

Atlanta Public Schools

Audit Report

Assessment of Controls over Purchase Cards (P-Cards)

Report Date: September 18, 2018



130 Trinity Avenue, SW | Atlanta, GA 30303

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**Audit Report of
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**Prepared by:
Atlanta Public Schools
Office of Internal Compliance
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Executive Summary

The Office of Internal Compliance (OIC) performed an operational audit on the controls over the Purchase Card (P-Card) program for the Atlanta Public School district (APS). This report provides written communication of the results of testing derived from audit procedures designed to meet the audit objectives.

Conclusion

The P-Card program empowers cardholders with purchasing authority that streamlines the purchase of goods and services for APS schools and departments. APS has a number of controls in place to effectively mitigate risks involving P-Cards. Some of those controls include:

- The use of Merchant Category Codes (MCC) to restrict and/or reduce the purchase of unallowable goods and services.
- The use of the Bank of America WORKS notification system alerts to cardholders when charges have been made to their cards.
- P-Card requisitions flows through an automated approval process in Lawson for the Manager's approval before funds can be loaded onto the card.

However, effective controls and adequate management oversight must be present to ensure potentially fraudulent, improper and abusive card usage does not go undetected. We noted the following opportunities for improvement within the P-Card program:

- P-Card transaction usages are not monitored for appropriateness.
- P-Card applications and P-Card Employee Agreements were not completed, approved by management and on file.
- Training is not mandatory for P-Card users and is not required before the cardholder can use his/her card.
- There is no enforceable notification process in place to inform the P-Card Administrator that a P-Cardholder has been terminated, resigned or transferred.
- One P-Cardholder has an *unlimited* single transaction purchase limit amount tied to his/her P-Card.
- The P-Card Manual was reviewed and revised in 2015. However, the 2015 Manual has not been approved and distributed for use by District employees.

Background

The Purchase Card (P-Card) program is designed to assist Atlanta Public Schools (APS) in reducing its reliance on petty cash funds, employee advances and special checks, and reduce the need to use personal funds for business purposes. The P-Cards purpose is to help increase the turn-around time in the fulfillment of orders, provide greater flexibility and reduce paperwork.

The APS P-Card program is a VISA program with Bank of America (BOA). Bank of America manages P-Card transactions and card activities using a BOA program called WORKS.

The APS P-Card Program has been established in accordance with School Board Policy DJEA (revised in October 2017) which emphasizes the procurement process as it relates to P-Card purchases. It includes a requirement of the Lawson requisition approval process, purchase order (PO) process and requirement of cardholders obtaining two written quotes for purchases \$2,001 and over.

The Accounts Payable department is responsible for the implementation, maintenance, program compliance, issuance of the P-Card, and bank relations to solve customer service issues. The Accounts Payable department does not review/monitor cardholder receipts for P-Card transactions. Each cardholder is responsible for reviewing and reconciling their P-Card receipts to their billing statements. All documentation including all receipts must be retained by the cardholder on site for seven (7) years for auditing purposes. The P-Card program procedures are documented in the most current approved Purchasing Card Program Manual dated October 2012.

The following table summarizes statistics associated with the district's P-Card program during May 29, 2016 through May 29, 2018:

P-Card Accounts & Activities (5/29/16 - 5/29/18)

Number of P-Cards	538
Number of P-Cardholders	284
Number of P-Card Transactions	44,226
Number of Vendors	20,641
Top 5 Merchant Category Codes	5533-Automotive Parts, Accessories Store - \$3,944,225 5111-Stationary and Office Supplies Stationary- \$3,671,141 5942-Book Stores - \$1,069,880 8299-Schools and Educational Services - \$916,279 5046-Commercial Equipment - \$700,153
Total Dollar Amount Spent	\$19,484,470.29

Objective & Scope

We completed our assessment of internal controls over the P-Card program for APS. The objectives of our review were to:

- Gain an understanding of the processes and procedures surrounding P-Cards
- Determine if appropriate internal controls exist over P-Cards
- Determine if internal controls are operating effectively
- Identify control gaps, if applicable

In an effort to achieve our objectives, the Office of Internal Compliance performed the following tasks that included, but were not limited to:

- Interviewing key Accounts Payable personnel
- Reviewing P-Card Policies and Procedures
- Reviewing P-Card transaction history
- Testing internal controls

The scope of the audit focused on P-Card processes and procedures during May 29, 2016 to May 30, 2018.

