

ASD INTERNAL AUDIT REPORT

2016-03

Procurement Card Purchases

Anchorage School District

October 27, 2016

MUNICIPALITY OF ANCHORAGE
Internal Audit Department
632 W 6th Avenue, Suite 600
P.O. Box 196650
Anchorage, Alaska 99519-6650
www.muni.org/departments/internal_audit



INTERNAL AUDIT DEPARTMENT
Michael Chadwick, CICA
Acting Director
Phone: (907) 343-4438
Fax: (907) 343-4370
E-Mail: chadwickmb@muni.org



Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

October 27, 2016

Anchorage School District Superintendent and Members of the School Board:

I am pleased to present for your review **ASD Internal Audit Report 2016-03; Procurement Card Purchases; Anchorage School District**. A brief summary of the report is presented below.

We have completed an audit of the Anchorage School District's Procurement Card Purchases. The objective of this audit was to determine whether cardholders adhered to the District's policies and procedures regarding Procurement Card use. Our audit included a review of purchases made from July 1, 2015, to March 31, 2016. Specifically, we reviewed purchases of 335 judgmentally selected transactions to ensure compliance with the Procurement Card Procedures. We also reviewed the process for deactivating Procurement Cards for terminated cardholders.

Overall, the controls over Procurement Cards have improved since our previous audit. However, our review of Procurement Card transactions from July 1, 2015, to March 31, 2016, revealed some instances of questionable and prohibited purchases. Examples of questionable purchases included food and gifts for staff and prohibited purchases included gift cards. In addition, documentation for Procurement Card purchases was not always maintained and some Procurement Card purchases were not always approved in the US Bank website. Moreover, Procurement Card purchases were not always allocated to the appropriate Integrated Financial Administrative Solution account code within three business days of the transaction and some transactions were split to circumvent the \$2,500 single transaction limit. Finally, some Procurement Cards were not deactivated timely when cardholders were terminated.

There were seven findings in connection with this audit. Management was generally responsive to the findings and recommendations.

Michael Chadwick, CICA
Acting Director, Internal Audit



Municipality of Anchorage

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Introduction. The Finance Department (Finance), in collaboration with the Purchasing Department, implemented the Procurement Card (P-Card) Program in August 2012, to provide for the purchase and payment of goods and services, while reducing the need for petty cash funds, employee reimbursements, and low dollar purchase orders. Finance administers the P-Card program. The P-Card Cardholder Procedures (P-Card Procedures) were implemented to provide guidelines for the appropriate uses of P-Cards. The Anchorage School District (District) uses US Bank for its credit card services. Staff at the school or department level allocates the P-Card charges to account codes in US Bank's website, which is then downloaded by Finance staff into the District's financial system known as Integrated Financial Administrative Solution (IFAS). For the period of July 1, 2015, through March 31, 2016, over 36,000 transactions were processed for about \$7.6 million. Additionally, there were over 850 active P-Cards during the same period. (See Attachment for additional statistics.)

Objective and Scope. The objective of this audit was to determine whether cardholders adhered to the District's policies and procedures regarding P-Card use. Our audit included a review of purchases made from July 1, 2015, to March 31, 2016. Specifically, we reviewed purchases of 335 judgmentally selected transactions to ensure compliance with the P-Card Procedures. We also reviewed the process for deactivating P-Cards for terminated cardholders.

We conducted this audit in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review. Those standards require that we plan and perform the audit to obtain sufficient, 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. The audit was performed during the period of April through June 2016. The audit was requested by the Anchorage School District Finance Committee.

Overall Evaluation. Overall, the controls over P-Cards have improved since our previous audit. However, our review of P-Card transactions from July 1, 2015, to March 31, 2016, revealed some instances of questionable and prohibited purchases. Examples of questionable purchases included food and gifts for staff and prohibited purchases included gift cards. In addition, documentation for P-Card purchases was not always maintained and some P-Card purchases were not always approved in the US Bank website. Moreover, P-Card purchases were not always allocated to the appropriate IFAS account code within three business days of the transaction and some transactions were split to circumvent the \$2,500 single transaction limit. Finally, some P-Cards were not deactivated timely when cardholders were terminated.

