

UTAH SCHOOLS FOR THE DEAF AND BLIND

Review of Purchase Card Internal Controls

Findings and Recommendations
For the Period June 1, 2015 through May 31, 2016

Report No. MAO-16-OA4



OFFICE OF THE STATE AUDITOR

AUDIT LEADERSHIP:

John Dougall, State Auditor
Hollie Andrus, CPA, Audit Director
Nancy Watson, CPA, Audit Supervisor



OFFICE OF THE
UTAH STATE AUDITOR

Report No. MAO-16-OA4

September 8, 2016

Utah State Board of Education
250 East 500 South
P.O. Box 144200
SLC, Utah 84114-4200

and

Joel Coleman, Superintendent, and
The USDB Advisory Council
Utah Schools for the Deaf and the Blind
742 Harrison Blvd.
Ogden, UT 84404

Dear Board Members, Mr. Coleman, and Advisory Council:

We have performed the procedures described below to Utah Schools for the Deaf and Blind (USDB) purchase card purchases made between June 1, 2015 and May 31, 2016. The purpose of these procedures is to assist USDB in evaluating its internal control over purchase cards.

1. We reviewed USDB's written policies and procedures that govern the use of purchase cards to determine whether they provide adequate internal control over purchase card use.
2. We tested a sample of monthly purchases to determine who receives the original purchase card statement and whether (a) a log of purchases was created by the card holder and reconciled to the monthly statement; (b) the log was signed by the supervisor to indicate charges were reviewed and approved in a timely manner; (c) original receipts were maintained for all purchases; and (d) purchases were reasonable and proper.
3. We compared the purchase card statements to original receipts to ensure the statements were original; and then we reviewed all purchase card transactions for the audit period to determine the reasonableness and appropriateness of (a) purchases made on weekends and holidays; (b) frequent purchases with the same vendor just under the transaction limit and multiple transactions for the same amount; (c) purchases from potentially inappropriate vendors; and (d) the total volume and dollar amount of purchases made with credit cards.

Our findings resulting from the above procedures are noted in the Findings and Recommendations section of this report. We feel these findings are key internal control weakness to USDB.

Our procedures were more limited than would be necessary to express an audit opinion on the effectiveness of USDB's internal control or any part thereof. Accordingly, we do not express such opinion. Alternatively, we have identified the procedures we performed and the findings resulting from those procedures. Had we performed additional procedures or had we made an audit of the effectiveness of USDB's internal control, other matters might have come to our attention that would have been reported to you.

By its nature, this report focuses on exceptions, weaknesses, and problems. This focus should not be understood to mean there are not also various strengths and accomplishments. We appreciate the courtesy and assistance extended to us by USDB personnel during the course of the engagement, and we look forward to a continuing professional relationship. If you have any questions, please contact me.

Sincerely,

A handwritten signature in cursive script that reads "Hollie Andrus".

Hollie Andrus, Audit Director

handrus@utah.gov

801-808-0467

cc: Scott Jones, Deputy Superintendent of Operations, Office of the State Board of Education
Debbie Davis, Internal Audit Director, Office of the State Board of Education

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FOR THE PERIOD JUNE 1, 2015 THROUGH MAY 31, 2016

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UTAH SCHOOLS FOR THE DEAF AND THE BLIND
Review of Purchase Card Internal Controls

FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD JUNE 1, 2015 THROUGH MAY 31, 2016

1. **INADEQUATE OVERSIGHT OF PURCHASE CARD PROGRAM**

We reviewed the purchase card (p-card) program at the Utah Schools for the Deaf and Blind (USDB) for the period June 1, 2015 through May 31, 2016 and identified the following weaknesses in management oversight:

- USDB management did not know how many p-cards had been issued to the entity and reported that it had no travel cards. According to the Utah State Division of Finance (State Finance) and the State Travel Office, USDB had 41 p-cards and 1 travel card. Seven p-cards were assigned to employees no longer working for USDB and 1 p-card was assigned to an employee who had surrendered his card approximately three years ago.
- USDB does not always deactivate cards in a timely manner.
- USDB did not monitor p-card limits or perform periodic reviews of cardholder purchase history. State Finance records showed that one USDB employee had a p-card with no single-purchase limit or maximum limit. This individual is no longer an employee of USDB and his p-card was cancelled in a timely manner.
- Two individuals stated they are aware of inconsistent consequences for p-card policy violations when we interviewed the 26 individuals who were active USDB p-card holders at the time of our audit (July 2016). In addition, three individuals stated they would not report suspicious or fraudulent behavior to management because either they don't believe management would respond or they fear retaliation.

