



Office of Internal Audit

Report to the Interim Chief
Financial Officer

May, 2017

FINANCE DIVISION

Districtwide Audit of
Purchase Card Transactions
1 July 2013 through
31 December 2015

NOTICE

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinion of the Office of Internal Audit. Determinations of corrective action to be taken will be made by the appropriate San Diego Unified School District officials.



Highlights

Highlights of Report 17-09, a report to the Interim Chief Financial Officer

Why OIA Did This Audit

This audit project was included in our fiscal year 2017 annual work plan.

What OIA Recommends

Our report includes four recommendations addressed to the CFO. These recommendations include: (1) the revision of the *Manual* to include additional controls for the documentation of purchases and the receipt of the goods; (2) modifying the current contract with the P-Card provider to provide access to P-Card related data after the expiration of the contract; (3) development of a progressive disciplinary system for misuse of the P-Card; and (4) develop requirements for use of the P-Card for all eligible transactions of \$500 or less.

Finance Division

Districtwide Audit of Purchase Card Transactions 1 July 2013 through 31 December 2015

What Did OIA Find

OIA found that many of the transactions it tested generally complied with several requirements of the *Purchase Card Policies and Procedures Manual (Manual)*. Due to weaknesses in the systems of internal controls we found that the P-Card program was exposed to a high risk for improper transactions and the potential misuse and abuse of San Diego Unified School District (District) resources.

Documentation for pre-approvals of P-Card purchases was not required. This practice deprived the District of a critical control to ensure the propriety and reasonableness of the purchase.

The system of internal controls was impacted by three systemic weaknesses (1) retention of purchase card (P-Card) documentation, (2) absence of independent verification of the receipt of goods purchased with the P-Card, (3) identification of sales and use taxes due to the State.

Compliance was inconsistent with the District's administrative procedures for the purchase of food with the P-Card. We identified purchases of \$21,914 made without prior approval. Further, some of these purchases may have violated the U.S. Department of Education's guidance for food purchases using grant funds.

Procedures were not in-place requiring all purchases of \$500 or less to be made with a P-Card. The absence of this requirement increased the District's cost to obtain the goods and denied the District additional income from P-Card rebates.

Contents

Letter		1
	Results in Brief	3
	Summary of Recommendations	5
	Objectives Scope and Methodology	5
	Use of Computer Processed Data	9
	Prior Audit Coverage	9
	Control Environment for P-Card Places SDUSD at Increased Risk for Potentially Wasteful and Abusive Purchases	9
	Internal Controls Adversely Impacted by Systemic Weaknesses	10
	Food Purchases Not Consistently Approved	15
	Effective Disciplinary Action Not Always Taken	18
	Use of the P-Card is Not Mandatory	20
	Recommendations	22
	Interim Chief Financial Officer’s Response and OIA Comments	22
	Supplemental Information	22
	Contributors	24
Appendix I	Glossary of Terms	25
Appendix II	Locations Selected for P-Card Testing	27
Appendix III	Summary of P-Card Testing Results	28
Appendix IV	Comments from the Interim Chief Financial Officer	36
	OIA’s Evaluation of the Comments	41
Tables	Table 1: IMC P-Card Purchases	2
	Table 2: Non-IMC P-Card Purchases	2
	Table 3: Seven Largest Dollar-Value P-Card Vendors including IMC Purchases for Each Fiscal Year	3
	Table 4: Five Largest Vendors in Rank Order for the Audit Period	3
	Table 5: Questioned Costs	5
	Table 6: Comparison of the P-Card Transaction Populations and Sampled Transaction Values	8
	Table 7: Three Largest Food Vendor Purchases Using the P-Card	17

Acronyms and Abbreviations

Accounts Payable Department	A/P
Administrative procedures	AP
approving official	AO
Associated Student Body	ASB
Budget Department	BD
Chief Financial Officer	CFO
San Diego Unified School District Finance Division	District Finance
Food and Nutrition Services Department	FNSD
fiscal year 2017	FY-17
General Services Administration	GSA
U.S. General Accounting Office	GAO
Instructional Materials Center	IMC
<i>Purchase Card Policies and Procedures Manual</i>	<i>Manual</i>
merchant category codes	MCC
Office of Internal Audit	OIA
purchase card	P-Card
San Diego Unified School District	SDUSD
Strategic Sourcing and Contracts Department	SSCD
State of California	State
U.S. Department of Education	USED
Wells Fargo & Company	WFB

17 May 2017

Gamy Rayburn
Interim Chief Financial Officer
San Diego Unified School District
4100 Normal Street
San Diego, CA 92103-2628

The Office of Internal Audit (OIA) in its fiscal year 2017 (FY-17) annual work plan included a project to audit the San Diego Unified School District's (District or SDUSD) purchase card (P-Card)¹ program. This report presents the results of our audit and provides a series of recommendations to improve the systems of internal control for the operation of the P-Card in the Finance Division, the individual schools, and central office organizations.

As part of this project, OIA included the period covered by the termination of the P-Card services contract with Wells Fargo & Company (WFB). OIA looked to provide the District with areas of potential improvements and the reduction of operational risks in the operation of the successor P-Card program with J.P Morgan Chase Bank.

The P-Card program, established by the District in 2000, provides SDUSD schools and central office organizations with a method to obtain low cost goods² without the intervention of the Strategic Sourcing and Contracts Department's (SSCD) in the purchasing process. The goals of the P-Card program include: (1) reduction of the staff time, by the requestor and SSCD, necessary to process requisitions and purchase orders for small dollar purchases; (2) simplification of the payment process for goods acquired using the P-Card; and (3) providing the P-Card users with a larger selection of vendors, than may be available through SSCD, from which to purchase the goods. The current P-Card program operates in a highly decentralized manner and is available to most of the District's schools and central office organizations.

The P-Card program operates in a manner similar to a commercial or personal credit card. The P-Cardholder, the individual listed on the P-Card, is the only authorized individual to make purchases using that card. The duties for the approving official (AO) for each card include the oversight and approval of the purchasing process for the P-Card. The AO assures that the transactions conform to the District's *Purchase Card Policy and Procedures Manual (Manual)*³. Generally, the P-Cardholder and the AO are located within the same school or central office organization

¹ The terms underlined the first time they appear in the report are explained in Appendix I: Glossary of Terms.

² The SDUSD P-Card policies prohibit the use of the P-Card to acquire services, of any type.

³ San Diego Unified School District, Finance Division; *Purchase Card Policy and Procedures Manual*; September 2011 and January 2015. The January 2015 version of the *Manual* did not contain substantive changes in the policy and procedures from the September 2011 version of the *Manual*. The September 2011 and January 2015 versions of the *Manual* are applicable to this audit.

In contrast to a personal and some corporate credit cards, the P-Cardholder is not responsible for the payment of properly incurred charges to the P-Card. The District assumes responsibility for the payment of the balance for all non-protested charges to the individual P-Cards at the close of the statement period. At the close of the FY-14, the District had 261 active P-Card accounts with a total monthly purchase limit of \$1.05 million. Similarly, at the close of FY-15 286 P-Card accounts were active with WFB holding a total monthly purchase limit of \$1.06 million. This represents an increase of 25 accounts and \$16,000 in the monthly purchase limit.

The period of our review included P-Card transactions recorded during the period 1 July 2013 through 31 December 2015. This period included 32,182 transactions with a dollar value of \$19.06 million. The Instructional Materials Center (IMC), during this period, purchased \$14.56 million of textbooks and other materials with the P-Card. This amount represents approximately 76 percent of the total P-Card purchases. Table 1 provides a breakout of the IMC purchases during the audit period

Table 1: IMC P-Card Purchases

	1 July 2013 to 30 June 2014	1 July 2014 to 30 June 2015	1 July 2015 to 31 December 2015	Total
Dollar Value of the Transactions	\$5,359,869	\$8,941,104	\$258,253	\$14,559,226
Transactions	199	226	48	473
Average Transaction Amount	\$26,934	\$39,562	\$5,380	\$30,781

Source: OIA analysis of P-Card Transactions

In contrast, the majority of the transactions for the P-Card during our review period were for small dollar amounts. However, the number of transactions increased significantly. Table 2 provides summary data on the balance of P-Card transactions during the review period.

Table 2: Non-IMC P-Card Purchases

	1 July 2013 to 30 June 2014	1 July 2014 to 30 June 2015	1 July 2015 to 31 December 2015	Total
Dollar Value of the Transactions	\$2,024,010	\$2,195,489	\$276,706	\$4,496,205
Transactions	14,027	15,877	1,805	31,709
Average Transaction Amount	\$144	\$138	\$153	\$142

Source: OIA analysis of P-Card Transactions

Our analysis of the P-Card transaction data identified the vendors who received the largest number of purchases, in terms of dollar value, during the audit period. Table 3 provides the data when the IMC purchases are included in the transactions. Table 4 provides the largest P-Card vendors during the audit period.

Table 3: Seven Largest Dollar Value P-Card Vendors including IMC Purchases for each Fiscal Year

Vendor	1 July 2013 to 30 June 2014 ^a	1 July 2014 to 30 June 2015 ^a	1 July 2015 to 31 December 2015 ^a	Total ^a
Awl Pearson Education	\$3,893,942	\$1,537,579	\$ 74,839	\$ 5,506,360
Office Depot	426,169	476,529	16,440	919,138
Hertzberg-New Method Per	300,106	0	0	300,106
Follett Educational Servi	221,820	0	0	221,820
Amazon.Com	199,199	0	23,619	222,818
Follett School Solutions	134,686	0	117,728	252,414
Amazon Mktplace Pmts	121,883	0	22,089	143,972
Hmco Ecmmrce Books	0	2,811,482	0	2,811,482
Rei Greenwoodheinemann	0	932,781	0	932,781
Smp Holt Fsg Palgrave	0	568,711	0	568,711
Mhe McGraw-Hill Ecomm	0	455,932	0	455,932
Awl Prentice Hall	0	452,706	0	452,706
Tcd Cengage Learning	0	0	38,102	38,102
Mrs Nelsons Book Fair Co	0	0	16,296	16,296
Total Purchases	\$5,297,804	\$7,235,720	\$309,114	\$12,842,639

Source: OIA analysis of P-Card Transactions

Note: Amounts may not agree with the total due to rounding.

Table 4: Five Largest Vendors in Rank Order for the Audit Period

Vendor	Total P-Card Purchases ^a
Awl Pearson Education	5,506,360
Hmmco Ecmmrce Books	2,811,482
Rei Greenwoodheinemann	932,781
Office Depot	919,137
Smp Holt Fsg Palgrave	568,711
Total Purchases during Audit Period	\$10,738,471

Source: OIA analysis of P-Card Transactions

Note: Amounts may not agree with the total due to rounding.

The transactions for detailed testing were selected from the transaction files provided to the Finance Division (Finance) by WFB. Our testing included reviewing the transactions and supporting documentation at the selected schools and central office organizations. In addition to selecting specific transactions for testing, we used data mining techniques to assist us in determining whether transactions were compliant with the requirements of the P-Card program. As part of our data mining, we tested the transactions to determine whether they exceeded the maximum single transaction limitations, without advanced approval, or involved the use of split transactions to avoid the transaction limitations.

