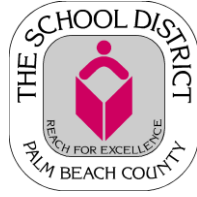


Audit of
Purchasing Card Expenses for Selected Departments
February 23, 2017

Report #2017-01



MISSION STATEMENT

The School Board of Palm Beach County is committed to providing a world class education with excellence and equity to empower each student to reach his or her highest potential with the most effective staff to foster the knowledge, skills, and ethics required for responsible citizenship and productive careers.

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Superintendent of Schools

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Audit of
Purchasing Card Expenses for Selected Departments

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Audit of
Purchasing Card Expenses for Selected Departments

EXECUTIVE SUMMARY

Pursuant to the *Office of Inspector General's 2015-2016 Work Plan*, we have audited the Purchasing Card (P-Card) Expenditures for Selected Departments for July 2014 through February 2016. The primary objective of this audit was to determine the extent to which P-Card purchases were conducted in compliance with District Policies and Purchasing Department Procedures. The audit produced the following major conclusions.

1. P-Card Issued in Accordance with District Procedures

The review of 26 sample P-Card applications concluded that these 26 P-Cards were issued in full compliance with related District's procedures.

Management's Response: Management Concur.

2. Untimely Deactivation of P-Cards

During July 2014 through February 2016, a total of 48 employees, who had a District P-Card, ceased employment with the School District. Our review of the P-Card accounts for these 48 former employees found that 15 (or 31%) of the cards were not timely terminated. Delays ranged from one to six days. One transaction for \$86.20, which did not have an itemized receipt/invoice, was made after the employee's termination date.

Management's Response: Management Concur.

3. Noncompliance with Control Procedures for Use of P-Card

During July 2014 through February 2016, District departments made 28,245 P-Card purchases, totaling \$5,556,935. We reviewed selected transactions from the Purchasing Department and five other departments with the highest dollar amounts of P-Card purchases during the audit period, including 148 monthly reconciliations and 2,116 transactions, totaling \$496,324. The review concluded that:

- a) Purchases with No or Insufficient Documentation. A total of \$2,548.98 in 13 purchases made by three departments did not have adequate documentation for the purchases: (1) four transactions (for \$125.65) had no supporting document, (2) seven transactions (for \$1,695.33) were supported by credit card receipts but did not have the details of the purchases, and (3) two transactions (for \$728) were for travel expenses but did not have the required *Temporary Duty Elsewhere (TDE) Forms*.

- b) Prohibited Use of P-Card. Four P-Card transactions were used for purchase (totaling \$2,882.98) of computers, which were prohibited and must be procured through the Purchasing Department.
- c) Monthly Reconciliations Neither Reviewed Nor Approved by Directors. Our review of 148 sample monthly reconciliations revealed that (1) three of the sample P-Card *Monthly Bank Statements* were neither signed nor approved by the directors in two departments, and (2) seven *Monthly Bank Statements* did not have the dates of the directors' signatures, indicating the monthly reviews might have not been performed in a timely manner.
- d) Split Purchases. A \$1,853.94 purchase by the Choice and Career Options Department on May 28, 2015, was split into two \$926.97 transactions ($\$926.97 \times 2 = \$1,853.94$) and charged to the department's two different P-Card accounts. The actual purchase exceeded the \$1,000 per vendor daily limit without obtaining prior approval from the Purchasing Department.
- e) Unclear Business Purpose. Five P-Card purchases, totaling \$ 1,781, for the Secondary Education Department were rental payments to a self-storage warehouse. However, the department did not clearly indicate the educational or business purpose of the expenses.

Management's Response: Management Concurs.



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MEMORANDUM

TO: Honorable Chair and Members of the School Board
Robert M. Avossa, Ed.D., Superintendent of Schools
Chair and Members of the Audit Committee

FROM: Lung Chiu, Inspector General

DATE: February 23, 2017

SUBJECT: Audit of Purchasing Card Expenses for Selected Departments

PURPOSE AND AUTHORITY

Pursuant to the *Office of Inspector General's 2015-2016 Work Plan*, we have audited the Purchasing Card (P-Card) Expenditures for Selected Departments for July 2014 through February 2016. The primary objective of this audit was to determine the extent to which P-Card purchases were conducted in compliance with District Policies and Purchasing Department Procedures.

