

Audit of
Purchasing Card Program

September 14, 2007

Report 2007-10

**Audit of
Purchasing Card Program**

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Audit of Purchasing Card Program

Executive Summary

The District implemented a Purchasing Card (P-Card) Program in 2003. The goal of the P-Card Program was to streamline and simplify the process for purchase and payment of goods and services and to reduce the cost of processing transactions of \$750 and less. Limit was increased to \$1,000 effective July 1, 2006.

School principals and department heads oversee the P-Card program in their school/department including (1) assigning P-Cards to employees, (2) appointing P-Card site coordinator, (3) reviewing and validating purchases made by cardholders, and (4) approving credit limit increases.

The primary objectives of this audit were to determine if: (1) transactions exceeded the allowed limits, (2) transactions were split in order to circumvent the transaction limit, (3) P-Card transactions complied with related policies and guidelines, and (4) appropriate oversight and reconciliation of purchases were in place to detect and deter improper transactions.

The review of 443 transactions executed by 22 sample cardholders at six departments and eight schools found that:

- Eight non-travel related items purchased with principals' and department heads' P-Cards exceeded the \$750 single transaction limit. Purchase of these items should have been processed through the Purchase Requisition; and
- Three of the purchases were for prohibited products – '6430 Computer Hardware - \$750-up'.
- Nine receipts were missing for a total of \$954.90 in purchases; and \$324.30 in sales tax was paid in 12 instances by the purchaser.

Review of transactions for 639 cardholders indicated that:

- 48 (or 8%) of them split charges for non-travel related transactions. This was a violation of P-Card guidelines.
- Eighty-seven (14%) of 639 cardholders P-Cards were never used, but are still valid.

Review of 126 monthly *End-of-Cycle Checklist for Cardholder* Forms (*PBSD 2095*) revealed that 22 (17 %) were not completed as required. This form provides program oversight and reconciliation for purchases.

Management concurred with all of the audit findings.



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PALM BEACH COUNTY, FLORIDA

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SUPERINTENDENT

MEMORANDUM

TO: Honorable Chair and Members of the School Board
Arthur C. Johnson, Ph.D., Superintendent of Schools
Chair and Members of Audit Committee

FROM: Lung Chiu, CPA, District Auditor

DATE: September 14, 2007

SUBJECT: Audit of Purchasing Card Program

PURPOSE AND AUTHORITY

Pursuant to the *District's Audit Plan*, we have audited the Purchasing Card Program (P-Card) for the School District. The primary objectives of this audit were to determine if: (1) transactions exceeded the allowed limits, (2) transactions were split in order to circumvent the transaction limit, (3) P-Card transactions complied with related policies and guidelines, and (4) appropriate oversight and reconciliation of purchases were in place to detect and deter improper transactions.

SCOPE AND METHODOLOGY

This audit was conducted in accordance with *Government Auditing Standards*, by Ellen Steinhoff, CISA, during July through August 2006. In addition to interviewing cardholders, P-Card coordinators, the P-Card administrator, principals, and department heads, the audit also reviewed:

- *Purchasing Card Procedures* listed on the Purchasing Department's web site;
- P-Card administrator duties;
- Monthly bank statements for: (1) agreement with receipts/invoices, and (2) cardholder and a non-subordinate signature to indicate approval of supporting documentation for purchases.

We randomly selected 22 sample P-Card users at six departments and eight schools and reviewed compliance for 443 P-Card transactions and their supporting documentation for the period of January 1, 2004 to March 31, 2006. Review focused on determining whether:

- a. Records were orderly and easily retrievable;
- b. Documentation was sufficient and valid to show purchases were for a public purpose, merchandise was received, and sales tax was not paid; and

- c. Amounts did not exceed cardholder's transaction limit.

We also analyzed P-Card activity for 639 cardholders to determine spending exceptions such as exceeding spending limits, large or unusual purchases, inactive cards, spending limits not matched to job positions, and splitting transactions to avoid a contract.

