

ASD INTERNAL AUDIT REPORT

ASD 2024-01

Procurement Card Purchase

Anchorage School District

May 01, 2024

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MUNICIPALITY OF ANCHORAGE
MAYOR DAVE BRONSON

OFFICE OF INTERNAL AUDIT

May 01, 2024

Anchorage School District Superintendent and Members of the School Board:

I am pleased to present for your review **ASD Internal Audit Report 2024-01, Procurement Card Purchases, Anchorage School District**. A summary of the report is presented below.

We have completed an audit of the Anchorage School District's Procurement Card Program. 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 March 1, 2022, to June 30, 2023. Specifically, we reviewed purchases of judgmentally selected transactions to ensure compliance with the Manual.

Overall, most employees complied with Anchorage School District policies and procedures regarding the use of Procurement Cards. However, conditional purchases were not always approved prior to purchase and some Procurement Card transactions appeared split to circumvent the \$2,500 single transaction limit. In addition, personal purchases were not always reimbursed in a timely manner. Moreover, our review of Procurement Card transactions revealed that Procurement Cards were sometimes used for contracted transportation and Procurement Cards were sometimes used for unapproved field trips vendors. Furthermore, we found that eight instances, totaling \$6,497 of donations being made with Procurement Cards to agencies not included on the Anchorage School District's Charitable Giving Campaign list or not approved by the appropriate Instructional Division Senior Director and Fraudulent transaction procedures were not always followed. Finally, Procurement Card purchases were not always allocated and approved within the required timeframe and Amazon memberships accounts purchased using the Anchorage School District's Procurement Card were not always centralized.

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

Scott Lee
Acting Director, Internal Audit



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ASD Internal Audit Report 2024-01
Procurement Card Purchases
Anchorage School District

Introduction. The Anchorage School Districts (District) Finance Department (Finance), in collaboration with their 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. The Finance Department administers the P-Card program. The Procurement Card User Manual (Manual), last updated in June 2023, provides guidelines for the appropriate use of P-Cards. Some of the changes made in the update include provisions regarding accidental purchases, and employee transfers. In addition, General Guidelines for not saving P-Card data in payment applications or online stores were added, along with P-Cards should not be setup for monthly auto payments. The District uses US Bank for its credit card services. Finance Department staff run an interface from US Bank to Business Plus which assigns a number to each transaction and routes them to the appropriate staff queue for allocation and approval. Business Plus is the accounting software the District uses for posting and reporting financial transactions to include P-Card transactions. In addition, receipts are required to be scanned and attached to each transaction to aid in the review and approval process. For the period of March 1, 2022, to June 30, 2023, there were 75,650 transactions processed for a total of \$17,345,469. In addition, 1,063 staff possessed P-Cards during the same period. (See Attachments 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 March 1, 2022, to June 30, 2023. Specifically, we reviewed purchases of judgmentally selected transactions to ensure compliance with the Manual.

We conducted this performance 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 requested by the Anchorage School Board Finance Committee.

Overall Evaluation. Overall, most employees complied with District policies and procedures regarding the use of P-Cards. However, conditional purchases were not always approved prior to purchase and some P-Card transactions appeared split to circumvent the \$2,500 single transaction limit. In addition, personal purchases were not always reimbursed in a timely manner. Moreover, our review of P-Card transactions revealed that P-Cards were sometimes used for contracted transportation and P-Cards were sometimes used for unapproved field trips vendors. Furthermore, we found that eight instances, totaling \$6,497 of donations being made with P-Cards to agencies not included on the Districts Charitable Giving Campaign list or not approved by the appropriate Instructional Division Senior Director and Fraudulent transaction procedures were not always followed. Finally, P-Card purchases were not always allocated and approved within the required timeframe and Amazon memberships accounts purchased using the Districts P-Card were not always centralized.