SCOPE AND METHODOLOGY

The audit was performed in accordance with *Generally Accepted Government Auditing Standards* promulgated by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Review of P-Card transactions at schools is part of the audit scope with the Annual Internal Funds Audits of schools. This audit focused on P-Card purchases made by selected District departments during July 1, 2014, through February 29, 2016. This audit included interviewing District staff and reviewing:

- *School Board Policy 6.14, Purchasing Department*
- The District's *Purchasing Manual, Chapter 24, Purchasing Card Procedures*
- Monthly P-Card reconciliations and supporting documentation

Audit conclusions were brought to the attention of respective departments during the audit. The draft audit report was sent to the management for review and comments. Management response is included in the Appendix. We would like to thank staff for their cooperation and courtesy extended to us during the audit. The final draft report was presented to the Audit Committee at its February 23, 2017, meeting.

BACKGROUND

Purchasing Card (P-Card) Program. In Fiscal Year 2003, the School Board approved the P-Card Program to simplify small dollar purchases (less than or equal to \$1,000 per vendor per day) in accordance with the District's Purchasing Procedures. P-Cards may not be used for certain purchases as established by the Purchasing Department, such as chemicals, computers, and rental cars, regardless of the total dollar purchase. Some categories of the purchases by P-Card require prior authorization. Each card also has an established monthly spending limit which is based on the cardholder's position and need.

The objectives of the P-Card program are to:

- Allow a convenient and expedient method for small dollar purchases and approved travel expenses.
- Offer an efficient, low-cost procurement and payment mechanism which shortens the processing time between need and acquisition while providing monthly management reports.
- Streamline payment process and reduce administrative costs for certain purchases.
- Provide flexibility to schools and departments to purchase certain authorized commodities.

Mandatory Annual Online Training for P-Card User. To ensure staff is aware of and complying with the updated P-Card procedures, P-Card Cardholders, Directors, Principals, and P-Card Site Administrators are required to complete the online Annual P-Card Training Course by December 31st of each fiscal year.

Deactivation of P-Cards. Cardholder account is closed when an employee terminates employment with the District, or transfers to another department. P-Card procedures require the Site Administrator request the card be closed by emailing the District P-Card Administrator and Principal/Director. The same procedure is followed if a card is lost or stolen. Delays in cancellation of P-card privileges increase the risk that such privileges could be misused by former employees or others.

Staff Duties and Responsibilities Related to P-Card Use. At each school/department, there are three primary persons who are involved in and responsible for the use and management of P-Card transactions.

1. Authorized Cardholders are to:

- Ensure the P-Card is used only for District purposes, and the purchases are in accordance with District policies, procedures, and guidelines.
- Review monthly bank statement and ensure each P-Card charge has the original invoice or receipt, and identify any unauthorized purchases.
- Complete the Month-End Reconciliation package, and provide receipts and any additional required supporting documentation to the P-Card Site Administrator in a timely manner for scanning.

