

Atlanta Public Schools
Office of Internal Compliance
130 Trinity Avenue SW | Atlanta, GA 30303



P-Card Audit Report (#FY22-01)

REPORT DATE: MARCH 16, 2022

DISTRIBUTION:

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EXECUTIVE SUMMARY

The continuous audit of the P-Card transactions was approved as a part of the Office of Internal Compliance's FY 2021-2022 Internal Audit Plan.




Audit Scope:

Purchasing Card (P-Card) transactions processed from March 1, 2021, to September 30, 2021.

Audit Objectives:

Evaluate transactions to identify improper spend, overlimit purchases, and compliance with APS policies and procedures. Transactions were identified by data analytic scripts based defined criteria defined.

Risk Level Legend:

	High Risk: Findings are significantly impactful to maintaining a good internal controls framework and corporate governance, mitigation of material financial statement and regulatory compliance risk, reputational damage, and fraud risk.
	Moderate Risk: Findings are moderately impactful to maintaining a good internal controls framework and corporate governance, mitigation of financial statement deficiencies, reputational damage, regulatory compliance, and fraud risk.
	Low Risk: Findings are weaknesses that do not seriously detract from the internal control framework and corporate governance but still have an impact.

The table below summarizes the observations and associated potential risk level. Leadership agreed to implement corrective action plans to address our findings.

The observations are summarized below:

#	P-Card Audit Findings Summary	Risk Level
1	Unallowable Purchases – Services, Clothing	High
2	Split Transactions Processed to Avoid Cardholder Transaction Limits	High
3	Gift Cards Purchased for Teacher Incentives	High
4	Sales Tax was Paid on P-Card Purchases	Low
5	Overlimit Purchase Approval Documentation was Not Readily Available	Moderate
6	Cardholder Name and Employee Name Discrepancies	Moderate
7	Cardholder Oversight	Moderate
8	Policy Updates for Service & Delivery Fees	Moderate

Audit Conclusion:

We observed that there is room for improvement for cardholder compliance regarding P-Card use. Of the items sampled, 42% transactions violated one or more of the P-Card policies. Split transactions, inappropriate sales tax charge, and gift card violations were most of the issues noted.

While no incidents of fraud or purchases of items not likely to fill school needs were identified, OIC noted opportunities for improvement in the stewardship of school budgets specifically in relation to year-end purchasing activities.

BACKGROUND

Atlanta Public Schools has implemented the use of Purchasing Cards, or P-Cards, to facilitate the purchasing of supplies for school and office personnel. The Purchase Card Manual (Cardholder Manual) is distributed to all cardholder's and outlines the policies and procedures of the P-Card Program. Included in the manual is a Code of Conduct, Employee Agreement, Setup Instructions, and Purchasing Guidelines and Limits. Transaction limits are established for each Cardholder. Other governing documents include the Procurement Procedures Manual for purchases expected to exceed \$10,000, and the Board of Education p-card policies.

Bank of America is the vendor providing the P-Card service to the District. For the scope period examined, 17,173 transactions totaling \$5,799,878 were processed.

DETAILED SUMMARY OF OBSERVATIONS

Unallowable Purchases – Services, Clothing

Issue #1: Video streaming services, totaling more than \$10,000, to support graduation activities were purchased using a P-Card. Services are not allowable P-Card purchases and should have been procured by submitting a requisition through the purchasing processes. We also noted that the transactions totaling more than \$10,000 were split to circumvent the approval process and a form 1099 was not filed for these vendor services. Additionally, the MCC code on the transaction did not indicate the purchase was for services.

Clothing (school uniforms) was purchased using a P-Card. Clothing of any type is not an acceptable P-Card purchase item. The school received a donation for the purchase (i.e., Special Revenue) and sought guidance from the Budget office; however, the cardholder incorrectly used the P-Card to purchase the clothing.

Risk:

- Inappropriate general-ledger-coding allocation and non-compliance with IRS rules
- Reputational damage from perceived unfair procurement practices
- Circumventing established approval processes increases the potential for fraud and misuse of funds.

Recommendations:

- A. P-Card Management should work with Bank of America to ensure the MCC codes are accurately representing accurate purchase categories.
- B. P-Card Management should reconcile OIC's findings to the results of their own monthly review and follow the escalation process for those unallowable purchases that were not picked up in their review. This may include notifying both the cardholder and the cardholder's management of the violation.

Corrective Action Plan:

- A. Will review MCC codes list from BOA and make sure it's up to date
- B. Will reconcile results of audit with quarterly monitoring results and provide copies of infraction letters for any that were duplicate findings and send out infraction letters to the ones identified as a result of the internal audit. PCard Services will also provide quarterly trainings

Implementation Date:

- A. 3/21/22
- B. 6/21/22

Responsible Party for Implementation:

- A. PCard Specialist
- B. Card Service Supervisor

Split Transactions

Issue #2: Multiple transactions were made to avoid the cardholder's maximum transaction allowance and/or to avoid the purchasing approval process.

