OFFICE OF THE DISTRICT OF COLUMBIA AUDITOR

717 14TH STREET N.W., SUITE 900
WASHINGTON, D.C. 20005
TEL. 202-727-3600 • FAX: 202-724-8814

Deborah K. Nichols
District of Columbia Auditor

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Mismanagement, Noncompliance, and Ineffective Internal Controls Exposed School System Funds to a Significant Risk of Fraud, Waste, and Abuse

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EXECUTIVE SUMMARY

PURPOSE

Pursuant to Public Law 93-198, Section 455, the District of Columbia Auditor conducted a review of purchase card expenditures made by the District of Columbia Public Schools during fiscal year 2001.

CONCLUSION

The Auditor's examination of the District of Columbia Public Schools (DCPS) purchase card program revealed significant management deficiencies and noncompliant uses by cardholders.

During fiscal year 2001, DCPS paid approximately $6.3 million in purchase card charges. DCPS' OCFO could not provide documentation to support approximately $984,728 in purchase card payments. The Auditor found that DCPS paid $112,415 in late payment penalties to US Bank for fiscal year 2001 purchase card transactions that were not timely paid. Of the 15 District agencies that incurred late payment penalties, DCPS was assessed the highest cumulative penalty of $112,415. The $112,415 could have been put to more productive use if DCPS' purchase card program had not been mismanaged.

The purchase card Manual requires purchase card transactions to be supported by an original invoice or receipt and bank statement. The Auditor found that during fiscal year 2001 DCPS' Office of the Chief Financial Officer failed to adhere to the purchase card policies and procedures as well as effective internal control procedures by directing payment of all outstanding US Bank invoices even though the invoices lacked supporting documentation such as receipts, monthly transaction reports, and bank statements. In a memorandum dated July 9, 2001, a former Chief Financial Officer for DCPS ordered payments to be made notwithstanding the lack of documentation. As a result of this directive from DCPS' then CFO, payments were made to vendors totaling approximately $684,518 for which there were no vendor invoices, receipts, bank statements, transaction reports, or other supporting documentation.

Payments made in the absence of supporting documentation exposed DCPS' finances to a significant risk of fraud, waste, and abuse. Further, any order from a financial officer to make payments in the absence of supporting documentation exhibited poor professional judgment, undermined the integrity of transactions processed through DCPS' financial system, and indicated a weak internal control system and environment.

The purchase card Manual requires each cardholder to submit a signed and reconciled monthly transaction report along with all supporting documentation to his or her Approving Official. The Auditor found that DCPS OCFO employees recreated monthly transaction reports for cardholder(s) who did not submit this report and supporting documentation as required by the purchase card Manual. DCPS' OCFO did not validate the accuracy of the charges reflected on the Approving Official's Account Summary before recreating monthly transaction reports to facilitate payment on behalf of cardholder(s) who failed to submit a monthly report, and in some cases supporting documentation. This ad hoc process violated the purchase card Manual and may have aided in concealing the misuse of District Government funds. Also, payments based on recreated transaction reports, in the absence of underlying documents supporting the transactions, created unnecessary risks of fraud, abuse and waste of DCPS funds. The Manual requires that if a transaction report is overdue (not received in the Finance Office before the next invoice is received from the bank), the card will be immediately suspended. However, the Auditor found that despite cardholder noncompliance with this provision of the purchase card Manual, the DCPS CFO's office did not ensure the suspension of any affected cards and continued to allow noncompliant cardholder(s) to retain purchase card privileges.

The Auditor's review of transactions made by DCPS cardholders during fiscal year 2001 revealed that there were repeated instances where cardholders made improper purchases of prohibited items and other unallowable transactions totaling approximately $82,877. The Auditor further analyzed the purchases and found that DCPS cardholders purchased $18,955.42 worth of fixed assets, sensitive items, and items prone to mysterious disappearance. The Auditor found that $7,125 in fixed assets purchased with the card were never recorded in DCPS' fixed asset inventory.

In fiscal year 2001, cardholders made prohibited purchases such as: $3,935.50 for food and water; $1,522.40 for hotel services; $1,050 for entertainment; $11,900 for gifts; and $473.19 for rental cars.

The purchase card Manual provides that purchase cards may be used when the total amount of a single purchase (which may consist of more than one item) does not exceed the cardholder's authorized single purchase limit of $2,500. Orders and payments may not be split to avoid the single purchase limit. The Auditor found that DCPS cardholders circumvented the single purchase limit by splitting purchases to avoid exceeding the $2,500 single purchase limit. Further compounding this failure in compliance, the DCPS CFO's office failed to establish an effective system to monitor and ensure adherence to the relevant policies and procedures governing the use of District Government purchase cards.

D.C. Code, Section 47-2005(1), exempts the District government from paying sales taxes. The Auditor found numerous instances where DCPS cardholders paid sales taxes on purchase card purchases. DCPS erroneously paid approximately $5,355 in sales taxes on purchases made during fiscal year 2001 using purchase cards.

The Manual specifically notes that the use of the card does not mean that competition need not be sought. The Manual requires that before a purchase is made, a cardholder must ensure that the price is fair and reasonable, and that price quotes are obtained from more than one vendor for all purchases. The Auditor's review of DCPS purchases revealed no evidence that purchases were made competitively or that any attempts were made to obtain quotes from more than one vendor, thereby precluding the District from ensuring it obtained the best possible price.

As noted throughout this report, the Auditor found numerous instances of purchase card misuse where the cardholders were not penalized by DCPS even though the purchase card Manual requires that the Approving Official enforce disciplinary provisions of card related policies and procedures, and initiate control and disciplinary actions to avoid misuse of cards.

DCPS did not maintain an inventory of purchase cardholders which made it impossible for the Auditor to verify the status of cardholders and the legitimacy of purchases made by certain individuals. The Auditor found that DCPS relied on the card account information from U.S. Bank which lists all cardholders regardless of whether they are the current (active) or previous (inactive) cardholder.

DCPS' CFO could not provide the Auditor with an inventory of terminated, deactivated and suspended cardholders, or any correspondence sent to US Bank requesting the closing and opening of any accounts in fiscal year 2001.

Moreover, the Auditor's review revealed that a total of at least $1,869,916 in DCPS funds were disbursed without adequate documentation, for late payment penalties, for improper or prohibited purchases, and for taxes paid on purchases that should have been tax exempt. These flawed transactions constituted approximately 30% of the $6.3 million in payments for goods and services procured through DCPS' purchase card program.

MAJOR FINDINGS

1. DCPS paid approximately $6.3 million for purchase card expenditures and $112,415 in late payment penalties during fiscal year 2001.

2. DCPS failed to comply with the Office of Contracting and Procurement's guidelines for purchase card use.

3. DCPS' OCFO paid approximately $684,518 for purchase card transactions that lacked proper supporting documentation.

4. Monthly transaction reports were recreated.

5. Cardholders purchased approximately $82,900 in prohibited items.

6. Cardholders made $7,125 in purchases that were not recorded in DCPS' fixed assets system.

7. Purchases were split to avoid the $2,500 single purchase limit.

8. Approximately $5,355 in sales taxes were paid on exempt purchases.

9. Competitive price quotes were not obtained.

10. DCPS lacked sufficient controls over purchase card use.

11. DCPS did not maintain a list of DCPS employees issued cards.

12. DCPS did not maintain records of terminated, deactivated or suspended purchase card accounts.

13. DCPS did not provide adequate training to purchase card holders.

MAJOR RECOMMENDATIONS

1. DCPS' CFO ensure that purchase card invoices are supported by adequate appropriate documentation before making payment, and that all records of purchase card transactions are retained for a minimum of three years and available when needed.

2. DCPS' CFO ensure that cardholders adhere to applicable procurement laws and regulations and purchase card policies and procedures established by the Office of Contracting and Procurement (OCP), and immediately suspend the purchase card privileges of noncompliant cardholders.

3. DCPS' CFO immediately cease the practice of processing payments based on recreated monthly transaction reports without cardholders and Approving Officials scrutinizing, validating, and certifying the transactions.

4. The Chief Procurement Officer and DCPS' CFO develop a methodology that ensures that all purchase cards have the requisite controls in place to prevent future approval of unauthorized or unallowable purchases.

5. Cardholders making unauthorized purchases must be held personally liable and accountable for such purchases. DCPS' CFO immediately institute an effective procedure that ensures cardholders promptly make reimbursement for all unallowable purchases.

6. The DCPS CFO and Superintendent should immediately take steps necessary to ensure that all information related to fixed assets acquired with purchase cards are promptly recorded in DCPS' fixed assets system.

7. OCP and DCPS' CFO should ensure that adequate training is provided to all cardholders and Approving Officials, and ensure that monthly transaction reports are adequately reviewed, including supporting documents such as invoices and receipts, to ensure that taxes are not paid on the exempt purchases and that the purchase is proper in all other respects.