2. Site Administrator is to:

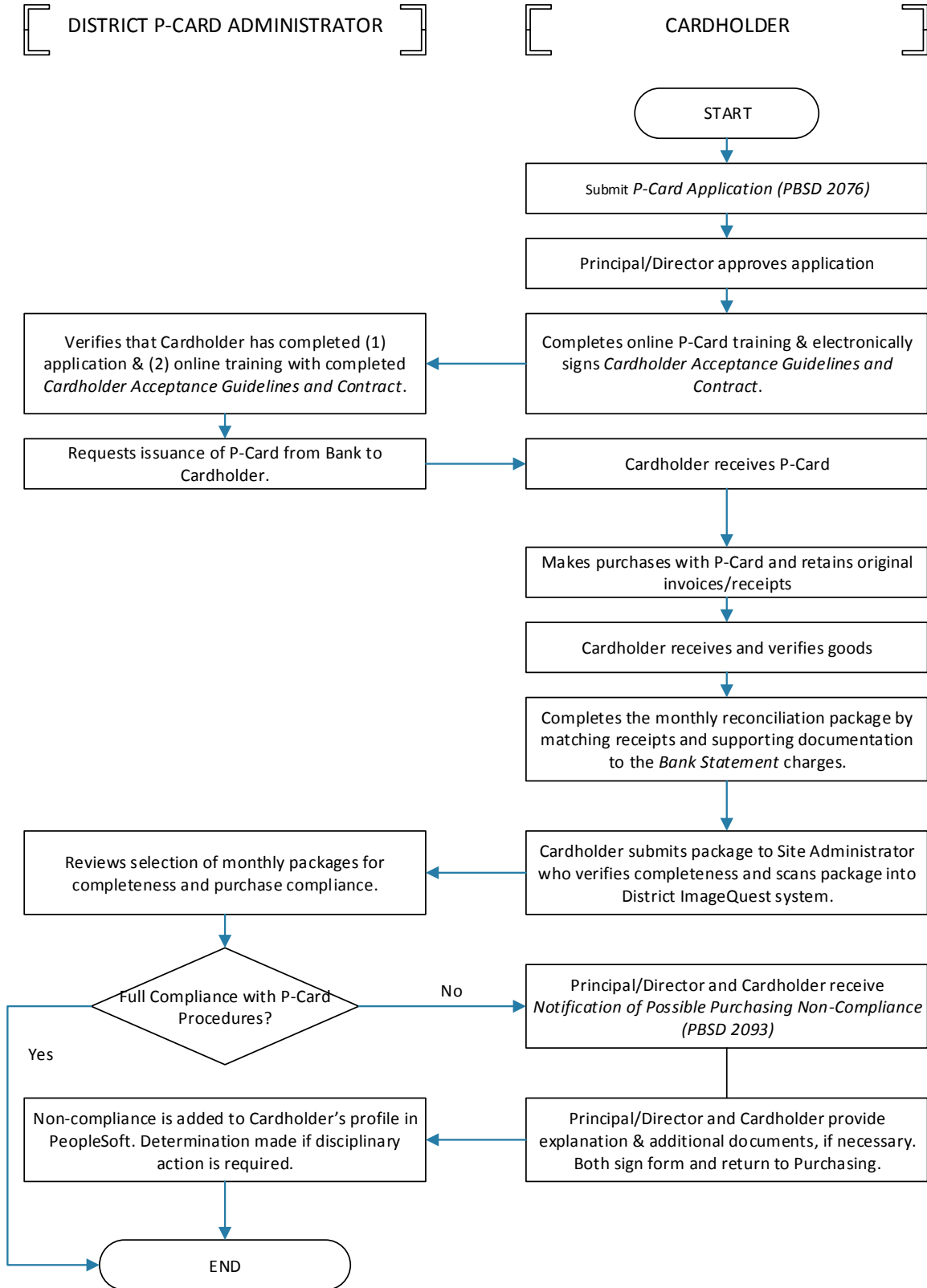
- Assist in the *Purchasing Card Application (PBSD 2076)* process.
- Serve as the liaison between the cardholders and the District P-Card administrator.
- Confirm the funding is correctly coded when transactions appear in PeopleSoft.
- Confirm cardholders have completed the Month-End Reconciliation; ensure that all required documentation is attached, including receipts, invoices, packing slips, and field trip approvals, etc.
- Notify the District P-Card Administrator and Principal/Director if a card is lost/stolen or needs to be closed.

3. School Principal/Department Director is to:

- Oversee P-Card program.
- Exercise judgment on limiting issuance of P-Cards only to staff with a legitimate need.
- Ensure that cardholders follow all District guidelines.
- Review and sign cardholders' monthly bank statements indicating acceptance that purchases are appropriate and demonstrate a legitimate business purpose.
- Notify District P-Card Administrator and Site Administrator of any changes in adding authorized cardholders.