Observations

Observation 1: P-Card transaction usages are not monitored for appropriateness.

Section 6.1.13 of the current approved P-Card Manual (revised October 2012) states the P-Card Administrator is responsible for reviewing the usage of purchasing card data for appropriateness. As such, P-Card transactions should be monitored by the P-Card Administrator to ensure proper purchases are being made, proper supporting documentation is being retained by the cardholder and proper procurement procedures are being adhered to. Because there is no formal process to monitor P-Card transactions by the P-Card Administrator the following violations were found:

- P-Cardholders did not have a receipt or invoice on file as supporting documentation for their P-Card purchases
- Sales tax was improperly paid on P-Card purchases
- P-Card single purchases over \$2,001 did not have two or four written quotes on file
- P-Card used to purchase gift cards
- Purchases to vendors in excess of \$25,000; without going through the District's formal solicitation process
- Potential split transaction activities

Risk: Failure to monitor P-Card transaction usages allows for unallowable purchases to be made, procurement processes to be circumvented and potential purchases to be split to avoid the single transaction purchase limit.

Recommendation:

- The P-Card Administrator should monitor P-Card data usage for appropriateness as required by the P-Card Manual (revised October 2012).

- Finance leadership should ensure the P-Card violation escalations process is implemented and followed.

Response:

With the magnitude of the school system's purchasing card program, the size of the P-Card Administration team prevents the review of documentation of each transaction made. We can, however, commit to doing random sampling of the data on a quarterly basis to request documentation from our cardholders. Cardholders will be asked to provide documentation within five business days to produce the documents. The samples will include documentation from each card program (i.e. Departments, Schools, Special Limits cards and Title I).

Observation 2: P-Card applications and P-Card Employee Agreements were not completed, approved by management and on file.

In order to be issued a P-Card, an employee must complete the P-Card Application and obtain the appropriate authorization. The employee must sign the P-Card Employee Agreement that outlines the responsibility of the cardholder while in possession and use of the P-Card. The P-Card application and the P-Card Employee Agreement must be completed and signed prior to the release of the P-Card to the cardholder from the P-Card Administrator. These forms should be kept on file by the P-Card Administrator.

Risk: Failure to complete the forms and obtain management approval allows the opportunity for unauthorized issuance of P-Cards resulting in possible fraudulent activities and purchases.

Recommendation:

- Finance leadership should ensure P-Card Applications and P-Card Employee Agreements are completed, approved by management and kept on file by the P-Card Administrator for document retention purposes.

Response:

Purchasing cards are not disbursed without the completion of a P-Card applications. Because P-Cards are set up in Lawson, there is essential information (i.e. default account number) required from the department for this process. Even in situations where we have ordered a card in advance, the cards are not released until we have received a completed Purchasing Card application. Purchasing Card application forms that were not located during the audit were either misfiled or mislaid. On the other hand, P-Card Agreement forms are sometimes left at the front for pick-up. It is possible that the cardholder could have picked up the card and the form was not returned to the P-Card Administrator.

Additionally, in instances when someone else picks up the card for the cardholder, we ask that the form is returned after the cardholder has signed. We will put better processes in place to ensure we are following up on obtaining the completed forms. A newly created P-Card Log will be placed at the front desk that contains the card's last four digits, cardholder name, name of individual picking up the card and a notation of "Yes" or "No" to document if the P-Card Agreement form was left behind. Since the changes in staff have occurred, we believe these issues have been mitigated.

Observation 3: Training is not mandatory for P-Card users and is not required before the cardholder can use his/her card.

Per the P-Card Administrator and Assistant Director of Accounts Payable, the P-Card training is not mandatory for P-Card users and is not required before the cardholder can use their card. P-Card training is conducted once a month by the P-Card Administrator. The training classes are currently voluntary; however, all P-Cardholders are invited each month.

Risk: Failure to require training before P-Cardholders can use their cards may result in unallowable purchases and violations of the District's purchasing policies and procedures.

Recommendation:

- Finance leadership should require P-Card users to attend training before the cardholder can use his/her card to ensure cardholders understand the policies and procedures established for card usage.
- Finance leadership should develop and require refresher training for P-Card users to attend at least annually to maximize compliance and ensure P-Cardholders are informed about program changes.