This audit included testing of 71 individual P-Card accounts located in 62 schools and central office organizations. Further, we performed various reviews, tests and interviews with the staff and management of Finance and the Accounts Payable Department (A/P). The schools and central office locations included in this audit are provided in Appendix II.

Results in Brief

OIA found that the majority of the transactions sampled and tested generally complied with the District's P-Card policies and procedures included in the *Manual*. However, our work identified systemic

weaknesses in the system of internal controls and the processes used to ensure compliance with the District's policies and procedures. In our opinion, as a result of these weaknesses the P-Card program is exposed to a high risk for improper transactions, and potential abuse and misuse of SDUSD resources.

The P-Card's system of internal controls had systemic weaknesses in the (1) retention of documentation for the P-Card transactions by the P-Cardholder and the AO; (2) independent verification of the receipt of the goods purchased through P-Card transactions; and (3) identification and payment for uncollected sales/use tax charges by the schools and central office organizations.

Further, the September 2011 and January 2015 version of the *Manual* does not require that school or central office organization to obtain pre-approvals for the P-Card transactions. By not requiring the pre-approval process, SDUSD deprives itself of a critical control to validate that the proposed transaction is a proper use of the P-Card, that approvals to exceed the single or other transaction limits are not required or when necessary have been obtained, and that sufficient funds are available within the school or central office organization budget to fully fund the transaction.

The compliance with the District's administrative procedures (AP) for the purchase of food and related items was inconsistent. We identified 59 purchases of food and related items that did not comply with AP 2430, *Charge Purchases of Food for Instructional and Other Authorized Use*, and AP 2518, *Payment of Expenses for Special Activities*. Furthermore, the District may have violated the U.S. Department of Education's (USED) requirements for the purchase of meals, food, and related items for meetings, conferences, and activities using Federal funds.

Procedures were not in place to require that all transactions for goods with a total value of \$500 or less are processed through the P-Card. The absence of these procedures reduces the dollar value of the purchase transactions used to compute the annual rebates to the District for its use of the P-Card.

In testing the transactions, we identified 903 transactions with a value of \$262,325 that were not compliant with the District's P-Card policies and procedures. Table 5 provides a summary of this data and detailed data for each of the sites tested is provided in Appendix III.

Table 5: Questioned Costs

Deficiency	Amount
Supporting documentation and missing P-Card statements	\$191,671
Description of purchase not entered into the P-Card system	21,267
Sales/use tax due to the State not reported by P-Cardholder	5,039
Preapproval for purchase of food items not obtained	21,914
Purchases prohibited by District policy and procedures	16,707
Exceeding single transaction limitations without prior approval	5,184
Credits not received and disputed transactions not resolved	543
Total Questioned Costs	\$262,325

Source: OIA analysis of P-Card testing results

Summary of Recommendations

OIA addressed four recommendations to the Interim Chief Financial Officer (CFO). These recommendations concentrate on the improvement of P-Card operations, systems of internal controls, and compliance with applicable policies and procedures and the *Manual*. The report's recommendations include in part:

- Revisions of the *Manual* to include additional internal control practices for documentation of P-Card transactions including preapprovals and independent verification that the goods purchased with the P-Card have been received at the school or central office organization;
- Determination of the feasibility of amending the contract with the current P-Card provider to provide SDUSD with access to the P-Card data at the conclusion of the contract, or archiving the P-Card data in the District's information technology structure;
- Development with the Office of Legal Services and the Human Resources Division a progressive disciplinary system for the misuse or abuse of the P-Card and failure to comply with the P-Card's policies and procedures;
- Develop procedures to require the use of the P-Card for all eligible transactions of \$500 or less.

Objectives, Scope, and Methodology

Our objectives for this audit included:

- verification that the systems of internal control for the P-Card program provided a reasonable assurance that the District's assets are safeguarded, and the data reported for the use of the P-Card by schools and central office organizations is reliable; and
- determination of the extent of compliance with the District and the P-Card program's policies and procedures for the P-Card by Finance, the schools, and the central office organizations.

To meet the audit's objectives, we obtained a detailed understanding of the District's system of internal controls for the P-Card, reviewed the applicable policies and APs and conducted detailed testing and examination of a sample of P-Card transactions. Additionally, we conducted interviews of selected managers and

staff within Finance, selected schools, and central office organizations.

The population from which we selected our sample of P-Card transactions included all purchase and credit transactions posted during the period 1 July 2013 through 31 December 2015 to SDUSD's P-Card accounts. We selected the sample transactions from the electronic P-Card transaction files provided to SDUSD by WFB.

To obtain our detailed understanding of the P-Card's system of internal control we:

- Reviewed the *Manuals* issued by Finance in September 2011 and January 2015;⁴
- Conducted transaction walkthroughs of the P-Card process at a non-generalizable sample of schools and central office organizations to identify key P-Card policies, procedures, and controls;
- Reviewed prior OIA reports addressing the use of the P-Card at selected schools;
- Reviewed the General Services Administration's (GSA) SmartPay⁵ policies and procedures for the operation of the P-Card program;⁶
- Reviewed the Office of Management and Budget Circular A-123, Appendix B *Improving the Management of Government Charge Card Programs*;⁷
- Assessed the adequacy of the system of internal control using the Government Accountability Office's (GAO) *Audit Guide: Auditing and Investigating the Internal Control of Government*

⁴ In addition to the *Manuals* noted above, Finance issued a revised version in November 2015. We did not extensively review this document as it was designed to address the P-Card operations using the WFB successor vendor J.P. Morgan Chase.

⁵ GSA contracts for and manages the P-Card program for the Federal government's departments and agencies. This includes establishing base level policies and procedures that all Federal entities are required to follow.

⁶ U.S. General Services Administration; *OAS Management and Use of the GSA SmartPay Purchase Card*; Washington, DC; January 2015; found at <https://gsa.gov/portal/getMediaData?mediald=203483>; (last viewed 11 April 2017)

⁷ Office of Management and Budget; *Management's Responsibility for Internal Control*; OMB Circular A-123; Appendix B; *Improving the Management of Government Charge Card Programs*; found at: https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/circulars/A123/a123_appendix_b.pdf (last viewed 11 April 2017)

Purchase Card Programs,⁸ GAO reports titled *Standards for Internal Control in the Federal Government*, dated November 1999,⁹ and this report's subsequent revision in September 2014;¹⁰ the GAO publication *Guide for Evaluating and Testing Controls over Sensitive Payments*;¹¹ and

- Reviewed the publically available audit, evaluation, and inspection reports on the use and control of the P-Card process and purchases issued by the GAO, Federal departments and agencies Offices of the Inspectors General, the state auditors, and local government audit organizations.
- Performed tests of internal controls that we considered to be necessary in determining whether a reasonable assurance was provided that the P-Card transactions were proper throughout the process. The key controls that we tested include the following:
 - *Separation of duties* – dividing key duties among different people to reduce the risk of error or fraud, and independent receiving and acceptance of the goods by someone other than the P-Cardholder or AO; and
 - *Adequate Supporting Documentation* – P-Cardholders and AOs obtain and maintain invoices, receipts, and other supporting documents that support their purchases and provide a basis for reconciling purchases to the P-Card statement detail.

In testing the internal controls and compliance with the applicable policies and procedures we employed two different methods for selecting our sample transactions. The two methods that we employed were:

⁸ U.S. Government Accountability Office, formerly the U.S. General Accounting Office; *Audit Guide: Auditing and Investigating the Internal Control of Government Purchase Card Programs*; Report Number: 04-87G; Washington, DC; November 2003; found at

<http://www.gao.gov/assets/80/76774.pdf> (last viewed 11 April 2017).

⁹ U.S. Government Accountability Office, formerly the U.S. General Accounting Office; *Standards for Internal Control in the Federal Government*; Report Number: GAO/AIMD-00-21.3.1; Washington, DC; November, 1999; found at: <http://www.gao.gov/assets/80/76455.pdf> (last viewed 11 April 2017).

¹⁰ U.S. Government Accountability Office; *Standards for Internal Control in the Federal Government*; Report Number: GAO-14-704G; Washington, DC; September 2014; found at: <http://www.gao.gov/assets/670/665712.pdf> (last viewed 11 April 2017)

¹¹ U.S. Government Accountability Office, formerly the U.S. General Accounting Office; *Guide for Evaluating and Testing Controls Over Sensitive Payments*; Report Number: GAO/AFMD-8.1.2; Washington, DC; May, 1993; found at <http://www.gao.gov/assets/80/76033.pdf> (last viewed 11 Apr 17)

Nonstatistical Sampling – We selected individual transactions by judgmentally sampling to select the purchases we reviewed at the school or central office organization. In selecting these transactions we attempted to select items that fell across all transaction types within the schools and central office organizations. Table 6 provides a summary of the number of individual transactions and dollar amounts for the total population, the total transactions at the sampled schools and central office organizations, and the number and dollar value of the transactions actually sampled.

Table 6: Comparison of the P-Card Transaction Populations and Sampled Transaction Values

	Total Population	Sample Population	Sampled Transactions^a
Number of Transactions	32,182	15,455	2,725
Dollar Value	\$19,055,432	\$16,886,385	\$2,826,842

Source: OIA analysis of WFB P-Card data

Note: ^a The sample includes \$2,348,296 in sampled IMC transactions; the balance of \$478,546 was selected from the balance of the P-Card accounts sampled.

Data Mining – OIA data mined the WFB transaction files for the period 1 July 2013 through 31 December 2015 for indications of non-compliance with the established policies and procedures. Our work looked for transactions which appeared to have a high risk of fraud, waste, and abuse. We specifically searched for (1) purchases resulting in split transactions to circumvent single transaction limitations, (2) purchases made against blocked merchant category codes (MCC), (3) purchases of items that may be considered as sensitive or reportable assets, (4) the ratio of P-Cardholders to AOs to ensure that the span of control is reasonable, (5) employees who had active P-Cards subsequent to their termination, retirement, or transfer dates, (6) purchases made for personal purposes, and (7) purchases made on weekends, holidays, and extended school break periods, e.g., fall, winter, and spring breaks.

Our transaction testing included 71 P-Card accounts at 62 individual school and central office locations (See Appendix II for the selected locations). To address the weaknesses that we identified at 58 of the 62 locations, we provided a management letter to the principal or responsible organization head at each location. We received responses from 52 of the 58 schools or central office organizations. The majority of the respondents agreed with our observations and recommendations included in the individual management letters. They provided us with corrective action plans that generally met the intent of our recommendations. Due to the volume of management letters and responses we have not included them in this report.

During our testing we identified improper purchases using the P-Card; our audit was not designed to identify all P-Card misuse, abuse,

or fraudulent transactions by the schools and the central office organizations.

OIA conducted this performance audit, from July 2016 through February 2017, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain a reasonable basis for our findings and conclusions, based on our audit's objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions.

