



Internal Audit Communication

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TO: Dane Youngblood, Director of Purchasing
Cc: Michelle Jahr, Chief Financial Officer
Cc: Lori Hoadley, General Counsel
Cc: Dr. Ehren Jarrett, Superintendent

FROM: Roman Gray, Internal Auditor

DATE: April 12, 2018

SUBJECT: Internal Audit Report – District Purchasing Card Program

INTRODUCTION

The District uses a Purchasing Card program (“P-card”), a credit card administered by Bank of America, as a form of payment for goods and services. The P-card allows purchases to be made promptly and with any vendor that accepts MasterCard; as such, these purchases are not subject to the same internal controls as those that flow through Accounts Payable. Guidelines for use of the Purchasing Card are presented in District Administrative Regulation 4.55 R (1).

In order to control the risk of fraud or other inappropriate activity with P-cards, the following key controls are in place:

- Supervisory review of each cardholder’s purchases (via Expense Record approval)
- Monthly, daily, and per-transaction purchasing limits
- Itemized documentation required for all transactions

Other operational controls also exist to provide additional management control over Purchasing Card use.

SCOPE

The scope for this audit was FY2017, and audit testing was performed on all cardholder statements for the following months:

- November 2016: 39 cards active
- February 2017: 39 cards active
- May 2017: 36 cards active
- June 2017: 34 cards active

A list of cardholders is included at the end of this report as Exhibit A.

In a cursory review of a single July 2016 card statement, an additional finding was noted, which has been included in this report.

All statements and transactions in the audit scope were reviewed for compliance with Purchasing Card guidelines.

SUMMARY OF FINDINGS

Audit findings are summarized below, and described in greater detail in the next section.

AUDIT EXCEPTIONS:	Total	Occurrence Rate*	Nov	Feb	May	June**
			2016	2017	2017	2017
1. No evidence of any approval by card verifier	14	9%	4	1	1	8
2. Card memo statement not signed by cardholder	13	9%	3	3	0	7
3. Expense log not turned in	116	78%	33	27	25	31
4. Individual charge exceeds \$1,000	3	2%	2	1	0	0
5. Charges split to avoid limit	2	1%	1	0	0	1
6. Sales tax was charged to card	18	12%	5	6	2	5
7. Itemized documentation not included for transaction(s)	16	11%	1	4	6	5
8. No documentation found for card usage	16	11%	1	5	4	6
9. Received Late	37	25%	13	2	5	17
10. Other card violation(s) occurred per statement	3	2%	1	2	0	0
TOTAL NUMBER OF CARD STATEMENTS REVIEWED	149					
TOTAL EXCEPTIONS	238		64	51	43	80

*Occurrence rate = Percentage of cardholder statements where this exception occurred at least one time.

**Includes one statement reviewed from July 2017.

DETAIL OF AUDIT FINDINGS

Finding #1: No evidence of any approval by Card Verifier (9% occurrence)

Finding #2: Card memo statement not signed by Cardholder (9% occurrence)

Condition:

Cardholder and supervisory review may not be occurring as required; typically, the lack of a signature indicates that review has not occurred.

Criteria:

Guidance: Administrative Regulation 4.55R(1), section 1.2, states:

Statement of Account

"...The cardholder should sign the statement to indicate that the transactions have been reviewed and are legitimate business expenses. The statement should then be forwarded with receipts to the Card Verifier. The Card Verifier should also sign the statement indicating they have verified and reviewed the transactions."

Cause:

Uncertain. These findings could be caused by the following:

1. Cardholder or Card Verifier reviewed but failed to sign the document(s).
2. Cardholder may have not reviewed the document(s) prior to sending them to the Finance Department.
3. The Cardholder or Card Verifier may not have seen the document before it was sent to the Finance Department. For example, a clerk or administrative assistant may take care of the card documents, and in the cases of exceptions noted, sent them to Finance without presenting them to the Cardholder or Card Verifier for review and sign-off.



