

ASD INTERNAL AUDIT REPORT

2015-01

Procurement Card Purchases

Anchorage School District

February 25, 2015

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Mayor Dan Sullivan

February 25, 2015

Anchorage School District Superintendent and Members of the School Board:

I am pleased to present **ASD Internal Audit Report 2015-01, Procurement Card Purchases, Anchorage School District** for your review. 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 Anchorage School District's policies and procedures regarding Procurement Card use. We also determined whether purchases were for official Anchorage School District business. This was our first audit of Procurement Card purchases. Our audit included a review of purchases made from July 1, 2013 to June 30, 2014.

The Procurement Card program needs improvement. Our review of Procurement Card transactions revealed instances of questionable purchases including some prohibited purchases, purchases that were not always approved, and purchases made with Procurement Cards that were not always allocated to the appropriate account code within three business days. We also found that documentation for the purchases was not always maintained, users did not always record the description of their purchases and some descriptions did not adequately describe the items purchased. Further, procedures did not require detailed receipts for Procurement Card purchases made during official travel when per diem was paid and did not include supervisory responsibilities for approval of purchases. Finally, mandatory Procurement Card training had not always been provided to employees with Procurement Cards.

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

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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, low dollar purchase orders, and vendor payments. The P-Card program is administered by the Controller, who is part of Finance. The Chief Academic Officer assists in the P-Card administration by disseminating guidance to the schools. 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 U.S. Bank for its credit card services. According to Finance, during the 2013-14 school year over 41,400 transactions were processed for about \$8.9 million. In addition, there were over 660 active P-Cards during the same school year.

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. We also determined whether purchases were for official District business. This was our first audit of P-Card purchases. Our audit included a review of purchases made from July 1, 2013 to June 30, 2014.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of August through October 2014. The audit was requested by the Anchorage School District Budget and Audit Committee.

Overall Evaluation. The P-Card program needs improvement. Our review of P-Card transactions revealed instances of questionable purchases including some prohibited purchases, purchases that were not always approved, and purchases made with P-Cards that were not always allocated to the appropriate account code within three business days. We also found that documentation for the purchases was not always maintained, users did not always record the description of their purchases and some descriptions did not adequately describe the items purchased. Further, procedures did not require detailed receipts for P-Card purchases made during official travel when per diem was paid and did not include supervisory responsibilities for approval of purchases. Finally, mandatory P-Card training had not always been provided to employees with P-Cards.

FINDINGS AND RECOMMENDATIONS

1. Questionable Purchases.

- a. Finding.** Our review of P-Card transactions revealed instances of questionable purchases. For example, schools purchased about \$29,200 in food for staff meetings, staff training, staff breakfasts, staff lunches, staff appreciation, staff holiday celebrations, and beginning of school and year-end meals for staff. In one case, a high school spent \$2,500 for an “End of Year Faculty Lunch” using general funds. Ironically, when these purchases were made, some schools asked parents to help supply their classrooms with student snacks. The P-Card Procedures state that purchases must be only for district business purposes, provide the district value and quality, and be necessary. In addition, the Budget Preparation Manual states that, “Meals and food purchases for adults should be moderate and justified as to operational need.”

Other questionable purchases include about \$3,200 for staff gifts which were funded by student activity funds. These staff gifts included \$120 for staff gift cards, \$1,210 for staff shirts, and a \$200 purchase for a staff holiday party at the Beach Lake Lodge which was described as “Staff Holiday Site”. In addition, we

identified several purchases made from specialty stores such as Alaska Wild Berry Products, funded by grant funds, and Natural Pantry, funded by student activity funds. Items purchased from these stores could have easily been purchased from less expensive stores.

- b. **Recommendation.** The Controller and the Chief Academic Officer should remind all P-Card holders of the P-Card Procedures and the Budget Preparation Manual requirements. In addition, the Controller should establish additional guidance and program policy to define what may or may not be an appropriate expenditure of public funds and student activity funds.
- c. **Management Comments.** The Controller stated, “Management agrees and states, ‘All P-Card holders will be reminded of the P-Card Procedures and the Budget Preparation Manual requirements. Additionally, the Finance Department will be reviewing and revising the current P-Card Procedures and will clearly define what may or may not be an appropriate expenditure of public funds and student activity funds.’”

The Chief Academic Officer agreed and stated, “The Chief Academic Officer will meet with the controller to develop an overview of P-Card procedures and purchase requirements. This will include examples of inappropriate P-Card purchases. The Chief Academic Officer will then work with the Executive Directors of Elementary and Secondary Education to provide the overview to all principals during their division meetings on March 31, April 1, and April 2.”

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

2. **Purchases Not Always Documented.**

- a. **Finding.** Documentation for P-Card purchases was not always maintained. We reviewed 255 P-Card purchases and found 29 transactions, totaling \$16,985, that were not supported by adequate documentation. Purchases without documentation included hotel deposits, teaching supplies, and televisions, funded by student and general funds, and in-flight entertainment, funded by grant funds. 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 transactions receipts.”
- b. **Recommendation.** The Controller and the Chief Academic Officer should remind all P-Card holders to adhere to the P-Card Procedures by maintaining adequate documentation for P-Card purchases.
- c. **Management Comments.** The Controller stated, “Management concurred and states, ‘All P-Card holders will be reminded to adhere to the P-Card Procedures by maintaining adequate documentation for all P-Card purchases.’”