FINDINGS AND RECOMMENDATIONS

1. Conditional Purchase Process Not Always Followed.

- a. Finding.** Conditional purchases were not always approved prior to purchase. As stated in the Manual, conditional purchases such as gift cards, rental agreements, software/licensing, technology that requires IT support and personal service agreements require approval from the P-Card Group prior to purchase. However, we identified 15 P-Card transactions for personal service agreements, and none of which had conditional approvals attached. These transactions included services such as DJs for school dances and yoga classes. In addition, a purchase for a DJ included an e-mail from the P-Card Group stating “This transaction is not approved for P-Card use. Contracted services (such as a school DJ) are only conditionally approved for P-Card

use. The conditional purchase request must be made and approved prior to purchase. If approval is not received in advance, it is a violation of P-Card purchasing guidelines listed in the P-Card manual...” However, the P-Card user had made the purchase for the DJ two weeks prior to reaching out to the P-Card Group to seek approval. In addition, we found 77 of 97 (79%) transactions with a description of “rental” did not include conditional approvals. In another case, there were 124 transactions with a description of software/license, 45 (36%) of which did not include conditional approval. Although, we found that conditional approval for gift certificates was improved from the prior P-Card audit with only 6 of the 76 (8%) gift card transactions not having approval attached.

The below table displays the conditional approval type along with the total number of transactions that did not include approval in BusinessPlus, in addition to the number of transactions that did include approval in BusinessPlus.

| <u>Conditional Purchase Type</u> | <u>Total Number of Transactions</u> | <u>Approval Not Received</u> | <u>Approval Received</u> |
|---|--|-------------------------------------|---------------------------------|
| Personal Service Agreement | 15 | 15 (100%) | 0 (0%) |
| Rental | 97 | 77 (79%) | 20 (21%) |
| Software/Licensing | 124 | 45 (36%) | 79 (64%) |
| Gift Card | 76 | 6 (8%) | 70 (92%) |

- b. **Recommendation.** The Chief Financial Officer (CFO) should remind staff that conditional purchases need to have approval prior to being purchased.
- c. **Management Comments.** Management stated “Management agrees with the findings and recommendations. The Administration will ensure that the annual P Card test, along with manual updates, and training will stress the procedures for receiving pre-approval for all conditional purchases.”

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

2. **Some Transactions Appeared Split to Circumvent Dollar Limits.**

- a. **Finding.** Some P-Card transactions appeared split to circumvent the \$2,500 single transaction limit. Specifically, our review revealed 68 instances where purchases appear to be split to circumvent the single transaction limit. For example, an invoice for yearbooks totaling \$3,000 was split into two charges of \$2,500 and \$500 made within minutes of one another. In addition, the supporting document attached for the yearbook transactions included an e-mail stating “I know we are not allowed to use the P-Card for purchases that is over the limit amount...Any chance I can ask for forgiveness instead and process 2 transactions...” Furthermore, we found some schools repeatedly split transactions to circumvent the single transaction limit. For example, one high school split transactions on multiple occasions for school clothing they purchased. Requests to temporarily increase spending limits can be submitted to the P-Card Group to allow the purchase without splitting the transaction. However, we did not find any evidence that the requests were made for these purchases while reviewing supporting documents for the transactions.
- b. **Recommendation.** The Chief Financial Officer should remind employees that splitting a transaction is prohibited. In addition, the CFO should consider revoking P-Card privileges for users that repeated split transactions.
- c. **Management Comments.** Management stated “Management agrees with the findings and recommendations. The Administration will ensure that the annual P Card test, along with manual updates, and training will stress the procedures for not splitting transactions and will continue to monitor and take corrective actions and training for personnel who allow this to occur.”