Within the Purchasing Department, the District P-Card Administrator provides support to the Site Administrators and ensures that all new cardholders have completed the appropriate application and training prior to issuance of P-Cards. Also, the District P-Card Administrator reviews the scanned Monthly Reconciliation Packages uploaded by the Site Administrators.

Purchasing Card Issuance and Use Process



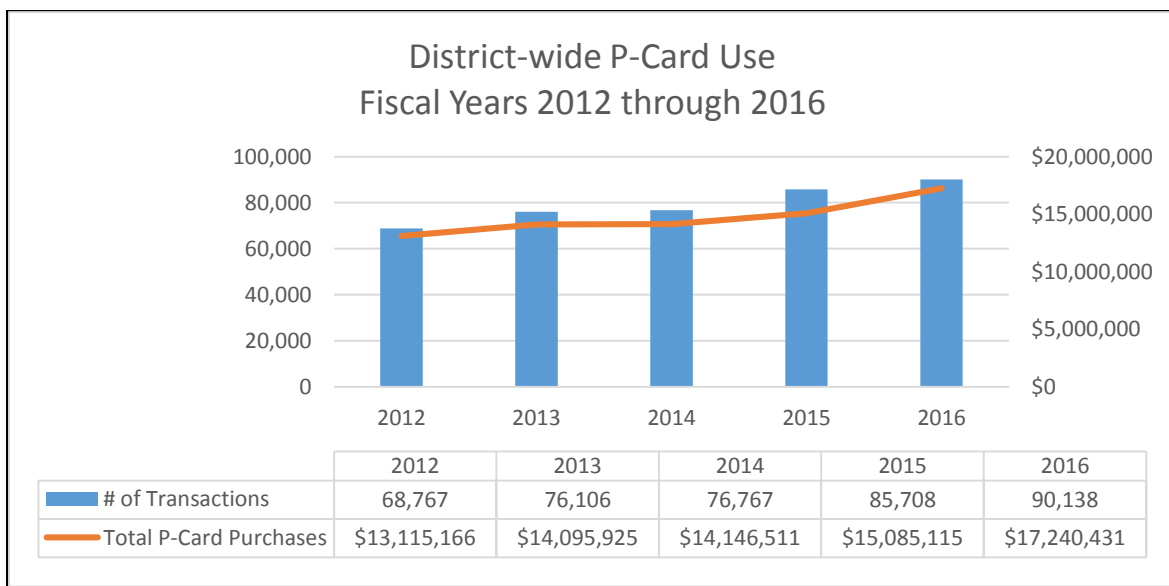
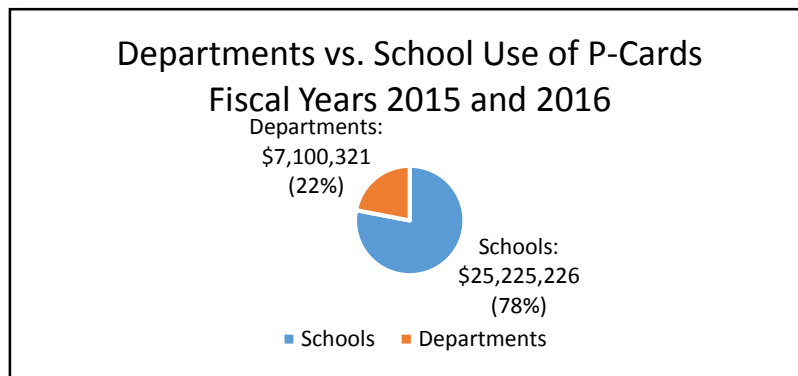
Source: District's *Purchasing Manual, Chapter 24, Purchasing Card Procedures*

Prior Audit Findings. The 2012 OIG Audit of P-Card Expenses for Department Directors (Report #2012-06) produced the following major conclusions:

- Purchases with insufficient or no documentation.
- Prohibited purchases using the P-Card.
- Monthly reconciliations not timely completed and approved by the Department Directors
- Purchases split to avoid the \$1,000 per vendor per day limit (pyramiding)

Program Statistics. During Fiscal Years 2015 and 2016, there were 175,846 P-Card purchase transactions District-wide totaling \$32,325,546, including \$25,225,226 (78%) made by schools and \$7,100,321 (22%) made by District departments.