Use of Computer Processed Data

To address our audit's objectives we relied on the P-Card transaction data files provided by WFB to Finance. This data provides the basis for charges and credits to individual P-Card accounts and the operating budgets of the schools and central office organizations in the SDUSD financial management system (FMS). We did not test the transactions as they were captured and applied in FMS, as such testing was not included in our audit's objectives. However, we did determine the reliability of the transaction data used to support our work by (1) interviewing knowledgeable school and central office organization managers and staff regarding the data and its sources, (2) reviews of the reconciliations for the amounts reported in the monthly WFB reports with the payments made by Finance, and (3) reviewed the supporting documentation and records for selected transactions at the locations we selected and Finance. Based on our assessment, we determined that the data provided to us was sufficiently reliable to support our findings and conclusions, based on our audit objectives.

Prior Audit Coverage

During the past five years, OIA issued several audit reports that solely addressed the use of P-Cards at specific schools. Additionally other reports titled "Selected Financial Operations" included testing of P-Card transactions. These reports are available on the District's webpage at: <https://www.sandiegounified.org/audit-reports>. We have not reviewed the use of the P-Cards by the central office organizations within the past five years.

Control Environment for the P-Card Places SDUSD at Increased Risk for Potentially Wasteful and Abusive Purchases

Our testing of controls and compliance with the District's policies and procedures at the schools, central office organizations, and Finance found that a significant number of transactions were compliant with the District's policies and procedures. However, weaknesses in the system of internal controls significantly increased the risk that fraudulent, abusive, and wasteful transactions would not be identified timely to correct the improper transactions.

The design of the system of internal control was not fully effective in providing a reasonable assurance that improper purchases would not occur, or these purchases would be detected by SDUSD staff

during the normal course of business. Testing identified systemic weaknesses in the controls for the retention of documentation at the schools and the central office organizations, the reporting of sales/use tax not taken by vendors on P-Card transactions, and the receipt of goods purchased with the P-Card was not independently verified at a significant majority of the schools and central office organizations tested. Furthermore, weaknesses in the preapproval of purchases and the absence of effective revocation and disciplinary processes impacted on the appropriate use of the P-Cards.

Internal Controls Are Adversely Impacted by Systemic Weaknesses

Three systemic weaknesses in the systems of internal control were identified during our examination and testing of the P-Card transactions. In our opinion, the weakness related to retention of documentation is a significant deficiency in internal control.¹² The absence of independent verification of the receipt of goods obtained with the P-Card is a material weakness in the internal controls system.

Documentation supporting individual transactions and monthly P-Card statements were not consistently retained by the AOs¹³ and P-Cardholders.¹⁴ Missing documentation was identified in 22 of the 62 locations that we tested. In our opinion, the absence of effective controls to retain supporting documentation is a significant deficiency in the internal controls for the P-Card system of internal control.

¹² A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, detect, or correct misstatements on timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal controls over the P-Card transactions such that there is a reasonable possibility that a material misstatement of the District's reports on P-Card expenditures would not be prevented, detected, or corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

¹³ The September 2011 and January 2015 versions of the *Manual* require that the AO obtain and retain the supporting documentation for each transaction in their working area. The P-Card documentation is to be retained for five years.

¹⁴ The P-Cardholders in a number of instances in our testing held the P-Card transaction documentation. As many of the AOs are principals and department heads this allows the P-Cardholder to have access as needed to the P-Card transaction documentation. Further in some schools, it centralizes the financial records into one location.

At 58 of the 62 locations we tested the receipt of the goods purchased with the P-Card were not independently verified by an individual other than the P-Cardholder at the time and point of receipt. We considered this weakness in the system of controls to be a material deficiency.

Our testing identified that the schools and central office organizations did not consistently report P-Card transactions where the vendor did not include the full sales/use tax in the amount of the transaction. Testing identified 354 transactions (13 percent of our sample) where the absence of the full sales/use tax was not identified in the P-Card system. OIA identified these deficient transactions at 34 locations we selected for testing (55 percent of the locations tested).

Controls for the Retention of P-Card Documentation

The *Manual* requires the following when obtaining and securing documentation supporting P-Card transactions: all original receipts, and supporting documentation be: (1) held under the control of the AO, (2) held within the AO's work area, and (3) these receipts and documentation be held for five years. Further, the original receipts and supporting documents were to be faxed into the P-Card system maintained by WFB for SDUSD. Further, the *Manual* required the original receipts and supporting documents to be stapled to the monthly P-Card statements generated by the P-Card system for printing at a school or central office organization's location.

Our testing identified 22 locations that did not maintain the documentation needed to support 754 P-Card transactions. These totals represent 35 percent of the locations and 28 percent of the transactions selected for testing. Further, we identified 14 locations where 103 monthly P-Card transaction statements were not retained. These missing statements represent \$97,910 of the value of the transactions we tested. Appendix III provides additional detail on the missing transaction documentation and P-Card statements at each of the locations.

The staff at several of the locations we tested stated that they had faxed the documentation to WFB for inclusion in the P-Card system. They believed that scanning the receipts relieved them of their responsibility to retain the original documentation for the five year period. The *Manual*¹⁵ does require that the receipts be retained when scanned or faxed into the P-Card system.

¹⁵ San Diego Unified School District, Finance Division; *Purchase Card Policy and Procedures Manual*; January 2015; page 9.

At Crawford High School the P-Cardholder told us that at least 12 months of records and supporting documentation for the P-Card could not be located. The documentation, according to the P-Cardholder, was boxed up to accommodate the movement of offices during a renovation project. The P-Cardholder stated a janitor removed several boxes, including the boxes of P-Card transactions, from the storage location and destroyed them. According to the P-Cardholder the boxes with the P-Card documentation were clearly marked "Do Not Destroy."

With the termination of the WFB contract for P-Card services it did not appear that the District had taken steps to ensure the protection of the District's records and the images of P-Card transactions were electronically imaged to ensure the schools and central office organizations have continuing access to the records. The availability of these records is required to maintain compliance with the State's public record retention requirements, and to support the expenditure of Federal and State contract and grant funds.

During our testing at the schools and central office organizations, the P-Cardholders and AOs told us they were not aware of the District's documentation requirements to retain original invoices since documentation are already scanned to WFB. Further, the viability of some of the documentation was impacted by the use of thermal paper for printing receipts and other documentation. The images on thermal paper have a limited duration and may begin to fade within 18 to 24 months after the printing of the receipt and documentation, making many of the images unreadable within 36 months from the receipt date.

Inadequate Separation of Purchasing Duties

We identified in 55 of the 62 selected locations that the key duties for the receipt and verification of the goods purchased through the P-Card were not adequately separated. At these locations the P-Cardholder was able to fully control the purchasing, receipt and verification goods without independent oversight. The procedures outlined in the *Manual* did not include requirements that the receipt of the goods be documented and that the purchase be verified by an individual other than the P-Cardholder. As a result, the schools, central office organizations, and Finance were unable to provide a reasonable assurance that the purchase of the goods using the P-Card was proper, the goods met the requirements of the end-user, and the goods were actually received by the school or central office organization initiating the purchase. In OIA's opinion, this condition results in a material weakness in SDUSD's internal controls for the P-Card program.

Finance in the September 2011 and January 2015 versions of the *Manual* did not include a standard business practice of documenting

Inconsistent Reporting of Sales/Use Tax Amounts Due to the State

the receipt of goods and that the goods met the purpose for which they were purchased.¹⁶

The procedures in the *Manual* did not require the AO or an independent staff member to physically validate the goods received to the invoice, shipping document or register receipt and the physical receipt of the goods by the school or central office organization.

The GAO in their publications *Standards for Internal Control in the Federal Government* discuss the need for control activities, including the separation of key duties¹⁷ as a method to reduce the risk of erroneous, abusive, and potentially fraudulent P-Card transactions. Key duties involved with the use of the P-Card procurement cycle include: the receipt and processing of requests for the purchase of goods, ordering or physically purchasing the goods requested from the vendors, receiving and verification of goods purchased, and delivery of the goods to the end user. Best business practices and GAO's publications state that no one individual should have control over all the key steps for a transaction. If adequate separation of duties cannot be obtained, the entity's management is responsible for the design of alternative control activities to address the risks of errors, waste, abuse, and potentially fraudulent within the P-Card process.

The independent receipt and validation of the goods purchased with the P-Card by an individual other than the P-Cardholder provides assurances that goods were acquired for legitimate use within the school or the central office organization, that the items acquired were not intended for non-District or personal use, and that the items listed on the receipt are in the possession of the school or central office organization. The independent verification and separation of duties reduces the risk of errors, abusive, wasteful or improper transactions.

The State of California (State) does not provide school districts with a general exemption from the payment of sales/use tax for items purchased with the P-Card. The *Manual* provides instructions to the P-Cardholders to electronically identify the transactions where the vendor did not include in the transaction a charge for sales/use tax. The P-Cardholder calculates the amount of sales/use tax due to the State. The process is designed to allow the Accounts Payable Unit (A/P) to validate the calculation, determine the District's total

¹⁶ Footnote 6, ¶ 16, page 20.

¹⁷ Footnote 9, page 14 and footnote 10 pages 47 and 50.

amount of sales/use tax liability, and remit the amount to the State. Additionally, this process provides the basis for the chargeback to the school or central office organization budget for the taxes.

Our testing identified a systemic weakness in the identification, processing, and reporting the sales taxes due by the schools and the central office organizations. Of the 2,725 transactions that we sampled, 354 transactions (13 percent) did not report the sales/use tax due to the State resulting in \$5,039 of potentially unreported taxes. This occurred at 34 of the 62 locations we selected for testing. The P-Cardholders at schools and central office organizations told us that they were either unaware of the requirement to identify the transactions where the tax was not taken or how to process the transaction to indicate that the tax was not collected by the vendor. Similar findings and explanations for the cause of the finding have been frequently reported in prior OIA audits of selected schools P-Card transactions and financial operations.

To mitigate this weakness, A/P has assigned two of its staff to perform a complete review of the monthly P-Card transactions and determine whether the sales/use tax was taken by the vendor, or is due from the District to the State. However, this process is time consuming and results in the A/P staff performing the work that should be done by the P-Cardholder, according to the *Manual*.

The A/P staff stated that they would send reminders to the schools and central office organizations that did not report the vendor had not included a sales/use tax charge.

Preapproval of P-Card Transactions

The *Manual* states the use of *Purchase Request Form (Form)* [see https://www.sandi.net/staff/sites/default/files/link/staff/docs/form_s/Purchase_Request.pdf] is optional. The intent of the Form appears to be to document: (1) the approval of the use of the P-Card for the purchase, (2) the requestor of the materials, (3) the materials requested and the unit and total cost for the purchase, and (4) the availability sufficient funding for the purchase. Requiring preapprovals and providing this type of information is a standard business practice. Additionally, it provides specific data for the P-Cardholder to use in placing an order or making a purchase.

Our testing identified that 56 of the 62 locations did not use the *Form* or obtained similar data. We included our observations regarding the use of the *Form* in the management letters provided to the individual sites. Many of the recipients stated that the use of the *Form* was not necessary and provided little if any benefit to the process. OIA disagrees with these assertions. In our opinion, the *Form* is a critical control to validate that the P-Card transactions are appropriate and are approved by a responsible individual prior to the

execution of the transaction. The *Form* acts as a preventative control within the P-Card program. The control assists in ensuring the transaction is appropriate and within the context of the P-Card program before it occurs. The controls within the P-Card program are detective and occur after the transaction is completed. While effective, they do not always ensure that the transaction was appropriate, necessary, and met the needs of the individual requesting the goods.