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

3. **Personal Purchases Not Always Reimbursed Timely.**

- a. **Finding.** Personal purchases were not always reimbursed in a timely manner. The P-Card Manual listed personal purchases as prohibited purchases. Specifically, we identified 110 personal or accidental purchases, totaling \$6,561, were made between March 1, 2022, and June 30, 2023, that required employee reimbursement. These transactions included purchases made at Target for an indoor composter, purchases at Starbucks, Amazon and Uber Eats, and a \$281 purchase made at REI. The P-Card Manual also states, “You are required to reimburse the district immediately by making a payment at the Finance Office located within the Education Center within 10 business days.” While most of these transactions were eventually reimbursed, some personal purchases were not reimbursed for more than ten business days. Specifically, 58 of the 110 (53%) personal purchases were reimbursed later than 10 business days from the transactions date. For example, one employee did not reimburse the District for 147 business days after making the purchases. The same employee who did not reimburse the district for 147 business days made repeated personal purchases at four different periods during the school year. For example, personal purchases made by this employee in September 2022, along with additional personal purchases made by this employee in October 2022, and January 2023 were not reimbursed until April 2023, after the Division Director was made aware by Accounting. In addition, the Manual states “Repeated use of the P-Card for personal purchases will result in suspension or deactivation of the P-Card.”

- b. **Recommendation.** The Chief Financial Officer should remind employees personal purchases are prohibited. In addition, the CFO should consider revoking card privileges for users who repeatedly make personal purchase using a District P-Card.
- c. **Management Comments.** Management stated “Management agrees with the findings and recommendations. The Administration contacts employees and the supervisors when personal purchases occur, and ensures the employee reimburses the district as soon as practicable.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **P-Cards Sometimes Used for Contracted Transportation.**

- a. **Finding.** Our review found P-Cards were sometimes used for contracted transportation. According to the Manual, purchases for contracted transportation are classified as prohibited purchases, and the Manual explicitly states that “prohibited purchases ‘**cannot**’ be made with a P-Card.” In total, we found 20 purchases, totaling \$9,235 that were made for contracted transportation to different vendors.
- b. **Recommendation.** The Chief Financial Officer should remind employees of the prohibited purchases to include contacted transportation. The CFO should also consider suspending card privileges for users who purchase contracted transportation with a P-Card.
- c. **Management Comments.** Management stated “Management agrees with the findings and recommendations. The Administration contacts employees when this occurs and will ensure that the annual P Card test, along with manual updates, and training will stress the procedures for paying for contracted transportation.”

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

5. **P-Cards Sometimes Used for Unapproved Field Trip Vendors**

- a. **Finding.** Our review found P-Cards were sometimes used for unapproved field trips vendors. Specifically, we found 1,145 of 1,328 (86%) of the field trips taken were to vendors not on the Districts current “Approved Field Trip Vendor” list. The Manual lists field trips as an allowable purchase if the vendor is on the Districts Approved Field Trip Vendors list. The Approved Field Trip Vendor list was created to ensure that field trip vendors provided the District with the correct proof of insurance coverage. For example, 10 field trips were taken to a vendor that was on the list at one time but not listed as an approved field trip vendor at the time of the audit. After further review, we found that the last insurance coverage provided to the District for this vendor expired in September 2022, which resulted in removing the vendor from the Approved Field Trip list. All 10 field trips were taken after the proof of insurance provided had expired. In addition, more field trips were taken to vendors that were not on the Approved Field Trip Vendor list. For example, a field trip was taken to an indoor trampoline park and an indoor mini golf center that we did not find any history of being on the Approved Field Trip Vendor list, nor could we find any evidence if the vendor provided the proof of insurance to the District.
- b. **Recommendation.** The Chief Financial Officer should remind employees to review the Approved Field Trip Vendor list prior to arranging field trips to ensure the vendor has the appropriate insurance coverage.