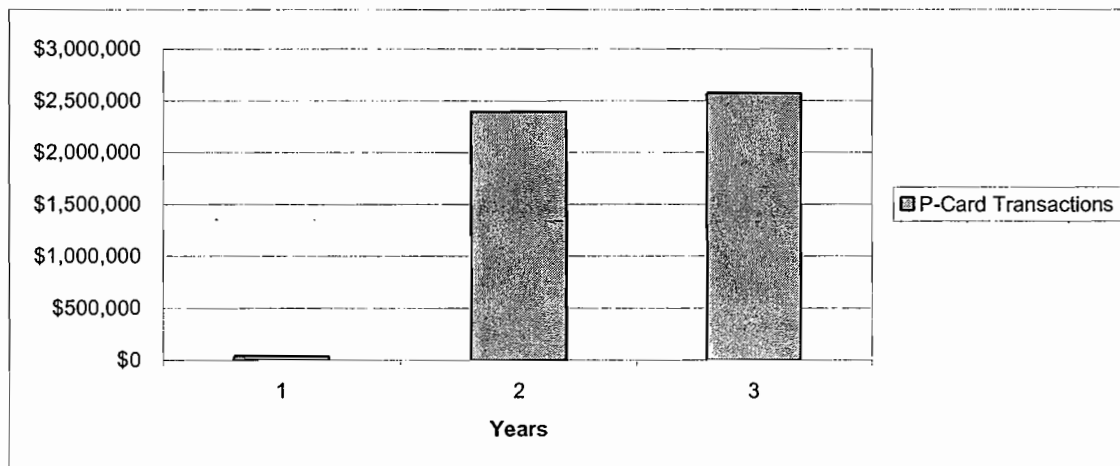
Audit conclusions were brought to the attention of staff during the audit so that necessary corrective actions could be implemented immediately. The draft report was sent to the departments for review and comments. Their responses are included in the Appendix. We would like to thank staff for their cooperation and courtesy extended to us during the audit. The final draft report was presented to the Audit Committee at its September 14, 2007 meeting.

BACKGROUND

The District implemented a Purchasing Card (P-Card) Program in 2003, and is a participating entity of the State of Florida's VISA Purchasing Card Agreement with the Bank of America. The goal of the P-Card Program was to streamline and simplify the process for purchase and payment of goods and services and to reduce the cost of processing transactions of \$750 and less (Direct Pays).

P-Card Program Data

<u>Time Period</u>	<u>Number of P-Cards Issued</u>	<u>Number of Transactions</u>	<u>Total Purchases</u>
January 1, 2004 to June 30, 2004	61	212	\$37,476.51
July 1, 2004 to June 30, 2005	540	12,328	\$2,390,999
July 1, 2005 to March 31, 2006	204	13,627	\$2,569,830



P-Card Administration. As of March 31, 2006, there were 639 active P-Cards. The P-Card administrator who reports to the Director of Purchasing, handles administrative tasks such as issuing P-Cards, and establishing and modifying P-Card spending limits. School principals and

department heads oversee the P-Card program in their school/department including (1) assigning P-Cards to employees, (2) appointing P-Card site coordinator, (3) reviewing and validating purchases made by cardholders, and (4) approving credit limit increases. Employees who hold P-Cards are responsible for all transactions incurred on their cards.

Spending Limits. Monthly purchase limits are assigned initially based on a matrix of cardholders' job titles. Any increase in spending limits requires a supervisor's approval. Dollar limits are entered and modified into the bank's Electronic Account Government Ledger System (EAGLS) software system by the P-Card administrator.

The District uses Merchant Category Code Groups (MCCG's) assigned to each card (via Bank of America) to block purchases from certain vendors. Most employees have a \$750 single transaction limit and a \$2,500 monthly spending limit. Administrators, directors, principals, assistant principals, and department heads have higher single transaction limits and higher monthly limits for travel purposes only. The bank declines purchases over the single transaction and monthly limits. Also, the district guideline limits transactions to \$750 per vendor per day per cardholder, except travel related purchases. Effective July 1, 2006, the \$750 limit was increased to \$1,000.