Fiscal Year	Departments		Schools		Total	
	Amount	%	Amount	%	Amount	%
2015	\$3,421,682	23%	\$11,663,433	77%	\$15,085,115	100%
2016	\$3,678,639	21%	\$13,561,793	79%	\$17,240,431	100%
Total	\$7,100,321	22%	\$25,225,226	78%	\$32,325,546	100%



Source: Purchasing Department

CONCLUSIONS

The audit produced the following conclusions:

1. P-Cards Issued in Accordance with District Procedures

To determine compliance with District procedures for issuing P-Card, we selected 26 cardholders from the sample departments and verified completion of (1) the *Purchasing Card Application (PBSD 2076)*, (2) the online P-Card user training, and (3) the electronically signed *Cardholder Acceptance Guidelines Contract*. The issuance of these 26 sample P-Cards were in full compliance with the above District's requirements.

Management's Response: Management concurs. (Please see page 12.)

2. Untimely Deactivation of P-Cards

The District's *Purchasing Card Procedures* requires that the Site Administrator notify the District P-Card Administrator and Principal/Director by email if a card needs to be closed. During July 2014 through February 2016, a total of 48 employees, who had a District P-Card ceased employment with the School District. Our review of the P-Card accounts for these 48 former employees found that 15 (or 31%) of the cards were not timely terminated. Delays ranged from one to six days. Furthermore, one transaction for \$86.20, which did not have an itemized receipt/invoice, was made after the employee's termination date.

Recommendation

Delays in canceling a P-card account increase the risk that a P-Card could be misused by unauthorized persons. P-Card accounts should be closed immediately for employees who are leaving District employment. The Site Administrators should notify the District P-Card Administrator on or before the employee's termination date.

Management's Response: Management concurs.

Management identified that two of the P-Cards that were identified in the audit were not closed on the notification date. Management has discussed and reiterated with the P-Card staff the importance of closing accounts in a timely manner. These two cards account for 4.17% of the 48 cards reviewed. The deactivation delay for the remaining cards (13) is attributed to timing of Human Resources (HR) employee termination actions. There can be a delay based upon the date for which a terminated employee is entered into the PeopleSoft System by our HR department and our P-Card staff running their respective daily query for terminated employees. The P-Card Department receives notification the day after the HR Department takes action to terminate an employee. This delay could be several days if the employee's last day was a Thursday or Friday and is dependent on regular or summer work hours. The query that the P-Card staff runs daily in PeopleSoft checks for all open P-Cards to terminated employees.

With respect to the transaction for \$86.20, the order on this P-Card was placed prior to the employee leaving the District and the bank authorization of the charge was prior to the P-Card Department receiving notification that the employee had been terminated. Charges on a closed P-Card account will be applied if the bank authorization was granted prior to the closing of the card. This is an industry standard for all merchant services.

(Please see page 12.)

3. Noncompliance with Control Procedures for Use of P-Card.

During July 2014 through February 2016, there were 144,881 purchases, totaling \$25,744,603, which included 116,636 purchases in \$20,187,668 made by schools, and 28,245 purchases in \$5,556,935 made by District departments.

P-Card Transactions During July 2014, through February 2016

	# of Transactions	\$ Amount
Schools	116,636	\$20,187,668
District Departments	28,245	\$5,556,935
Total	144,881	\$25,744,603

P-Card transactions for schools are part of our Annual Internal Funds Audits. This audit reviewed selected transactions from the Purchasing Department and five other departments with the highest dollar amounts of P-Card purchases during the audit period. Sample records selected for review from the six departments included 148 monthly reconciliations and 2,116 transactions, totaling \$496,324.