- c. **Management Comments.** Management stated “Management agrees with the findings and recommendations. The Administration contacts employees when this occurs and will ensure that the annual P Card test, along with manual updates, and training will stress the procedures for unapproved field trip vendors.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

6. **Donations Made to Unapproved Organization.**

- a. **Finding.** We found eight instances, totaling \$6,497 of donations being made with P-Cards to agencies not included on the District’s Charitable Giving Campaign list or not approved by the appropriate Instructional Division Senior Director. Specifically, one donation for \$500 was made to a GoFundMe account with no additional approval or explanation included in the supporting documents. When we reached out to the employee for additional information for the GoFundMe donations, we did not receive the details requested such as who initiated the donation, and who benefited from the donations. Other examples of a donations made to non-approved donors included a \$1,641 donation to United Nations International Children’s Emergency Fund, and a \$1,632 donation made to St. Jude Children Hospital. Administrative Regulation (AR) 1321(a) Fundraising Program states “All fundraising activities must be age-appropriate and consistent with the mission of the Anchorage School District.”
- b. **Recommendation.** The Chief Financial Officer should remind employees that the District may only fundraise for charitable organizations listed on the approved ASD Charitable Giving page or obtain written approval must be received by the appropriate Instructional Senior Director prior to initiating fundraising activities. The CFO should also consider revoking P-Card privileges for employees who make donations to unapproved organizations.

- c. **Management Comments.** Management stated “Management agrees with the findings and recommendations. The Administration will remind P Card users, and district leadership, that all donations, to include student fund-raiser donations, must receive prior approval if they are not on the ASD Charitable Giving Campaign list.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

7. **Fraudulent Transaction Process Not Always Followed.**

- a. **Finding.** Fraudulent transaction procedures were not always followed. The Manual states “If an unrecognized charge appears on the workflow or the cardholder suspects fraudulent activity, they should e-mail the P-Card Group and then contact US Bank Fraud Investigation Department”. We identified 8 P-Card transactions, totaling \$470, with the description of “fraud” that were not reported timely to US Bank, as a result the transactions were not resolved by the time of the audit. Specifically, 3 of the 8 fraudulent transactions outstanding were from 2022, putting those transactions outside of the allowable timeframe for dispute causing a potential loss to the District. The Federal Fair Credit Billing Act requires that the fraudulent charge must be reported within 60 days of the statement date.
- b. **Recommendation.** The Chief Financial Officer should consider updating the Manual by adding if an unrecognized charge appears on the workflow to contact the P-Card Group and US Bank immediately. In addition, the CFO should remind employees of the fraudulent activity process in addition to the time frame for reporting fraud. The CFO should also consider requiring the card holder to reimburse the district for failure to submit timely information to US Bank and the P-Card group.
- c. **Management Comments.** Management stated “Management agrees with the findings and recommendations. The Administration will remind P Card users, and district

leadership, of the process when fraudulent transactions occur. Additional documentation and reminders will be developed to stress the importance of this.”

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

8. **Purchases Not Always Allocated and Approved Within Time Requirements.**

- a. **Finding.** P-Card purchases were not always allocated and approved within the required timeframe. Out of 75,650 P-Card purchases, 28,008 (37%) of the transactions went unallocated beyond the five-business day requirement. Overall, it took P-Card allocators an average of 8 business days to allocate the transactions in BusinessPlus, with one school taking 32 business days to allocate and approve P-Card transactions. The P-Card Manual (Manual) states “Allocators are required to allocate their transactions, including disputed transactions or offsetting credits to the appropriate account code within five (5) business days of the US Bank posting date.” In addition, the Manual states “All purchases require final approval within ten (10) business days of the US Bank posting date.” Specifically, 12 purchases totaling \$2,398 went unallocated and approved for over 150 business days. For example, one purchase made on August 8, 2022, totaling \$1,300, was not allocated and approved until March 24, 2023, 164 business days from the invoice date. After further review we found potential training issues causing staff to be unable to properly allocate transactions. For example, one P-Card allocator was not posting the transaction correctly and continued having issues with the allocation portion of the transaction. Instead of reaching out to the P-Card Group the users would insert updated notes in BusinessPlus assuming Accounting or the Approver would review. However, this transaction went unapproved by the allocator for 134 business days.

