

Detroit Public Schools

Office of the Auditor General



REVIEW OF PURCHASING CARD (P-CARD) ACTIVITY

July 1, 2010 through February 17, 2012

REPORT NO: 2011-003

REPORT DATE: March 1, 2012

BACKGROUND

Detroit Public Schools (DPS) issues commercial credit cards called purchase cards (P-Cards) to certain employees based on their title and job duties. Purchase cards offer an efficient and cost-effective method for procuring and paying for goods and services at a reduced cost for the District. The cost savings are achieved by reducing the number requisitions, purchase orders, invoices, and checks that have to be processed when procuring goods and services through the standard procurement process.

At the end of School Year 2010-2011 (June 30, 2011), DPS had P-Card agreements with two providers, American Express and Fifth Third Bank. The American Express agreement became effective January 25, 2010 for a term of five years. The Fifth Third agreement is also for a five year term and its effective date was April 7, 2010. The District selected a second provider, which uses MasterCard because it was accepted by more vendors. To provide P-Card services, each provider required a surety in the form of a certificate of deposit as collateral:

Provider	Surety
American Express	\$5,000,000.00
Fifth Third Bank	\$ 800,000.00

Within the Division of Finance, the Office of Purchase Card Management (OPC) is responsible for issuing P-Cards to employees and administering the P-Card program. Responsibilities include developing policies and procedures and monitoring user compliance. Purchase cards are issued in the cardholder's name with the wording "Detroit Public Schools" clearly indicated on the front of the card along with the cardholder's name; however, DPS is ultimately responsible for all charges and there is no impact on an employee's personal credit.

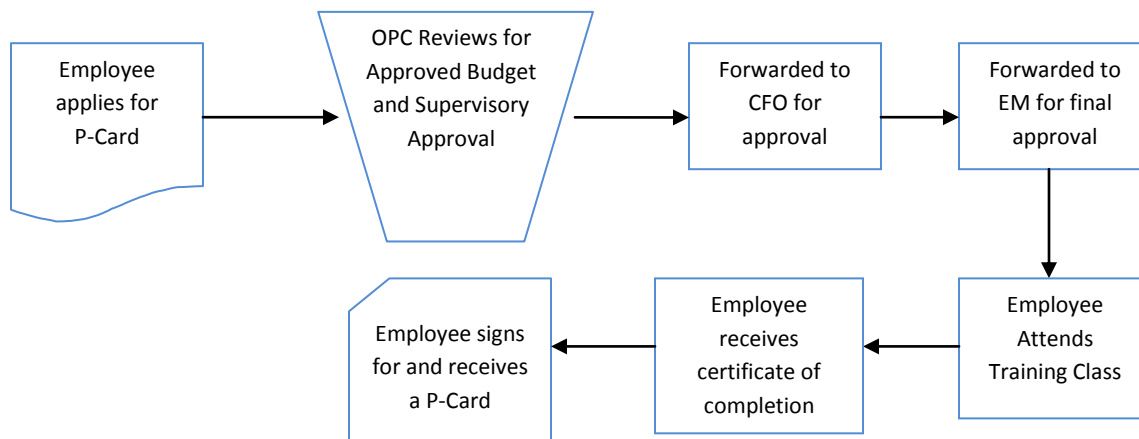
While the two providers offer similar products, there are differences between the services, including administrative costs charged, controls over purchases, spending limits and the length of billing periods. For example, American Express billing period is monthly while the Fifth Third MasterCard billing period is bi-weekly. The American Express card allows DPS to set a spending limit that is reduced as purchases are made, without resetting individual balances as payments are made; this control allows a user to only spend the amount budgeted for the year.

Conversely, the Fifth Third card spending limit is reset after payment, which could allow users to exceed their annual spending limit. Subsequent to the start of our audit scope, but prior to the end of our field work, the District cancelled its contract with American Express.

For School Year 2010 – 2011, there were 59 P-Card users, plus a Corporate Credit Card used solely by Accounts Payable as a payment instrument in lieu of issuing checks. Of the District’s 59 cardholders, 39 used the Fifth-Third MasterCard and 20 used American Express. The total budget allocated for the 59 P-Card users was \$2,397,514.95.

Under the District’s P-Card Policy only certain levels of DPS employees are eligible to receive a P-Card. An application and cardholder agreement form must be completed and signed by the applicant and their supervisor. The application lists the requested budget amount and general ledger account to be charged. The application is reviewed for those elements and forwarded to the CFO for approval. As illustrated below in Diagram 1.1, once the employee applies and OPC determines that their department budget has available funding the application is approved by the CFO and Emergency Manager. The P-Cardholder must attend a required training session on the use, requirements and prohibited purchases as well as how to submit required documentation after a purchase.