In our review of best practices for the P-Card program we reviewed the U.S. General Services Administration's (GSA) document *Management and Use of GSA SmartPay® Purchase Card*. The GSA requires that its staff obtain written preauthorization for all purchases made with its P-Card.¹⁸ This practice allows GSA to obtain assurances that the use of the P-Card is authorized, appropriate, the reasonableness of the estimated prices for the good(s), and sufficient funds are available for the purchase(s). The preauthorization provides a direct link to the requestor of the items should any questions arise.

Similarly, SDUSD's Budget Operations staff in a briefing for financial clerks on 23 September 2015 included a handout that stated the tracking of expenses would be a good idea as, "*Procurement card expenses can take up to 6 weeks to show in your budget.*" Using the *Form* can be an effective tool for the control and management of unencumbered expenses.

SDUSD by not requiring the use of the *Form* or the capture of similar data is unable to provide reasonable assurances that the goods purchased are necessary and for official use, the price is reasonable, the purchase is an appropriate use of the P-Card, preapproval for the purchase was obtained and sufficient funds exist for the expense. In our opinion, the absence of this control procedure is a material weakness in the system of internal controls.

Food Purchases Not Consistently Approved

The District issued two APs that address the purchase of food and related items using general fund resources. AP 2430, *Charge Purchases for Food for Instructional and Other Uses*, and AP 2518, *Payment for Expenses for Special Activities*. Additionally, USED has issued guidance for the purchase of food and related items with grant funds titled, *Frequently Asked Questions to Assist U.S. Department of Education Grantees to Appropriately Use*

¹⁸ See footnote 6, ¶ 7.d(1), (2), and (3), pages 13-14.

*Federal Funds for Conferences and Meetings.*¹⁹ The APs apply to all food and related items costs for all District activities. The USED guidance applies to expenditures reimbursed by USED grants.

AP 2430 outlines the requirements for the purchase of food and related items and requires that specific documentation be obtained to support the purchase of the food items. For some purchases, this AP mandates the school or central office organization making the purchase complies with this AP and AP 2518, as well.²⁰ AP 2518, which outlines the requirements for purchase of food and related items for school and District events,²¹ directs that when a proposed food and related items purchase equals or exceeds \$200 obtain preapproval for the proposed purchase. Additionally, punitive language is included for the managers that fail to obtain and document the required approvals for the purchase of the food and related items.²²

The USED guidance generally prohibits the purchase of food and related items when a USED grant is used as the source of the reimbursement. The guidance states in part that:

Generally, there is a very high burden of proof to show that paying for food and beverages with Federal funds is necessary to meet the goals and objectives of the Federal grant. When a grantee is hosting a meeting, the grantee should structure the agenda for the meeting so there is time for participants to purchase their own food, beverages, and snacks. ...Grantees, therefore, will have to make a compelling case that under unique circumstances where the cost would be permissible; it is likely these circumstances would be rare.

In discussions with SDUSD management and staff during fieldwork, we became aware that USED grant funds, primarily Title I, may have been used to pay for food, beverages, snacks, and related items that were consumed during training sessions, workshops, and meetings. Based on these discussions, it did not appear that SDUSD met the USED requirements and guidance for the purchase of food with grant funds. We did not separately identify and pursue these charges as

¹⁹ U.S. Department of Education; *Frequently Asked Questions to Assist U.S. Department of Education Grantees to Appropriately Use Federal Funds for Conferences and Meetings*; Washington, D.C.; May, 2013; found at: <http://www2.ed.gov/policy/fund/guid/gposbul/faqs-grantee-conferences-may-2013.doc>; Questions 6 – 13 (Last viewed 11 April 2017). Other Federal departments and agencies may have similar restrictions.

²⁰ AP 2430, §§C.2, 3, and D.1.

²¹ AP 2518, §§ C.3.d, 4, 5, and 6.

²² AP 2518, § C.6.

they were outside the scope of this audit’s stated objectives. In our opinion, the District has an unnecessary exposure for questioned and disallowed costs, due to the failure to adhere to the USED requirements and guidance.

During the audit period the schools and central office organizations purchased \$272,560 in food and related items using the P-Card. Table 7 provides a summary of the purchases from largest (dollar value) food vendors, identified by their MCC. The amount of food and related items purchases may be understated as we were unable to capture individual lines on receipts that may be for food and related items. P-Cardholder purchases at vendors similar to Walmart, COSTCO Warehouse, and Amazon.com could not always be captured. In several instances, the documentation available to us would not allow us to determine the types of items purchased and the total cost of the purchase.

Table 7: Three Largest Food Vendors from P-Card Purchases

Vendor	Amount
Smart and Final	\$116,973
Vons Store	26,850
COSTCO Warehouse Delivery	13,770
Total Food and Related Item Purchases for Selected Vendors	\$157,593

Source: OIA analysis of P-Card Transactions

Through our inquiry and examination of documentation we found that preapproval and documentation requirements for the purchase of food and related items were not consistently met. Our sampling identified 59 transactions with a value of \$21,914 in which the required pre-approvals were not obtained. We found that the staff and management were either unaware of the AP requirements or ignored them. Other than notations on some of the cash register and other receipts or invoices that the purchase related to parent meetings, coffee with the principal, or the title of a training session or seminar the document was limited to register receipts or invoices.

During our documentation reviews, we found that some P-Cardholders purchased Starbucks coffee beans and other food items for parent meetings through Amazon.com. As the items purchased are readily available locally, the P-Cardholders may have incurred unnecessary charges for the products, shipping, and handling. This method for obtaining the food items appears to be an abusive use of the District or grant funds to acquire the materials.

At a high school the P-Card was used for three purchases totaling \$994 of food and related items for a “holiday dinner”. Each of these purchases exceeded the \$200 floor for obtaining pre-approval of the purchase. The “*Explanation of Instructional Expenses*” was not included as part of the documentation. The principal stated the missing forms and approvals were an oversight. Similarly, a central

office organization, that obtains its funding from the Title I grant, purchased \$7,646 of food and related items in 23 separate transactions. None of these purchases were supported by the *Explanation of Instructional Expenses* form. The notations in the available documentation stated the purchases were for parent meetings, workshops, and classes for students and parents. Many of these purchases, according to the AO, were funded using Title I funds. The AO stated she was unaware of the preapproval and documentation requirements of AP 2518, and was unaware of the USED guidance on the purchase of food items. Based on the limited information included with the documentation, the food purchases did not meet the requirements of SDUSD or USED guidance.

SDUSD does have requirements for the pre-approval of certain P-Card purchases, primarily food and related items; it did not have an effective oversight system to ensure that that schools and central office organizations adhered to the procedural requirements. During the audit period, A/P did not appear to have the staffing or application support necessary to identify the food purchases and ensure that the required documentation is included within the P-Card system to evidence the required pre-approval. Reports from the P-Card system were not available or used to identify food purchases using the vendor's MCC. This type of reporting may assist in identifying specific transactions that should be reviewed by A/P. Additionally, the Budget Department (BD) involvement in the review and purchases of food items to those acquired through SSCD contracting process,²³ and purchases made by the schools and central office organizations through the Food and Nutrition Services Department (FNSD).²⁴ Based on our sampling the majority of the food and related item purchases were made directly by the schools or central office organizations using various vendors.

Additionally, documentary evidence was not provided that the school or central office organization contacted FNSD²⁵ to determine whether they had the ability to provide the requested food and services and the potential cost to the school or central office organization. By not utilizing the FNSD to the extent possible, SDUSD may have expended more funds than necessary for food and related items.

***Effective Disciplinary
Action Not Always
Taken***

In the publication *Standards for Internal Control in the Federal Government* GAO states that, "Management should evaluate performance and hold individuals accountable for their internal

²³ AP 2518 § D.3.b(2).

²⁴ AP 2518 § D.3.a(2).

²⁵ AP 2518 § C.5.

*control responsibilities.*²⁶ These internal control responsibilities include the standards of conduct for the use of the P-Card established in the *Manual* for the use of the P-Card by the P-Cardholder and transaction approval by the AO. GAO adds in section 1.10 of the same document states that:²⁷

Management determines the tolerance level for deviations. Management may determine that the entity will have zero tolerance for deviation from certain expected standards of conduct, while deviations from others may be addressed with warnings to personnel. Management establishes a process for evaluations of conduct that escalates and remediates deviations. Management addresses deviations from expected standards of conduct timely and consistently. Depending on the severity of the deviation determined through the evaluation process, management, with oversight from the oversight body takes appropriate actions and may also need to consider applicable laws and regulations. The standards of conduct to which management holds personnel, however, remains consistent.

While P-Card misuse, abusive and fraudulent transactions by the District's P-Cardholders and AOs was infrequent during the audit period, it did occur. The *Manual* outlines misuse and abusive transactions as personal purchases, splitting transactions to avoid the transaction limitations, purchases of prohibited items, allowing individuals other than the P-Cardholder to make purchases using the P-Card. Further, the *Manual* stated that in the instant when P-Cardholders and AOs did not reconcile, review, and approve P-Card statements within seven days of the close of the statement cycle, will result in the immediate and permanent revocation of the P-Card. The *Manual* and a memorandum titled *Purchase Card Procedures Update and Reminders*,²⁸ issued on 1 August 2014 stated that such use will result in the immediate and permanent revocation of P-Cardholder privileges. Our review of the Finance Division's documentation related to the revocation and termination of the P-Card found that the former CFO did not implement this penalty. Instead Finance issued a memorandum to the P-Cardholder and AO. It did not appear from our review of the documentation that progressive disciplinary action was applied to P-Cardholders and AOs

²⁶ Footnote 10, page 21.

²⁷ Footnote 10, pages 23 – 24.

²⁸ San Diego Unified School District, Finance Division, Controller; *Purchase Card Procedures Update and Reminders*; 1 August 2014 found at: https://www.sandi.net/staff/sites/default/files_link/staff/docs/forms/purchase_card_memo.pdf (last reviewed 11 April 2017)

who failed on multiple occasions to meet the requirements outlined in the *Manual*.

The former CFO told us that the implementation of the immediate and permanent revocation of the P-Cardholder's ability to use the P-Card was too severe and would adversely impact the school or central office organization's operations. However, intermediate steps between the issuance of a memorandum advising the P-Cardholder and the AO of the absence of compliance with the procedures and the permanent revocation of the P-Card had not been developed.

The absence of an effective evaluation and disciplinary system for potential misuse and abuse of the P-Card leaves the program open to continued misuse by the P-Cardholders and AOs. The District may not be able to remove a P-Cardholder or AO for significant violations of the P-Card policies, due to the absence of progressive disciplinary practices.

Use of the P-Card is Not Mandatory

The District does not mandate the use of the P-Card for all eligible purchases of goods of less than \$500, in total value. The absence of this requirement creates two adverse impacts on SDUSD. First, SDUSD must expend resources within SSCD to validate the procurement request and assign it to a vendor through the electronic procurement system (e-Pro). The goods obtained through e-Pro are delivered to the District's central warehouse and then delivered by SDUSD staff to the school or central office organization requesting the procurement. This process significantly increases the time and cost of obtaining the requested goods.