- b. **Recommendation.** The Chief Financial Officer should ensure schools are reaching out to the P-Card group if there are issues with allocating or approving P-Card

transactions. In addition, the CFO should consider suspending P-Card users who allow transactions to go unallocated and approved within the required timeframe.

- c. **Management Comments.** Management stated “Management agrees with the findings and recommendations. The Administration will remind P Card users, and district leadership, that P Cards must be approved within times specified in the P Card manual. Additional training and reminders will be developed to stress the importance of this and other findings in this audit. P Cards have been suspended in the past, along with a requirement to retake the annual P Card test, and this practice will continue for repeat offenders.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

9. **Amazon Memberships Purchased Not Always Centralized.**

- a. **Finding.** Amazon memberships accounts purchased using the Districts P-Card were not always centralized. Specifically, our review found that \$11,264 was spent for 105 separate purchases for Amazon memberships, which included 42 Business Prime accounts in addition to 63 individual Amazon Prime accounts. In addition, five schools purchased multiple yearly Prime accounts within the same year, with one school purchasing three different yearly Prime accounts in April 2022. Two of the three yearly Prime accounts purchased in April 2022 were purchased by the same employee. Furthermore, we found that some of these individual Amazon Prime memberships were used to purchase personal items from Amazon or Amazon video. In addition, individual Amazon Prime memberships have the potential of having card data stored in the Amazon system for future use. Finally, several of the Amazon Prime purchases were sent to employee’s home address instead of the school or PO box address which might indicate the P-Card was used for personal purchases.

- b. **Recommendation.** The Anchorage School District should consider purchasing one Business Membership account which would allow for over 100 users, better administration control and less accidental purchases. In addition, the CFO should consider revoking privileges for any cardholders making accidental personal purchases with the Amazon account.

- c. **Management Comments.** Management stated “Management agrees with the findings and recommendations. The Administration briefed all district leadership on this last school year. Additional research and reminders of this will be provided again through On The Radar.”

- 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 on February 12, 2024.

Audit Staff:
Meredith Basdaras

Attachment A

P-Card Charges for Top 20 Schools & Departments

March 1, 2022, through June 30, 2023

| <u>Department/School</u> | <u>Total Charges</u> |
|-----------------------------------|----------------------|
| Maintenance Department CP&C | \$ 2,161,116 |
| ASD Education Center ¹ | \$ 2,073,240 |
| ASD Transportation Center | \$ 943,828 |
| Family Partnership Charter | \$ 796,229 |
| West High School | \$ 732,018 |
| Service High School | \$ 550,696 |
| Bettye Davis East High | \$ 489,682 |
| South High School | \$ 478,667 |
| Frontier Charter | \$ 439,309 |
| Dimond High School | \$ 427,266 |
| King Technical High School | \$ 394,750 |
| Chugiak High School | \$ 385,000 |
| Migrant Education | \$ 383,038 |
| Bartlett High School | \$ 360,215 |
| Student Nutrition Center | \$ 356,853 |
| Eagle River High School | \$ 337,705 |
| Information Technology | \$ 305,009 |
| Goldenview Middle School | \$ 284,589 |
| Romig Middle School | \$ 171,132 |
| Polaris K-12 School | \$ 166,017 |

Source: Auditor analysis of unaudited Business Plus data.