DIAGRAM 1.1: APPLICATION PROCESS

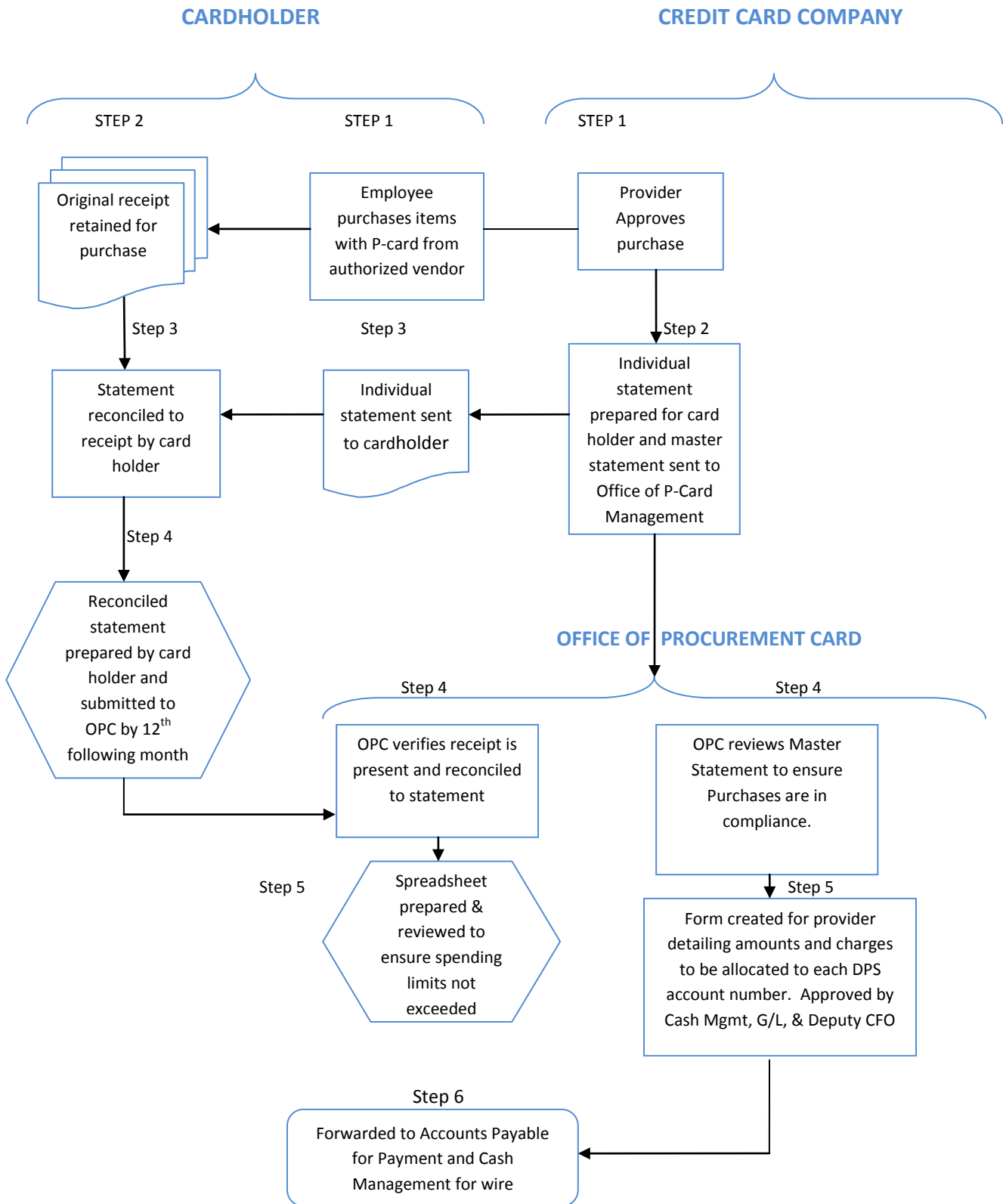


Once the user attends training, they sign for and receive a P-Card to purchase items. According to the P-Card policy manual, training is mandatory.

After each billing cycle, provider statements detailing purchase activity for the period are forwarded to each cardholder. It is the cardholder's responsibility to complete a reconciliation form, obtain their supervisors approval and attach the original receipt(s) to the billing statement and submit to the Office of Purchase Card Management.

Upon receipt, the OPC reviews each reconciled statement to verify a receipt is present for each transaction; in addition, the purchases are reviewed for compliance. To monitor spending, the Office of Purchase Card Management reviews the master statement received from the card providers to review each cardholder's activity over the billing period. They prepare a spreadsheet to track the spending for each card and cardholder; this allows management to determine which employee reconciliation remains outstanding. See Diagram 1.2

DIAGRAM 1.2: P-CARD PAYMENT PROCESS



OBJECTIVE, SCOPE & METHODOLOGY

The objectives of this audit were to assess (1) compliance with P-Card policies and procedures, (2) spending trends, and (3) effectiveness of the P-Card program.