Second, as part of the contract with WFB to provide purchase card services, the District received a rebate for all eligible P-Card purchases. The rebate is provided on a sliding scale and is based on the total dollar volume of the eligible purchases. Large dollar value single purchases made with the P-Card have a separate rebate calculation. By not using the P-Card for all eligible purchases the District is not capturing all of the potential revenues from the P-Card transactions.

To achieve its goals of (1) reduction of internal costs for purchasing goods of less than \$500 in value; (2) faster delivery of the procured products to the end user; and (3) simplification of the payment process²⁹ the District needs to require, to the maximum extent

²⁹ San Diego Unified School District, Finance Division; *Procurement Card Program Policy Manual*; 15 September 2015; page 5.

possible, the use of the P-Card for all eligible transactions of less than \$500.

The implementation of this practice can have a positive impact on the amount and internal cost of staff resources necessary to process and deliver these low dollar value transactions. Also it may reduce the amount of lead time necessary to procure and receive the requested goods. This practice also places the onus for the propriety of the purchase and receipt of the correct item(s) on the requestor, P-Cardholder, and AO instead of the SSCD staff. Additionally, the practice allows for simplification of the payment process and reduces the time spent by the Finance Division in processing multiple small payments to vendors.

The contract with WFB for processing of P-Card charges and the District's current P-Card processing contract includes the provision for rebates on eligible P-Card transactions. These contracts provide a rebate based on a sliding scale using the value of the P-Card transactions. The contracts establish a dollar amount that serves as a floor for determination of the rebates. The WFB contract used a floor of \$2.5 million. A separate rebate scale was employed for large dollar value purchases.³⁰

The textbook purchases by the Instructional Materials Center (IMC), through the P-Card process, provided a significant amount of the rebate amount received by the District. The IMC purchases are considered as large dollar value purchase and any rebate due would be calculated separately from the balance of the P-Card purchases.

Requiring the use of the P-Card for all eligible purchases of less than \$500 the amount of number of P-Card transactions will increase the amount of transactions available for potential rebate. Further, this requirement will assist SDUSD in achieving its goals of reduced staff time and cost for the processing small dollar procurements, increased flexibility in the number and types of vendors, and reductions in the lead time necessary for the procurement of goods.

³⁰ The WFB contract states that the District's rebates are calculated on a calendar year basis and paid in February of the following year. The District must have an active P-Card services contract with WFB at the time of the payment. The District did not receive a rebate payment from WFB for calendar year 2015; as the District's contract with WFB terminated prior to 1 March 2016.

Recommendations

We are making four recommendations to CFO to improve the system of internal control over the SDUSD P-Card program and to strengthen the P-Card transaction approval process, which can help to reduce the risk improper and fraudulent purchases.

1. Direct the Manager of A/P to revise the *Manual* to include:
 - a. requirements that the *Form* or an alternative means for documenting the pre-approval of the transactions and that the purchase is within the scope of the P-Cardholder's authority and responsibility;
 - b. requirement for an independent verification and documentation of the receipt of goods, by an individual other than the Cardholder for purchases of \$100 or more; and that the signed independent verification be included with the documents scanned to the P-Card system;
 - c. requirement for the inclusion of the completed *Explanation of Noninstructional Expenses* be included with the data scanned into the P-Card system for all food purchases of \$200 or more; and requirements addressing the retention of the original P-Card receipts and other supporting documentation when scanned into the P-Card system.
2. Determine the feasibility of amending the contract with the current P-Card services provider for access to the data, reports, and scanned images at the completion of the contract; or to take steps to electronically archive the data, reports, and images to the District's information technology storage.
3. In conjunction with the Office of Legal Services and the Human Resources Division, develop an enforceable progressive disciplinary system for the misuse of the P-Card the P-Cardholder and AO. This system should include penalties and disciplinary action for non-compliance with the District's procurement and P-Card policies. The outline of this system should be included in the *Manual*. Infractions of the P-Card policies and procedures should be addressed through this system.
4. Develop procedures to require that all P-Card appropriate purchases of \$500 or less be processed using a P-Card and not through the District's e-Pro system.

Interim Chief Financial Officer's Response and OIA Comments

We provided a draft of this report to the Finance Division for comment. Those comments are reproduced in Appendix IV. Finance Division did not concur with three of the four recommendations.

Specifically, Finance said that they did not agree with the assumptions, comparisons, and conclusions included in the report. Finance, in its response to recommendation 1, asserts that the internal controls within the P-Card program are adequate to provide both a streamlined method for the purchase of low dollar value goods and the current system of internal controls provides a reasonable assurance that the purchases are in compliance with the District's policies. Additionally, Finance did not agree that the use of the *Form* and requiring an individual independent of the P-Cardholder to validate that the goods purchased with P-Cards were actually received by the school or central office organization. They concluded that these steps would not add value to the process.

In response to OIA's second recommendation, Finance responded that the current P-Card provider will not provide online access to the P-Card data unless the District continues in a contractual relationship. They assert that having one contractor provide P-Card services while having a second contractor provides access to prior data is not cost effective. Finance stated effective 1 July 2017 that A/P will become the central repository for all P-Card statements and receipts. Finance objected to our inclusion in the report that stated the school and central office organization staffs were not aware of the District's documentation requirement to retain original receipts. Finance also objected to our comment stating the *Manual* does not require the retention of original receipts. We have removed this comment.

Finance did not agree with our third recommendation, stating that they had previously implemented a progressive disciplinary system for the misuse of the P-Card. This system includes four memos to the P-Cardholder and approver of the potential misuse or discrepancy. The fifth instance of the misuse or discrepancy results in the inactivation of the P-Card. Finance further responds that during the 2017-2018 school year to provide additional support and on-going training to P-Cardholders and approvers.

In responding to our fourth recommendation, Finance stated that they generally concurred with it. The response states that meetings have been held with Strategic Sourcing, the Fiscal Control Department, and A/P to strongly encourage the use of the P-Cards for transactions of less than \$500. Additionally, starting 1 July 2017 Finance will rollout communications to schools and departments outlining this requirement and will include this in upcoming training sessions on the P-Card.

OIA's evaluation of Finance response commencing on page 41.

Supplemental Information

The District at the close of fiscal year 2016 developed a pilot program to assess the potential need and the use of P-Cards by the Associated Student Body (ASB) Funds at each of the District's schools. Finance selected six schools to participate in the pilot project. Initially, the anticipation was that the ASB Fund P-Cards would operate in a manner similar to the current P-Card program. However, many of the current use and amount restrictions placed on the District's P-Card would not be in place for the ASB Fund program. At the time of this report, the ASB Fund P-Card program remains in the pilot phase due in part to staffing changes within the Finance Division.

Contributors

This project was directed by Jaime L. Buensuceso, CFE, and Ines G. Abitria, an OIA auditor, assisted him. Both Mr. Buensuceso and Ms. Abitria made significant contributions to the project and this report.

This final report will be provided to the Board of Education, the Audit and Finance Committee, the Superintendent of Public Education, the General Counsel, and the Chief of Staff. In addition, this report will be available on the District's website at <https://sandiegounified.net/audit-reports>.



John M. Cashmon, CIA, CGFM, CIGA
Director, Internal Audit

Appendix I: Glossary of Terms

Term	Definition
Abuse	An unauthorized use of the P-Card that is so flagrant, willful, or egregious that immediate action is warranted or, after being advised of a violation of policy or procedures, the employee persists in the unauthorized use.
Approving Official (AO)	A point of contact for cardholder who is responsible for ensuring the proper use of the P-Card in accordance with the <i>Purchase Card Policy and Procedures Manual (Manual)</i> . In many cases within SDUSD, this is the cardholder’s immediate supervisor.
Control Activities	Policies, procedures, techniques, and mechanisms that enforce management’s policies and directives. They help to ensure that additional actions are taken on risks encountered with the use of the P-Card.
Data Mining	An automated process used to scan databases to detect patterns, trends, and/or anomalies for use in risk management, spending patterns, and other areas of analysis.
Fraud	Any act of corruption or attempt to cheat SDUSD or corrupt SDUSD’s employees, including but not limited to, the use of District P-Cards to transact business that is not sanctioned, not authorized, not in one’s official capacity, not for the purpose for which the P-Card was issued, or not as part of official government business.
Merchant Category Code (MCC)	A four digit code used to identify the type of business a merchant conducts (e.g. gasoline station, restaurant, retail store, etc.). Merchants select a code based on their primary business. SDUSD may prohibit purchases from merchants with certain Merchant Category Codes as a means of reducing the risk of improper transactions.
Misuse	<p>In the case of the District’s P-Cards, intentional use of a P-Card for other than official government transactions. Depending on the circumstances the misuse may involve fraud.</p> <ul style="list-style-type: none"> • Business Misuse – occurs when an employee uses the P-Card to purchase business-related goods or services that are not P-Card eligible expenses. • Personal Misuse – occurs when an employee uses the P-Card for a purpose or in a manner not authorized by the <i>Manual</i> or a written SDUSD exception to policy. Personal misuse includes charges that are not permitted by the <i>Manual</i> or SDUSD APs or expenses charged to the P-Card of a personal character.
Non-statistical sampling	A non-statistical sample (also referred to as a block, judgmental or non-generalizable), each item in the population has an unknown probability of selection. Each item does not have an equal chance of selection in a sample. The results of a non-statistical sample cannot be accurately generalized to the population from which it was selected.
Purchase Card (P-Card) program	An account established by a commercial financial institution on behalf of SDUSD and individual District employees to which the cost of purchasing goods may be charged.

Term	Definition
P-Cardholder	The District employee to whom a P-Card is assigned. This individual is the only authorized user/purchaser for this P-Card account.
Purchase Limit	The maximum amount that a cardholder may charge to a P-Card account in a single purchase (i.e. transaction) or in a single monthly billing cycle. The purchase limits are defined by the Finance Division and may be adjusted for a single transaction or a single monthly billing cycle.
Split Transaction	Artificially splitting a single transaction into multiple smaller transaction amounts to avoid exceeding the transaction's maximum purchase limitation.
Transaction	The swipe of a P-Card through a point of sale terminal or the completion of an on-line transaction. A transaction may involve the purchase of one or more items.
Waste	An act of using or expending resources carelessly, extravagantly, or to no authorized purpose.