Audit Samples

Department	Total Purchases		Audit Sample	
	# of Transactions	\$	# of Transactions	\$
Maintenance & Plant Operations	4,324	\$ 891,275	942	\$197,077
Secondary Education	1,542	387,912	351	79,816
Exceptional Student Education	1,333	276,738	273	73,550
After School Programing	993	253,557	279	75,370
Choice and Career Options	858	237,665	241	66,248
Purchasing	159	19,438	30	4,264
Totals	9,209	\$2,066,584	2,116	\$496,324

The following table summarizes the five areas of noncompliance from the sample transactions of the six departments: (a) purchases with no or insufficient supporting documentation, (b) prohibited use of P-card, (c) monthly reconciliations not reviewed and approved by department directors, (d) split purchases, and (e) unclear business purpose.

Department	(a) Insufficient or No Documentation for Purchases	(c) Missing Supervisors' Signatures on Bank Statement Review	(d) Split Purchase (Pyramiding)	(e) Unclear Business Purpose		
	(b) Prohibited Use of P-Card					
Maintenance & Plant Operations	√		√			
Secondary Education	√	√	√			√
Exceptional Student Education		√				
After School Programming			√			
Choice and Career Options	√	√		√		
Purchasing						
% of 6 Sampled Departments		50%	50%	50%	17%	17%

- a) Purchases with No or Insufficient Documentation. Four P-Card purchases (totaling \$125.65) in two departments did not have any supporting documentation. Nine P-Card purchases (totaling \$2,423.33) in two departments did not have adequate supporting documentation: seven transactions (totaling \$1,695.33) were supported by credit card receipts but did not have the details of the purchases; and two transactions (totaling \$728) were for lodging expenses for Secondary Education Department staff's travel to Gainesville without the required *Temporary Duty Elsewhere (TDE) Forms*, indicating the lack of pre-approval for the travels by Department Director.

Purchases With No or Insufficient Supporting Documentation

Departments	No Documentation		Insufficient Documentation		Total	
	# of Transactions	Amount	# of Transactions	Amount	# of Transactions	Amount
Secondary Education	2	\$83.59	7	\$1,369.23	9	\$1,452.82
Choice and Career Options	–	–	2	\$1,054.10	2	\$1,054.10
Maintenance & Plant Operations	2	\$42.06	–	–	2	\$42.06
Total	4	\$125.65	9	\$2,423.33	13	\$2,548.98

Recommendation

To ensure purchases are appropriate, they should be adequately documented and supported by itemized invoices and receipts.

- b) Prohibited Use of P-Card. Four P-Card transactions were used for purchase (totaling \$2,882.98) of computers, which were prohibited and must be procured through the Purchasing Department. P-Cards should not be used for purchase of disallowed items.

Prohibited Use of P-Card

Department	Transaction Date	Description	Amount
Exceptional Student Education	12/3/2014	Apple Products	\$475.00
Exceptional Student Education	12/29/2015	Apple Products	\$646.00
Choice and Career Options	6/9/2015	Computers	\$874.99
Choice and Career Options	6/25/2015	Computers	\$884.99
Total			\$2,882.98

Recommendation

P-Card should not be used for purchase of items disallowed by the *Purchasing Manual*. Specifically, *Purchasing Card Procedures Section 24-7* states “Purchases of “all” computers are prohibited with the Purchasing Card.”

- c) Monthly Reconciliations Neither Reviewed Nor Approved by Directors. Our review of 148 sample monthly reconciliations revealed that:

- Three of the sample P-Card *Monthly Bank Statements* were neither signed nor approved by the directors in two departments.
- Seven *Monthly Bank Statements* did not have the dates of the directors’ signatures, indicating the monthly reviews might have not been performed in a timely manner.

**Monthly Reconciliations
Neither Reviewed Nor Approved by Department Directors**

Department	Number of Monthly P-Card Statements	Missing Director’s Signature	Missing Signature Date
Secondary Education	44	–	1
Maintenance & Plant Operations	42	2	4
After School Programing	25	1	2
Choice and Career Options	21	–	–
Exceptional Student Education	10	–	–
Purchasing	6	–	–
Total	148	3 (2%)	7 (5%)

“–” denotes no exception.

Recommendation

To prevent and detect potential frauds and irregularities in a timely manner, and as required by *P-Card Procedures Manual*, P-Card activities should be timely reconciled after the receipt of bank statements. Cardholders should complete the P-Card reconciliation and *End of Cycle Checklist* monthly by the 20th of each month, and all monthly P-Card reconciliation records including the *End of Cycle Checklist* and *Monthly Bank Statement* should be reviewed and approved by the Director.