Response:

As part of the Finance move to deliver E-module training, a section was included for the P-Cards. We have also updated our P-Card manual. Once the manual has gone through final edits and is approved, both the training and manual will be sent to cardholders with a requirement to complete the training by the end of the calendar year. Moving forward, new cardholders will be required to complete the E-module training before remittance of their cards and will be emailed a copy of the manual. In addition, there will be annual refresher trainings.

Observation 4: There is no enforceable notification process in place to inform the P-Card Administrator that a P-Cardholder has been terminated, resigned or transferred.

The P-Card Manual (revised October 2012), Section 6.3.11 states the cardholder is responsible for returning purchasing cards to the P-Card Administrator when terminating employment with APS or transferring departments within APS. However, if the P-Cardholder fails in his/her responsibilities to notify and return the card, the P-Card Administrator will not know to cancel the card. Because there is no enforceable notification process in place, the following discrepancies were noted:

- 1 P-Cardholder listed on the Active P-Card Listing from BOA WORKS (as of 05/29/2018) was not listed as an active or terminated employee in APS's HR system as of 05/29/2018.
- 5 P-Cardholders were shown as having an active P-Card but were listed in APS's HR system as a terminated employee.

Risk: Failure to notify the P-Card Administrator of resignations, terminations or transfers may result in the P-Cardholder's continued use of the P-Card beyond the end of their employment date.

Recommendation:

- An enforceable notification process should be developed and implemented to ensure the P-Card Administrator is informed of all employee terminations, resignations and transfers; without relying solely on the P-Cardholder remembering to return his/her card to the P-Card Administrator.

Response:

The Finance team will work with Human Resources to have a notification process for employees that have terminated, resigned or transferred.

Human Resources have been contacted. They have reviewed the list of P-Cardholders for individuals terminated or on leave. Cards for those no longer employed were terminated and those on leave were suspended. Future notifications will come from E-notifications.

Observation 5: One P-Cardholder has an unlimited single transaction purchase limit amount tied to his/her P-Card.

The P-Card Manual (Revised October 2012) establishes a \$2,000 single transaction limit for P-Card purchases. Upon the completion and approval of the *Cardholder Special Approval Request Form*, exceptions may be made to the single transaction limit amount.

Per the Assistant Director of Accounts Payable, the referenced P-Card with an unlimited single transaction purchase limit was established well before her tenure as an Assistant Director; and it continues to have an unlimited single transaction purchase limit as of August 2018.

Risk: Failure to require purchase limits on all P-Cards may present an opportunity for unallowable purchases and the circumvention of the District's purchasing policies and procedures.

Recommendation:

Assign single purchase limits and/or other spending limit (i.e. daily limits, monthly limits, etc.) requirements on all P-Cards.

Develop and implement a formal process for reviewing and/or changing P-Card spending limits to ensure assigned limits reflect the purchasing needs of the cardholder.

Response:

The cards in the Transportation group had not been limited to a single transaction amount. However, in the updated manual, there will be limits on all cardholder groups that do not exceed \$30,000 per single transaction.

Observation 6: The P-Card Manual was reviewed and revised in 2015. However, the 2015 Manual has not been approved and distributed for use by District employees.

The P-Card Manual (Revised October 2012) was reviewed and revised in 2015. However, the revised manual has not been approved for distribution and use by district employees as of August 2018.

Risk: If the P-Card Manual is inaccurate, incomplete, outdated, irrelevant and/or not communicated; the following could result:

- Inconsistent practices among employees and/or departments
- Unallowable purchases due to a lack of knowledge
- Inability to enforce employee accountability

Recommendation:

- Finance leadership should ensure the P-Card Manual is reviewed, updated, approved and published for district employee's use.


- The P-Card Manual should be periodically reviewed, updated, approved and published to reflect current changes within the P-Card Program and district purchasing policies and procedures.

Response:

The P-Card manual has been updated and is in final edits. It is expected to be approved within the next week. Training and the updated manual will be sent to cardholders with a requirement to complete the training. Moving forward, new cardholders will be required to complete E-module training before remittance of their cards and will be emailed a copy of the manual. Additionally, the manual will be posted for review on the District's website.

We want to extend our appreciation to the management and staff at the Accounts Payable department for their cooperation and courtesies extended to us during the audit.

Respectfully submitted,



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Lead Internal Auditor



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