8. The improper purchases identified by the Auditor in this report must be immediately investigated by DCPS' internal auditor and where appropriate DCPS' Superintendent and Chief Financial Officer must take the appropriate steps to recover payments made for these improper purchases from the cardholder. Further, cardholders who abuse or misuse their

purchase cards must be held accountable to the fullest extent permitted under the District's personnel law and rules.

9. DCPS' CFO, Superintendent, and Assistant Superintendents immediately hold cardholders liable and promptly take all actions necessary to retrieve the amount spent on unallowable purchases. Such actions should include, but not be limited to, reimbursement and immediate suspension of cardholder privileges.

10. DCPS must maintain an inventory of all purchase cardholders; periodically update the inventory to include new cards issued, deactivations, terminations, and suspensions; and compare the inventory to purchase cardholder records so as to accurately determine the identity and number of cardholders and prevent any unauthorized use of the cards.

11. The Chief Procurement Officer must institute a comprehensive, mandatory, and continuing training program for all District government purchase cardholders to ensure their familiarity with and adherence to all policies and procedures governing purchase card usage.

12. DCPS must ensure that all DCPS employees designated to use purchase cards are thoroughly trained and knowledgeable of all applicable policies and procedures. Failure to comply with applicable policies and procedures should result in the immediate suspension of purchase card privileges.

PURPOSE

Pursuant to Public Law 93-198, Section 455, the District of Columbia Auditor conducted a review of purchase card expenditures made by the District of Columbia Public Schools during fiscal year 2001.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the review were to determine:

1. the total amount expended during fiscal year 2001 using purchase cards;

2. the types of goods and services purchased;

3. the identity and number of authorized purchase card users at DCPS;

4. whether DCPS management complied with all applicable policies, procedures, and laws governing the use of purchase cards; and

5. whether internal controls were sufficient to ensure that DCPS funds were adequately protected from waste and misuse inherent in the purchase card program.

The audit covered fiscal year 2001 and, where appropriate, was extended to fiscal year 2002. In conducting the examination, the Auditor reviewed policies and procedures of the Office of Contracting and Procurement (OCP) and the Office of the Chief Financial Officer; DCPS monthly purchase card statements of account; detailed invoices from US Bank, the card issuer; vouchers authorizing payment for purchase card charges; monthly transaction reports; DCPS purchase card program policies and operating procedures; the DCPS Purchase Card Deployment Plan; the Procurement Practices Act of 1985, and Title 27 of the District of Columbia Municipal Regulations (DCMR). The Auditor also interviewed DCPS and OCP personnel knowledgeable about the acquisition and use of purchase cards.

BACKGROUND

According to the Fiscal Year 2001 Operating Budget and Financial Plan, the mission of the District of Columbia Public Schools (DCPS) is to "make dramatic improvements in the achievement of all students today in preparation for their world tomorrow." DCPS is governed by a nine-member Board of Education consisting of four members appointed by the Mayor and confirmed by the Council of the District of Columbia, and five elected members including a president. The day-to-day management and direction of all matters pertaining to instruction and operations are handled by a Superintendent appointed by the Board of Education. DCPS functions as both a local education agency (LEA) and a state education agency (SEA).

In fiscal year 2001, DCPS' operating budget was $804,548,701, which served a student population of approximately 70,677. The operating budget funded 104 elementary schools, 26 middle/junior high schools, 23 senior high and alternative schools, and approximately 10,931 full-time employees.

During fiscal year 1999, OCP, through the Purchasing Technologies Group (PTG), designed and instituted a District government purchase card program to enable agencies to make small purchases using a revolving purchase card issued by US Bank. OCP obtained the services of US Bank through the United States General Services Administration. Contracts to provide commercial purchase card accounts are awarded by the General Services Administration, at the request of state and federal government entities, to enable authorized employees to procure goods and services consistent with applicable laws, regulations, policies and procedures. Each agency is assigned an annual limit, and each authorized user is assigned a monthly and single purchase limit. A $2,500 single purchase limit applied to purchase cards issued to DCPS employees. Each DCPS purchase cardholder had a monthly limit ranging from $1,000 to $250,000 and annual limit ranging from $1,000 to $287,400. Overall, DCPS's annual purchase card limit totaled approximately $10.2 million during the audit period.

The purchase card program was implemented at DCPS on August 1, 2000, to facilitate a convenient and efficient process of purchasing low-cost supply items for use in DCPS operations. Fiscal year 2001 was the first full year of purchase card use by DCPS. The purchase card helps to eliminate the need to process requisitions and purchase orders for small purchases. During fiscal year 2001, DCPS assigned purchase cards to approximately 217 of its employees.

The purchase card agreement prohibits purchases of equipment, conference fees, dues, memberships or subscriptions, food items regardless of the type or occasion, gifts and donations, travel, payments for services of any sort, telephone expenses, including cellular phones and related expenses, and advertising for personnel positions.

District of Columbia Public Schools' Purchase Card Deployment Plan

The Auditor reviewed the Purchase Card Deployment Plan ("Plan"), dated April 25, 2000, prepared specifically for DCPS by the Office of Contracting and Procurement. The Plan included a rationale for DCPS' participation in the purchase card program, an agency readiness assessment report, a startup checklist, and a certification of DCPS' Deployment Plan. The Plan stated that the purchase card would simplify the buying process for DCPS purchases, reduce micro-purchase processing costs, reduce paperwork and labor costs, and reduce the number of DCPS purchases of

$2,500 or less through the normal procurement process. The Plan concluded that based on historical data, use of the purchase card was justified. The Plan also concluded that the ultimate benefit of the purchase card was its revenue generating opportunity as a result of rebates for every purchase with the card. However, DCPS' purchase card transactions generated a paltry rebate of only $919.19 on $6.3 million in purchases while DCPS paid approximately $112,415 in late penalties during fiscal year 2001.

Finally, the OCP, through the Purchasing Technologies Group, recommended the deployment of the purchase card program at DCPS based on: 1) the DCPS agency head's excellent relations with the Office of the Chief Financial Officer (OCFO) and other OCFO personnel; 2) DCPS' demonstrated mature degree of budget discipline; and 3) DCPS' well managed financial processes. Contrary to these assertions, the Auditor found that during fiscal year 2001 DCPS experienced an $81 million deficit, its financial processes were poorly managed, and its relationship with the OCFO was strained.

FINDINGS

DCPS PAID APPROXIMATELY $6.3 MILLION FOR PURCHASE CARD EXPENDITURES AND $112,415 IN LATE PAYMENT PENALTIES DURING FISCAL YEAR 2001

During fiscal year 2001, DCPS paid approximately $6.3 million in purchase card charges. However, DCPS financial managers provided the Auditor with 1,174 purchase card payments totaling only $5.3 million. Of the total $6.3 million payments, DCPS' OCFO could not provide documentation to support approximately $984,728. Additionally, $684,518 of the $5.3 million in purchase card payments lacked proper supporting document.

The Auditor found that DCPS paid $112,415 in late payment penalties to US Bank for fiscal year 2001 purchase card transactions that were not timely paid. The late payment penalty was based upon the Federal Prompt Payment Act Interest Rate, P.L. 97-177. The federal Prompt Payment Act allows US Bank to automatically assess interest on unpaid transactions over 30 days at an average rate of 5.875 percent per annum, which is the rate established by the secretary of the treasury pursuant to 31 U.S.C. 3902(a). US Bank at one point threatened to suspend the accounts of 15 District government agencies, including DCPS, if payments on overdue purchase card bills and interest penalties were not made. Of the 15 District agencies, DCPS was assessed the highest cumulative penalty.

DCPS FAILED TO COMPLY WITH THE OFFICE OF CONTRACTING AND PROCUREMENT'S GUIDELINES FOR PURCHASE CARD USE

The Manual of Instruction and Standard Procedures for the use of government purchase cards issued by OCP states: "Cardholders are delegated procurement authority under the purchase card program, and are procurement officials as defined in Chapter 18 of 27 DCMR. As such, each cardholder is expected to adhere to the procedures in making purchases utilizing their assigned purchase card." The Auditor found the following violations in DCPS' management and use of purchase cards.

DCPS' OCFO Paid Approximately $684,518 For Purchase Card Transactions That Lacked Proper Supporting Documentation

The purchase card Manual requires each transaction to be supported by an original invoice or receipt and bank statement. Purchase cardholders are also required to obtain an original invoice or receipt from the vendor in addition to a packing slip for purchases made by phone.

The General Accounting Office's Standards for Internal Control in the Federal Government, dated November 1999, sets forth the importance of obtaining and maintaining appropriate documentation to support transactions in an effective internal control system. The GAO's Standards for Internal Control state that: "All transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. All documentation and records should be properly managed and maintained."

