty	Value
Camcorder	3	\$660
Digital camera	30	\$5,966
DVD	70	\$1,395
IPOD	13	\$888
Other	4	\$400
Television	3	\$1,326
Video game	29	\$1,487
Video game system	5	\$1,244
Total	157	\$13,366

The nature of the above items can lead to personal use. Therefore, these items are vulnerable to the risk of misuse or misappropriation. The investigators attempted to find only the items purchased in FY 2010 and FY 2011 due to availability of superior records. The table below shows 45 items purchased in FY 2010 and FY 2011 that were missing. This represents 26% of all the items the investigators attempted to locate.

Category	Qty	Total
Digital camera	9	\$1,156
DVD	11	\$204
IPOD	3	\$429
Other	4	\$400
Television	1	\$728
Video game	15	\$534
Video game system	2	\$498
TOTAL	45	\$3,949

Of these 45 items, DPR staff was already aware that three items worth \$393 were stolen. DPR management must attempt to find all the missing items that were purchased in FY 2008 and FY 2009.

The investigators determined that 16 of the above 45 missing items were purchased by a specific Recreation Programs Supervisor. When interviewed, this Supervisor stated he did not recall what location some of the items were purchased for. He indicated the remaining items were purchased for one of two community centers and that the community center supervisors were with him when the items were purchased. Upon inquiry, the two community center supervisors denied the Recreation Programs Supervisor's assertion. Therefore, either the Recreation Programs Supervisor or the two community center supervisors were not truthful. DPR must investigate this issue further and take disciplinary action(s).

Unnecessary Purchases

According to DPR staff, 26 items (excluding canopies and folding chairs) totaling \$4,186 were purchased for staff use at specific events. These items included:

- Digital cameras
- Televisions
- Video game systems
- Video games
- A DVD

DPR could have used existing items for a limited period event rather than purchasing new items. By doing so the City could have avoided these unnecessary purchases totaling \$4,186.

In addition, there were no checks and balances on these purchases. Once the event was completed, there should have been proper accountability for this inventory. The investigators noted that 7 of these 26 items were missing, resulting in a loss of \$816. These 7 items (4 digital

cameras, 1 video game system, and 2 video games) are included in the list of 45 missing items above.

No documentation of authorization for gifts to employees and citizens

According to DPR personnel, 84 gift cards and 38 other valuable gifts were distributed to employees and citizens. There was no documentation indicating if the gifts were authorized. There is no way to verify if all of the following gifts were actually distributed:

Category	Undocumented Gifts				Total Undocumented Gifts
	Employees		Citizens		
	Quantity	Amount	Quantity	Amount	
Gift card	46	\$1,445	38	\$1,046	\$2,491
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DVD	4	\$517	6	\$74	\$591
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	70	\$4,410	52	\$1,722	\$6,132

Furthermore, inability of DPR to identify employees who received the gifts makes these expenditures vulnerable to abuse. An additional 15 gift cards worth \$397 were purchased in FY 2008 and FY 2009, but records do not exist that indicate if these were given to employees or citizens. The City Administration should evaluate all these gifts for appropriateness.

Purchases of canopies and folding chairs were not properly controlled

DPR purchased 30 canopies for \$6,788 and 338 folding chairs for \$7,344, totaling \$14,132. There is no tracking of these items when they are transferred across different community centers and other locations. It was not possible for the investigators to easily locate these items and perform a physical inventory. If these items are missing, it will not be detected in a timely manner.

No procedures exist to verify physical inventory of items vulnerable to the risk of theft

The electronics and other items we attempted to locate typically would not be included in the City's Fixed Asset Forms due to their dollar value, even though the risk of misappropriation is high. Currently, DPR does not create an inventory list of such items and does not verify their physical existence. DPR must create a list of electronics and other items that are susceptible to theft, and ensure a periodic physical inventory of these items is performed.

Personal items purchased and the City paid for it

Two pairs of sandals were purchased totaling \$19. While this dollar amount is not significant, this purchase is personal in nature, and demonstrates how the Sam's Club cards could be used for inappropriate purposes.

Summary

During this review, the investigators noted weak internal controls that resulted in the following issues:

FY 2008 – 2011	
Undocumented employee and citizen gifts	\$6,132
Potential missing items (includes gift cards worth \$397)	\$13,763
Unnecessary purchases for events	\$4,186
Improperly controlled canopies and folding chairs	\$14,132
Personal purchase of sandals	\$19
<u>Total</u>	<u>\$38,232</u>