The initial scope of this engagement was July 1, 2010 through December 31, 2010 with an original audit start date in January 2011. The scope was revised after the audit was postponed for several months by the Auditor General to address other high priority audits including one requested by the State of Michigan. The audit re-started in October, 2011 with a revised scope through February 17, 2012. Prior to the end of our field work, we updated and reviewed P-Card activity to determine whether the noted conditions continued to exist.

Our audit methodology included interviews of key program staff and reviewing (1) DPS P-Card policies and procedures; (2) P-Card user files, including monthly/bi-weekly reconciliations; (3) service provider contracts and reports; and (4) reports on monitoring P-Card activities for compliance.

We also flowcharted the P-Card process and performed tests to measure compliance with documented procedures. Additional inquiries were made to the Chief Procurement Officer and local governmental purchasing officers to determine best practices. Our field work ended March 1, 2012.

RESULTS IN BRIEF

The Procurement Card (P-Card) program is not being fully executed in accordance with District policies and procedures. We found several instances where both the Office of Purchase Card Management (OPC) and cardholders did not comply with District policies and procedures. Specifically, we noted that OPC issued P-Cards to ineligible employees and failed to review submitted support for purchases in a timely manner. We also noted that OPC did not require cardholder agreement forms, which spell out the terms and conditions for users, to be completed annually. During the course of our review this issue was brought to the attention of OPC and they now require the forms be completed annually. We found some cardholders failed to submit required reconciliations or failed to submit them in the required timeframe. In addition, cardholders consistently submitted reconciliations without supervisory approval or original receipts.

The audit also identified prohibited purchases and/or usages by cardholders including cash withdrawals from a Michigan casino and large purchases that exceeded the competitive bidding dollar threshold.

Additionally, we found that sales tax was paid on 17 purchases even though the District is exempt from state sales tax on its purchases.

Moreover, due to the lack of provider controls to limit daily and single purchase spending, the need to closely monitor employee P-Card activity and enforce penalties for non compliance is even greater.

Our review of School Year (SY) 2010-2011 P-Card spending trends noted the 59 cardholders used less than 37 percent of their allocated budgets. For this current program year, the collective budget for the 31 P-Cards holders is \$683,681.00. Of this amount, \$414,579.50 in expenses, or nearly 61 percent has been incurred to date. Most of the procurement activity occurred in Capital Improvement, Physical Plant Operations and Public Safety.

The P-Card program is designed to reduce processing costs and to expedite the procurement of items and payments for those items. However, the District has not documented the current cost for processing purchase orders and requisitions. As a result, the District cannot determine whether the Program is being effective in reducing the cost of procurements. In this regard, the District needs to document these cost and evaluate whether there is a cost savings from the use of P-Cards. Until such time, the effectiveness of the program cannot be fully determined.

A P-Card program should be part of a larger procurement strategy for an organization. The Department of Procurement and Logistics is in the best position to assess the need for P-Cards in context with spending patterns and procurement needs. This department has the procurement professionals who can best determine whether items procured with a P-Card are in compliance with the District's procurement policy and whether the cost of such items are reasonable. As such, DPS Finance working with Procurement and Logistics and Executive Management may wish to consider transferring this responsibility to the Procurement and Logistics Department.

AUDIT RESULTS

NONCOMPLIANCE WITH DISTRICT POLICY AND PROCEDURES REDUCES PROGRAM ACCOUNTABILITY

The District's P-Card program is not being fully executed in accordance with District policy and procedures. Specifically, procurement documentation is not being submitted timely or at all, some purchase card agreements are not signed or approved by supervisors, cards were issued to ineligible employees, some users are not submitting original receipts and we found unauthorized purchases that are prohibited by District P-Card policy and procedures. These conditions coupled with a lack of timely and effective monitoring as well as the lack of control for transaction cost data limits the effectiveness of the program and raise concerns about whether the program is meeting its intended purpose.

Lack of Timely Submissions Reduces Program Accountability

The OPC is not receiving documentation on user procurement activity in a timely manner which reduces the ability to take actions on users who fail to comply with program policy and procedures. When we initially started this audit in January 2011, we reviewed the first six months of activity (July - December, 2010) and found that 161 out of 317, or about 51 percent of the reconciliations had not been received. When we restarted this effort in October 2011, we reviewed the P-Card activity January through June 30, 2011 and found 112 out of 368, or 30 percent of the reconciliations had not been received. While the overall user compliance has increased, we found one instance where a card holder failed to submit the required documentation for 9 billing periods. According to District policy, failure to submit timely reconciliations may result in the loss of card privileges. If reconciliations are not submitted timely, the OPC cannot review cardholder activity in a timely manner. This, in turn, could allow non compliance by card users to go undetected.