The Auditor found that during fiscal year 2001 DCPS' Office of the Chief Financial Officer failed to adhere to the purchase card policies and procedures set forth in the Manual, as well as effective internal control procedures, by directing payment of all outstanding purchase card invoices even though the invoices lacked supporting documentation such as receipts, monthly transaction reports, and bank statements. In a memorandum dated July 9, 2001, which was sent to all DCPS schools, divisions, and program offices, a former Chief Financial Officer for DCPS ordered payments to be made notwithstanding the lack of documentation.[1] Of the total $6.3 million in purchase card payments identified by the Auditor for fiscal year 2001, approximately $684,518 were paid which lacked vendor invoices, receipts, bank statements, transaction reports, and other supporting documentation were made to vendors as a result of this directive from DCPS' then CFO.

Payments made in the absence of supporting documentation exposed DCPS' finances to a significant risk of potential fraud, waste, and abuse. Without supporting documentation, it was impossible for the Auditor or accountable DCPS program and financial managers to determine the legitimacy of these transactions. Moreover, without vendor sales receipts or invoices it was impossible to determine whether items purchased were for DCPS or for the cardholder's personal use. The practice of making payments without supporting documents may have resulted in the use of public funds to support fraudulent, improper or abusive transactions. Further, any order from a District financial officer to make payments in the absence of supporting documentation exhibited poor professional judgment, undermined the integrity of transactions processed through DCPS' financial system, and indicated a weak internal control system and environment.

Monthly Transaction Reports Were Recreated

The purchase card Manual requires each cardholder to submit a signed and reconciled monthly transaction report along with all supporting documentation to his or her Approving Official within five days of receipt of the bank statement. The Approving Official is responsible for reviewing and signing the monthly transaction report and within five days forwarding the report and

[1]The DCPS CFO issuing this directive is the current Budget Director for the District of Columbia government.

bank statement, including all original supporting documentation, to the central office designated in the Approving Official's letter of appointment. Both the cardholder and the Approving Official must sign the transaction report.

The Auditor found that DCPS OCFO employees recreated[2] monthly transaction reports for cardholder(s) who failed to submit this report and supporting documentation as required by the purchase card Manual. These transaction reports were based upon the Approving Official's Account Summary (a monthly record each Approving Official receives from US bank listing all card activity for each cardholder over which he or she has approving authority) which does not contain sufficient information that can be used to scrutinize and authenticate the legitimacy of purchases noted therein. The purchase card Manual requires the Approving Official to ensure that the purchases listed in the Account Summary are the same as those reported by the cardholder. This control technique was undermined by cardholders' failure to submit monthly transaction reports and supporting documentation. As a consequence, DCPS' OCFO did not, and could not, validate the accuracy and propriety of the charges reflected on the Approving Official's Account Summary before recreating the monthly transaction report for payment on behalf of cardholder(s) who failed to submit a monthly transaction report and supporting documentation. This ad hoc process violated the purchase card Manual and may have aided in concealing the misuse of District Government funds. Also, payments based on recreated transaction reports, in the absence of underlying documents supporting the transactions, created unnecessary risks of fraud, abuse, and waste of DCPS funds.

The Manual requires that if a transaction report is overdue (not received in the Finance Office before the next invoice is received from the bank), the card will be immediately suspended. However, the Auditor found that despite cardholder noncompliance with this provision of the purchase card Manual, the DCPS CFO's office did not ensure the suspension of any affected cards and continued to allow noncompliant cardholder(s) to retain purchase card privileges. DCPS could not provide the Auditor with evidence indicating that any corrective action whatsoever was taken against cardholders who failed to submit the monthly transaction report as required by the purchase card manual.

[2] Defined as creating a monthly log report of purchase card transaction activity using the approving official's account summary in the absence of the following documents: invoice, receipt, bank statement, cardholder signature, and approving official signature.

The audit team did review a memorandum dated March 8, 2001, sent by DCPS' Interim Controller to the DCPS Superintendent, Deputy Superintendents, Chief Contracting Officer, and Chief Financial Officer seeking their assistance in ensuring that cardholders submitted monthly transaction reports on time. The Auditor did not see any evidence indicating that these officials took appropriate and necessary action to ensure the timely submission of complete and accurate monthly transaction reports.

Cardholders Purchased Approximately $82,900 In Prohibited Items

The purchase card Manual explicitly prohibits cardholders' use of the card for the following:

- equipment such as printers, microwave ovens, refrigerators etc.;
- conference fees, dues, memberships or subscriptions;
- gifts or donations to individuals, groups, or organizations;
- food items, including snacks and meals, regardless of the occasion;
- travel, including airline or hotel reservations;
- payment for services of any sort;
- telephone expenses, including cellular phones and related expenses; and
- advertising for personnel positions.

Further, the Manual prohibits cardholders from purchasing equipment and items that might potentially be classified as fixed assets and items that are sensitive or subject to mysterious disappearance. These items include, but are not limited to, the following: calculators, camcorders, scanners, printers, televisions, DVD and VCR recorders, portable radios, and laptop computers.

The Auditor's review of transactions made by DCPS cardholders during fiscal year 2001 revealed repeated instances where cardholders made improper purchases of prohibited items and other unallowable transactions totaling at least $82,900. The Auditor further analyzed the purchases and found that DCPS cardholders purchased $18,955.42 worth of sensitive items that were never recorded in DCPS' fixed asset inventory. Table I summarizes and illustrates the types of improper and unallowable purchases made by DCPS employees who were assigned purchase cards. Appendix I lists the improper purchase transactions by school.

Table I
District of Columbia Public Schools
Summary of Prohibited Cardholder Purchases:
Fiscal Year 2001

Prohibited Purchases	**Amount**
Gifts	$11,900.00
Athletic Apparel/Supplies	$20,344.30
Food and Water	$3,935.50
Furniture	$2,370.05
Entertainment	$1,050.00
Equipment and Sensitive Items	$18,955.42
Subscriptions and Memberships	$1,621.94
Rental Car	$473.19
Maintenance and Repair Services	$10,583.35
Boarding/ Lodging	$1,522.40
Other Prohibited Purchases[3]	$10,120.73
Total FY-2001 Prohibited Purchase Card Expenditures	**$82,876.88**

Source: DCPS Purchase Card Records and DC Auditor Analysis

As illustrated in Table I, the Auditor found significant noncompliance by DCPS cardholders in purchasing prohibited items. In fiscal year 2001, cardholders made prohibited purchases such as: $3,935.50 for food and water; $1,522.40 for hotel services; $1,050 for entertainment; $11,900 for gifts; and $473.19 for rental cars. One DCPS cardholder purchased $2,500 in gifts, and another cardholder purchased 94 gift cards totaling $9,400. Another cardholder was found to have purchased $20,344.30 in athletic apparel that should have been procured through normal procurement channels.

<u>Cardholders Made $7,125 In Equipment Purchases That Were Not Recorded in DCPS' Fixed Assets System</u>

Rules governing the use of purchase cards require that all items purchased with the card that could be classified as fixed assets, sensitive items, or are subject to mysterious disappearance must

[3]Other prohibited purchases included metro fare cards, newspapers, saucers, pots, plants, flowers, teddy bear and balloons, classified advertising, calculators, employee training, uniforms, female hygiene products, and duplicate keys.

be included in the agency's fixed assets inventory. Further, Section 1020.301 of the Office of the Chief Financial Officer's (OCFO) Financial Policies and Procedures Manual provides that:

> Fixed assets must be adequately safeguarded. Physical and accounting control policies established by the Office of Financial Operations and Systems (OFOS) must be followed by each agency...

Section 1020.302(A) requires that all capitalized and non-capitalized fixed assets be recorded in the Fixed Assets System (FAS). OCFO policies and procedures also require that agencies record and maintain an internal supplementary listing on the agency's FAS, or on the OFOS FAS, of items valued between $1,000 and $5,000. While the vast majority of items purchased were valued at less than $1,000, the Auditor found that at least five items individually valued at over $1,000 were acquired using a purchase card but were not recorded in DCPS' or OFOS' FAS. The Auditor inquired of DCPS officials as to whether DCPS recorded any of the items purchased with a purchase card in the agency's fixed assets system. The Auditor was informed that none of the purchases had been added to DCPS' or OFOS' FAS. Table II lists the items purchased with a purchase card that were not recorded in the FAS.

Table II
Purchase Card Purchases Valued Between $1,000 and $5,000
That Were Not Recorded in DCPS's Fixed Assets System:
Fiscal Year 2001

Purchase Card Purchases	Unit Cost	Date Purchased
Eltron P310 Color Printer	$2,325.00	08/24/01
1 Omnibook Laptop Computer	$1,200.00	08/29/01
1 Omnibook Laptop Computer	$1,200.00	08/29/01
1 Omnibook Laptop Computer	$1,200.00	09/05/01
1 Omnibook Laptop Computer	$1,200.00	09/05/01
Total	**$ 7,125.00**	

Source: DCPS and Office of the D.C. Auditor

The failure to properly record qualified purchases in the FAS does not adequately protect valuable government assets and makes them vulnerable to theft, loss, or misuse.