Consequence:

There is a risk that unauthorized card activity could occur, such as:

1. Unallowable purchases made by Cardholder that would be rejected if seen by Card Verifier.
2. Unauthorized purchases made by clerk or administrative assistant that has access to card.
3. Fraudulent use of the card could be perpetrated by someone outside of the District, such as a hacker or a rogue vendor.

Corrective Action:

All card statements should be reviewed by the Cardholder and signed, and all supporting documentation should be attached. Card Verifier should then review the statement and documentation, and if approved, sign the statement. (Note that the Expense Record is a separate document, requiring further signatures. The Cardholder and Card Verifier should each sign the Expense Record as well.)

Response:

The Purchasing Card Regulation 4.55R (1) was updated in October 2016 in response to comments noted in the fiscal year 2016 audit. Shortly thereafter, the purchasing team began experiencing turnover with the departure in November 2016 of the Executive Director of Budgeting and Purchasing and the departure of the Purchasing Process Manger in March 2017 and the department has been short staffed since that time. The responsibility for managing the P-Card has been shifted between different individuals since March 2017 and the department has been short staffed through June 2017. The Finance and Purchasing departments have ensured that the P-Card program continues to function; however, staff turnover and subsequent increase in workload on remaining staff has impacted the administration’s ability to address issues with the program. Management will implement the final step in response to the prior year and recurring current year external audit comments and now internal audit comment by conducting in-depth training with all existing purchase card holders and to require all cardholders sign a new purchasing card agreement to indicate the cardholder has been trained and agrees to the revised Regulation put in place in October 2016.

Finding #3: Expense Record not turned in (78% occurrence rate)

Operational Services

4.55R(1)(E)(3) Exhibit – Purchasing Card Expense Record

Name _____
 Attach statement and receipts to the back of this form

Billing Period _____ Dept. Name _____ Location _____

Date of Charge	Receipt/Invoice No.	Amount	Vendor Name	Account Number
		\$		
		\$		
		\$		
		\$		
		\$		
		\$		
		\$		
		\$		
		\$		
		\$		

Total Charges on Statement \$ _____

Cardholder Signature _____ Supervisor’s Signature _____

Approving Official’s Signature _____ Date _____

Page _____ of _____

Condition:

In 78% of the card statements reviewed, the Expense Record was not included with documentation.

Criteria:

Administrative Regulation 4.55R(1) section 4.3, states:

Reconciliation & Allocation of Charges

“All charges on the monthly credit card statement must be recorded on the Purchasing Card Expense Record. Once completed, this form must be signed by the Cardholder and the Card Verifier.”

Cause:

Unknown. The high rate of noncompliance may indicate that it was not clear to cardholders that this form was required.



Consequence:

Specifically, transaction details should appear on this form to clarify the following:

- General ledger account number being charged
- Justification and reason for purchase

Without this form, there is no other place designated for cardholders to supply this information.

Corrective Action:

All cardholders should be required to fill out and submit the approved Expense Record form. Additionally, the current Expense Record form, as approved by Administrative Regulation, does not provide a space for cardholders to enter an explanation of the purchase. Recommended corrective action in this case would be for the form to be modified and for a space to be provided for cardholders to enter a sufficiently-detailed explanation for the purchase.

An alternative solution would be for the District to contact the Card Services Provider (Bank of America), and ask if the monthly statement could be modified to provide space to write in the information that is currently captured by the Expense Record form. If this is an option and the Expense Record could be eliminated, it would lessen the amount of month-end paperwork due from the cardholders.

Response: Purchasing will modify the Expense Record form so that the description can be entered. Supervisors are required to sign expense reports which confirms they have cited supporting documentation. Training will be provided to all current cardholders and signed forms will be added to each cardholder’s file to document that the training occurred. Training will be provided to new cardholders when cards are requested. Purchasing will communicate to supervisor, if unsupported expenses records are received to resolve issue with employee through a corrective action plan.