As of February, 2012, the most recent information for P-Card holders indicates that card holders are still not submitting their reconciled statements in a timely fashion. The current provider bills the District on a bi-weekly basis and each card holder could have up to 2 billings per month depending on their procurement activity. We noted that one cardholder with one of the highest budgets and the most expenditure activity had 6 reconciliations that were not received. This indicates that at least 3 months of procurement activity had not been reviewed. In addition, there were several card holders that had not submitted 4-5 reconciliation statements. According to OPC officials, our review of outstanding reconciliations was conducted during a time period when they put some of their P-Card duties on hold due to other accounting responsibilities for the external audit.

One of the best practices for organizations that issue P-Cards is timely review and monitoring. Accordingly, organizations that employ best practices for P-Card use require that invoices and receipts be submitted within 3 days of purchases and the purchase activity be reviewed within 8 days after purchase. The District requires that the reconciled statements be submitted within 6 days after cardholders receive their individual statement from the provider or by the 12th of the following month after the purchase. This is not occurring and the actual timeframe for OPC to review reconciled statements appears to be well beyond 8 days. Officials from OPC stated that the policy does not specify a timeframe to review these statements. While the policy is silent on the timeframe to review, the purpose for requiring cardholders to submit their reconciled statements is to review them on a monthly basis.

Any delay in reviewing individual monthly statements limits the effectiveness of the oversight by allowing non compliance that may occur to go undetected and increasing the risk that non compliance will continue.

For the current card holders who have outstanding reconciliations, OPC has noted in a tracking document that an email or letter needs to be sent to the user requesting their outstanding reconciliations. However, OPC officials stated that the document was not updated to reflect the most recent status that some reconciliation had been received.

Signed and Approved Agreements

Missing from Files

As of June 30, 2011 the District had 59 employees with P-Cards. Our audit of cardholder files disclosed that 28 of 59, or 47 percent of the files, did not have signed cardholder agreements. We believe the agreement is important as it documents the terms and conditions by which the card holder agrees to abide by. An excerpt from the agreement underscores this and the consequence of user non compliance:

“..I further understand that use of my Purchasing Card (P-Card) which is not in accordance with the policies and regulations outlined and described in the DPS Purchasing Card (P-Card) Cardholder Handbook or in this Purchasing Card (P-Card) Cardholder Agreement form will result in forfeiture of my Purchasing Card (P-Card) and may lead to disciplinary action up to and including termination of employment, legal action, and/or prosecution.”

The agreement documents the user has reviewed the policy and procedures; attended the training; and understood the requirements. We noted OPC maintained a sign in sheet for training and it appears that each individual who did not sign the agreement attended the training. However, the signed agreement is actually the documentation required to support the user has been made aware of all program requirements and prohibited usage.

According to Office of Procurement Card Management, they don't require employees who have had P-Cards in the past to complete a cardholder agreement annually. However, we found nothing in the policy that permits past users to forgo the requirements of having a signed and approved agreement submitted prior to card issuance annually. Moreover, the P-Card program is subject to change and any change of terms and conditions will be spelled out in the cardholder agreements. In response to this finding, OPC began requiring all cardholders to complete the agreement forms. As a result, each of the 30 current active cardholders have submitted approved applications and signed agreements.

User Non Compliance

In addition to the lack of timely submissions and the failure to submit signed and approved P-Card agreements, we found instances of unauthorized purchases, split purchases, cash withdrawals for personal use as well as a failure to submit the required purchase documentation in a timely manner.

For example, one P-Card user made three cash withdrawals totaling \$300 at a Casino in Michigan on the same day and another user purchased two hand held music devices (I-pods). Using P-Cards to withdraw cash or to purchase electronic devices are prohibited by policy. The OPC suspended the card for the user who made the cash withdrawal at the casino, but no penalty was charged to the purchaser of the I-pods once they provided additional information that clarified the business use of these items.

In addition to unauthorized purchases, we noted large P-Card purchases that exceeded the \$15,000 high risk procurement threshold for competitive bidding. We also found procurements that were just below the \$15,000 threshold and an instance where one service was procured from the same vendor that involved three payments totaling over \$30,000.

Moreover, some P-Card users are not submitting the required procurement documentation. For example, of the 59 cardholders that held P-Cards at the end of the last fiscal year, 20 reconciliations were submitted without supervisory approval and 6 reconciliations were submitted without any receipts or the required missing receipt form.

Based on our review of current fiscal year activity, the condition has improved, but continues to be an issue. As stated earlier in the report, of the 30 current active P-Card holders, one had not submitted reconciled statements in three months. This indicates that some users are still not complying with requirements.

At the same time, some users are paying sales taxes which should be exempt for District purchases. We noted that on 17 separate occasions, users made purchases and paid sales tax on those purchases. In total, the amount of sales tax paid was just over \$260.00. This, however, represents over \$4,300 in purchases.

P-Cards Issued to Ineligible Employees

According to the P-Card Manual, revised in December 2009, the following DPS staff is authorized to have a P-Card:

- A member of Executive Administration
- A Principal, Assistant Principal or designee in Education Administration
- A supervisor in Building Repair Administration
- A member of Engineer Administration
- A supervisor in Heat Plant Administration

We found several staff members who were issued P-Cards that do not fall into one of the above categories. In some cases, the person in question may have been reassigned or they may have valid reason for having a P-Card.