Appendix II: Locations Selected for P-Card Testing

Location Selected	Location Selected
Adult School – Adult Education	Holmes Elementary School
Area Superintendent – Area 3	Hoover High School
Assistive Technology	Human Resources Division
Bay Park Elementary School	Ibarra Elementary School
Bell Middle School	Innovation Middle School
Board of Education ^(a)	Instructional Materials Center ^(a)
Central Elementary School	Johnson Elementary School
Children – Youth in Transition	Joyner Elementary School
Chollas/Mead Elementary School	Kearny High School – 4 P-Card Accounts
Clay Elementary School	Knox Middle School
College, Career, Technical Education	La Jolla High School
Correia Middle School	Lewis Middle School
Crawford High School	Logan K-8 School
Crown Point Elementary School ^(b)	Madison High School ^(c)
Dana Middle School	Mason Elementary School
De Portola Middle School	Mental Health Resources Center
Doyle Elementary School	Mira Mesa High School
Edison Elementary School	Morse High School
Euclid Elementary School	Oak Park Elementary School ^(c)
Facilities, Planning, Construction	Pacific Beach Elementary School
Farb Middle School	Pacific Beach Middle School
Field Elementary School ^(c)	Paradise Hills Elementary School
Fleet Management ^(a)	Parent Center/Ballard – 3 P-Card Accounts
Fletcher Elementary School	Police Services
Food and Nutrition Services	Related and Specialized Services
Foster Elementary School	Rosa Parks Elementary School
Garfield High School	San Diego High School – 5 P-Card Accounts
Hage Elementary School	Toler Elementary School
Hamilton Elementary School	Transportation Distribution Services
Hardy Elementary School	Walker Elementary School
Hearst Elementary School ^(c)	Wegeforth Elementary School

Source: OIA analysis

Notes: ^(a) No observations or recommendations were noted during testing a management letter was not necessary.

^(b) Management letter addressed to the Area Superintendent and Principal – no response was received from the Principal.

^(c) Response to the draft management letter not received from the principal or department head.

Appendix III: Summary of P-Card Testing Results

Central Office Organization or School Site	Total P-Card Transactions	Total Purchases (\$)	Transactions Sampled	Amount Sampled (\$)	Missing Supporting Documents	Amount (\$)	Missing P-Card Statement	Amount (\$)
Adult Education	79	10,846.12	17	3,306.78				
Area Superintendent – Area 3	72	10,023.41	7	1,908.29				
Assistive Technology	288	36,202.82	112	13,561.63				
Ballard Center ^a	449	54,807.23	250	32,500.00	4	203.44	1	203.44
Bay Park ES	142	23,013.95	46	18,236.83				
Bell Middle School	316	34,335.30	48	5,342.42				
Board of Education	85	22,992.82	9	3,506.83				
Cafeteria Department/Food & Nutrition Services	196	34,400.56	83	12,800.00				
Central Elementary School	292	19,166.93	35	3,136.15				
Children and Youth in Transition	194	41,119.04	25	5,121.21	2	639.75		
Chollas Mead Elementary School	520	52,255.18	185	16,251.96	14	2,599.67		
Clay Elementary School	223	23,777.12	17	2,214.69	143	14,138.25	11	14,138.25
College Career and Technical Education	1,095	158,101.80	12	1,040.00	3	174.73		
Correia Middle School	302	32,242.26	20	4,337.02				
Crawford High School	244	33,789.73	33	7,497.73	133	12,506.57	11	13,285.79
Crown Point Elementary School	212	32,529.67	33	7,003.31	38	5,446.19	4	6,176.27
Dana Middle School	80	11,842.90	5	1,250.98				
De Portola Middle School	206	33,669.24	66	12,643.76	7	1,500.81	2	1,227.51
Doyle Elementary School	141	26,160.77	28	8,257.08				
Edison Elementary School	231	36,143.90	15	2,912.70				
Euclid Elementary School	80	19,586.56	58	15,151.72	4	697.10		
Facilities, Planning, and Construction	146	21,000.18	13	2,243.69	6	1,123.59		
Farb Middle School	223	17,144.92	54	5,973.74	2	128.77		
Field Elementary School	217	26,703.32	41	8,710.72				
Fleet Maintenance	807	323,958.72	12	9,854.29				
Fletcher Elementary School	49	22,039.49	8	16,532.70				
Foster Elementary School	371	41,364.63	106	13,484.44				
Garfield High School	345	41,099.93	18	6,606.78				
Hage Elementary School	214	33,506.44	18	3,201.27				
Hamilton Elementary School	213	18,688.37	21	2,006.72	1			
Hardy Elementary School	85	10,710.47	24	3,828.12				

Central Office Organization or School Site	Total P-Card Transactions	Total Purchases (\$)	Transactions Sampled	Amount Sampled (\$)	Missing Supporting Document	Amount (\$)	Missing P-Card Statement	Amount (\$)
Hearst Elementary School	98	12,472.93	25	2,332.11	17	2,397.83	4	2,169.18
Holmes Elementary School	105	14,563.64	35	3,773.26	4	317.58	2	508.35
Hoover High School	251	47,460.42	7	3,345.17				
Human Resources Division	84	24,322.76	84	24,322.76	33	8,311.28	8	11,193.98
Ibarra Elementary School	136	16,797.93	76	8,514.95	2	44.73		
Innovation Middle School	249	40,845.65	12	8,204.33				
Instructional Material Services	473	14,559,226.30	29	2,348,296.39				
Johnson Elementary School	25	7,756.89	25	7,756.89				
Joyner Elementary School	326	77,075.85	26	7,422.39				
Kearny High School ^b	1,020	124,477.68	65	9,872.09	91	12,361.12	13	12,361.12
Knox Middle School	218	29,864.10	46	15,071.77				
La Jolla High School	93	14,417.46	27	5,137.95				
Lewis Middle School	350	45,310.45	94	10,875.59				
Logan Elementary School	115	16,881.06	24	5,768.86				
Madison High School	243	22,951.75	27	4,771.18				
Mason Elementary School	103	19,611.58	28	6,361.03	5	1,230.11		
Mental Health Resource Center	527	95,175.07	14	4,065.38				
Mira Mesa High School	179	29,310.10	41	7,669.12				
Morse High School	149	31,687.89	42	12,520.38				
Oak Park Elementary School	75	10,472.87	68	9,010.00	7	1,204.37	1	927.57
Pacific Beach Elementary School	72	11,627.11	8	2,135.68				
Pacific Beach Middle School	77	6,342.47	13	2,738.81	3	1,194.05	2	719.32
Paradise Hills Elementary School	98	21,277.46	31	7,876.11				
Pupil Transportation	273	45,609.09	9	2,099.81				
Related and Specialized Services	707	65,632.67	190	17,123.89				
Rosa Parks Elementary School	121	32,044.42	85	6,426.57				
San Diego High School	575	69,724.36	49	10,193.10	227	26,652.16	39	29,935.11
School Police Services	181	27,709.85	12	1,315.16				
Toler Elementary School	121	23,148.48	33	11,359.19	8	888.17	2	2,004.82
Walker Elementary School	72	12,459.81	18	5,652.10				
Wegeforth Elementary School	222	21,954.41	63	4,402.94			3	3,059.58
Totals for Selected Locations	15,455	16,886,385.09	2,725	2,826,841.67	754	93,760.27	103	97,910.29

Central Office Organization or School Site	Missing Description	Amount (\$)	Missing Sales/Use Tax	Amount (\$)	Credit for Invoices Not Processed	Amount (\$)	Unresolved Disputed Charges	Amount (\$)
Adult Education			6	25.93				
Area Superintendent – Area 3								
Assistive Technology								
Ballard Center ^a			2	41.79				
Bay Park Elementary School			4	81.94				
Bell Middle School								
Board of Education								
Cafeteria Department/Food & Nutrition Services	6	1,791.58	5	104.37				
Central Elementary School			2	17.68				
Children and Youth in Transition			4	55.27				
Chollas Mead Elementary School			26	141.60				
Clay Elementary School								
College Career and Technical Education								
Correia Middle School								
Crawford High School	5	779.22	1	86.35				
Crown Point Elementary School	22	4,607.14	16	289.30				
Dana Middle School								
De Portola Middle School	2	675.42	5	115.86				
Doyle Elementary School			18	445.64				
Edison Elementary School			6	92.08				
Euclid Elementary School			30	462.41	2	464.14		
Facilities, Planning, and Construction			6	81.06				
Farb Middle School								
Field Elementary School								
Fleet Maintenance								
Fletcher Elementary School								
Foster Elementary School								
Garfield High School								
Hage Elementary School	4	1,052.87						
Hamilton Elementary School			3	12.40				
Hardy Elementary School								

Central Office Organization or School Site	Missing Description	Amount	Missing Sales/Use Tax	Amount	Credits for Invoice Not Processed	Amount	Unresolved Disputed Charges	Amount
Hearst Elementary School	2	186.39	2	39.92				
Holmes Elementary School			6	42.32				
Hoover High School								
Human Resources Division	34	9,128.17						
Ibarra Elementary School							1	14.95
Innovation Middle School								
Instructional Material Services								
Johnson Elementary School			2	40.42				
Joyner Elementary School			18	215.56				
Kearny High School ^b			28	59.44				
Knox Middle School	2	493.44	9	151.34				
La Jolla High School			6	73.61				
Lewis Middle School								
Logan Elementary School			5	136.48				
Madison High School			5	95.80				
Mason Elementary School			3	70.78				
Mental Health Resource Center								
Mira Mesa High School			12	108.54				
Morse High School			19	353.65				
Oak Park Elementary School								
Pacific Beach Elementary School								
Pacific Beach Middle School	2	719.32	5	85.63			1	64.12
Paradise Hills Elementary School			24	630.09				
Pupil Transportation								
Related and Specialized Services			29	236.41				
Rosa Parks Elementary School			10	167.02				
San Diego High School			24	358.25				
School Police Services	11	959.63	2	32.56				
Toler Elementary School	7	874.22	5	115.86				
Walker Elementary School								
Wegeforth Elementary School			4	12.16				
Totals for Selected Locations	97	21,267.40	354	5,039.29	2	464.14	2	79.07

Central Office Organization or School Site	No Approval Food Purchases	Amount (\$)	Exceeds Transaction Limit	Amount (\$)	Prohibited Transactions	Amount (\$)	Missing Purchase Request	Missing Receiver Signature
Adult Education					6	1,482.70	1	1
Area Superintendent – Area 3							1	1
Assistive Technology			2	4,478.60			1	1
Ballard Center ^a	23	7,646.17			3	1,322.58	1	1
Bay Park Elementary School							1	1
Bell Middle School							1	1
Board of Education								
Cafeteria Department/Food & Nutrition Services					3	1,233.33	1	1
Central Elementary School							1	1
Children and Youth in Transition							1	1
Chollas Mead Elementary School					2	1,245.25	1	1
Clay Elementary School							1	1
College Career and Technical Education							1	1
Correia Middle School					1	7.28	1	1
Crawford High School							1	
Crown Point Elementary School					6	818.84	1	1
Dana Middle School					1	686.45	1	1
De Portola Middle School							1	1
Doyle Elementary School							1	
Edison Elementary School					2	1,302.39	1	1
Euclid Elementary School					1	942.12	1	1
Facilities, Planning, and Construction					1	106.92	1	1
Farb Middle School	6	1,672.51					1	1
Field Elementary School					1	29.97	1	1
Fleet Maintenance								
Fletcher Elementary School							1	1
Foster Elementary School							1	1
Garfield High School								1
Hage Elementary School							1	1
Hamilton Elementary School					2	816.10		1
Hardy Elementary School							1	1