Finding #4: Card purchases exceeding \$1,000 maximum threshold for single purchase (3%)

Finding #5: Purchases at a single vendor split up to circumvent \$1,000 transaction limit (2%)

Condition:

It was noted in three cases that cardholders made charges exceeding the \$1,000 limit for card purchases.

<i>Cardholder Title</i>	<i>Cardholder Department</i>	<i>Vendor</i>	<i>Amount of Purchase</i>	<i>Month</i>
Energy Management Technician	Facilities	LM Sheet Metal	\$ 1,111.52	Feb 2017
Energy Management Technician	Facilities	Windy City Wire Cable	\$ 2,016.00	Nov 2016
Chief Operations Officer	Operations	Raptor Technologies	\$ 2,700.00	Nov 2016

A card statement from July 2016 contained the following transactions:

<i>Cardholder Title</i>	<i>Cardholder Department</i>	<i>Vendor</i>	<i>Amount of Purchase</i>	<i>Transaction Date</i>
Parts Person	Transportation	Phil's Power Plus	\$ 750.00	7/7/2016
Parts Person	Transportation	Phil's Power Plus	\$ 450.00	7/7/2016
Parts Person	Transportation	Phil's Power Plus	\$ 690.00	7/18/2016
Parts Person	Transportation	Phil's Power Plus	\$ 415.00	7/18/2016

Criteria:

Administrative Regulation 4.55R(1), Section 4.4 (L) states:

Cardholder Responsibilities

“...District regulations prohibit splitting orders to evade the \$1,000 per transaction limit. Any purchases over \$1,000 must be approved by Purchasing.”

Administrative Regulation 4.55R(1), Section 1.2 states:

Definitions

“Pyramiding Charges: Using multiple transactions to circumvent per-transaction limit of \$1,000. For example, if an employee with a \$1,000 per-transaction limit made a purchase of \$1,500 by requesting the vendor process one transaction for \$500 and another transaction for \$1,000 to circumvent the \$1,000 per-transaction limit. Note that this is pyramiding whether the transaction is for several items or for one item. **Pyramiding is not permitted with the purchasing card.**”

There was no documentation for the approval of these purchases, nor for approval of the splitting of payments.

Cause:

Purchases were made at Cardholder discretion.

Consequence:

Non-compliance with established procedures, and purchases were made that are not authorized under Purchasing Card guidelines.

Corrective Action:

Cardholders should be reminded of P-Card guidelines. Consequences such as card cancellation or other disciplinary action should be considered for repeat offenders. Card verifiers should also review transactions and investigate.

It is recommended that the Purchasing Department explore the option of having Bank of America set automated controls on each purchasing card that would not allow purchases to take place if they exceed a set threshold.

Response:

Training will be provided to all current cardholders and signed forms will be added to each cardholder's file to document that the training occurred. Training will be provided to new cardholders when cards are requested.

Purchasing will work with Bank of America to automate expenditure limits on cards. If that is not possible, purchasing will notify supervisors of non-compliance with regulation and enforce corrective action plan as outlined in the regulation.

Finding #6: Sales tax charged to card (12% occurrence)**Condition:**

12% of all cardholder statements reviewed were found to have sales taxes charged on their cards.

Criteria: Regulation 4.55R(1), Section 3.8 states:

Tax Exemption

“...All school entities are exempt from State sales tax. It is the Cardholder’s responsibility to ensure that the merchant does not charge sales tax on the purchase.”

Cause:

Unknown. Cardholders are not receiving tax exemption status from vendors, and the card verifiers and program administrators are not reviewing monthly transactions and enforcing this guideline.

Consequence:

Unnecessary expense is incurred by the District.

Corrective Action:

Cardholders should be trained or reminded that sales tax should not be incurred on Purchasing Card transactions. Furthermore, a review at the Finance Department or Purchasing Department level should identify these charges, and cardholders should be held responsible to seek reimbursement from vendors.