State Finance p-card policies outline the p-card manager's responsibilities, which include: overseeing the p-card program for his department; evaluating the need for p-cards; assisting with setting transaction limits; providing ongoing training to cardholders on the use of the p-card; and collecting and deactivating p-cards from cardholders who terminate employment, transfer to another department, or no longer need a p-card. These errors in oversight of the USDB p-card program occurred because of inadequate training. This lack of oversight could result in the improper use of p-cards by employees and former employees.

Recommendation:

We recommend USDB design and implement internal controls that:

- **Monitor all p-cards and travel cards issued to USDB;**
- **Cancel or deactivate unnecessary cards in a timely manner;**
- **Review cardholder purchase history and transaction limits and adjust limits as considered necessary;**
- **Establish consistent procedures to manage p-card policy violations; and,**

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- **Create a method for employees to anonymously report improper or fraudulent p-card use to management upon which management then acts.**

2. INADEQUATE INTERNAL CONTROL OVER USE OF P-CARDS

We reviewed two-months of credit card purchases for a sample of 11 of the 26 individuals who held p-cards at the time of our testwork (July 2016) and identified the following weaknesses:

- Seventy-two p-card purchases of food, travel, and events, totaling \$32,006, had inadequate documentation, including lack of itemized receipts. Per State Finance policy FIACCT 10-04.00, supporting documentation for these types of purchases must include original receipts, an agenda, and a list of attendees and their affiliation.
- One payment of \$3,637.50 for a group event was approved by a director, but not by a budget officer. Per State Finance policy FIACCT 10-04.00, if the estimated cost of the state-sponsored group gathering is more than \$1,000, agencies must complete a Group Gathering Authorization form and the executive director or designee as well as the head budget officer must approve the expenditure by signing the form.
- Two purchases totaling \$5,427.58 were split in order to circumvent p-card transaction limits. Per *Utah Code* 63G-6a-506 (8)(a)(ii), it is unlawful to split expenditures to circumvent procurement limits. If circumstances require, USDB should increase the limits for certain p-card holders.
- Two of the 22 p-card logs did not agree to the corresponding p-card statements; one log omitted a \$740 transaction that was on the monthly statement; and, another log included a transaction not included on the statement and the statement included three transactions that were not included on the log. Supervisor reviews should have detected these errors in the logs but did not.
- The review and approval of p-card purchases were not properly documented, as follows:
 - Several transactions and one p-card log were approved with a stamp of the superintendent's signature.
 - Two of the 22 p-card logs were missing the approval signature of a supervisor.
 - Eight of the 22 p-card logs did not include the date of the review/approval. As a result, we were unable to determine the timeliness of the review/approval.

Per State Finance p-card policies, review and approval of p-card transactions should be documented with a signature and a date. We consider stamped signatures to be inadequate evidence of supervisor review and approval because other employees have access to the signature stamps.

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The term “internal controls” is used to describe processes put in place by the governing body, management, or others, to provide consistent and efficient operations, including reasonable assurance that funds will be properly safeguarded. Proper internal controls include separating certain responsibilities (e.g., using p-cards and reconciling the card activity) so that no one person has the ability to improperly use money without detection. Proper internal controls also include obtaining source documents, such as original receipts from the purchaser and original statements directly from the credit card company, to ensure that documents have not been altered to conceal inappropriate activity.

These weaknesses occurred because of inadequate training in proper use of p-cards. Lack of adequate internal control could result in improper p-card purchases without detection.

Recommendation:

We recommend that USDB follow State Finance p-card policies, as follows:

- **Obtain and retain proper documentation for purchases of food, travel, and events, including original receipts, an agenda, and a list of attendees and their affiliation;**
- **Ensure that expenditures over \$1,000 for state-sponsored group gatherings are properly approved by both the executive director and the chief budget officer, as evidenced by their signature on the Group Gathering Authorization form;**
- **Design and implement controls to detect and prevent the splitting of transactions meant to circumvent p-card transaction limits; and, if appropriate, USDB should increasing limits of certain p-card holders;**
- **Perform a detailed supervisory review of all monthly p-card logs, original credit card statements, and supporting documentation, including original itemized receipts and investigate any discrepancies; and,**
- **Provide evidence of all p-card reviews/approvals via a handwritten signature (not a stamped signature) and a date to indicate timeliness of the review.**

3. IMPROPER RECORDING OF EMPLOYEE GIFTS

We noted two instances where USDB used p-cards to purchase gift cards, totaling \$450, for employee retirement gifts; however, USDB did not properly record these two transactions. State Finance policy FIACCT 05-03.07 states that retirement gifts given in cash equivalents, such as gift cards, must be recorded in the Payroll System and included in the employee’s taxable earnings. Not properly recording cash-equivalent retirement gifts in the Payroll System results in noncompliance with payroll tax and withholding requirements by both the entity and the employee.