FINDINGS AND RECOMMENDATIONS

1. Questionable P-Card Purchases.

- a. **Finding.** Our review of P-Card transactions revealed instances of questionable purchases for staff. According to the P-Card Procedures, purchases must be for District business purposes only, must provide value and quality for the District, and must be necessary. We identified 19 purchases totaling \$4,032 that included food and gifts for staff. Examples of staff meals included a purchase of \$901 at a pizzeria and \$712 for a staff social at a hotel. Gifts for staff appreciation included mugs totaling \$627 and ulu knives totaling \$100. Food and gift purchases were funded by general funds and student activity funds. The Student Activity Funds Accounting Manual states that “Any pupil activity funds generated or expended in connection with school sponsored or approved activities are considered funds of the school district and therefore subject to the same rules of accountability, control and audit as other funds of the school district.”

Although the P-Card Procedures do not specifically address the appropriate purchases of food and gifts, the IFAS User Procedural Guide (IFAS Guide) provides additional guidance for the use of District funds. As stated in the IFAS Guide, teacher and staff appreciation gifts are not an allowable use of District funds. Additionally, food may only be purchased for training and parent meetings.

- b. **Recommendation.** The Chief Financial Officer should align the P-Card Procedures and IFAS Guide to consistently address the appropriate purchases of food and gifts for staff.

- c. **Management Comments.** Management stated, “Management generally agrees with auditors’ recommendation. Appropriate purchases of food and gifts for staff are not specifically addressed in the P-Card Procedures. Of the 19 transactions sampled, 4 were paid from the General Fund totaling \$159, and remaining questionable charges from student activities funds which are primarily raised by students from discretionary revenue such as vending machine receipts. While purchases did follow P-Card guidelines and procedures, Finance needs to provide clarification in the revised manual for such uses, and in alignment with the IFAS User Procedural Guide referring to use of District funds.”

- d. **Evaluation of Management Comments.** Management comments were generally responsive to the audit finding and recommendation.

2. **Prohibited Purchases.**

- a. **Finding.** Our review of P-Card transactions revealed some prohibited purchases. For example, we found five purchases, totaling \$2,038, for gift cards, televisions valued over \$500, and two personal purchases. The two personal purchases, totaling \$78, had not yet been reimbursed to the District by the cardholders. According to the

P-Card Procedures, prohibited purchases included gift cards, equipment valued \$500 or greater (due to asset tagging requirements), and personal purchases. Public trust and public funds are at risk if prohibited purchases are made by District staff.

b. Recommendations. The Chief Financial Officer should:

- 1) Consider suspending privileges for cardholders who purchase prohibited items.
- 2) Determine if cardholders reimbursed the District for personal purchases.

c. Management Comments. Management stated,

“Management agrees with auditors’ recommendations.

“a. Privileges will be suspended for cardholders who purchase prohibited items, following an investigation of use and with the clarity provided in the updated P-Card Manual. The requests for conditional use of P-Cards for fixed assets over \$500 are becoming more frequent. Presently, exception requests are handled via email correspondence with the P-Card Committee and AP maintains a log for conditional approvals given. Three items in question did not receive prior approval for conditional use of their P-Card. These have been followed up on, providing clear guidance to the users, and one item being tagged. The District has been refunded for the two personal purchases identified. The tagging process is being addressed in the IFAS Workflow model, currently in progress, to accommodate future purchases with the P-Card for fixed assets.

“b. Finance will update the P-Card Manual to provide clarification for food and gift purchases for staff.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendations.

3. **P-Card Purchases Not Always Documented.**

- a. **Finding.** Documentation for P-Card purchases was not always maintained. We reviewed 335 P-Card purchases and found 13 transactions, totaling \$9,673, which were not supported by adequate documentation such as original receipts or any receipts. Purchases without adequate documentation included gym equipment, a television, and food for a culinary class and staff. According to the P-Card Procedures, “The cardholder is responsible for maintaining adequate receipts for p-Card purchases. The documentation retained should include sales receipts, packing lists (if applicable) and credit card transaction receipts.”
- b. **Recommendation.** The Chief Financial Officer should remind P-Card cardholders of the requirement to maintain supporting documentation for P-Card purchases.
- c. **Management Comments.** Management stated, “Management agrees with auditors’ recommendations. Adequate documentation support should be maintained at all times by the cardholder in support of each P-Card purchase. Finance will remind staff of this in the weekly Newsletter to principals, and in the rollout of the revised P-Card Manual. The electronic attachment of proper backup for each individual transaction is being addressed in the IFAS Workflow model.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Unapproved P-Card Purchases.**