The audit produced the following major conclusions.

CONCLUSIONS

1. Purchases Exceeded Single Transaction Limit

The general purpose of the P-Card program was to make direct pay purchases less than \$750, i.e., each transaction should not exceed \$750 (limit became \$1,000 effective July 1, 2006). Administrators, directors, principals, and assistant principals have the higher single transaction limit of \$5,000 for the purpose of travel related transactions. ***Purchasing Card Procedures***, page 24-9, **section B. CARD LIMITATIONS AND RESTRICTIONS** states:

“When a Purchasing Card is associated with a card profile that includes travel, the allowable amount per transaction exceeds that of which is allowed for Direct Pays...”

The review of 443 transactions found that eight non-travel related items purchased with principals' and department heads' P-Cards exceeded the \$750 single transaction limit. Purchase of these items should have been processed through the Purchase Requisition.

Additionally, three of the purchases were for prohibited products – ‘6430 Computer Hardware - \$750-up’. Failure to use the Purchase Requisition may circumvent best price and best competition purchasing.

P-Card administrator should continue monitoring transactions to identify cardholders who exceed their spending limit. Cardholders and their supervisor should be informed when they use their card in an unauthorized manner.

Management’s Response:

Management concurs with recommendations: Schools / Departments that exceeded the single purchase limit or where purchases were for prohibited products were contacted and it was requested they send written notice indicating they were aware that their purchase was outside the purchasing guidelines. Note that the 11 out of 443 transactions is a .2% differential.

Monitoring is done through a PeopleSoft query and schools/departments continue to be notified if there is an offense. (Please see page 9.)

2. Split Purchases

According to **Purchasing Card Procedures**, page 24-3, **DEFINITIONS** section,

“Pyramiding When a cardholder subdivides an order to circumvent the Purchasing Policies, Procedures, and Guidelines, such as splitting a payment to stay within the single purchase limit. This is not allowed.”

Also, page 24-18 section **F. ABUSE/VIOLATIONS** of the same procedures states:

“Making multiple transactions with the same vendor, on the same day, to circumvent single transaction limits (pyramiding).”

The review of transactions for 639 cardholders indicated that 48 (or 8%) of them apparently had not complied with this requirement by splitting charges for non-travel related transactions. Splitting charges is referred to making sequential purchases of smaller dollar transactions by the same cardholder on the same day in order to stay below single transaction limits (\$750 prior to July 1, 2006). Split purchases may circumvent controls for best price through competition. Examples of split purchases are listed below:

Transaction Date	Merchant Name		Transaction Amount
8/18/2005	Govconnection, Inc		645.00
8/18/2005	Govconnection, Inc		703.20
		Total:	1,348.20
8/23/2005	Walmart.com *Internet o		689.28
8/23/2005	Walmart.com *Internet o		580.88
		Total:	1,270.16
9/22/2005	All American Printing Inc		750.00
9/22/2005	All American Printing Inc		750.00

Transaction Date	Merchant Name		Transaction Amount
		Total:	1,500.00
9/27/2005	Barnes & Noble.com		238.09
9/27/2005	Barnes & Noble.com		486.53
9/27/2005	Barnes & Noble.com		726.33
		Total:	1,450.95
10/6/2005	Interstate Battery		358.80
10/6/2005	Interstate Battery		512.70
		Total:	871.50
10/26/2005	Govconnection, Inc		646.25
10/26/2005	Govconnection, Inc		283.45
		Total:	929.70
11/15/2005	Bakers Sporting Goods		368.00
11/15/2005	Bakers Sporting Goods		700.00
		Total:	1,068.00
11/29/2005	Office Depot #1099		690.57
11/29/2005	Office Depot #1099		744.66
		Total:	1,435.23
2/24/2006	Regal Cinemas Corporate B		308.00
2/24/2006	Regal Cinemas Corporate B		608.00
		Total:	916.00

The P-Card administrator should ensure that transactions are reviewed periodically to detect potential non-compliance such as transactions that are split over sequential days to the same vendor. Cardholders and their supervisor should be informed when they use their card in an unauthorized manner.