- d) Split Purchases. A \$1,853.94 purchase by the Choice and Career Options Department on May 28, 2015, was split into two \$926.97 transactions ($\$926.97 \times 2 = \$1,853.94$) and charged to the department's two different P-Card accounts. The actual purchase exceeded the \$1,000 per vendor daily limit without obtaining prior approval from the Purchasing Department.

Recommendation

P-Card purchase in excess of \$1,000 requires prior approval from the Purchasing Department. In addition, *Purchasing Card Procedures* provide that, "*Splitting an invoice totaling more than \$1,000 is considered Pyramiding and is not allowed. Payment for purchases shall not be split to stay within the single purchase limit.*" The department should not split large purchase in order to circumvent the District's purchasing rule.

- e) Unclear Business Purpose. Five P-Card purchases, totaling \$ 1,781, for the Secondary Education Department were rental payments to a self-storage warehouse. However, the department did not clearly indicate the educational or business purpose of the expenses.

Recommendation

To ensure the purchases are appropriate, purposes and justifications should be documented for all expenditures. It is the cardholder's responsibility to provide documentation that each purchase transaction appearing on the cardholder's billing statement is an appropriate and legitimate District purchase. An additional handwritten explanation is sometimes necessary and should be included when the business purpose is not obvious on the printed invoice or receipt.

Management's Response: *Management concurs.*

- (A) *Purchases with No Insufficient Documentation:* *Management recognizes documentation is always needed and will continue to stress the importance to schools and departments. Based on the audit sample, the insufficient documentation occurred in 13 out of 2,116 transactions or a total of 0.6%.*
- (B) *Prohibited Use of P-Card:* *Management agrees P-Card users should not make purchases on the P-Card that are listed on the "Prohibited List" available on the Purchasing Department website. We will continue to reiterate this in the trainings. The audit identified 4 out of 2,116 transactions or a total of 0.2%.*

- (C) Monthly Reconciliation Neither Reviewed Nor Approved by Directors: Management agrees and the monthly reconciliations will continue to be highlighted in training. The audit identified 3 missing signatures out of 148 transactions for a total of 2% and identified 7 missing dates out of 148 transactions for a total of 4.7%.
- (D) Split Purchases: Management agrees schools and departments should not split purchases to circumvent the P-Card procedures and will continue to reinforce this in training.
- (E) Unclear Business Expense: Management agrees and will reiterate this to schools and departments to include the required approval documentation in each month's P-Card reconciliation package.

The Purchasing Department has put in place the following to continually educate P-Card holders such as Directors, Principals, and P-Card Site Administrators:

- Purchasing provided yearly training on P-Card procedures for all P-Card holders, Directors, Principals, and Site Administrators.
- The P-Card website located on the Purchasing Department website is updated and contains information on documentation backup, allowed and prohibited items, and sample package requirements.
- Purchasing performs a monthly spot review of P-Card scans for any potential missing documentation.
- Purchasing holds P-Card informational meetings with Afterschool Directors, and several Treasurer Meetings.
- In October 2016, Purchasing began sending out a newsletter to P-Card Site Administrators. This newsletter will be distributed going forward on a quarterly basis.
- In November 2016, Purchasing began sending out a newsletter reminding the cardholder of the P-Card policies and procedures. This newsletter will be distributed going forward on a bi-annual basis.
- There are presently 5 face-to-face classes offered each fiscal year for P-Card Site Administrators.
- The Purchasing Department recently produced a video to be delivered to schools and departments that addresses compliance.

(Please see page 13.)

– End of Report –

Management's Response



THE SCHOOL DISTRICT OF
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MICHAEL J. BURKE
CHIEF FINANCIAL OFFICER

ROBERT M. AVOSSA, Ed.D.
SUPERINTENDENT

MEMORANDUM

To: Lung Chiu, Inspector General

From: Michael J. Burke, Chief Financial Officer *MB*

Date: December 13, 2016

Subject: **MANAGEMENT RESPONSE – AUDIT OF PURCHASING CARD EXPENSES FOR SELECTED DEPARTMENTS**

RECEIVED
DEC 13 2016
INSPECTOR GENERAL

1. **P-Card Issued in Accordance with District Procedures**
Management Concurs.