Purchases Were Split to Avoid the $2,500 Single Purchase Limit

The purchase card Manual provides that purchase cards may be used when the total amount of a single purchase (which may consist of more than one item) does not exceed the cardholder's authorized single purchase limit of $2,500. Orders and payments may not be split to avoid the single purchase limit. Additionally, Chapter 18 of 27 DCMR states: "A contracting officer shall not split a procurement totaling more than the agency's small purchase limitation into several purchases that are less than the limit...."[4]

The Auditor found that DCPS cardholders circumvented the single purchase limit by splitting purchases to avoid exceeding the $2,500 single purchase limit. Further compounding this failure in compliance, the DCPS CFO's office failed to establish an effective system to monitor and ensure adherence to the policies and procedures governing the use of District Government purchase cards. The Auditor found that one DCPS cardholder made purchases totaling $3,620.83 for classroom supplies from the same vendor on the same day by splitting the purchases into four transactions to avoid exceeding the $2,500 single purchase limit. Additionally, on March 3, 2001, the same cardholder made five split purchases of classroom supplies at a total cost of $4,115.55. Another cardholder made four split purchases totaling $4,346.85 for plumbing supplies and materials from one vendor on the same day. Further, a cardholder made two split purchases on the same day for prom night supplies totaling $2,655.43.

Approximately $5,355 In Sales Taxes Were Paid on Exempt Purchases

D.C. Code, Section 47-2005(1), exempts the District government from sales taxes on purchases. Additionally, the purchase card Manual requires the cardholder to inform the vendor that purchases are for the District government and therefore exempt from taxes. Further, the U.S. Bank Cardholder Guide advises cardholders to inform vendors and merchants that purchases are tax exempt when making over-the-counter purchases and purchases by mail or telephone.

The Auditor found numerous instances where DCPS cardholders paid sales taxes on purchase card purchases. DCPS erroneously paid approximately $5,355 in sales taxes on purchases made during fiscal year 2001 using purchase cards. Cardholders who incurred sales tax charges on goods and services purchased with a purchase card reflected a lack of adequate training or a reckless

[4] In the case of purchase card procurements, the Auditor considers $2,500 to be the small purchase limitation under Chapter 18 of 27 DCMR.

disregard for spending government funds properly, if not both. Further, DCPS' OCFO failed to adequately monitor, supervise, and enforce the proper use of purchase cards. Despite violations of the purchase cardholder agreement, cardholders continued to incur charges for taxes on purchases made with purchase cards during fiscal year 2001, and no corrective actions were taken by accountable DCPS officials to prevent future violations.

Competitive Price Quotes Were Not Obtained

The purchase card Manual of Instruction provides that having and using a card does not exempt the cardholder from compliance with procurement law, regulations, policies, and procedures. The Manual specifically notes that the use of the card does not mean that competition need not be sought. The acquisition procedures detailed in the Manual state that all rules and regulations set forth in the Procurement Practices Act (D.C. Code, Section 2-301.01 et seq.) and Title 27 of the District of Columbia Municipal Regulations entitled, "Contracts and Procurement," continue to apply when using purchase cards.

The Manual requires that before a purchase is made, a cardholder must ensure that the price is fair and reasonable, and that price quotes are obtained from more than one vendor for all purchases. The Auditor's review of DCPS purchases revealed no evidence that purchases were made competitively or that any attempts were made to obtain quotes from more than one vendor, thereby precluding the District from ensuring it obtained the best possible price.

RECOMMENDATIONS:

1. DCPS' CFO ensure that purchase card invoices are supported by adequate appropriate documentation before making payment, and that all records of purchase card transactions are retained for a minimum of three years and available when needed.

2. DCPS' CFO ensure that cardholders adhere to applicable procurement laws and regulations and purchase card policies and procedures established by OCP and immediately suspend the purchase card privileges of noncompliant cardholders.

3. DCPS' CFO immediately cease the practice of processing payments based on recreated monthly transaction reports without cardholders and Approving Officials scrutinizing, validating and certifying the transactions.

4. The Chief Procurement Officer and DCPS' CFO develop a methodology that ensures that all purchase cards have the requisite controls in place to prevent future approval of unauthorized or unallowable purchases.

5. Cardholders making unauthorized purchases must be held personally liable for the payment of such purchases and held accountable to the fullest extent permitted under District and DCPS personnel rules. DCPS' CFO immediately institute an effective procedure that ensures cardholders promptly make reimbursement for all unallowable purchases.

6. The DCPS CFO and Superintendent should immediately take steps necessary to ensure that all information related to fixed assets acquired with purchase cards are promptly recorded in DCPS' fixed assets system.

7. OCP and DCPS' CFO should ensure that adequate training is provided to all cardholders and Approving Officials, and ensure that monthly transaction reports are adequately reviewed, including supporting documents such as invoices and receipts, to ensure that taxes are not paid on tax exempt purchases and that the purchase is proper in all other respects.

8. The improper purchases identified by the Auditor in this report must be immediately investigated by DCPS' internal auditor and where appropriate DCPS' Superintendent and Chief Financial Officer must take the appropriate steps to recover payments made for these improper purchases from the cardholder. Further, cardholders who abuse or misuse their purchase cards must be held accountable to the fullest extent permitted under District personnel law and rules.

<u>DCPS LACKED SUFFICIENT CONTROLS OVER PURCHASE CARD USE</u>

The purchase card Manual provides:

> As Procurement Officials, cardholders are subject to administrative actions and remedies as well as civil and criminal penalties for violation of the Procurement Integrity Act. ...A cardholder who makes unauthorized purchases or carelessly uses the card is personally liable to DC Public Schools, the government of the District of Columbia, and OCP for the total dollar amount of unauthorized purchases made in connection with misuse or negligence.

Further, according to DCPS and OCP representatives, each cardholder was made aware of the penalties associated with misuse of the card before issuance. Such penalties include recovery of the amount of unauthorized transactions from their salary; recommendation for a letter of reprimand from the Accountable Assistant Superintendent; recommendation for suspension or termination of the cardholder and/or the approver depending on the circumstances[5].

Additionally, GAO's Standards for Internal Control address management's role in maintaining an organization's integrity and providing guidance for proper behavior, removing temptations for unethical behavior, and providing discipline when appropriate.

One of the most important controls lacking was DCPS' chronic failure to hold accountable those employees misusing purchase cards. As noted throughout this report, the Auditor found numerous instances of purchase card misuse where cardholders were not penalized or held accountable in other meaningful ways. The purchase card Manual requires that the Approving Official enforce disciplinary provisions of card related policies and procedures, and initiate control and disciplinary actions to avoid misuse of cards.

DCPS Did Not Maintain a List of DCPS Employees Issued Cards

GAO's Standards for Internal Control also state that:

> An agency must establish physical control to secure and safeguard vulnerable assets. Examples include security for limited access to assets such as cash, securities, inventories, and equipment which might be vulnerable to risk of loss or unauthorized use. Such assets should be periodically counted and compared to control records.

DCPS did not maintain an inventory of purchase cardholders during fiscal year 2001 which made it impossible for the Auditor to verify the status of cardholders and the legitimacy of purchase card usage. The Auditor found that DCPS relied on the card account information from US Bank which lists all cardholders regardless of whether they are the current (active) or previous (inactive) cardholder. The Auditor used information from voucher payments and bank statements to identify approximately 217 purchase card accounts in use during fiscal year 2001. However, the number of cards identified may have included accounts that were closed or replaced, given that the Auditor obtained copies of only 109 delegations of purchase card authority from OCP that were signed by a DCPS employee during fiscal year 2001.

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[5] The Manual does not specify which Assistant Superintendent is charged with this responsibility.

DCPS Did Not Maintain Records of Terminated, Deactivated or Suspended Purchase Card Accounts

The purchase card Manual issued by OCP requires cardholders to surrender the card to the Approving Official upon separation or transfer from his or her position. The Approving Official must then notify the central office which should inform the bank to close the account and, where appropriate, open an account in the name of the successor. In cases where an Approving Official is transferred or separated, the Assistant Superintendent must inform the central office of the separation and the replacement.

DCPS' CFO could not provide the Auditor with an inventory of terminated, deactivated and suspended cardholders, or any correspondence sent to US Bank requesting the closing and opening of any accounts in fiscal year 2001. However, the Auditor obtained and reviewed a copy of an inventory from OCP of DCPS' closed purchase card accounts. The inventory listed approximately102 closed purchase card accounts, and included information such as the cardholder's name, account number, date account was opened; date account was closed; and last date of activity. The Auditor's review revealed no activity on these accounts after closure.

OCP AND DCPS DID NOT PROVIDE ADEQUATE TRAINING TO PURCHASE CARD HOLDERS

The Office of Contracting and Procurement, through the PTG, was primarily responsible for providing training to DCPS employees prior to issuing purchase cards to DCPS. According to the purchase card Manual, the training was to be thorough and detailed, including coverage of Chapter 18 of 27 DCMR, entitled "Small Purchase and Other Simplified Purchasing Procedures." The Manual states that: "Training may take the form of classroom instruction from GSA or another appropriate, cost-effective source, in-house instruction through use of the program's interactive CD course of instruction or printed materials from GSA or card issuing contractors."