Central Office Organization or School Site	No Approval Food Purchases	Amount (\$)	Exceeds Transaction Limit	Amount (\$)	Prohibited Transactions	Amount (\$)	Missing Purchase Request	Missing Receiver Signature
Hearst Elementary School							1	1
Holmes Elementary School					7	85.32	1	1
Hoover High School							1	1
Human Resources Division							1	1
Ibarra Elementary School							1	1
Innovation Middle School					1	25.51	1	1
Instructional Material Services								
Johnson Elementary School							1	1
Joyner Elementary School	6	3,288.01					1	1
Kearny High School ^b					1	17.41	1	
Knox Middle School					3	1,788.92	1	1
La Jolla High School							1	1
Lewis Middle School							1	1
Logan Elementary School							1	1
Madison High School	1	993.68			1	40.66	1	1
Mason Elementary School							1	1
Mental Health Resource Center	2	852.83					1	1
Mira Mesa High School							1	1
Morse High School	21	7,460.55					1	1
Oak Park Elementary School					2	1,486.42	1	
Pacific Beach Elementary School							1	1
Pacific Beach Middle School							1	
Paradise Hills Elementary School							1	1
Pupil Transportation					1	1,487.88	1	1
Related and Specialized Services			3	705.45			1	1
Rosa Parks Elementary School					1	1,471.50	1	1
San Diego High School					1	249.95	1	1
School Police Services							1	1
Toler Elementary School							1	1
Walker Elementary School							1	1
Wegeforth Elementary School					1	50.00	1	1
Totals for Selected Locations	59	21,913.75	5	5,184.05	42	16,706.50	56	55

Central Office Organization or School Site	Total P-Card Transactions	Total Purchases (\$)	Transactions Sampled	Amount Sampled (\$)	Transactions Questioned	Amount Questioned (\$)
Adult Education	79	10,846.12	17	3,306.78	14	1,508.63
Area Superintendent – Area 3	72	10,023.41	7	1,908.29	2	0.00
Assistive Technology	288	36,202.82	112	13,561.63	4	4,478.60
Ballard Center ^a	449	54,807.23	250	32,500.00	35	9,417.42
Bay Park Elementary School	142	23,013.95	46	18,236.83	6	81.94
Bell Middle School	316	34,335.30	48	5,342.42	2	0.00
Board of Education	85	22,992.82	9	3,506.83	0	0.00
Cafeteria Department/Food & Nutrition Services	196	34,400.56	83	12,800.00	16	3,129.28
Central Elementary School	292	19,166.93	35	3,136.15	4	17.68
Children and Youth in Transition	194	41,119.04	25	5,121.21	8	695.02
Chollas Mead Elementary School	520	52,255.18	185	16,251.96	44	3,995.52
Clay Elementary School	223	23,777.12	17	2,214.69	156	28,276.50
College Career and Technical Education	1,095	158,101.80	12	1,040.00	5	174.73
Correia Middle School	302	32,242.26	20	4,337.02	3	7.28
Crawford High School	244	33,789.73	33	7,497.73	152	26,657.93
Crown Point Elementary School	212	32,529.67	33	7,003.31	88	17,337.74
Dana Middle School	80	11,842.90	5	1,250.98	3	686.45
De Portola Middle School	206	33,669.24	66	12,643.76	28	3,615.85
Doyle Elementary School	141	26,160.77	28	8,257.08	19	445.64
Edison Elementary School	231	36,143.90	15	2,912.70	10	1,394.47
Euclid Elementary School	80	19,586.56	58	15,151.72	39	2,565.77
Facilities, Planning, and Construction	146	21,000.18	13	2,243.69	15	1,311.57
Farb Middle School	223	17,144.92	54	5,973.74	10	1,801.28
Field Elementary School	217	26,703.32	41	8,710.72	3	29.97
Fleet Maintenance	807	323,958.72	12	9,854.29	0	0.00
Fletcher Elementary School	49	22,039.49	8	16,532.70	2	0.00
Foster Elementary School	371	41,364.63	106	13,484.44	2	0.00
Garfield High School	345	41,099.93	18	6,606.78	1	0.00
Hage Elementary School	214	33,506.44	18	3,201.27	6	1,052.87
Hamilton Elementary School	213	18,688.37	21	2,006.72	7	828.50
Hardy Elementary School	85	10,710.47	24	3,828.12	2	0.00

Central Office Organization or School Site	Total P-Card Transactions	Total Purchases (\$)	Transactions Sampled	Amount Sampled (\$)	Transactions Questioned	Amount Questioned (\$)
Hearst Elementary School	98	12,472.93	25	2,332.11	27	4,793.32
Holmes Elementary School	105	14,563.64	35	3,773.26	15	953.57
Hoover High School	251	47,460.42	7	3,345.17	2	0.00
Human Resources Division	84	24,322.76	84	24,322.76	77	28,633.43
Ibarra Elementary School	136	16,797.93	76	8,514.95	5	59.68
Innovation Middle School	249	40,845.65	12	8,204.33	3	25.51
Instructional Material Services	473	14,559,226.30	29	2,348,296.39	0	0.00
Johnson Elementary School	25	7,756.89	25	7,756.89	4	40.42
Joyner Elementary School	326	77,075.85	26	7,422.39	26	3,503.57
Kearny High School ^b	1,020	124,477.68	65	9,872.09	134	24,799.09
Knox Middle School	218	29,864.10	46	15,071.77	16	2,433.70
La Jolla High School	93	14,417.46	27	5,137.95	8	73.61
Lewis Middle School	350	45,310.45	94	10,875.59	2	0.00
Logan Elementary School	115	16,881.06	24	5,768.86		
Madison High School	243	22,951.75	27	4,771.18	9	1,130.14
Mason Elementary School	103	19,611.58	28	6,361.03	10	1,300.89
Mental Health Resource Center	527	95,175.07	14	4,065.38	4	852.83
Mira Mesa High School	179	29,310.10	41	7,669.12	14	108.54
Morse High School	149	31,687.89	42	12,520.38	42	7,814.20
Oak Park Elementary School	75	10,472.87	68	9,010.00	11	3,618.36
Pacific Beach Elementary School	72	11,627.11	8	2,135.68	2	0.00
Pacific Beach Middle School	77	6,342.47	13	2,738.81	14	2,782.44
Paradise Hills Elementary School	98	21,277.46	31	7,876.11	26	630.09
Pupil Transportation	273	45,609.09	9	2,099.81	3	1,487.88
Related and Specialized Services	707	65,632.67	190	17,123.89	34	941.86
Rosa Parks Elementary School	121	32,044.42	85	6,426.57	14	1,638.52
San Diego High School	575	69,724.36	49	10,193.10	293	57,195.47
School Police Services	181	27,709.85	12	1,315.16	15	992.19
Toler Elementary School	121	23,148.48	33	11,359.19	24	3,883.07
Walker Elementary School	72	12,459.81	18	5,652.10	2	0.00
Wegeforth Elementary School	222	21,954.41	63	4,402.94	10	3,121.74
Totals for Selected Locations	15,455	16,886,385.09	2,725	2,826,841.67	903	262,324.76

Source: OIA analysis

Notes: ^a Ballard Center testing included 3 P-Card accounts.

^b Kearny High School testing included 4 P-Card accounts

^c San Diego High School testing included 5 P-Card accounts

Appendix IV: Comments from the Interim Chief Financial Officer



San Diego Unified
SCHOOL DISTRICT

Gamy Rayburn
Interim Chief Financial Officer
Finance Division
grayburn@sandi.net
619.725.7687
619.725.7580 fax

TO: John M. Cashmon
Director, Internal Audit

FROM: Gamy Rayburn *gr*
Interim Chief Financial Officer

DATE: May 4, 2017

SUBJECT: *DRAFT REPORT – FINANCE DIVISION; Districtwide Audit of Purchase Card Transactions 1 July 2013 through 31 December 2015.*

This is in response to your report dated April 19, 2017 and includes our responses and comments to the draft copy of the audit report. We responded to each of the recommendations directed to the Chief Financial Officer including actions taken, alternative actions taken, actions planned, the estimated completion dates, and the individuals or departments responsible for the implementation of those actions. We also included recommended revisions to the draft report to consider or discuss prior to its release.

Thank you for this thorough and thoughtful review of the district's purchase card program, and for the opportunity to review your results, methodology, and recommendations. Any questions regarding this response may be directed to Candi Lukat, Controller, at (619) 725-7171.

Letter to J. Cashmon
 DRAFT REPORT – FINANCE DIVISION; Districtwide Audit of Purchase Card
 Transactions 1 July 2013 through 31 December 2015
 Page 2
 May 4, 2017

John M. Cashmon
 Director, Internal Audit
 San Diego Unified School District
 4100 Normal Street
 San Diego, CA 92103

***OIA recommendation #1. Direct the Manager of A/P to revise the Manual to include:
 a. Requirement that the form or an alternative means for documenting the pre-approval of the transactions and that the purchase is within the scope of the P-Cardholder's authority and responsibility.***

The Finance Department does not agree with this recommendation and with the assumptions, comparisons, and conclusions that are presented with this recommendation. The Finance Department believes that the internal controls established for the PCard system are adequate to provide both a streamlined method for the purchase of low dollar amount goods and a reasonable assurance that the goods purchased are in compliance with district policies. PCards are issued to users who have completed the mandatory training on policies and procedures for use provided by the Finance Department. PCard statements are reviewed and reconciled monthly by the PCard user, and all transactions are approved monthly by their approving official, typically the cardholder's supervisor. The optional use of a Purchase Request Form is not intended to be a pre-approval process. The recommendation for the mandatory use of a preapproval Purchase Request Form is not efficient for this method of purchasing goods. Risk is mitigated by the approval of the site or department's budget.

***OIA recommendation #1. Direct the Manager of A/P to revise the Manual to include:
 b. Requirement for an independent verification and documentation of the receipt of goods, by an individual other than the Cardholder for purchases of \$100 or more; and that the signed independent verification be included with the documents scanned to the P-Card system.***

The Finance Department does not agree with this recommendation and with the assumptions, comparisons, and conclusions that are presented with this recommendation. The recommendation for an independent receiving and acceptance process of goods and services obtained using the PCard is not efficient for purposes of these low dollar transactions. The GAO Standards for Internal Control discuss the need for control activities, including the separation of key duties, but do not require an independent verification of the receipt of goods. The comparison to federal government purchase card program is not applicable to a K-12 school district. The district will instead pursue more relevant best practices from K-12 and educational institutions for comparisons. We respectfully disagree with the report's comment that "the Manual did not address the need for separation of duties within the PCard procurement cycle." Risk is mitigated by an online review and approval process of both the cardholder and the transaction approver.

Letter to J. Cashmon

DRAFT REPORT – FINANCE DIVISION; Districtwide Audit of Purchase Card Transactions 1 July 2013 through 31 December 2015

Page 3

May 4, 2017

OIA recommendation #1. Direct the Manager of A/P to revise the Manual to include: c. Requirement for the inclusion of the completed Explanation of Non-instructional Expense be included with the data scanned into the P-card system for all food purchases of \$200 or more; and requirements addressing the retention of the original P-card receipts and other supporting documentation when scanned into the P-card system.