However, without additional information it appears that some individuals were issued a P-Card, but were not eligible. For example, a Program Associate in Auxiliary Services, a Public Safety Officer, and a Carpenter for Facilities, a Junior Administrative Assistant for Education, a Program Associate 1 for Food Services. In addition to these employees we found others, who based on knowledge of their job duties, should be eligible, but do not clearly meet the criteria spelled out in the policy manual. Specifically, we believe the program supervisor for the Central HUB who deals with operational issues like boilers and heating pumps and a Program Supervisor for Facilities who is responsible for site management and maintenance for all of our buildings have valid justification for having a P-Card, but their positions are not listed and thus they are technically not permitted to have a P-Card per District policy.

The District should (1) comply with the current policies related to issuing cards to authorized employees only or (2) revise the policy to include more flexibility on who can receive a P-Card. Until this is addressed, the District is not complying with its own policy.

Improvement in Oversight Needed to Reduce Non Compliance

Improvement in how oversight is handled is needed to reduce instances of P-Card non-compliance. Specifically, OPC should be

- Review employee reconciliations in a more timely manner,
- Ensure that all required documentation is submitted annually, and
- Take enforcement actions to reduce non compliance.

According to its policy, “the purchasing card (P-Card) Monthly Reconciliation form and all accompanying documents must be received by the Office of Purchase Card Management by the 12th of each month or the card may be subject to suspension.” Our audit determined that this requirement is not being properly monitored.

According to the Office of Purchase Card Management, monthly P-Card reconciliations are only periodically reviewed due to the additional accounting responsibilities assigned to the OPC staff. Staff members estimate they spend less than one half of their time on P-Card activities.

In recent months, OPC has done a better job of monitoring and suspending privileges for some non compliers. For example, the user who made three cash withdrawals at a casino had their privileges suspended shortly after the purchase and was required to refund the money. The OPC identified the prohibited activity by reviewing the master statement from the provider. However, the Office continues to be delinquent in their review of individual statements from card holders. Specifically, we could only verify that one of the users’ reconciliations submitted this Fiscal Year had been reviewed at the time of our review.

SPENDING TARGETED AT SCHOOLS BUT SOME EXCEED BUDGET AND CONTROLS OVER SPENDING LACKING

Most of the District’s P-Card holders over the last two years are school-based employees or employees whose job duties support school activities, which appear to be in concert with District goals to target resources at the schools. However, less than 40 percent of the overall budgeted funds were spent for the last School Year. Although the number of card holders and the program budget has been reduced significantly for this current School Year, spending trends indicate nearly 61 percent of the budgeted funds have been spent to date.

Most P-Card Activity Directed at Schools

As shown in Table 1.1 on the next page, at the end of last fiscal year, most of the P-Cards were distributed to activities focused at students, schools or in support of both.

Other than the 21 school principals who had P-Cards at the end of last fiscal year, the cards were distributed to six areas. Unlike past years when hundreds of employees were issued P-Cards, the P-Card distribution appears to be focused on those areas which directly impact students or the learning environments where they are housed. The cards have been used for emergency repairs, equipment rentals and supplies for schools.

Table 1.1: DPS P-Card Issued by Department

DEPARTMENT	DESCRIPTION	NUMBER OF CARDHOLDERS 6/30/2011	NUMBER OF CARDHOLDERS 2/17/2012
Curriculum – Career Readiness	Provide hands on training to students to prepare them for a career after graduating	7	1
Bond	Administers of the 2009 Bond Program	2	2
Central Office	Academics, Audio Visual, Bilingual, Finance, Human Resources, Information Technology, and Transportation	7	8
Facilities and Auxiliary Services	Plant Operations and Auxiliary Services	15	4
Food Service	Provides food to children in schools	4	1
Public Safety	Provides police services to DPS schools	3	1
Schools	School Principals	21	14
Total		59*	31*