The Auditor found that OCP initially provided a short orientation or training session to prospective DCPS cardholders. The Auditor requested from DCPS information relating to purchase card training such as a training log for the period audited, but DCPS was unable to provide the requested information to the Auditor. The Auditor believes this apparent lack of training substantially contributed to the failure of DCPS managers and cardholders to comply with various provisions governing purchase card usage, including but not limited to:

- cards used to purchase prohibited items;
- sales taxes paid on District government purchases;
- purchases split to avoid exceeding the single purchase limit; and
- cards used to purchase personal items.

RECOMMENDATIONS

1. DCPS' CFO, Superintendent, and Assistant Superintendents immediately hold cardholders liable and promptly take all actions necessary to retrieve the amount spent on unallowable purchases. Such actions should include, but not be limited to, reimbursement and immediate suspension of cardholder privileges.

2. DCPS must maintain an inventory of all purchase cardholders; periodically update the inventory to include new cards issued, deactivations, terminations, and suspensions; and compare the inventory to purchase cardholder records so as to accurately determine the identity and number of cardholders and prevent any unauthorized use of the cards.

3. The Chief Procurement Officer must institute a comprehensive, mandatory, and continuing training program for all District government purchase cardholders to ensure their familiarity with and adherence to all policies and procedures governing purchase card usage.

4. DCPS must ensure that all DCPS employees designated to use purchase cards are thoroughly trained and knowledgeable of all applicable policies and procedures. Failure to comply with applicable policies and procedures should result in the immediate suspension of purchase card privileges.

CONCLUSION

The Auditor's examination of the District of Columbia Public Schools (DCPS) purchase card program revealed significant management deficiencies and noncompliant uses by cardholders.

During fiscal year 2001, DCPS paid approximately $6.3 million in purchase card charges. DCPS' OCFO could not provide documentation to support approximately $984,728 in purchase card payments. The Auditor found that DCPS paid $112,415 in late payment penalties to US Bank for fiscal year 2001 purchase card transactions that were not timely paid. Of the 15 District agencies that incurred late payment penalties, DCPS was assessed the highest cumulative penalty of $112,415. The $112,415 could have been put to more productive use if DCPS' purchase card program had not been mismanaged.

The purchase card Manual requires purchase card transactions to be supported by an original invoice or receipt and bank statement. The Auditor found that during fiscal year 2001 DCPS' Office of the Chief Financial Officer failed to adhere to the purchase card policies and procedures as well as effective internal control procedures by directing payment of all outstanding US Bank invoices even though the invoices lacked supporting documentation such as receipts, monthly transaction reports, and bank statements. In a memorandum dated July 9, 2001, a former Chief Financial Officer for DCPS ordered payments to be made notwithstanding the lack of documentation. As a result of this directive from DCPS' then CFO, payments were made to vendors totaling approximately $684,518 for which there were no vendor invoices, receipts, bank statements, transaction reports, or other supporting documentation.

Payments made in the absence of supporting documentation exposed DCPS' finances to a significant risk of fraud, waste, and abuse. Further, any order from a financial officer to make payments in the absence of supporting documentation exhibited poor professional judgment, undermined the integrity of transactions processed through DCPS' financial system, and indicated a weak internal control system and environment.

The purchase card Manual requires each cardholder to submit a signed and reconciled monthly transaction report along with all supporting documentation to his or her Approving Official. The Auditor found that DCPS OCFO employees recreated monthly transaction reports for cardholder(s) who did not submit this report and supporting documentation as required by the purchase card Manual. DCPS' OCFO did not validate the accuracy of the charges reflected on the Approving Official's Account Summary before recreating monthly transaction reports to facilitate payment on behalf of cardholder(s) who failed to submit a monthly report, and in some cases supporting documentation. This ad hoc process violated the purchase card Manual and may have aided in concealing the misuse of District Government funds. Also, payments based on recreated transaction reports, in the absence of underlying documents supporting the transactions, created unnecessary risks of fraud, abuse and waste of DCPS funds. The Manual requires that if a transaction report is overdue (not received in the Finance Office before the next invoice is received from the bank), the card will be immediately suspended. However, the Auditor found that despite cardholder noncompliance with this provision of the purchase card Manual, the DCPS CFO's office did not ensure the suspension of any affected cards and continued to allow noncompliant cardholder(s) to retain purchase card privileges.

The Auditor's review of transactions made by DCPS cardholders during fiscal year 2001 revealed that there were repeated instances where cardholders made improper purchases of prohibited items and other unallowable transactions totaling approximately $82,877. The Auditor further analyzed the purchases and found that DCPS cardholders purchased $18,955.42 worth of fixed assets, sensitive items, and items prone to mysterious disappearance. The Auditor found that $7,125 in fixed assets purchased with the card were never recorded in DCPS' fixed asset inventory.

In fiscal year 2001, cardholders made prohibited purchases such as: $3,935.50 for food and water; $1,522.40 for hotel services; $1,050 for entertainment; $11,900 for gifts; and $473.19 for rental cars.

The purchase card Manual provides that purchase cards may be used when the total amount of a single purchase (which may consist of more than one item) does not exceed the cardholder's authorized single purchase limit of $2,500. Orders and payments may not be split to avoid the single purchase limit. The Auditor found that DCPS cardholders circumvented the single purchase limit by splitting purchases to avoid exceeding the $2,500 single purchase limit. Further compounding this failure in compliance, the DCPS CFO's office failed to establish an effective system to monitor and ensure adherence to the relevant policies and procedures governing the use of District Government purchase cards.

D.C. Code, Section 47-2005(1), exempts the District government from paying sales taxes. The Auditor found numerous instances where DCPS cardholders paid sales taxes on purchase card purchases. DCPS erroneously paid approximately $5,355 in sales taxes on purchases made during fiscal year 2001 using purchase cards.

The Manual specifically notes that the use of the card does not mean that competition need not be sought. The Manual requires that before a purchase is made, a cardholder must ensure that the price is fair and reasonable, and that price quotes are obtained from more than one vendor for all purchases. The Auditor's review of DCPS purchases revealed no evidence that purchases were made competitively or that any attempts were made to obtain quotes from more than one vendor, thereby precluding the District from ensuring it obtained the best possible price.

As noted throughout this report, the Auditor found numerous instances of purchase card misuse where the cardholders were not penalized by DCPS even though the purchase card Manual requires that the Approving Official enforce disciplinary provisions of card related policies and procedures, and initiate control and disciplinary actions to avoid misuse of cards.

DCPS did not maintain an inventory of purchase cardholders which made it impossible for the Auditor to verify the status of cardholders and the legitimacy of purchases made by certain individuals. The Auditor found that DCPS relied on the card account information from U.S. Bank which lists all cardholders regardless of whether they are the current (active) or previous (inactive) cardholder.

DCPS' CFO could not provide the Auditor with an inventory of terminated, deactivated and suspended cardholders, or any correspondence sent to US Bank requesting the closing and opening of any accounts in fiscal year 2001.

Moreover, the Auditor's review revealed that a total of at least $1,869,916 in DCPS funds were disbursed without adequate documentation, for late payment penalties, for improper or prohibited purchases, and for taxes paid on purchases that should have been tax exempt. These flawed transactions constituted approximately 30% of the $6.3 million in payments for goods and services procured through DCPS' purchase card program.

Respectfully submitted,

Deborah K. Nichols
District of Columbia Auditor

APPENDIX

APPENDIX I

District of Columbia Public Schools
Unauthorized and Unallowable Purchases
Fiscal Year 2001

School/Office Name	Voucher Number	Vendor	Purchased Items	Purchase Date	Amount
GIFTS					
Cardozo SHS	V2002452	Office Depot	25 Gift Cards	08/23/01	$ 2,500.00
Cardozo SHS	V2002452	Staples	25 Gift Cards	08/23/01	$ 2,500.00
Cardozo SHS	V2002452	Staples	25 Gift Cards	08/24/01	$ 2,500.00
Cardozo SHS	V2002452	Office Depot	19 Gift Cards	08/25/01	$ 1,900.00
C.W. Harris ES	V2001778	Educational	Gifts	08/03/01	$ 2,500.00
Totals					**$ 11,900.00**
ATHLETIC SUPPLIES					
Wilson SHS	V1007183	Riddell/All America	Athletic Pants	04/11/01	$ 562.72
Wilson SHS	V1007183	Dixie Sporting Goods	Athletic Supplies	04/12/01	$ 1,566.00
Wilson SHS	V1007183	Dixie Sporting Goods	Athletic Supplies	04/12/01	$ 100.50
Wilson SHS	V1007183	Dixie Sporting Goods	Athletic Supplies	04/12/01	$ 227.94
Wilson SHS	V1007183	Dixie Sporting Goods	Athletic Supplies	04/12/01	$ 339.55
Wilson SHS	V2002691	Dixie Sporting Goods	Sleeveless jerseys, shorts etc.	06/26/01	$ 1,740.00
Wilson SHS	V2002691	Dixie Sporting Goods	72 reverse weave sweatshirt	07/26/01	$ 1,812.00
Wilson SHS	V1011501	Mark Designs	18 mens & ladies polo shirts	05/21/01	$ 468.00
Wilson SHS	V1011501	Riddell/All America	14 adult pants w/knit	05/22/01	$ 630.83