- a. **Finding.** P-Card purchases were not always approved in the US Bank website. Specifically, we found 11 of 335 transactions that we tested were not marked as “Final Approved.” These 11 instances indicated that cardholder or manager approval was still pending. When a cardholder makes a purchase, they can log into the US Bank website and approve their purchase, which prompts a secondary approval from a supervisor or designee. The supervisor or designee then reviews the purchase and marks it as “Final Approved.” We further expanded our testing to the entire P-Card download from July 1, 2015 through March 31, 2016. The download, which contained over 36,000 transactions, showed that over 2,000 (6%) purchases were not marked as “Final Approved.” Transactions not marked as “Final Approved” were flagged by Finance staff during the year-end process and presented to the principals and supervisors. The P-Card Procedures do not address the final approval by a secondary reviewer. By not showing evidence of a secondary review, there is a risk that unauthorized purchases may be made and that overspending may occur.
- b. **Recommendation.** The Chief Financial Officer should revise the P-Card Procedures to require final approval by a secondary reviewer in the US Bank website.
- c. **Management Comments.** Management stated, “Management agrees with auditors’ recommendations. Secondary approvals are a necessary internal control measure to ensure adequate review and oversight is given to each individual transaction and appropriate use is made by each cardholder. Presently, the secondary approval in US Bank is not necessitated by the process, nor does it restrict the allocation from occurring. Finance will remind staff of the importance and requirement of the timeliness of the secondary approval in the weekly newsletter to principals, and in the rollout of the revised P-Card Manual. The second approval requirement is being

addressed in the IFAS Workflow model and will enforce such review and approval to be made for each transaction prior to the allocation. Of the 11 transactions, 9 were central to one school.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

5. **Purchases Not Always Allocated Within Three Business Days.**

- a. **Finding.** P-Card purchases were not always allocated to the appropriate IFAS account code within three business days of the transaction date, as required by the P-Card Procedures. Our testing of 335 P-Card transactions revealed that 215 (64%) transactions were not allocated within the required timeframe. Delays in allocating the charges ranged from 1 to 75 days. P-Card purchases may be allocated by several different people such as the cardholder, the Activities Clerk, the Financial Data Control Clerk, or the Business Manager. The short time for allocating transactions keeps the timeframe between purchases posted with US Bank against the District’s financial system to a minimum. This is intended to keep the District’s reporting activity as up to date as possible.
- b. **Recommendation.** The Chief Financial Officer should consider suspending P-Card privileges for schools and/or departments who do not allocate their transactions to the appropriate account code within three business days.
- c. **Management Comments.** Management stated, “Management agrees with auditors’ recommendations. Privileges are being suspended for cardholders not timely allocating their posted transactions in US Bank. Finance will remind staff of the importance and penalties for not adhering to the policies in the weekly newsletter to principals, and in the rollout of the revised P-Card Manual. The IFAS Workflow model addresses the timeliness of allocations with automated email requests and

reminders, as well as, initially encumbering the expense in IFAS in a default account (pre-allocation), which will pull the expense into the proper financial period for timely reporting and reduce the overall budget authority of the school/department.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

6. **Transactions Split to Circumvent Dollar Limit.**

- a. **Finding.** Transactions were sometimes split to circumvent the \$2,500 single transaction limit. Our testing of 335 transactions revealed three instances where purchases were split to circumvent dollar transaction limits. For example, a purchase for computer hard drives totaling \$2,508 was split between two days, with \$2,000 and \$508 charges at different times. Also, two purchases for \$2,425 and \$1,925 were made online, minutes apart, for a video conference. According to the P-Card Procedures, “Each cardholder has a designated transaction limit and cycle (monthly) purchase limit.” Intentional circumvention of these limits is prohibited, which includes splitting a transaction amount with the same vendor or multiple vendors. Cardholder limits are set in place to control spending levels and prevent unauthorized spending.
- b. **Recommendation.** The Chief Financial Officer should consider suspending privileges for P-Card holders who do not abide by their transaction limits.
- c. **Management Comments.** Management stated, “Management agrees with auditors’ recommendations. P-Card holders found splitting transactions to circumvent the \$2,500 single transaction limit will have their privileges suspended. Finance will remind staff in the weekly newsletter to principals, and in the rollout of the revised P-Card Manual, of the importance and penalties for not adhering to the policies.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