- OIC noted multiple transactions for the same cardholder and the same vendor made on the same day or sequential days with each individual transaction totaling just below the cardholder's transaction limit.
- Multiple transactions were noted in office supply purchases. Items purchased included bulk purchases of pens, pencils, pencil sharpeners, and paper. In one instance, a transaction for 8000 envelopes was followed the next day with a purchase for 9000 envelopes.
- A purchase of air filters was documented on the same date but processed in two separate transactions. Each transaction totaled \$1948.80, just below the cardholder's \$2000 limit.
- Explanations included the cardholder's desire to spend down the budget money that was nearing expiration (i.e., closing the books at the end of the year).

Risk:

- Lack of adherence to purchasing processes and procedures increases the risk of reputational damage from perceived unfair procurement practices.
- Attempts to exhaust budget money in a short period of time may result in unnecessary spending.

Recommendations:

- P-Card Management should consider employing data analytics to flag suspect transactions or cardholder activity. These may include developing trending reports that identify the number of transactions by vendors and cardholders.
- Financial Management should consider providing additional training around strategic planning to help prevent the end of year bulk spending.

Corrective Action Plan:

- A. PCard Services implemented Tableau in March of 2021 to assist with quarterly monitoring. Infraction letters were sent to individuals found in violation of the PCard policy. However, we will also include trending reports to assist with repeat offenders.
- B. PCard services will provide quarterly PCard trainings.

Implementation Date:

- A. 04/15/22
- B. 03/23/22

Responsible Party for Implementation:

- A. Card Service Supervisor
- B. Card Service Supervisor

Gift Cards for Teacher Incentives

Issue #3: OIC testing found gift card purchases for discount stores (i.e., Walmart) and food establishments (Chick-Fil-A, Dunkin' Donuts). Many of these gift cards were used for teacher incentives. Fifty percent of the transactions examined were paid for by Special Revenue P-Cards. In all cases, the Cardholders indicated they believed the donor of the funds could dictate what was purchased with the Special Revenue P-Card. Gift cards for staff are not allowable P-Card purchases regardless of the funding source.

Risk:

Inappropriate card use, internal and external fraud, inappropriate general-ledger-coding allocation, and non-compliance with IRS rules.

Recommendations:

OIC recommends Finance Management amend the Gift Card guidance to specify both acceptable and unacceptable criteria for P-Card gift card purchases. Criteria such as the recipient (staff, students, parents) of the Gift Card, the purchase type (food, clothing, etc.), and the funding source should be addressed. Guidance on accepting funds to be spent on teacher incentives should also be developed and distributed as necessary.

Corrective Action Plan:

PCard Services will review the PCard policy and manual to improve the language based around gift cards and teacher incentives. During quarterly monitoring, any individuals found in violation were sent infraction letters. We will also continue to discuss during quarterly PCard trainings.

Implementation Date:

10/31/22 (any updates to the policy needs board approval)

Responsible Party for Implementation:

Executive Director, Accounting Services and Card Services Supervisor

Sales Tax Paid

Issue #4: For 24% of the exceptions noted, sales tax was paid on the P-Card purchase. Of the Instacart transactions examined, 100% were charged sales tax. For online purchases, vendors such as Walmart require each account holder (or each online account) submit the necessary documentation to identify the purchases as tax-exempt.

In some instances, the cardholders attempted to receive reimbursements for the taxes paid during the audit; however, they were unable to secure a refund as some vendors require notification within a specified time frame.

Risk:

Improper tax charges result when a transaction is not identified as tax-exempt.

Recommendations:

- A. The Procurement Department should consider creating a process to establish tax-exempt status for key large vendors to include Walmart. This status should be addressed for both in-person and online purchases. OIC did not confirm if these online accounts were personal, or District controlled accounts. Processes should ensure the tax-exempt status is not attached to individual or personal accounts. The P-Card Manual should be updated accordingly.
- B. P-Card management should consider implementing an automated routine to notify cardholders when transactions have been charged tax. The process should occur no less than monthly to allow for timely identification of incorrect tax charges. P-Card management should inquire with Bank of America to determine how taxes charged can be identified.

Corrective Action Plan:

- A. PCard services will reach out to the Procurement Department to discuss ways to work with key large vendors to explore the possibility of establishing tax-exempt status.
- B. PCard services will review manuals to ensure information about tax-exempt status is included and accurate.
- C. PCard services would need to reach out to BOA for this type of notification. PCard services won't know about the tax until after the charges have been made. If this is something that BOA can offer, this may be a project that will entail additional funds and a project team.

Implementation Date:

- A. 03/21/22
- B. 03/21/22
- C. 04/11/22

Responsible Party for Implementation:

- A. Executive Director, Accounting Services and Card Services Super
- B. Card Services Supervisor
- C. Executive Director, Accounting Services

Overlimit Purchase Approval Documentation

Issue #5: Overlimit purchase approval submissions are made by the cardholder emailing a form to the P-Card Specialist who then emails the request to the approval authorities. The Specialist then relays the result to the cardholder, again via email.