Wilson SHS	V1011501	Dixie Sporting Goods	Athletic Apparel	06/15/01	$ 2,246.78
Hendley ES	V1004183	Sport Time	Basketball court, bowling bowl	01/05/01	$ 596.86
Wilson SHS	V1009090	MKR Designs	96 turtleneck shirts	03/11/01	$ 1,440.00
Wilson SHS	V1009090	Riddell/All American	Athletic supplies	03/06/01	$ 351.12
Wilson SHS	V2001039	MKR Designs	25 sets of warmup jackets & pants	06/25/01	$ 1,625.00
Wilson SHS	V2001039	Barbell Barn	Exercise equipment	06/26/01	$ 2,094.00
Wilson SHS	V2001039	MKR Designs	24 sets of warmup jackets & pants	06/26/01	$ 1,560.00
Wilson SHS	V2001039	MKR Designs	24 sets of warmup jackets & pants	06/29/01	$ 1,560.00
Wilson SHS	V2001039	Riddell/All American	30 jerseys 2 belt tricot	07/10/01	$ 1,423.00
Totals					**$ 20,344.30**
FOOD & WATER					
Houston ES	V1008397	Little Italy II	Pizza	05/06/01	$ 350.00
C. H. Houston ES	V101212	Little Italy II	Pizza	05/03/01	$ 70.00
Hamilton Center	V1009308	Dave & Buster	Party Power - food	05/12/01	$ 145.00
Merritt Elementary Extended School	D2000313	Aqua Cool	Water	07/18/01	$ 316.00
CW Raymond ES	V1007194	Aqua Cool	Water	03/16/01	$ 121.26
CW Raymond ES	V1007194	Aqua Cool	Water	03/16/01	$ 153.64
CW Raymond ES	accrual	Aqua Cool	Water	03/20/01	$ 274.90
Wilson SHS	V2002691	Aqua Cool	Water	08/30/01	$ 94.88
Coolidge SHS	V1009169	Deer Park	Water	03/21/01	$ 179.81
C.W. Raymond	V1006064	Aqua Cool	Water	07/25/01	$ 248.26
C.W. Raymond	V1006064	Aqua Cool	Water	07/25/01	$ 48.64
C.W. Raymond	V1011507	Aqua Cool	Water	05/24/01	$ 48.64

C.W. Raymond	V1011507	Aqua Cool	Water	05/24/01	$ 247.26
C.W. Raymond	V1011507	Aqua Cool	Water	05/25/01	$ 124.13
C.W. Raymond	V1011507	Aqua Cool	Water	05/25/01	$ 24.32
Banneker SHS	V2000858	Aqua Cool	Water	06/27/01	$ 529.96
Banneker SHS	V1010228	Aqua Cool	Water	03/08/01	$ 368.96
Banneker SHS	V1010228	Aqua Cool	Water	05/27/01	$ 589.84
Totals					**$3,935.50**
FURNITURE					
Wilson SHS	V1007183	Office Depot	Furniture	03/20/01	$ 339.45
Wilson SHS	V1007183	Office Depot	Furniture	03/21/01	$ 535.20
Wilson SHS	V2002691	Office Depot	Exec. leather chair	08/22/01	$ 369.99
Wilson SHS	V2002691	Dallas Midwest Co.	Hanging caddy	08/23/01	$ 398.00
Wilson SHS	V1009090	Office Depot	Table, chair	03/09/01	$ 727.41
Totals					**$ 2,370.05**
ENTERTAINMENT					
Brightwood ES	V1012257	Washington Wizards	Mystic/shock basketball game	07/09/01	**$ 1,050.00**
EQUIPMENT & SENSITIVE ITEMS					
Office of the Asst. Superintendent	V1012111	COMPUSA	Lap top computer	05/03/01	$ 1,999.97
Wilson SHS	V1009090	Radio Shack	2 RCA camcorders & 48 VHS tapes	03/09/01	$ 1,075.43
Wilson SHS	V2001039	Office Depot	Scanner	07/18/01	$ 299.99
MM Washington SHS	V2002677	Ritz Camera	camera & ac adapter	0/28/01	$ 456.40
Wilson SHS	V2001039	Office Depot	Camedia c-700 ultra	07/18/01	$ 618.46
Wilson SHS	V2001039	Office Depot	HP printer	07/18/01	$ 426.60
Dunbar SHS	V1011696	Long’s Electronics	1 19" TV,tv/dvd/vcr & tv/vcr combo	4/18/01	$ 1,749.74

APPENDIX I

MacFarland MS	V1009306	Franklin Covey	Palm Handheld & purse	04/28/01	$ 237.60
Wheatly ES	V1009091	Ultimate Office	5 Pocket Rotary Organizers	04/09/01	$ 715.00
Management Information System	V1011510	Verizon	Headset & Leather case	05/22/01	$ 84.96
Chief Technology Office	Accrual	Motorola	Vehicle power adaptor	09/12/01	$ 36.92
Dunbar SHS	Accrual	Identicard System Inc.	Eltron P310 Color Printer	08/24/01	$ 2,325.00
Dunbar SHS	Accrual	Com Tech	4 Kenwood VHF portable radio	08/30/01	$ 1,414.50
Dunbar SHS	Accrual	Com Tech	4 Kenwood VHF portable radio	08/31/01	$ 1,414.50
Dunbar SHS	Accrual	Com Tech	Panasonic VHS camcorder & replacement battery	08/30/01	$ 868.00
Dunbar SHS	Accrual	Capital Services & Supplies	2 Omnibook laptop computers	08/29/01	$ 2,400.00
Dunbar SHS	Accrual	Capital Services & Supplies	Niffty nabber for laptop computers	09/04/01	$ 432.35
Dunbar SHS	Accrual	Capital Services & Supplies	2 Omnibook laptop computers	09/05/01	$ 2,400.00
Totals					**$ 18,955.42**
SUBSCRIPTIONS & MEMBERSHIPS					
C.W. Raymond	V1011507	IRA	Membership fees	05/23/01	$ 77.00
Oak Hill Academy	V1013455	Knowledge Unlimited	Online subscription fees	06/29/01	$ 149.00
Oyster ES	Accrual	Assn. for Supervision & Curr. Dev.	Membership fee	01/02/01	$ 94.00
Malcolm X	Accrual	National Aquarium	Membership fee	04/10/01	$ 75.00

Fletcher-Johnson	V2001088	Costco Membership Process	Membership	07/11/01	$ 135.00
Bell Multicultural HS	V1011325	NASSP	Membership	05/24/01	$ 85.00
Janney ES	Accrual	National Assn. of Elementary	Renewal Membership	01/25/01	$ 440.00
Janney ES	V1004225	AWL* Pearson Education	Renewal Membership	01/17/01	$ 462.94
Janney ES	V1004225	ASDN Educational Mtrl	Renewal Membership	01/17/01	$ 104.00
Totals					**$ 1,621.94**
RENTAL CAR					
Malcolm X ES	V1007683	Thrifty Car Rental	Car rental	04/02/01	$ 149.94
Lasalle ES	V1011679	U-Haul	U-Haul rental	06/11/01	$ 80.00
Burville ES	V2002041	U-Haul	Rental	08/25/01	$ 243.25
Totals					**$ 473.19**
MAINTENANCE, REPAIR & SERVICES					
Lincoln MS	V1007530	All Star Carpet	Install wall to wall carpet	02/24/01	$ 1,050.00
Lincoln MS	V1008993	All Star Carpet	New carpet installation	05/03/01	$ 1,250.00
Facilities Mgmt Services	V1002431	GMC Inc.	Plumbing	11/01/00	$ 375.00
Facilities Mgmt Services	V1002431	GMC Inc.	Plumbing	11/01/00	$ 696.00
Facilities Mgmt Services	V1002431	GMC Inc.	Plumbing	11/01/00	$ 348.00
Facilities Mgmt Services	V1002431	GMC Inc.	Plumbing	11/01/00	$ 946.80
Facilities Mgmt Services	V1002431	GMC Inc.	Plumbing	11/01/00	$ 1,575.28