Management's Response:

Management concurs with recommendations. Monitoring is being done through a PeopleSoft query and schools/departments continue to be notified if there is an offense. (Please see page 9.)

3. Incomplete Reconciliation

The review of 126 *End-of-Cycle Checklist for Cardholder* Forms (*PBSD 2095*) indicated that 22, or 17 % of the reconciliations were not completed as required by *Purchasing Card Procedures*, pages 24-5 and 24-6, *Monthly Cardholder Reconciliation* section. (See Appendix A for details.) Also, the review of 443 transactions for receipts/invoices indicated that nine receipts were missing; and the required *Missing Receipt Form (PBSD 2094)* was not attached to the statement. These nine receipts were all for the same department and totaled \$954.90. However, all of these cardholders reviewed their Monthly Billing Statement and obtained a second signature on them to indicate a second review.

Failure to complete the form, especially for credits due, may result in incorrect or no credits refunded to the District and possible misuse of monies. According to records, two credits totaling \$1,175.00 were not documented on Form **PBSD 2095**, although they were subsequently refunded to the District.

Additionally, the **Purchasing Card Procedures** require the cardholder to deliver Form **PBSD 2095**, monthly billing statement and receipts to the P-Card site coordinator.

To ensure appropriate oversight and reconciliation of purchases, the District P-Card administrator should perform random reviews to ensure that all cardholders complete Form **PBSD 2095**.

Management's Response:

Management concurs with recommendations. Random reviews were performed with the assistance of Accounting Services during the time period covered in this audit. A checklist that was used for these reviews was provided during the audit and left to assist schools for future months.

A Site Administrator meeting is scheduled for August to review pcard policies and procedures. Month End reconciliation is being included as part of the agenda. (Please see page 9.)

4. Sales Tax Improperly Paid on Purchases

Purchasing Card Procedures, pages 24-10 and 24-11 state that the District is tax-exempt for all P-Card transactions. Additionally, page 24-6 of the procedures require the P-Card site coordinator to:

“Confirm the person who ordered the items/services signs receipts/invoices and sales tax was not charged. If sales tax is found, inform cardholder to request Purchasing Card credit adjustment from vendor.”

However, our review showed that cardholders did not ensure that sales tax was not paid; and when sales tax was paid, cardholders and P-Card site coordinators did not ensure credit was refunded. Our sampling of 443 receipts/invoices found 12 instances that the purchases also included sales tax, totaling \$324.30.

To ensure the District does not pay sales tax, the P-Card administrator should

- Emphasize to cardholders the importance of tax-exempt status.
- Add a check-off item on the monthly **End-Of-Cycle Checklist for Cardholder** (Form **PBSD 2095**) that the P-Card site coordinator verifies taxes were not paid.

Management's Response:

Management concurs with recommendation. A check-off item will be added to the monthly End-Of-Cycle Checklist for Cardholders (form PBSO 2095) that the cardholder & site coordinator verifies taxes were not paid.

The District's tax exempt status is addressed during the mandatory Pcard training and a credit card sized tax exempt certificate is provided to all cardholders when they receive their Pcard. (Please see page 9.)

5. Periodic Review Needed for Inactive P-Cards

Eighty-seven (87) of the 639 P-Cards selected for review were never used, but were still valid. *Standards for Internal Control in the Federal Government (GAO/AIMD-00-21.3.1)*, issued by the U.S. Comptroller of the Treasury date November 1999, states:

“Access to resources and records should be limited to authorized individuals, and accountability for their custody and use should be assigned and maintained. Periodic comparison of resources with the recorded accountability should be made to help reduce the risk of errors, fraud, misuse, or unauthorized alteration.”

P-Card procedures currently do not provide for periodic verification and validation of active cardholders and their need to maintain an active account. The P-Card administrator should verify that all cardholders are active employees. To ensure proper accountability, the P-Card administrator should follow-up with the schools and departments to determine whether there is a need for the P-Card if the accounts are inactive for a specific extended time.