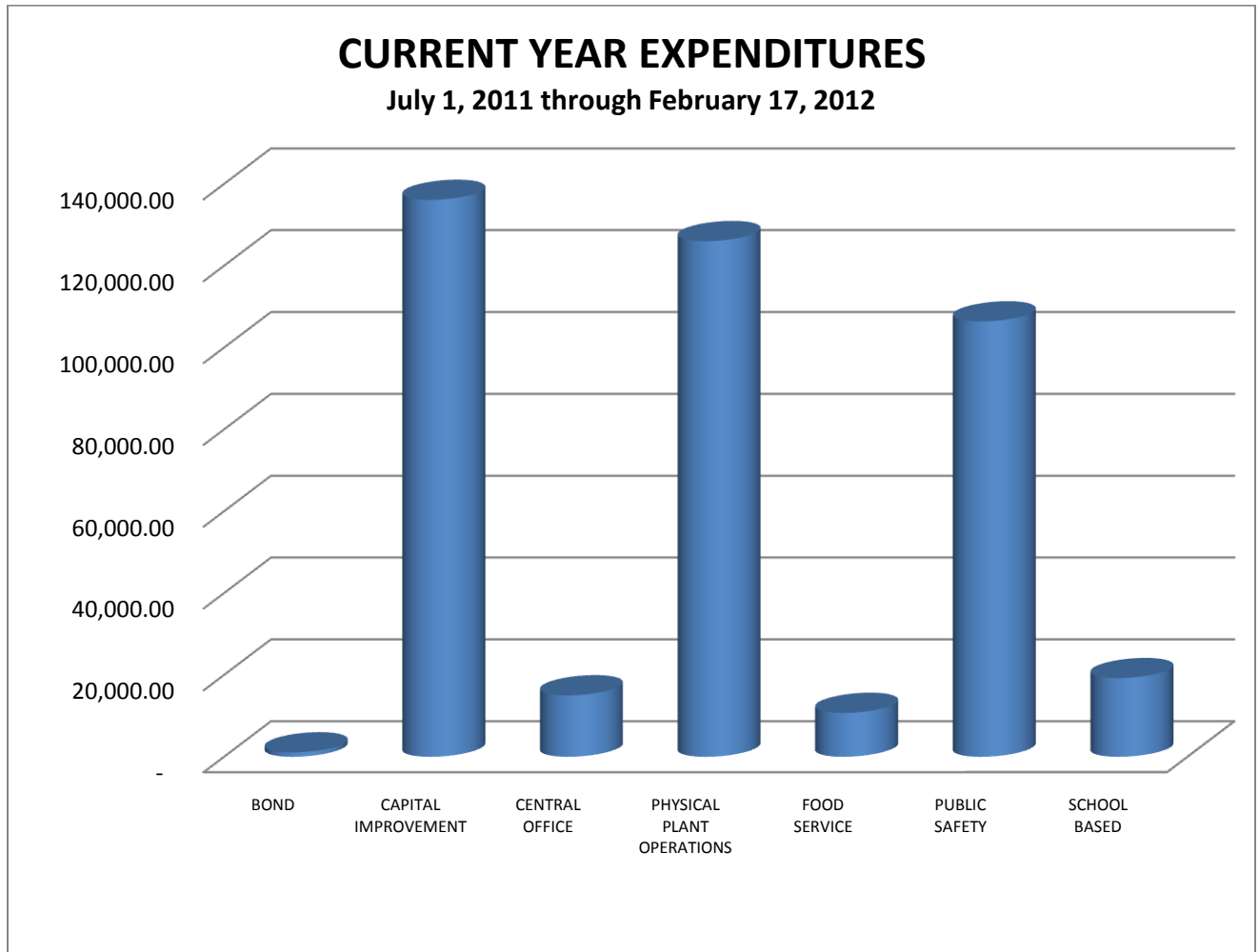
*Card for one user was issued, but not distributed.

Spending Trends

For Fiscal year 2010 – 2011, the 59 P-Card users were allocated a total budget of \$2,397,514.95. Actual expenditures totaled \$881,831.20, or about 37 percent of the approved P-Card budgets. The current program budget as of February 2012 for the 31 approved P-Card holders is \$683,681.00. Of this amount, \$414,579.50, or nearly 61 percent has been incurred to date.

For the current year, three areas, Capital Improvement, Office of Public Safety and Physical Plant Operations spent \$368,539 of the \$683,681, or about 54 percent of the current approved P-Card budgets. Chart 1.1 on page 14

Chart 1.1: 2011 – 2012 P-CARD EXPENDITURES



Some Users Exceed Spending Limit

Based on last year’s activity representing 59 users, we found that some users exceeded their spending limits. Although the condition was not widespread, it does further demonstrate the need for closer monitoring. We noted 3 cardholders from Facility Service and one from Capital Improvement, all utilizing MasterCard P-Card, exceeded their credit limit amounts. As shown in Table 1.2 on the following page, the three Facility cardholders exceeded the credit limit by nominal amounts; the Capital Improvement cardholder exceeded their credit limit by \$17,013.80.

Table 1.2: FY 2010-2011 P-Card Expenditures Exceeding Credit Limit

CARDHOLDER DEPARTMENT	APPROVED CREDIT LIMIT	ACTUAL EXPENDITURES
Capital improvement	\$200,000	\$217,014
Facility Service	\$10,000	\$10,411
Facility Service	\$10,000	\$10,134
Facility Service	\$10,000	\$10,003

These budgets were exceeded even though the District has a process for requesting additional funding for P-Card activities. While only four cardholders exceeded their P-Card budgets last year, the P-Card provider does not limit daily or single purchase spending. As a result, the need for closer and timely monitoring will be critical in ensuring that more cardholders do not exceed their budgets in the future.