Response: Training will be provided to all current cardholders and signed forms will be added to each cardholder’s file to document that the training occurred. Training will be provided to new cardholders when cards are requested. A reminder will also be sent out in a May 2018 email regarding Purchasing updates

Finding #7: Missing itemized documentation (11% occurrence)**Finding #8: No documentation provided for monthly statement (11% occurrence)****Condition:**

Itemized purchase documentation, such as receipts or invoices, was not turned in for at least one transaction in 11% of statements reviewed. In 16 separate cases, no documentation was turned in for any transactions for a month’s card usage.

Criteria:

Guidance: Administrative Regulation 4.55R(1), section 4.2, states:

Receipts

“...The P-Card holder is responsible for receiving, printing, and retaining all receipts related to P-Card purchases. This includes receipts related to online purchases. All receipts for P-Card purchases must be detailed and itemized. Receipts should show all items purchased and not just a total amount. Payment alone signature receipts will not be considered by the auditor as proof of the purchase if it is not accompanied by the vendor’s itemized receipt.”

Cause:

Uncertain.

Consequence:

There is a risk that transactions on a cardholder's statement could be for unapproved or inappropriate items or services. For example, a purchase at a department store could be for a myriad of items, and without itemized receipts, supervisors would be unable to determine the actual items purchased. In the event that no documentation is turned in and reviewed by supervisors, there is a risk that a card could be used by an outsider (such as a rogue vendor or a hacker) to create unauthorized transactions without detection.

Corrective Action:

All supporting documentation should be attached, with transaction detail sufficient to describe each of the components of a purchase, and sent to the Finance Department in a timely fashion each month.

Response Training will be provided to all current cardholders and signed forms will be added to each cardholder's file to document that the training occurred. Training will be provided to new cardholders when cards are requested. Purchasing will notify supervisors of non-compliance with regulation and will enforce corrective action plan as outlined in the regulation.

Finding #9: Documentation not provided to Finance by Cardholders in a timely fashion (26% occurrence)**Condition:**

Cardholder information was stamped as "Received" by Finance at least 30 days after the statement closing date.

Criteria:

Guidance: Administrative Regulation 4.55R(1) section 4.3, states:

Reconciliation and Allocation of Charges

"...All receipts and reconciliation statements must be submitted to the Accounts Payable Department within 14 days of the cardholder's receipt of their statement."

Cause:

Uncertain. It is unclear whether the cardholders received their statements timely from Finance/Purchasing. Therefore, the root cause of this finding is uncertain.

Consequence:

Information that is not received timely has the following consequences:

1. It slows down the entire District Finance process of reconciling, processing, and closing out of the monthly Purchasing Card transactions and payment process.
2. In the event of card misuse, it slows down the District's reaction time and diminishes the ability of the District, Cardholders, vendors, and card services provider (Bank of America) to deal with anomalies that might occur.

Corrective Action:

All supporting documentation should be compiled, attached, and sent to the Finance Department in a timely fashion and on a monthly basis. It is equally important that the card statements, which are initially received from Bank of America in the Finance Department, be disseminated immediately to cardholders so that they may review, reconcile, attach documentation, and obtain the necessary supervisory signatures as soon as possible, and return their information to the Finance Department.



Response: *Training will be provided to all current cardholders and signed forms will be added to each cardholder’s file to document that the training occurred. Training will be provided to new cardholders when cards are requested. Purchasing will notify supervisors of non-compliance with regulation and will enforce corrective action plan as outlined in the regulation.*

Finance department will disseminate statements to cardholders immediately upon receipt.

Finding #10.1: Card purchase was shipped to a non-District address

Condition:

It was noted on one occasion that a cardholder made a purchase from Amazon, and the shipping address was listed as the cardholder’s home address.