Management's Response:

Management concurs with recommendations. Initial verification and validation lies with the school/dept to provide notification regarding cards not in use. Reviews are scheduled that includes information provided from the bank. (Please see page 9.)

– End of Report –


Purchasing Card Procedures, pages 24-5 and 24-6, Monthly Cardholder Reconciliation section:

“Cardholder reconciliation is the process of the cardholder gathering, reviewing, and providing documentation to support that each transaction appearing on the cardholder’s billing statement is an appropriate, legitimate District purchase. The cardholder should:

- 1) Ensure the Monthly Billing Statement is date stamped upon receipt.*
- 2) Complete the End-of-Cycle Checklist for Cardholder (PBSD 2095).*
- 3) Review Monthly Billing Statement.*
 - a. Match each original receipt with each statement line item and identify any unauthorized purchases.*
 - b. Attach signed receipts to statement. If the receipt/invoice is missing:
 - i. Complete Missing Receipt Form (PBSD 2094).*
 - ii. Deliver a copy of the Missing Receipt Form to P-Card Site Coordinator.**
 - c. Check subsequent Monthly Billing Statements for credits due (returns) and attach the credit slip when payment processes.*
- 4) Check for any pending discrepancies or disputes.*
 - a. Review last month’s End-of-Cycle Checklist for discrepancies and disputes if:
 - i. None, continue to next step.*
 - ii. Resolved, put check mark by item.*
 - iii. Unresolved, circle item and carry forward.**
 - b. Identify any current discrepancies or disputed items by making a notation on the Monthly Billing Statement and track on Cardholder’s End-of-Cycle Checklist (PBSD 2095).*
 - c. Ensure all discrepancies are filed as disputes that should be.*
- 5) Sign Monthly Billing Statement approving all purchases.*
- 6) Deliver the following to the P-Card Site Coordinator:
 - a. Cardholder’s End-of-Cycle Checklist.*
 - b. Cardholder’s Monthly Billing Statement with attached receipts/invoices and any other required documentation.**

Management's Response

MEMORANDUM

TO: LUNG CHIU, CPA, DISTRICT AUDITOR
FROM: SHARON SWAN, DIRECTOR OF PURCHASING 
SUBJECT: AUDIT OF PURCHASING CARD PROGRAM RESPONSE
DATE: 7/2/2007
CC: JOSEPH MOORE, COO

RECEIVED
JUL 02 2007
DISTRICT AUDITOR

1. Purchases Exceeded Single Transaction Limit -
Conclusion: Management concurs with recommendations.

Schools / Departments that exceeded the single purchase limit or where purchases were for prohibited products were contacted and it was requested they send written notice indicating they were aware that their purchases was outside the purchasing guidelines. Note that the 11 out of 443 transactions is a .2 % differential.

Monitoring is done through a PeopleSoft query and schools/departments continue to be notified if there is an offense.

2. Split Purchases -
Conclusion: Management concurs with recommendations.

Monitoring is being done through a PeopleSoft query and schools/departments continue to be notified if there is an offense.

3. Incomplete Reconciliation -
Conclusion: Management concurs with recommendations.

Random reviews were performed with the assistance of Accounting Services during the time period covered in this audit. A checklist that was used for these reviews was provided during the audit and left to assist schools for future months.

A Site Administrator meeting is scheduled for August to review pcard policies and procedures. Month End reconciliation is being included as part of the agenda.

4. Sales Tax improperly paid on purchases
Conclusion: Management concurs with recommendation

A check-off item will be added to the monthly End-Of-Cycle Checklist for Cardholders (form PBSO 2095) that the cardholder & site coordinator verifies taxes were not paid.

The District's tax exempt status is addressed during the mandatory Pcard training and a credit card sized tax exempt certificate is provided to all cardholders when they receive their PCard.

5. Periodic Review Needed for Inactive Pcards
Conclusion: Management concurs with recommendations.

Initial verification and validation lies with the school/dept to provide notification regarding cards not in use. Reviews are scheduled that includes information provided from the bank.