7. **P-Cards Not Always Deactivated Timely Upon Cardholder Termination.**

- a. **Finding.** Some P-Cards were not deactivated timely when cardholders were terminated. We identified four instances where the P-Card was not deactivated on the employees' termination date. Delays in P-Card deactivation ranged from six days to four months. According to the P-Card Procedures, "Should an employee no longer need a p-Card, the card must be deactivated." Finance is responsible for deactivating P-Cards and relies on cardholders or their supervisors to notify them of terminations. However, termination checklists are not used to ensure that the P-Card is returned to Finance prior to a cardholder's termination. Deactivating P-Cards upon termination reduces the risk of unauthorized charges and may prevent someone else from using the P-Card.
- b. **Recommendation.** The Chief Financial Officer should establish a timely process to deactivate P-Cards when a cardholder is terminated from the District.
- c. **Management Comments.** Management stated, "Management agrees with auditors' recommendations. Supervisors will be reminded to complete the termination form and communicate to Accounts Payable immediately. The IFAS Workflow model will address the timeliness of personnel changes being communicated to AP, working towards an automated update following the manual change to the HR record."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

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Discussion With Responsible Officials. The results of this audit were discussed with appropriate District officials on September 2, 2016.

Audit Staff:
Brenda Peña, CFE

**Attachment
P-Card Statistics**

**P-Card Charges for Top 20 Departments & Schools
July 1, 2015 through March 31, 2016**

<u>Department/School</u>	<u>Total Charges</u>
Maintenance Department	\$ 1,090,220
Vehicle Maintenance Department	\$ 497,477
Family Partnership Charter School	\$ 291,549
Frontier Charter School	\$ 281,824
Student Nutrition Department	\$ 273,896
East High School	\$ 243,060
South High School	\$ 215,272
West High School	\$ 194,154
Service High School	\$ 176,540
King Career Center	\$ 160,377
Special Education Department	\$ 143,373
Eagle River High School	\$ 135,650
Begich Middle School	\$ 113,836
Construction Management Department	\$ 112,948
Dimond High School	\$ 100,792
Career & Technical Education Department	\$ 97,637
Bartlett High School	\$ 91,872
Information Technology Department	\$ 81,345
SAVE High School	\$ 80,508
Winterberry Charter School	\$ 76,252

Source: Auditor analysis of unaudited US Bank data.

Note 1: \$252,033 in charges allocated to the Travel location number was excluded because it did not pertain to a specific department or school.

P-Card Charges for Top 20 Merchants
July 1, 2015 through March 31, 2016

<u>Merchant Name</u>	<u>Merchant Description</u>	<u>Total Charges</u>
Amazon.com	Online Retailer	\$ 564,460
Staples	Office Supplies Retailer	\$ 352,815
Lewis and Lewis Computer	Office Supplies, Furniture, Technology	\$ 186,923
Alaska Junior Theater	Theatre Performances	\$ 135,288
RWC International	Truck Sales and Parts	\$ 123,048
Hasco, Inc.	HVAC and Systems Supplies	\$ 106,869
Food Services of America	Student Nutrition Food/Supplies	\$ 103,906
Grainger	Industrial Equipment Supplier	\$ 83,645
University of Alaska Anchorage	Classes/Education	\$ 81,031
Follett School Solutions	Education Technology and Services	\$ 69,448
Municipality of Anchorage	Construction Permits	\$ 64,981
Ferguson	Plumbing Supply Store	\$ 64,564
Office Depot	Office Supplies Retailer	\$ 63,439
Brigham Young University	Classes/Education	\$ 58,728
Stusser Electric	Electric Wholesale Distributor	\$ 56,357
Graybar Electric Company	Electric Supply Store	\$ 56,049
J.W. Pepper and Son, Inc.	Sheet Music Retailer	\$ 54,948
Arctic Glass, LLC	Glass Repair Service	\$ 45,779
Goodyear Commercial Tires	Tire and Service Center	\$ 43,032
Barnes and Noble	Bookseller	\$ 42,282

Source: Auditor analysis of unaudited US Bank data.