Lack of Provider Spending Controls Increases Risk

The District’s current P-Card provider does not have controls in place that would limit the amount of procurement activity any District P-Card holder could incur in any one day or for any one purchase. This is important because under a former program, it was an effective way of ensuring users did not exceed a level of procurement activity that was acceptable to the District. Furthermore, under the current provider, once a P-Card amount is paid for a given billing period, the provider resets the user’s spending limit. Essentially this could allow someone with a \$10,000 limit to spend that amount in one billing period and after payment be able to spend another \$10,000 the next billing period.

Given the lack of spending controls in place at the provider level and the District’s high risk status, P-Card activity whether funded by grant or by the General Fund must be monitored closely for the level of spending to ensure compliance with high risk and District procurement requirements.

Our audit of P-Card activity from the last and current fiscal years indicates that some fairly large purchases were made with P-Cards. For example, we noted a recent purchase exceeded \$19,000 and several purchases were \$5,000 or more. In addition to complying with the applicable procurement requirements, the concern over whether the District is getting the best price for some of these procurements becomes more of an issue when procurement amounts are fairly significant.

The lack of provider controls means that the District must do a better job of ensuring all card users are complying through better monitoring of P-Card activity. According to OPC officials, the vendor will periodically contact them by phone concerning cardholders' spending patterns that may trigger follow up actions under the vendor's fraud determent program.

**PROGRAM EFFECTIVENESS UNCLEAR
DUE TO LACK OF COST DATA**

The objectives of the P-Card program are to allow users to obtain goods and services faster, pay vendors in a timelier manner, and reduce the processing costs for procurement activity. The effectiveness of the program depends on whether or not these objectives are being achieved. The first two objectives—obtaining goods without going through the standard procurement process and paying for those goods without going through the standard accounts payable process are being achieved. However, the District has neither documented its cost for processing requisitions and purchase orders, nor has it compared the cost of the P-Card program to those costs to determine the cost effectiveness of the P-Card program. As a result, we cannot determine whether the District's P-Card program is effective.

Ultimately, the decision to expand the program to more users should not only be based on the need for timelier procurements, but should be cost-driven. This issue raised more concern under the former P-Card program that required such a significant surety amount. Nevertheless, we believe given the District's financial challenges, cost should be a primary consideration in the decision to expand the program by issuing more P-Cards.

SUBSEQUENT EVENT

Subsequent to start of our audit and beginning with the new fiscal year, July 1, 2011, DPS discontinued the contract with American Express as a P-Card provider. This action resulted in the \$5 million certificate of deposit being returned. Had this action not been taken, the Office of the Auditor General would have recommended this action given the high surety amount and reduced number of users and low spending. We applaud the Department of Finance for taking this action, which also eliminated the Corporate Credit Card used exclusively by Accounts Payable.

CONCLUSIONS

Purchase-cards can be an important component in the procurement strategy of an organization. However, we believe an effective P-Card program should be driven by cost consideration and include timely and adequate monitoring for compliance.

In general, the use of P-Cards is accepted as a means of defraying costs incurred from traditional purchasing methods and providing the convenience of timely procurements for users. However, the District has not documented the cost of processing requisitions and purchase orders and therefore is not currently aware of how P-Cards are saving the District resources through their use. At the same time, it makes the decision of whether or not to issue more P-Cards more difficult because no District cost data is available to support such decisions.

The lack of timely monitoring of individual statements and failure to enforce District policies has, in our opinion, fostered an environment of non compliance by users. That is, if card holders fail to submit the required procurement documentation in the required timeframe and there is no follow up or no consequences for doing so, then that non compliance is certain to continue. This is even more of concern given the lack of provider controls that would restrict users from exceeding daily or single purchase limits.

We did note actions taken by OPC to address prohibited purchases once they became aware of such non compliance, but we believe that closer monitoring is still required to ensure compliance.

Doing so could pose a challenge for the two individuals assigned to OPC given their other accounting responsibilities. In this regard, management may wish to consider moving this responsibility to Procurement and Logistics where procedures are being implemented to ensure compliance with high risk, federal, state and District procurement policies.

Ultimately, DPS is responsible for ensuring the data integrity and the internal control environment over P-Cards. Given the liquidity of purchase cards, preventive controls should be in place, where possible, to help deter improper spending. However, when unable to prevent unwanted purchases from occurring, controls to discover improper purchases or non-compliance with the policies and procedures should be strong to ensure integrity of the program.

RECOMMENDATIONS

To help ensure greater compliance, we recommend the Chief Financial Officer direct OPC to:

- Revise P-Card Policies and Procedures Manual to reflect current accepted practices and to:
 - Permit management's approval of other job titles authorized for P-Card use as deemed necessary.