The Chief Academic Officer agreed and stated, “The Chief Academic Officer will meet with the controller to develop an overview of P-Card procedures, requirements and the need to maintain adequate documentation of all purchases. This will include examples of P-Card documentation concerns from the past. The Chief Academic Officer will then work with the Executive Directors of Elementary and Secondary Education to provide the overview to all principals during their division meetings on March 31, April 1, and April 2.”

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

3. **Prohibited Purchases.**

- a. **Finding.** Our review of P-Card transactions revealed some prohibited purchases. For example, prohibited purchases included nearly \$4,200 in gift cards, equipment valued over \$500, and rental agreements for facilities. According to the P-Card Procedures, prohibited purchases include rental payments, payments to independent contractors, payments for maintenance contracts, gift cards, and equipment \$500 or greater (due to asset tagging requirements). Public trust and public funds are at risk if prohibited purchases are made.
- b. **Recommendation.** The Controller and the Chief Academic Officer should remind P-Card holders of prohibited purchases. Additionally, the Controller should continue suspending privileges for P-Card holders who purchase prohibited items.
- c. **Management Comments.** The Controller stated, “Management agrees and will continue current practices. P-Card holders will continue to be notified of all prohibited purchases by formal notice. Additionally, privileges may be suspended for P-Card holders who purchase prohibited items.”

The Chief Academic Officer agreed and stated, “The Chief Academic Officer will meet with the controller to develop an overview of P-Card procedures, requirements and prohibited purchases. This will include examples of P-Card prohibited purchases that have occurred in the past. The Chief Academic Officer will then work with the Executive Directors of Elementary and Secondary Education to provide the overview to all principals during their division meetings on March 31, April 1, and April 2.”

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

4. **Unapproved Purchases.**

- a. **Finding.** P-Card purchases were not always approved. Specifically, we found 2,436 transactions that were not approved. While some of these were recent P-Card purchases, many of them have been pending approval for many months and sometimes more than a year. For example, in November 2013 a P-Card was used to purchase pizza. In another case, in July 2013 a P-Card was used to purchase firewood. At the time of our audit, these purchases still had not yet been approved. By not showing evidence that the supervisor reviewed the purchases, there is a risk that unauthorized purchases will be made and that overspending will occur.
- b. **Recommendation.** The Controller and the Chief Academic Officer should revise P-Card Procedures to require supervisors to review and approve P-Card purchases.
- c. **Management Comments.** The Controller stated, "Management agrees and states, 'The revision of the P-Card Procedures will include a section regarding the requirement of Supervisor approvals of all P-Card purchases.' "

The Chief Academic Officer agreed and stated, "The Chief Academic Officer will meet with the controller to consider changes to P-Card procedures regarding supervisor approval and the need to approve all purchases through US Bank. The Chief Academic Officer will then work with the Executive Directors of Elementary and Secondary Education to provide any changes in approval procedures to all principals during their division meetings on March 31, April 1, and April 2."

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

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

- a. **Finding.** Purchases made with P-Cards were not always allocated to the appropriate account code within three business days. Our testing of 255 P-Card transactions revealed that delays in allocating charges ranged from 4 to 86 days. As noted in the P-Card Procedures, “Cardholders are required to allocate their transactions to the appropriate account code within three business days of the transaction date.” The short time for allocating transactions keeps the timeframe between purchases posted with U.S. 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 Controller should continue suspending privileges for P-Card holders who do not allocate their transactions to the appropriate account code within three business days.
- c. **Management Comments.** The Controller stated, “Management agrees and states, ‘Management will continue to audit allocations on a monthly basis and will continue suspending privileges for P-Card holders who do not allocate their transactions to the appropriate account code within three business days.’ ”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

6. **Purchase Descriptions Not Always Entered.**

- a. **Finding.** P-Card users did not always record descriptions of their purchases. For example, our testing of 255 P-Card transactions identified 12 transactions with

blank descriptions. Four of these transactions were approved by the supervisor. P-Card Procedures require the P-Card user to enter a brief description of the purchase to assist the approver in their review.

Additional analysis revealed 27 P-Card transactions in IFAS with no descriptions. Moreover, when we reviewed data from the U.S. Bank website we found 440 of 40,824 transactions contained blank descriptions. We asked Finance staff why the U.S. Bank website had more transactions without descriptions compared to IFAS. According to Finance staff, they try to add missing descriptions for P-Card users.

- b. **Recommendation.** The Controller and the Chief Academic Officer should remind all P-Card cardholders to adhere to the P-Card Procedures requiring a description of the purchase.

- c. **Management Comments.** The Controller stated, “Management agrees and states, ‘Management will remind all P-Card holders to adhere to the P-Card Procedures which require a description of the purchase. Supervisors will also be reminded that descriptions should be checked during their approval process.’ ”

The Chief Academic Officer agreed and stated, “The Chief Academic Officer will meet with the controller to develop an overview of P-Card procedures and requirements, including the need to provide a description of all purchases. The Chief Academic Officer will then work with the Executive Directors of Elementary and Secondary Education to provide the overview to all principals during their division meetings on March 31, April 1, and April 2.”