Wilson SHS	V1009090	Long Fence	Repair of backstop	03/06/01	$ 2,132.00
Wilson SHS	V2001039	Long Fence	basketball goals furnished and installed	07/10/01	$ 1,960.50
Wilson SHS	V2002691	BCE Corp.	Service copier/printer	06/22/01	$ 125.00
Wilson SHS	V2002691	BCE Corp.	Service fax machine	06/12/01	$ 125.00
Totals					**$ 10,583.58**
HOTEL SERVICES					
Merritt ES	Accrual	Hyatt Hotels Cambridge, MA	Pre- Registration fees	04/04/01	$ 193.00
Merritt ES	Accrual	Hyatt Hotels Cambridge, MA	Pre- Registration fees	04/04/01	$ 193.00
Merritt ES	Accrual	Hyatt Hotels Cambridge, MA	Pre- Registration fees	04/04/01	$ 213.00
Merritt ES	Accrual	Hyatt Hotels Cambridge, MA	Pre- Registration fees	04/04/01	$ 213.00
Merritt ES	V1010953	Hyatt Hotels Cambridge, MA	Pre- Registration fees	03/10/01	$ 150.00
Merritt ES	V1010953	Hyatt Hotels Cambridge, MA	Pre- Registration fees	03/10/01	$ 150.00
Merritt ES	V1010953	Adams Mark Hotel Jacksonville	Pre- Registration fees	03/10/01	$ 136.80
Merritt ES	V1010953	Adams Mark Hotel Jacksonville	Pre- Registration fees	03/10/01	$ 136.80
Merritt ES	V1010953	Adams Mark Hotel Jacksonville	Pre- Registration fees	03/10/01	$ 136.80
Totals					**$ 1,522.40**
Other Prohibited Purchases					
Bancroft ES	Accrual	WMATA (metrorail)	Metro fare cards	05/17/01	$ 66.00
Parkview ES	Accrual	WMATA	Metro fare cards (Discovery Creek trip)	05/05/01	$ 448.50

Parkview ES	Accrual	WMATA	Metro fare cards (Discovery Creek trip)	05/30/01	$ 276.00
Merritt ES	V1010953	Washington Post	Newspaper	03/08/01	$ 368.90
Lincoln MS	V1011697	Johnson Flowers & Garden	Saucers, Pots, plants & flowers	03/19/01	$ 695.69
MLK Jr. ES	Accrual	Sharper Florist	Teddy Bear & Balloon (get well)	04/03/01	$ 44.95
MLK Jr. ES	Accrual	Sharper Florist	Teddy Bear & Balloon (get well)	04/03/01	$ 44.95
Merritt ES	V1009231	Sharpe Florist	Flowers	04/23/01	$ 245.06
Merritt ES	V1009231	Sharpe Florist	Flowers	04/23/01	$ 245.06
Woodrow Wilson SHS	V1011501	Washington Post	Classified Advertising	05/22/01	$ 95.08
C. H. Houston ES	V1007130	FSC Continuing Education	Employee Training	04/04/01	$ 180.00
C.W. Harris ES	V2001778	Jimmie Muscatellos	Shirts, Pants, & Jackets	08/09/01	$ 558.00
Roosevelt SH	V1009386	INTAC INC.	Calculators	04/13/01	$ 2,381.82
Roosevelt SH	V1009386	INTAC INC.	Calculators	04/13/01	$ 1,020.78
Roosevelt SH	V1009386	INTAC INC.	Calculators	04/19/01	$ 2,477.25
C.W. Raymond	V1011507	Ritz Camera	film process, 6 volt battery	05/23/01	$ 92.75
Wilson SHS	V1011501	Johnson Flower & Garden	Missing invoice	05/23/01	$ 167.34
Wilson SHS	V1009090	Hertz	Furniture	03/14/01	$ 237.95
MacFarland MS	V2000856	Ames	Feminine Hygiene Products	07/05/01	$ 45.00
Dunbar SHS	Accrual	Central Safe & Lock	Duplicate keys	08/21/01	$ 17.00
Dunbar SHS	Accrual	Central Safe & Lock	Duplicate keys	08/29/01	$ 74.00

Dunbar SHS	Accrual	Central Safe & Lock	Duplicate keys, rekey, new lock, box key tags	08/29/01	$ 292.50
Dunbar SHS	Accrual	Central Safe & Lock	Duplicate keys	09/10/01	$ 19.80
Dunbar SHS	Accrual	Central Safe & Lock	Duplicate keys	09/13/01	$ 14.00
Dunbar SHS	Accrual	Central Safe & Lock	Duplicate keys	09/18/01	$ 12.35
Totals					**$ 10,120.73**

Source: DCPS Purchase Card Records and Voucher Payments

AGENCY COMMENTS

AGENCY COMMENTS

On April 23, 2003, the Office of the District of Columbia Auditor submitted this report in draft for review and comment to the Superintendent of the District of Columbia Public Schools, the Assistant Director of the Office of Contracting and Procurement, Purchasing Technologies Group, the Director of Field Services for the District of Columbia Public Schools', the President of the District of Columbia Board of Education, and the Acting Chief Financial Officer of the District of Columbia Public Schools.

Written comments were received from the Chief Procurement Officer of the District of Columbia on May 8, 2003 and the Superintendent of the District of Columbia Public Schools on May 16, 2003. Where appropriate, changes were made to the final report to reflect the comments received. All written comments received by the Auditor are appended, in their entirety, to the final report.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of Contracting and Procurement

Director

May 8, 2003

Deborah Nichols
District of Columbia Auditor
717 14th Street, NW, Suite 900
Washington, D.C. 20005

RE: DC Auditor's report "Review of the District of Columbia Public Schools' Purchase Card Program" for Fiscal Year 2001

Dear Ms. Nichols:

We appreciate your review of the District of Columbia Public Schools' (DCPS) Purchase Card Program for fiscal year 2001, and offer the following comments in response to your findings and recommendations.

Recommendation #4 on page 12 of the auditor's draft report: We agree with the auditor's finding and will schedule a working session with the DCPS' CFO and other participants to discuss improvement measures that ensure that all purchase cards have the requisite controls in place to prevent future approval of unauthorized or unallowable purchases. As we believe that our methodology is sound, in the working session, we will reiterate the responsibilities of program participants and emphasize measures to improve compliance enforcement. Also, based on prior audits, program reviews, and lessons learned, we are in the process of publishing updated purchase card procedures. Such procedures include instructions and guidance to help Approving Officials strengthen controls to prevent future approval of, and increase detection and mitigation of, unauthorized or unallowable purchases. We will formally recommend that the DCPS' CFO either modify its internal procedures or adopt the new program procedures to strengthen all aspects of DCPS' purchase card program management.

Recommendation #7 on page 12 of the auditor's draft report: We agree with the auditor's findings and we will take the following steps, based on available resources, to ensure that adequate training is provided to all cardholder and Approving Officials:

1. collaborate with DCPS leadership to schedule refresher training for DCPS cardholders and Approving Officials in small groups, and encourage DCPS leadership to make attendance at such training compulsory with the proviso that: (a) purchase cards will not be issued to those DCPS employees designated to receive and use cards but who do not attend and complete such training, and who

441 4th Street N.W., Suite 700 South, Washington, D.C. 20001
(202) 727-0252 Fax: (202) 724-5673

2. require DCPS purchase card program trainees to sign a training attendance roster and a newly revised and more comprehensive Affidavit (over and above the existing User's Agreement) attesting to their understanding of and compliance with the requirements of 27 DCMR *Contracts and Procurement* Chapter 18, and their acknowledgement of receipt of all applicable materials and policies and procedures governing card use, which include Sales Tax Exemption notification to vendors for District government card purchases;

3. encourage DCPS leadership to require DCPS cardholders and Approving Officials to comprehensively review monthly transaction reports and supporting documents such as invoices/receipts to ensure that taxes are not paid and that card purchases are proper in all respects;

4. encourage DCPS card users to refrain from waste, fraud, abuse, and mismanagement of purchase cards, such as splitting small purchase awards, and to comply with the requirements of 27 DCMR Chapter 18 for executing small purchases non-competitive small purchases.

With respect to the auditor's finding that "Competitive Price Quotes Were Not Obtained": We note that for fiscal year 2001 in accordance with rules approved by the Council of the District of Columbia on July 8, 2000, by resolution No. 13-778, pursuant to section 205(a) of the Procurement Practices Act (D.C. Code §1-1182(5)(a)), and relating to non-competitive small purchases, "a procurement for an amount of $2500 or less may be made without obtaining competitive quotations." (Subsequent rulemaking has raised the noncompetitive limit to $10,000.) However, for purchase requirements that exceed the cardholders' monthly credit limit or authority as prescribed in the delegation of contracting authority, we will reiterate to the DCPS leadership that DCPS cardholders and other program participants shall forward such requirements to the DCPS Contracting Officer for processing as appropriate in accordance with 27 DCMR.

Recommendation #3 on page 15 of the auditor's draft report: We agree with the auditor's findings and will resume a comprehensive, mandatory, and continuing training program for all District government cardholders, based on available training resources, to ensure their familiarity with and adherence to all policies and procedures government purchase card usage. As stated earlier in our response, and based on prior audits, program reviews, and lessons learned, we are in the process of publishing updated purchase card procedures. These procedures are more comprehensive than the ones presently in place, and will serve as the basis for any future formal training sessions for cardholders and other program participants. Cardholders and other program trainees will be required to sign a "DISTRICT OF COLUMBIA GOVERNMENT PURCHASE CARD TRAINING AFFIDAVIT & USERS' AGREEMENT" attesting to their completion of purchase card training, and their understanding and acceptance of all applicable laws, policies, and procedures governing the proper use of the purchase card.