To strengthen the control environment and help ensure the integrity of financial information, we recommend the Chief Financial Officer direct OPC to:

- Require the Cardholder Agreement forms be signed annually prior to users receiving their P-Card for all P-Card holders,
- Establish a timeframe (i.e., within 5 business days), for reviewing received reconciliations to ensure timely monitoring,
- Enforce requirements for cardholders to follow policies and procedures, including:
 - Obtaining supervisory approval of reconciliations,
 - Submitting original receipts with P-Card reconciliations,
 - Submitting card holder reconciliations by 12 of each month,
 - Obtaining pre-approval to purchase prohibited items, and
 - Ensuring that sales taxes are not paid on procured items.

We further recommend that the CFO direct OPC to:

- Seek restitution for prohibited purchases and those where sales tax are paid, and
- Enforce P-Card policies and procedures to suspend cardholders that are not in compliance with policies and procedures.

To facilitate decisions about expanding the P-Card program and to help determine the effectiveness of the P-Card program, we recommend Finance to work with the Director of Procurement and Logistics:

- Document the District's cost of processing purchase orders and requisitions.

MATTERS FOR CONSIDERATION

To provide greater and more effective oversight, management may wish to consider transferring the administrative responsibilities of the P-Card program to the Office of Procurement and Logistics. The Office of Procurement Card Management is staffed by two accounting professionals who have other finance related duties. As such, they are unable to devote the level of attention the program warrants. This is a greater concern with the bi-monthly billings that occur and the lack of vendor spending controls.

Given that the Office of Procurement and Logistics is considered the authority over purchasing for DPS, transferring the P-Card program to this department offers some advantages. The department has procurement professionals who are knowledgeable about procurement guidelines and requirements and are in a better position to assess whether cost incurred with P-Cards are reasonable and competitive.

Furthermore, moving the administration of the P-Card program under the Office of Procurement and Logistics could allow management to evaluate the use of P-Cards and whether they should be included as part of the procurement strategy for a given department. We believe this would also facilitate the development of cost data for processing requisitions and purchase orders.

Our review was performed in accordance with U.S. General Accounting Office Government Auditing Standard and Standards of the Institute of Internal Auditors.

This report is intended solely for management and should not be used for any other purpose. This restriction is not intended to limit the distribution of the report which is a matter of public record.

Odell W. Bailey, CIA

A handwritten signature in blue ink, appearing to read 'Odell W. Bailey', is positioned below the name.

DPS Auditor General

MANAGEMENT RESPONSE

The Office of Accounting has reviewed the Auditor General's Report on Purchasing Card (P-Card) Activity dated March 1, 2012. We disagree with the Auditor General's depiction of the program oversight by the Office of Purchase Card Management. The staff assigned to monitor P-Card activity have multiple duties not related to P-Card program operation, which results in reconciliations not being immediately reviewed; however, when reviewed, improper purchases are noted and appropriate actions are taken, including suspension of P-Card privileges. Despite limited resources, the P-Card Office effectively provided customer service to cardholders and enforced policy ensuring that District resources were safeguarded and purchase activity well documented.

Conversely, we appreciate and agree with all of the recommendations noted in the report to help ensure greater compliance and strengthen the overall control environment. Specifically, we concur with, and agree to accomplish the following:

1. Revised the P-Card policies and procedure manual and consider language that allows P-Cards to be approved based on management determination of need.
2. Enforce the requirement that Cardholder Agreement Forms be signed annually as part of the application process. This was implemented prior to the completion of the audit.
3. Establish a timeframe for reviewing received reconciliations that is reasonable as assigned accounting staff have other job assignments not related to purchase cards
4. Address enforcement with the following actions:
 - a. We will work with the CFO to determine who will approve reconciliations for Division Chiefs.
 - b. We will amend the policy to state we will accept original and/or copies of receipts when submitted by email or fax
 - c. We concur that users should forward their reconciliations by the 12th of each month. We will amend our policy to include language that states if a reconciliation is received after the 12th of each month, we will send an initial correspondence as a reminder. If not received 3 days from reminder correspondence, we will suspend card.
 - d. We will develop a form for cardholders to document approval of purchases prohibited by policy but deemed necessary due to special circumstances.
 - e. We will update policy to address the sales tax issue. If taxes are paid by cardholder, we will require proof vendor would not accept tax ID. Policy will require cardholder to reimburse sales tax if the required documentation is not present.
5. It is the Office of Purchase Card Management practice to seek restitution for any purchase made that is deemed personal or non-work related. Specifically, for the cash withdrawals at the casino, restitution was sought and has been paid. For the iPod purchases, we investigated and determined the purchases were allowable as items were being used as student incentives. Policies and procedures will be revised as deemed appropriate to address these issues.
6. To help ensure greater compliance, as part of our monitoring, we will enforce our revised policies and procedures. In addition, to strengthen our control environment, we will look for another purchase card provider that will offer the "declining balance" feature necessary to match DPS budgetary controls and ensure spending is authorized.