<i>Cardholder Title</i>	<i>Cardholder Department</i>	<i>Vendor</i>	<i>Amount of Purchase</i>	<i>Month</i>
Technology Services Coordinator	Technology Services	Amazon.com	\$377.39	Feb 2017

Criteria:

Administrative Regulation 4.55R(1), Section 4.4 (I) states:

Cardholder Responsibilities

“All items purchased with the P-Card that are shipped must be shipped to a business address only.”

Cause:

Unknown.

Consequence:

The possibility exists that when items are shipped to alternate addresses, they may be misappropriated for non-District purposes.

Corrective Action:

Cardholders should be reminded of P-Card guidelines. Consequences such as card cancellation or other disciplinary action should be considered for repeat offenders.

Response:

Training will be provided to all current cardholders and signed forms will be added to each cardholder’s file to document that the training occurred. Training will be provided to new cardholders when cards are requested. Purchasing will notify supervisors of non-compliance with regulation and will enforce corrective action plan as outlined in the regulation

Finding #10.2: Uncertain guidance regarding use of Purchasing Card to purchase meals

Condition:

On two occasions noted during this audit, the Purchasing card was used to purchase meals. In comparing this activity with the Administrative Regulation, it is unclear whether meal purchases are prohibited at all times,

or only during travel. (Please note that the Administrative Regulation clearly states that catered meals are not prohibited.

Criteria:

Administrative Regulation 4.55R(1), Section 3.3 states:

Inappropriate Uses of the Purchasing Card

“Examples of Purchasing Card violations: Food or meals. (Per diem allowance reimbursed to staff per the Administration 4.62R – Travel Expenses)”

Administrative Regulation 4.55R(1), Section 3.6 (Travel) states:

Inappropriate Uses of the Purchasing Card

“The Purchasing Card may not be used for alcohol or meal costs.

Cause:

Guidance is unclear.

Consequence:

Confusion among cardholders and potential non-compliance.

Corrective Action:

It is recommended that Administrative Regulation 4.55R(1) be updated for clarification.

Response:

The current Administrative Regulation 4.55 R(1) is being reviewed and updated to clarify food purchases.

Finding #11 – Additional General Finding: Purchasing card files and cardholder information

Condition:

Documentation available in Finance for Purchasing Card users and for program oversight is not well-organized.

1. There are not separate files kept for each cardholder.
2. Out of 86 active cardholders as of 10/20/2017, there were complete and signed authorization documents available for only 27 cardholders (31%).
3. Cardholder documents (permissions, corrective actions, bank issues, etc.) are all mixed together in disorder in a single accordion folder.
4. It is difficult to locate documentation for specific cardholders, and documents for some cardholders were found in duplicate in different areas of the folder.
5. Some Fuel Card issuance documents were found mixed in with the Purchasing Card files.

Criteria:

In order to manage the P-Card program, take advantage of Bank of America internal control tools, delegate and clarify cardholder responsibilities, and to facilitate the audit or examination of P-Card usage, an organized record-keeping system is necessary.

Cause:

Unknown.

Consequence:

The following negative consequences were noted:

1. Documentation was not available to show any special permission or approvals for cardholders, as required by Administrative Regulations for certain cases.
2. The investigation and correction of P-Card system problems or cardholder abuse issues would be complicated in cases where signed cardholder documents are not available.
3. Management of the Purchasing Card program at the administrative level is cumbersome in the lack of a clean filing system.

Corrective Action:

A filing system should be designed, implemented and maintained for the P-Card process. The following detail steps are recommended:

1. A file should be created for each cardholder. A list of documents required for each cardholder should be developed, and no Purchasing Cards should be issued prior to receiving all documents, fully completed and signed.
2. All necessary documents should be placed in each cardholder's file. In those cases where required documents are not on record, cardholders should be required to submit missing documents or face the cancellation of their cards.

Response:

The cause of the files not kept in an orderly system was due to 76% of financial leadership turnover and 100% turnover in the purchasing leadership. During the time of the audit, each financial leader was performing two positions, which inherently creates a higher risk.