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

7. **Purchase Descriptions Sometimes Misleading.**

- a. **Finding.** Some P-Card transaction descriptions did not appear to adequately describe the purchases. For example, a \$630 purchase at the Snow Goose Restaurant, funded by general funds, was described as “Staff Support Mid Winter.” Also funded by general funds, a \$1,575 purchase for two sheds was described as “teacher supplies” and a \$27.95 purchase for basketballs and 4-square balls was described as “art supplies”. Moreover, a \$164 purchase made at the Simon & Seafort’s restaurant was described as “Chinese Grant Supplies” and \$309 of purchases at Little Caesars Pizza and Papa John’s Pizza were described as “program supplies”, which were funded by grant funds. Finally, other purchases were simply described as “Welcome Back Staff”, “Welcome Back Meeting”, “teaching supplies/activity”, or “teaching supplies/writeak”. Vendors included Fred Meyer, Carrs, Moose’s Tooth, Peppercini’s Deli & Catering, and Golden Donuts. The P-Card Procedures state that the “. . . description should provide additional information to what already appears on the transaction. The additional information should provide details to assist the approver in their review.”
- b. **Recommendation.** The Controller and the Chief Academic Officer should remind all P-Card cardholders to adequately describe their purchases.
- c. **Management Comments.** The Controller stated, “Management agrees and states, ‘Management will remind all P-Card holders to adhere to the P-Card Procedures which require that a description provides additional information to what already appears on the transaction. Supervisors will also be reminded that descriptions should be checked during their approval process.’ ”

The Chief Academic Officer agreed and stated, “The Chief Academic Officer will meet with the controller to develop an overview of P-Card procedures and requirements, including the need to provide accurate descriptions of all

purchases. Examples of misleading purchase descriptions from the past will be included. The Chief Academic Officer will then work with the Executive Directors of Elementary and Secondary Education to provide the overview to all principals during their division meetings on March 31, April 1, and April 2.”

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

8. **Receipts Not Required for All Travel Purchases.**

- a. **Finding.** Procedures do not require receipts for P-Card purchases made during travel activities when per diem allowances are granted. As a result, the District cannot determine if unallowable purchases, such as alcohol, were made during the cardholders’ travel activities.
- b. **Recommendation.** The Controller should require receipts for all P-Card purchases or consider discontinuing the use of P-Cards for items purchased using per diem allowances.
- c. **Management Comments.** The Controller stated, “Management agrees partially and wishes to continue using P-Cards for meals purchased using per diem allowances. Management will adopt the State of Alaska's AAM 60.220 Travel Expenses – Required Receipts and Document (01-12): and require receipts for expenses exceeding \$25.00.

“Management will remind all employees traveling on behalf of the district of the need to adhere to the P-Card Procedures. Management will also revise travel policy and will include a P-Card section to further reiterate policy.”

- d. **Evaluation of Management Comments.** Management comments were partially responsive to the audit finding and recommendation. Without receipts there is no assurance that funds are not spent for unauthorized purchases such as alcohol.

9. **Mandatory Training Not Provided.**

- a. **Finding.** Mandatory P-Card training has not been provided. Staff from the Professional Learning Department stated that P-Card training occurred in August 2012, when the P-Card program began. Since that time, no other training has been provided. The P-Card Procedures require mandatory training prior to receiving a P-Card and every 18 months thereafter.
- b. **Recommendation.** The Controller should ensure that the mandatory training required by the P-Card Procedures is provided.
- c. **Management Comments.** The Controller stated, “Management agrees partially and states, ‘The P-Card Procedures will be rewritten. The current mandatory training requirement at 18 months will be replaced with more concise directions for employees to undergo training at their discretion on an as needed basis using the ASD-Tube instructional videos. As the district has employees at 90+ locations this method will allow users to train in their own office locations at a time that works well with their schedule. Management feels that training every 18 months is no longer necessary as the majority of P-Card holders have been actively involved in the program since inception and are comfortable with the instructions that the training videos provide.’ ”
- d. **Evaluation of Management Comments.** Management comments were generally responsive to the audit finding and recommendation.

10. No Documented Procedures for Approving Purchases.

- a. **Finding.** P-Card Procedures do not include supervisory responsibilities regarding the approval of P-Card transactions. For example, no procedures exist specifying when P-Card transactions should be approved and what to look for when approving P-Card transactions. Some of the audit findings identified in this report, such as allocating charges and providing transaction descriptions, could have been addressed by supervisors if they had been told what to look for in the P-Card Procedures.
- b. **Recommendation.** The Controller should revise the P-Card Procedures to establish the appropriate process to approve P-Card purchases.
- c. **Management Comments.** The Controller stated, “Management agrees and states, ‘The P-Card Procedure will be revised to include and establish an appropriate process and timeline for Supervisor approvals.’ ”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate District officials.

Audit Staff:
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