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FOR THE PERIOD JUNE 1, 2015 THROUGH MAY 31, 2016

Recommendation:

We recommend that USDB design and implement internal controls to ensure that all cash gifts to employees are properly recorded in the Payroll System and included in the employee's taxable earnings.



September 6, 2016

John Dougall
Office of the Utah State Auditor
East Office Building, Suite E310
Utah State Capital Complex
Salt Lake City, Utah 84114

RE: USDB P-Card Audit Findings and Responses

Dear Mr. Dougall:

I have included both findings and responses from the recent USDB p-card audit for your review.

FR-1USDB

INADEQUATE OVERSIGHT OVER PURCHASE CARD PROGRAM

In our review of the purchase card (p-card) program at the Utah Schools for the Deaf and Blind (USDB) for the period June 1, 2015 through May 31, 2016, we noted the following weaknesses in management oversight.

- USDB management was not aware of how many p-cards had been issued to their entity and reported that they had no travel cards. We obtained a list of USDB p-cards from the Utah State Division of Finance (State Finance) and a list of travel cards from the State Travel Office. Per the State Finance list of 41 p-cards, seven p-cards were assigned to employees who no longer work for USDB and one p-card was assigned to an employee who had surrendered her card approximately three years ago. Therefore, p-cards are not being deactivated in a timely manner. Per the list of travel cards, USDB has one travel card, which they were not aware of. There was no activity on the card for the period we reviewed.
- USDB did not monitor p-card limits or perform periodic reviews of cardholder purchase history. A list of p-card holders was obtained from State Finance and we noted that one USDB employee had a p-card with no single purchase limit or credit limit. That employee is no longer an employee of USDB and her p-card was cancelled in a timely manner; however, it was active and used for purchases during our review period.
- We interviewed all the 26 active USDB p-card holders at the time of our audit and (a) two stated they are aware of inconsistent consequences for p-card policy violations and (b) three stated that if they were aware of suspicious or fraudulent behavior, they would not report it to management because they don't believe management would respond, or they fear retaliation.



Per State Finance p-card policies, the p-card manager's responsibilities include overseeing the purchasing card program for their department, evaluating the need for p-cards, assisting with setting transaction limits, providing ongoing training to cardholders on the use of the purchasing card, and collecting and destroying cards from cardholders who terminate employment, transfer to another department, or when a card is no longer needed.

These errors in oversight of the USDB p-card program occurred because of inadequate training. This lack of oversight could result in the improper use of p-cards by employees and former employees.

Recommendation:

We recommend that USDB design and implement internal controls to ensure that:

- All p-cards and travel cards issued to USDB are tracked and monitored.
- Periodic reviews of cardholder purchase history are performed and appropriate transaction limits are set.
- Consequences for p-card policy violations are consistently applied.
- Employees have a safe method of reporting improper or fraudulent p-card use to management.

Response:

1. USDB concurs with the first statement of findings.
 - a. Nicole Larreau (the former P-card coordinator) maintained a list of P-card holders. Nicole Larreau left USDB's employment in November of 2015.
 - b. The new purchasing agent started working for USDB January 2016 and was still in the process of learning and organizing the p-card process and FINET accounting system when this audit was conducted.
 - c. USDB now has a policy and procedures in place to monitor the activation and deactivation of P-card holders, transaction limits amount for each card, and a deeper analysis of purchases.
 - d. USDB has also separated the duties between the Purchasing Agent who is doing the review of individual p-card monthly reconciliation and the Financial Analyst who maintains the list, analyzes monthly transaction amount limits and usage.
 - e. Starting school year 2016-2017, Online Procurement Small Purchasing training is required for all p-card holders and approvers.
2. USDB concurs with the second statement of findings.
 - a. P-cards were being monitored by the former USDB Purchasing Agent.
 - b. The new purchasing agent started working for USDB January 2016 and was still in the process of learning and organizing the p-card process and FINET accounting system when this audit was conducted.
 - c. Periodic review of p-card holders is now being done by the Financial Analyst.
3. USDB concurs with the third statement of findings.



There has been no indication at USDB of an environment of fear with management retaliation. USDB will follow through based on the comments in the findings of this report and insure these concerns are mitigated.