¹Includes multiple departments, as well as District Travel

Attachment B

P-Card Charges for Top 20 Merchants

March 1, 2022, through June 30, 2023

| <u>Merchant Name</u> | <u>Merchant Description</u> | <u>Total Charges</u> |
|---------------------------------|----------------------------------|----------------------|
| Amazon.com, LLC | Online Retailer | \$2,426,266 |
| Alaska Airlines, Inc | Air Travel | \$ 853,903 |
| Costco Wholesale | Wholesale Retailer | \$ 762,661 |
| Staples Contract & Corp | Office Supplies Retailer | \$ 440,426 |
| Hasco Inc | HVAC and Systems Supplies | \$ 295,215 |
| RWC International, Ltd | Truck Sales and Parts | \$ 273,807 |
| Stusser Electric Co | Electrical Wholesale Distributor | \$ 185,197 |
| Walmart Stores, Inc | Food and Merchandise | \$ 165,535 |
| Lowes Home Improvement | Lumber, Appliances | \$ 165,212 |
| Barnes & Noble Booksellers, Inc | Book Retailer | \$ 150,199 |
| BSN Sports LLC | Sports Apparel | \$ 137,788 |
| Alaska Junior Theater | Performing Arts | \$ 136,400 |
| HVAC USA | HVAC and Systems Supplies | \$ 133,246 |
| Ferguson Enterprises, Inc | Plumbing | \$ 118,057 |
| Office Depot, Inc | Office Supplies Retailer | \$ 114,369 |
| Grainger, Inc | Industrial and Safety Supplies | \$ 113,766 |
| Home Depot, The | Lumber, Appliances | \$ 111,234 |
| Fred Meyer Stores, Inc | Food and Merchandise | \$ 109,248 |
| Graybar Electric Co, In | Electrical Wholesale Distributor | \$ 108,476 |

Source: Auditor analysis of unaudited Business Plus data.

Attachment C

Top 20 Food Vendors

March 1, 2022, through June 30, 2023

| <u>Merchant Name</u> | <u>Total Charges</u> |
|-----------------------------|-----------------------------|
| Costco Wholesale | \$124,466 |
| Peppercinis Deli House | \$ 60,546 |
| Bear Tooth Theatre Pub | \$ 30,136 |
| Great Alaska Pizza Company | \$ 27,564 |
| Moose's Tooth Pub & Piz | \$ 21,568 |
| Wild Fork Catering | \$ 17,012 |
| Fred Meyer Stores Inc | \$16,767 |
| Kaladi Brothers Coffee | \$ 11,837 |
| QDOBA Mexican Grill | \$ 11,573 |
| Sis's Deli | \$ 11,346 |
| Carrs Gottstein Goods | \$ 10,637 |
| The Smokehouse Shack | \$ 10,036 |
| Olive Garden | \$ 8,422 |
| Krispy Kreme | \$ 6,804 |
| Sweet Caribou | \$ 6,510 |
| Dinos Donuts Inc | \$ 6,054 |
| Texas Roadhouse | \$ 5,820 |
| Uncle Joes Pizzeria | \$ 5,761 |
| Wal Mart Stores, Inc | \$ 5,728 |
| Subway of Alaska, Inc | \$ 4,919 |

Source: Auditor analysis of unaudited Business Plus data.

Attachment D

Top 20 School/Department Food and Meal Charges

March 1, 2022, through June 30, 2023

| <u>School/Department</u> | <u>Total Charges</u> |
|-------------------------------|----------------------|
| West High School | \$ 39,346 |
| Dimond High School | \$ 31,475 |
| Superintendent | \$ 28,140 |
| Service High School | \$ 26,308 |
| Migrant Education | \$ 26,024 |
| King Technical High School | \$ 22,999 |
| Secondary Education | \$ 22,262 |
| Bettye Davis East High | \$ 21,655 |
| South High School | \$ 20,029 |
| Title Vi Indian Education | \$ 17,684 |
| Chugiak High School | \$ 16,582 |
| Romig Middle School | \$ 14,521 |
| Steller Secondary School | \$ 11,828 |
| Bartlett High School | \$ 11,524 |
| Teaching and Learning | \$ 11,017 |
| Goldenview Middle School | \$ 10,700 |
| Special Education High School | \$ 9,653 |
| Mirror Lake Middle School | \$ 9,096 |
| Career Technology Education | \$ 8,936 |
| Talent Management | \$ 8,588 |

Source: Auditor analysis of unaudited Business Plus data.