The Purchasing department has created files for each cardholder member as of March 2018. Purchasing is in the process of obtaining a cardholder agreement for all cardholders along with getting a signed form stating that the cardholder understands the Admin Regulation. The P-Card files have a specific space in the Purchasing Director's office and should not be mixed in with any other files.

CONCLUSION

It is also important to note that the findings documented in this audit pre-date the hiring of the current Director of Purchasing, and are not representative of the program under his leadership.

There were no issues of fraud uncovered during this audit, but the incidence of non-compliance uncovered does indicate a higher risk of inappropriate activity (including fraud) occurring undetected. Based on audit observations and conversations with cardholders and other District personnel, it appears that a large percentage of the non-compliance issues noted in this report could be corrected by training cardholders and clarifying to them their responsibilities.

Internal Audit would like to thank the Finance and Purchasing departments for their communication and collaborative efforts during this audit. For any questions or concerns, or for further clarification, please feel free to contact Roman Gray, Internal Auditor.

EXHIBIT A: Active Cardholders, as of April 2018

Cardholder Name	Credit Limit	Department
LUKE BUTZ	5,000	Building Services
EARL S DOTSON	2,000	Communications
SCOTT E WELCH	2,000	Distribution
DAVID E STOLTZ	2,000	Driver's Education
ELIZABETH WHITHAM	2,000	Driver's Education
JACOB BURKE	2,000	Driver's Education
JEFF J BRIES	2,000	Driver's Education
DANIEL D CRAWFORD	1,000	Facilities
BRIAN DIVELEY	2,000	Facilities
BRIAN J WOLF	2,000	Facilities
CHRIS J LISZKA	2,000	Facilities
CHRISTOPHER A DEVANEY	2,000	Facilities
DAVID D BOCK	2,000	Facilities
DAVID J KISH	2,000	Facilities
DEBBIE S PARKS	2,000	Facilities
JAMES DURKIN	2,000	Facilities
JAMES E LESTER	2,000	Facilities
JAMES H LONG	2,000	Facilities
JAMES M BANE	2,000	Facilities
JAN M. FREIHEIT	2,000	Facilities
JIM E KITZMILLER	2,000	Facilities
JOHN J HENSLEY	2,000	Facilities
JORDAN BRICKSON	2,000	Facilities
JOSEPH S MISHMASH	2,000	Facilities
KELLY L HILDRETH	2,000	Facilities
MICHAEL D CRAWFORD	2,000	Facilities
MICHAEL LYNCH	2,000	Facilities
MIKEREW W. KEFALE	2,000	Facilities

Cardholder Name	Credit Limit	Department
PATRICK E BARCAI	2,000	Facilities
RAY P. AMENDA	2,000	Facilities
ROGER A. FOSTER	2,000	Facilities
SCOTT J SARAUER	2,000	Facilities
SHAWN BUDLONG	2,000	Facilities
STACY A SLOTHOWER	2,000	Facilities
STEVE MEYER	2,000	Facilities
TODD H NELSON	2,000	Facilities
VINCE L SCHEIDLER	2,000	Facilities
WILLIAM HURSH	2,000	Facilities
JOHN C. COMBS	3,000	Facilities
EDWARD P. KEELING	5,000	Facilities
JIM N. KAPLANES	5,000	Facilities
WILSON R BAILEY	5,000	Facilities
JEFFREY L. BALDRIDGE	8,000	Facilities
BRIDGET FRENCH	2,000	Instructional Support
LORI HOADLEY	5,000	Legal
TODD D. SCHMIDT	5,000	Operations
SCOTT REMER	5,000	Print Services
DANE M YOUNGBLOOD	25,000	Purchasing
EHREN R JARRETT	5,000	Superintendent's Office
ROBERTA EDWARDS	5,000	Superintendent's Office
BILL HULL	5,000	Technology Services
RON G. CAREY	2,000	Transportation
WILLIAM L. HART	2,000	Transportation
MICHAEL SLIFE	5,000	Transportation
WILLIAM S FARE	15,000	Transportation