The Finance Department agrees that the cardholder is subject to the requirement to complete and retain the Explanation of Non-instructional Expenses for purchases as defined in AP2518, and makes this AP reference in the Manual on Page 8. The Finance Department does not agree with the application of AP2430 to the review of PCard purchases, as AP2430 is a procedure relating to the purchase of food on grocery store requisition, which is no longer in use in the district, and not the purchase of food with a PCard.

The Finance Department generally agrees that it is appropriate to regularly review and update the PCard user manual and will continue this on an as-needed basis.

The Finance Department generally agrees that it is appropriate to regularly review and address potential internal control weaknesses. The district is currently soliciting proposals for Enterprise Risk Assessment services, and will procure these services during the 2017-18 school year. This risk assessment will include a review and recommendations for improving internal controls throughout the district.

OIA recommendation #2. Determine the feasibility of amending the contract with the current PCard services provider for access to the data, reports, and scanned images at the completion of the contract; or to take steps to electronically archive the data, reports, and images to the District's information technology storage.

The current PCard provider will not provide online access to PCard data unless the district continues a contractual relationship with the provider at a cost. It would not be cost effective for the district to pay to maintain access to a former PCard system while also incurring costs to maintain a current PCard contract.

The Finance Department agrees that it is important to retain PCard related data and original documentation per the record retention schedule. Commencing July 1, 2017, the Accounts Payable Department will serve as a central repository for monthly PCard statements and receipts for all PCard accounts to ensure proper document retention. PCard users will be notified by electronic correspondence and at training sessions of the procedure for submitting data and original documentation to the Accounts Payable Department. All records will be stored/scanned/indexed consistent with the district's document management solutions.

The Finance Department also respectfully requests that the OIA consider removing from the draft report the statement "The Manual does not specifically require that the receipts be retained when scanned or faxed into the P-card system." The 2015 Manual states on Page 10 that "The purchase card program requires that approvers retain original itemized receipts for all purchases

Letter to J. Cashmon

DRAFT REPORT – FINANCE DIVISION; Districtwide Audit of Purchase Card Transactions 1 July 2013 through 31 December 2015

Page 4

May 4, 2017

made by cardholders within their reporting hierarchy for a period of 5 fiscal years.” It is also not appropriate to include in your report that “P-Cardholders and AOs told us they were not aware of the District’s documentation requirements to retain original invoices,” as this information is clearly stated in the Manual and discussed at the mandatory training to obtain a district PCard.

OIA recommendation #3. In conjunction with the Office of Legal Service and the Human Resources Division, develop an enforceable progressive disciplinary system for the misuse of the P-card, the P-Cardholder and AO. This system should include penalties and disciplinary action for non-compliance with the District’s procurement and P-card policies. The outline of this system should be included in the Manual. Infractions of the P-Card policy and procedures should be addressed through this system.

The Finance Department has previously implemented a progressive system of notifications for misuse of the PCard. The Fiscal Control Department initiates a reminder memo to PCard users and/or approvers who fail to reconcile or approve expenditures by the monthly deadline the first and second time. This also includes reminder notices for policy violations such as splitting transactions, prohibited purchases, prohibited travel items, prohibited purchases of pharmaceuticals and memberships. The third and fourth failure to reconcile or approve expenditures by the monthly deadline, or a policy violation prompts a warning memo from the Controller. The warning memo explains that the PCard will be inactivated. After the fifth time a PCard statement is not reconciled or approved by the deadline, or a purchasing policy is violated the Controller notifies the PCard user that the PCard has been inactivated.

The Finance Department recognizes that circumstances may occur that are beyond the control of the PCard user and/or approver that result in failure to reconcile or approve monthly PCard statements by the required deadlines. It is our intent to provide additional support and on-going training to personnel responsible for PCard use and approval commencing with the 2017-18 school year to better manage these situations and ensure that PCard statements are reconciled and approved timely.

OIA recommendation #4. Develop procedures to require that all P-card appropriate purchases of \$500 or less be processed using a P-card and not through the District’s e-Pro system.

The Finance Department generally concurs with this recommendation. Meetings have been held with the Strategic Sourcing Office, Accounts Payable Department, and Fiscal Control Department to plan to strongly encourage the use of PCards for all transactions of \$500 or less. Monthly card limits will continue to be reviewed and increased as appropriate to accommodate the increase in use, and new vendor contracts will provide for PCard payment methods. The Finance Department will rollout communications to schools and departments beginning July 1, 2017, and include instructions for this requirement in upcoming training sessions for PCard users. The Finance Department cannot mandate this method of purchasing for all transactions

Letter to J. Cashmon

DRAFT REPORT – FINANCE DIVISION; Districtwide Audit of Purchase Card
Transactions 1 July 2013 through 31 December 2015

Page 5

May 4, 2017

less than \$500 because it would prevent or delay purchases by individuals who do not have a district PCard, such as temporary/substitute or new employees. Exceptions for prohibited items such as fixed assets would also still apply.

The Finance Department also respectfully requests that OIA consider removing from the draft report the section “Use of the P-card is Not Mandatory.” It appears in the report as if the district has violated a policy by presenting the finding this way. The Finance Department agrees with the suggested goals of the program discussed in this section and would request that they be communicated in a management letter, rather than the audit report. It is acceptable to include this as a recommendation.

Other responses: The Finance Department respectfully requests that the OIA consider removing the reference to “purchases made on weekends, holidays, and extended school break periods” as appearing to have a high risk of “fraud, waste, and abuse.” It is important to note that merchants may not charge accounts until items are shipped, and often the card service will not post a transaction for up to 72 hours after it is initiated. The actual posting date of a transaction may be irrelevant.

The Finance Department is also compelled to contest the OIA opinion that the A/P practice of assigning two staff members to perform a monthly review of P-card transactions to determine whether the sales/use tax was correctly taken by the vendor or is due to the state “does not appear effective.” The requirement for P-cardholder site staff to document tax on purchases was removed from the policy upon the latest update. At that time it had been recognized that site staff did not have the necessary expertise or adequate accounting training to identify all taxable transactions, as was demonstrated by the 354 transactions cited in the OIA draft report. AP staff now review all monthly PCard transactions and make the necessary sales/use tax accruals to mitigate any risk that site staff may have missed. Since the scope of this audit of PCard transactions did not include a comprehensive testing of A/P reviewed PCard transactions for the required sales/use tax accruals, the Finance Department also respectfully requests that the OIA remove or revise this statement from the final report.

The Finance Department respectfully requests that the OIA consider a restatement of the term “high risk” for improper transactions both in the Highlights section and as part of the Results In Brief with consideration that during the 2013-14 fiscal year the District’s total expenditures totaled nearly \$1.6 billion and the sample of PCard transactions for non-Instructional Materials Center purchases totaled about \$2 million, or 0.12% of total expenditures; and again for the 2014-15 fiscal year the District’s total expenditures totaled nearly \$1.9 billion and the sample of PCard transactions for non-Instructional Materials Center purchases totaled about \$2.2 million, or again 0.12% of total expenditures. The Finance Department is committed to protecting district resources through internal controls and best practices and considers the PCard program for low dollar amount purchases in compliance with this objective.

OIA's Evaluation of the Interim Chief Financial Officer's Comments

Recommendation 1:

We disagree with the Finance assertion that the systems of internal control for the P-Cards are adequate to provide a streamlined process and to ensure compliance with the District's policies. Our testing outlined in the report identified a significant number of missing documents, missing statements (Appendix III page 29). Our testing identified that 754 of 2,725 transactions (27.7 percent) did not have documents supporting the transactions. Further, 103 statements representing \$97,910 in transactions were not available or printed by the school or central office organization, at the time of our fieldwork. Without the transaction documentation and statements it is not possible for the schools and central office organizations, as a whole, to provide a reasonable assurance that the transactions were proper and complied with the *Manual* or District APs.

We strongly disagree with Finance's statement that the use of the *GAO Standards for Internal Control in the Federal Government* and its emphasis on the documentation for the ordering and receipt of goods acquired with P-Card is not applicable. The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, which governs the use of USED and other agency grant funds, states in title 2 of the Code of Federal Regulations (2 CFR §200.514(c)) (2015) that:

The compliance supplement provides guidance on internal controls over Federal programs based on the guidance in the Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States and the Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) [emphasis added].

As the District places a significant financial reliance on Federal grant funds, the use of the *GAO Internal Control Standards* appears to be a prudent method of developing and assessing the internal controls. Further, OIA used them as a benchmark of current best practices that should be applied to the P-Card transactions.

The use of transaction pre-approval and independent verification of receipts is considered as a best practice and necessary requirement. These practices assist in minimizing the opportunity for improper transactions to be planned or actually occur. These are inexpensive preventative controls that can be effective in eliminating the opportunity for improper transaction to occur. The District's current

process would be to chase the P-Cardholder or the contractor to obtain a refund. The “pay and chase” process can utilize a significant amount of staff time to accomplish.

Additionally, Finance’s assertion that AP 2430 does not apply is incorrect. Documentation for some of the food purchases indicated the purchase was to be used for culinary arts classes. AP 2430 was developed for a different payment medium; however the controls for the transaction remain the same for the P-Card.

Recommendation 2

This audit was conducted in part to take the data from the District’s experience with WFB and use it as a lesson learned in the management and oversight of the current P-Card services contract. The intent of the recommendation, as outlined in the body of the report, was to have in place a system to ensure that the transaction reporting and supporting documentation would be available after the close of the contract. Finance’s response indicates that A/P will be the focal point for monthly statements and receipts. It does not address how the District will ensure that these and future documents will be retained after the close of the contract.

In response to the assertion including our statement that the staff was not aware of the document retention requirements was improper; this statement was developed from interviews and other documentation received from the locations that we tested. The statement’s inclusion in the report was done to illustrate the disparities we found in the practices at the school and central office organizations that we tested.

Recommendation 3

We disagree that Finance has an effective progressive disciplinary system in place to address the improper use of the P-Card and the non-compliance with the *Manual’s* requirements for reviewing and approving transactions. The *Manuals* in place during our audit period stated only that the improper use of the P-Card or not complying with the *Manual’s* procedures will, “*Result in immediate and permanent revocation of cardholder privileges.*” The P-Cardholders and approving officials are not advised in the *Manual* of the warning memorandums. This practice diminishes the effectiveness of the P-Card program by allowing the P-Cardholder or the AO to believe that minimal or no action will be taken.

Recommendation 4

We believe the title “Use of the P-Card Is Not Mandatory” is appropriate.

Other Finance Comments

As part of the methodology and testing we performed for this audit, we reviewed the transaction and posting date for the transactions. OIA reviewed all transactions using the transaction date. Should a transaction occur during those highlighted periods, it was reviewed

to determine whether the purchase was appropriate. This was part of the steps that OIA took to audit the program and is appropriately included in the Objectives, Scope and Methodology section of this report.

We strongly disagree that our use of the term high risk is not appropriate. Finance considers the P-Card transactions to be an immaterial amount based solely on a mathematical calculation. Our review of materiality includes the highly decentralized operation of the program, failure of the program, appropriate use of District funds and the reputational risk and damage that could occur should one or more improper P-Card purchases occur. The sole use of a mathematical calculation diminishes the impact of the P-Card program on the District's operations.

This Page is Intentionally Blank