A review of 26 sample P-Card applications concluded that these 26 were issued in full compliance with related District's procedures.

2. **Untimely Deactivation of P-Cards**
Management Concurs.

Management identified that two of the P-Cards that were identified in the audit were not closed on the notification date. Management has discussed and reiterated with the P-Card staff the importance of closing accounts in a timely manner. These two cards account for 4.17% of the 48 cards reviewed. The deactivation delay for the remaining cards (13) is attributed to timing of Human Resources (HR) employee termination actions. There can be a delay based upon the date for which a terminated employee is entered into the PeopleSoft System by our HR department and our P-Card staff running their respective daily query for terminated employees. The P-Card Department receives notification the day after the HR Department takes action to terminate an employee. This delay could be several days if the employee's last day was a Thursday or Friday and is dependent on regular or summer work hours. The query that the P-Card staff runs daily in PeopleSoft checks for all open P-Cards to terminated employees.

With respect to the transaction for \$86.20, the order on this P-Card was placed prior to the employee leaving the District and the bank authorization of the charge was prior to the P-Card Department receiving notification that the employee had been terminated. Charges on a closed P-Card account will be applied if the bank authorization was granted prior to the closing of the card. This is an industry standard for all merchant services.

Management's Response

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December 13, 2016

MANAGEMENT RESPONSE – AUDIT OF PURCHASING CARD EXPENSES FOR SELECTED DEPARTMENTS

3. Noncompliance with Control Procedures for Use of P-Card

Management Concur

- (A) Purchases with No Insufficient Documentation: Management recognizes documentation is always needed and will continue to stress the importance to schools and departments. Based on the audit sample, the insufficient documentation occurred in 13 out of 2,116 transactions or a total of 0.6%.
- (B) Prohibited Use of P-Card: Management agrees P-Card users should not make purchases on the P-Card that are listed on the "Prohibited List" available on the Purchasing Department website. We will continue to reiterate this in the trainings. The audit identified 4 out of 2,116 transactions or a total of 0.2%.
- (C) Monthly Reconciliation Neither Reviewed Nor Approved by Directors: Management agrees and the monthly reconciliations will continue to be highlighted in training. The audit identified 3 missing signatures out of 148 transactions for a total of 2% and identified 7 missing dates out of 148 transactions for a total of 4.7%.
- (D) Split Purchases: Management agrees schools and departments should not split purchases to circumvent the P-Card procedures and will continue to reinforce this in training.
- (E) Unclear Business Expense: Management agrees and will reiterate this to schools and departments to include the required approval documentation in each month's P-Card reconciliation package.

The Purchasing Department has put in place the following to continually educate P-Card holders such as Directors, Principals, and P-Card Site Administrators:

- Purchasing provided yearly training on P-Card procedures for all P-Card holders, Directors, Principals, and Site Administrators.
- The P-Card website located on the Purchasing Department website is updated and contains information on documentation backup, allowed and prohibited items, and sample package requirements.
- Purchasing performs a monthly spot review of P-Card scans for any potential missing documentation.
- Purchasing holds P-Card informational meetings with Afterschool Directors, and several Treasurer Meetings
- In October 2016, Purchasing began sending out a newsletter to P-Card Site Administrators. This newsletter will be distributed going forward on a quarterly basis.
- In November 2016, Purchasing began sending out a newsletter reminding the cardholder of the P-Card policies and procedures. This newsletter will be distributed going forward on a bi-annual basis.
- There are presently 5 face-to-face classes offered each fiscal year for P-Card Site Administrators.
- The Purchasing Department recently produced a video to be delivered to schools and departments that addresses compliance

If you should have any questions, please do not hesitate to call me at (561) 434-8584 (PX48584).

MJB/DG:sms

cc: Gonzalo LaCava