Due to Covid-19 and working remotely, the form is not annotated with the approval, but rather the approvals are indicated in the body of the email. These emails are maintained in the P-Card Specialist's personal email folder. Evidence was gathered for OIC by searching through both the P-Card Specialist's and the P-Card Manager's email inboxes. While all transactions sampled were adequately supported, the effort took several iterations. Opportunities for a more efficient process for maintaining the evidence exist as approval documentation may be lost should personnel changes occur, or documentation is lost due to email retention schedules (i.e., one rolling school year on APS email servers and/or 5 years for fiscal correspondence) differing from P-card retention requirements (seven years).

Risk:

Lack of documentation and support for approvals increases the risk of reputational damage if the district is unable to timely satisfy Open Records requests.

Recommendations:

P-Card Management should consider improving the efficiency of the process by implementing an automated workflow and capturing approvals in electronic signatures. This would help maintain the integrity of the documentation and ensure the availability of the approvals/denials. Documents should be maintained on a centralized file share system that is accessible in the event an employee is out of the office for an extended period or terminates from the district.

Corrective Action Plan:

PCard Services will utilize Adobe Signature Software as well as create a SharePoint folder for accessibility.

Implementation Date:

04/11/22

Responsible Party for Implementation:

PCard Specialist and Card Services Supervisor

Cardholder Name and Employee Name Discrepancies

Issue #6: Fifty-seven cardholder names were identified by Tableau as not matching employees in the active or terminated listings. Upon examination, OIC noted the differences were attributed to the inclusion or omission of middle names or initials, the use of nick names on the P-Card, and last name changes. OIC manually matched these names with HR listings to determine if there was an associated employee name (i.e., they were an APS employee). While all the cardholders were matched to APS employees, the name discrepancies made identifying the cardholder difficult.

Risk:

Misidentification of an employee's corresponding P-Card may prevent the timely cancellation of the P-Card.

Recommendations:

Financial Management should require P-Cards to only be issued in the same name as the employee's name in Human Resources.

Corrective Action Plan:

PCard Services will issue new cards to staff with name discrepancies.

Implementation Date:

07/01/22 (Due to the time it will take to research the discrepancies)

Responsible Party for Implementation:

Executive Director of Accounting Services

Cardholder Oversight

Issue #7: There was an instance where a purchase was made from Instacart, and the cardholder was unable to provide a receipt nor able to explain what the charge was for. Upon further investigation, OIC noted that the prior school secretary for the cardholder made the charge and signed the cardholder's monthly p-card statement. This secretary is no longer with the district.

Since a notification is sent to the cardholder when a p-card purchase is made, and the cardholder is aware of the requirement to sign their p-card statement each month prior to forwarding to the p-card services department, OIC noted a lack of oversight with regard to the cardholder.

Risk:

- Lack of oversight of p-card transactions increases the risk of fraud and/or theft

Recommendation:

P-Card Management should reconcile OIC's findings to the results of their own monthly review and follow the escalation process for those unallowable purchases that were not picked up in their review. This may include notifying both the cardholder and the cardholder's management of the violation.

Corrective Action Plan:

Will reconcile results of audit with quarterly monitoring results and provide copies of infraction letters for any that were duplicate findings and send out infraction letters to the ones identified as a result of the internal audit.

Implementation Date:

03/21/22

Responsible Party for Implementation:

Card Services Supervisor

Policy Updates – Service & Delivery Fees

Issue #8: OIC noted that the current P-Card Policy does not address the appropriateness of service fees and delivery fees. Since the start of the pandemic, gig-workers have been heavily relied upon to pick and deliver goods to facilitate a contactless experience for customers. District cardholders have primarily used the Instacart delivery service to deliver food and beverage items for after-school programs (i.e., special revenue). OIC noted that in addition to sales tax (noted above in issue #4) and gratuity, Instacart also charges a separate service fee and delivery fee. As the current p-card policy does not speak to these types of fees, OIC could not opine on the appropriateness of said fees.

Also, if a vendor charges a service fee to deliver groceries or food items, then the transaction becomes questionable as to whether a service is being provided. Food and gratuity are acceptable purchases via p-card; however, purchases for services are not allowable transactions.

Risk:

- Untimely consideration of industry trends affecting the business may lead to unforeseen budgeting issues and mismanagement of funds.

Recommendation:

P-Card management should update the p-card manual to provide guidance on the appropriateness of service fees and delivery fees; to include clarity around what types of purchases are considered to be services. An analysis should also be performed to determine if there are other situations that might warrant additional policy updates due changes in how business has evolved and is being transacted.

Corrective Action Plan:

Update policy and manual to address delivery and service fees

Implementation Date:

10/31/22 (The update will need to be taken before the board for approval)

Responsible Party for Implementation:

Executive Director of Accounting Services

We want to extend our appreciation to the management and staff in the P-Card and Procurement departments and to the cardholders for their cooperation and courtesies extended to us during the audit.

Respectfully submitted,

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Abbreviations

APS	Atlanta Public Schools
OIC	Office of Internal Compliance
P-Card	Purchasing Card