FR-2USDB

INADEQUATE INTERNAL CONTROL OVER USE OF PURCHASING CARDS

We reviewed the credit card purchases for two months selected from our review period of June 1, 2015 through May 31, 2016 for a sample of 11 of the 26 purchasing cards (p-cards) held by the Utah Schools for the Deaf and Blind (USDB) at the time of our test work and noted the following weaknesses:

- There was inadequate documentation, including lack of itemized receipts, for 72 p-card purchases of food, travel, and events totaling \$32,006. Per State Finance policy FIACCT 10-04.00, supporting documentation for these types of purchases must include original receipts, an agenda, and a list of attendees and their affiliation.
- One payment of \$3,637.50 for a group event was approved by a director, but not by a budget officer. Per State Finance policy FIACCT 10-04.00, if the estimated cost of the state sponsored group gathering is more than \$1,000, agencies must complete a Group Gathering Authorization form and the executive director or designee and the head budget officer must approve the expenditure by signing the form.
- There were two instances, for purchases totaling \$5,427.58, where transactions were split in order to circumvent p-card transaction limits. Per Utah Code 63G-6a-506 (8)(a)(ii), "It is unlawful for a person to intentionally or knowingly divide a procurement into smaller procurements with the intent to make a procurement meet a threshold established by rule made by the applicable rulemaking authority, if, before dividing the procurement, it would not have met the threshold."
- 2 of 22 p-card logs did not agree to the corresponding p-card statements. One log omitted a transaction for \$739.94 that was on the monthly statements. Another log included a transaction that was not on the statement and the statement included three transactions that were not included on the log. Supervisor reviews should have detected these errors in the logs but did not.
- We noted the following errors in the review and approval of p-card purchases:
 - Several transactions and one p-card log were approved with a stamp of the superintendent's signature.
 - Two of 22 p-card logs reviewed were missing the approval signature of a supervisor.
 - Eight of 22 p-card logs reviewed did not include the date of the review/approval. As a result, we were unable to determine the timeliness of the review/approval. Per State Finance p-card policies, review and approval of p-card transactions should be documented with a signature and a date. We consider stamped signatures to be inadequate evidence of supervisor review and approval.



USDB

Utah Schools for
the Deaf & the Blind

These failures of internal controls over the use of purchasing cards occurred because of inadequate training in proper use of purchase cards. This lack of controls could result in improper p-card purchases without detection.

Recommendation

We recommend that USDB follow the State Finance p-card policies and ensure that:

- The documentation required by State Finance policy FIACCT 10-.04.00 for purchases of food, travel, and events is obtained and retained.
- State Finance policy FIACCT 10-.04.00 for approval of state sponsored group gathering expenditures is followed.
- Controls are designed and implemented to detect and prevent the splitting of transactions in order to circumvent p-card transaction limits, including increasing limits if appropriate.
- A detailed supervisory review is performed of all monthly p-card logs, credit card statements, and supporting documentation, including original itemized receipts. This review should include following up on any discrepancies.
- All p-card reviews/approvals are evidenced by a handwritten signature (not a stamped signature) and a date to indicate timeliness of review.

Response:

1. USDB concurs with statement of findings 1-8. USDB has a policy that stamped signatures are not permitted for p-card reviews and approvals.
2. USDB concurs with recommendations 1-5, including proper retention of food, travel, and event documentation, group gathering expenditure policies, transaction limits and spending controls, supervisory reviews of documentation, and proper signatures. Policies are currently in place consistent with each of these recommendations.

FR-3USDB

IMPROPER RECORDING OF EMPLOYEE GIFTS

We noted two instances where USDB used p-cards to purchase gift cards, totaling \$450, for employee retirement gifts; however, USDB did not properly record these two transactions. State Finance policy FIACCT 05-03.07 states that retirement gifts given in cash equivalents, such as gift cards, must be recorded in the Payroll System and included in the employee's taxable earnings. Not properly recording cash-equivalent retirement gifts in the Payroll System results in noncompliance with payroll tax and withholding requirements by both the entity and the employee.



USDB

Utah Schools for
the Deaf & the Blind

Recommendation:

We recommend that the Utah Schools for the Deaf and Blind design and implement internal controls to ensure that all cash gifts to employees are properly recorded in the Payroll System and included in the employee's taxable earnings.

Response:

USDB concurs with these findings.

- a. We have researched gift cards purchased for retiring employees and USDB policy is in compliance with FIACCT 05-03.07
- b. USDB has improved the process by adding a requirement that our Financial Analyst is included in the email to ERIC. This insures additional layer for follow-up and a second check after our director of communications informs ERIC of gift cards for retiring employees.

Sincerely,

Joel Coleman, Superintendent
Utah Schools for the Deaf and Blind