At the time of OCP's assessment of DCPS' readiness and capability to judiciously participate in the program (Spring 2000), OCP personnel were neither aware that the

DCPS had incurred an $81 million deficit nor that such deficits were related to poor financial management in DCPS. Additionally, during its assessment review (as documented in the referenced DCPS Purchase Card Deployment Plan dated April 25, 2000), DCPS principals assured OCP personnel that DCPS procurement and financial personnel had excellent relations.

Based on our review of the auditor's report, we believe that the auditor's recommendations, if implemented, will greatly strengthen the DCPS' purchase card program performance. We look forward to working with the DCPS leadership and senior management to implement the auditor's recommendations.

In the meantime, we appreciate your report, and if you have any questions, please feel free to call me on 202-727-0252, or call Gregory B. Dean, Assistant Director, Purchasing Technologies on 202-724-5218.

Sincerely,

Nancy Hapeman for

Jacques Abadie III, CPCM
Chief Procurement Officer

cc: Paul Vance, Superintendent, District of Columbia Public Schools
Tracy Usry, Acting Deputy Director, Office of Contracting & Procurement
Nancy Hapeman, General Counsel, Office of Contracting & Procurement
Thomas E. Brown, Jr., Deputy Auditor, Office of the District of Columbia Auditor
Debor Dosunmu, Director, Contracts & Acquisitions, District of Columbia Public Schools
Gregory B. Dean, Assistant Director, Purchasing Technologies Office of Contracting & Procurement

DISTRICT OF COLUMBIA PUBLIC SCHOOLS

OFFICE OF THE SUPERINTENDENT
825 North Capitol Street, NE, 9th Floor
Washington, D.C., 20002-1994
(202) 442-5885 – fax: (202) 442-5026

May 16, 2003

Deborah K. Nichols
District of Columbia Auditor
Office of the District of Columbia Auditor
717 14th Street, N.W., Suite 900
Washington, DC 20005

Dear Ms. Nichols:

Thank you for providing the District of Columbia Public Schools (DCPS) with an opportunity to comment on your draft audit report titled *Review of the District of Columbia Public School's Purchase Card Program.* Attachment A provides our response to your twelve recommendations for corrective action that apply to our operations. We have established a projected date of September 30, 2003 for completion of corrective action for all your recommendations.

I have reviewed the recommendations and our responses with my staff. I believe that each of the responses addresses your concerns and recommendations. Our corrective actions will enhance the internal controls necessary for the successful operation of the procurement card program.

Should you have any questions on this letter or our responses to your recommendations, please contact John Cashmon, the DCPS Director of Compliance, at 202-442-5656.

Sincerely,

Paul L. Vance
Superintendent

Review of the District of Columbia Public School's Purchase Card Program

Recommendation: DCPS' CFO should ensure that all purchase card invoices are supported by adequate appropriate documentation before making payment, and that all records of purchase card transactions are retained and available when needed.

DCPS Response: DCPS concurs with the recommendation. The Office of the Chief Financial Officer (OCFO) will take the following corrective actions:

- By July 31, 2003 OCFO will have developed additional policies and guidance for both OCFO staff and the Procurement Card (P-Card) users and authorizing officials.
- Training on the policies and guidance will be provided to the OCFO accounts payable staff and Central Office users and authorizing officials will be provided by August 15, 2003 and to all school based users and authorizing officials by September 30, 2003.

Recommendation: DCPS' CFO should ensure that all cardholder(s) adhere to the procurement laws and regulations and all purchase card policies and procedures established by the Office of Contracts and Procurement (OCP), and immediately suspend purchase card privileges of noncompliant cardholders.

DCPS Response: DCPS concurs with the recommendation, and the Acting CFO will notify all noncompliant cardholders by June 15 that their P-Card has been suspended until all outstanding reports and issues have been resolved.

In the additional policies and guidance for P-Card use discussed in the prior response OCFO will include policy on the purchase of goods that complies with the applicable D.C. Code and the DCPS' Office of Contracts and Acquisition (OCA) policies for the competitive purchase of goods.

Recommendation: DCPS' CFO should immediately cease the practice of processing payments based on recreated monthly transaction reports without the cardholder(s) and Approving Officials validating and certifying transactions.

DCPS Response: DCPS concurs with the recommendation. The Acting CFO will by May 31, 2003 issue a memorandum to all P-Card users and authorizing officials that all processing of recreated monthly transaction reports will cease immediately and that all users and approving officials must validate and certify the P-Card's transactions.

Recommendation: The Chief Procurement Officer and DCPS' CFO should develop a methodology that ensures that all purchase cards have the requisite controls in place to prevent future approval of unauthorized or unallowable purchases.

DCPS Response: DCPS concurs with the reports recommendations and will take the following corrective actions:

- As part of the additional policies and guidance, discussed in the first response, both the DCPS OCA and OCFO will provide specific policies on unauthorized and unallowable payments.
- Staff from both OCA and OCFO will be involved in providing training to the staff in the OCFO accounts payable unit on the review and approval of P-Card transactions including desk auditing for inappropriate transactions. This training will be completed by August 15, 2003.
- OCFO management staff from the accounts payable units and other areas will periodically conduct reviews of P-Card transactions to ensure compliance with established policies. Documentation of the specific transactions reviewed and any corrective action taken will be retained. These reviews are planned to commence starting October 1, 2003.

Recommendation: Cardholders making unauthorized purchases must be held personally liable and accountable for the expenditure. DCPS' CFO must immediately institute an effective procedure that ensures that cardholders promptly make reimbursement for all unallowable purchases.

DCPS Response: The Acting CFO concurs and will work with the Office of the General Counsel to develop a policy and procedures that will ensure the prompt repayment of unauthorized purchases. Our additional policies and guidance to each P-Card user and authorizing official will include a statement notifying both individuals that unauthorized purchases will not be tolerated and will be required to be repaid to DCPS.

Recommendation: The DCPS CFO and Superintendent should immediately take the necessary steps to ensure that all information related to fixed assets acquired with the purchase card are promptly recorded in DCPS' fixed asset system.

DCPS Response: DCPS will record the information provided by the Auditor in its fixed asset records. Additionally, Logistics will be notified to place a property tag on these assets and to update their database.

Recommendation: OCP and the DCPS' CFO should ensure that adequate training is provided to all cardholders and Approving Officials, and ensure that monthly transaction reports are adequately reviewed, including supporting documentation such as invoices/receipts to ensure that taxes are not paid and the purchase is proper in all respects.

DCPS Response: DCPS concurs and both OCA and OCFO will conduct this training for the OCFO accounts payable staff and all P-Card users and authorizing officials. Training for the OCFO staff and Central Office users and authorizing officials will be provided by August 15 and training for all school-based users and authorizing officials will be provided by September 30, 2003.

Recommendation: The improper purchases identified by the Auditor in this report must immediately investigated by the DCPS' internal auditor and where appropriate DCPS Superintendent and Chief Financial Officer take appropriate steps to recover the payments made for these improper purchases from the cardholder. Further, cardholders who abuse or misuse their purchase cards should be held accountable for the fullest extent permitted under the District's personnel law and regulations.

DCPS Response: DCPS concurs and the Office of Compliance will review the Auditor's schedule, the actual transactions, and any supporting documentation maintained by the individual school or Central Office unit. The Office of Compliance will provide the Superintendent, Chief Operating Officer, and the Chief Financial Officer with addition information on the transactions by June 30, 2003. The Superintendent and other DCPS officials to determine any disciplinary action that may be taken against specific violators will use this additional information.

Recommendation: DCPS' CFO, Superintendent and Assistant Superintendents should immediately hold cardholders liable and promptly take all necessary actions to retrieve the amount spent on unallowable purchases. Such actions should include but not be limited to reimbursement and immediate suspension of cardholder privileges.

DCPS Response: The Acting CFO concurs and will work with the Office of the General Counsel to develop a policy and procedures that will ensure the prompt repayment of unauthorized purchases. Our additional policies and guidance to each P-Card user and authorizing official will include a statement notifying both individuals that unauthorized purchases will not be tolerated and will be required to be repaid to DCPS.

Recommendation: DCPS should maintain an inventory of all purchase cardholders; periodically update the inventory to include new cards issued, deactivations, terminations, and suspensions, and compare the purchase cardholder records so as to accurately determine the number of cardholders and prevent any unauthorized use of the cards.

Response: DCPS agrees and will have an inventory of the P-Card users developed by June 30, 2003. This inventory will be updated monthly to ensure the accuracy of the inventory and the database.

Recommendation: The Chief Procurement Officer must institute a comprehensive, mandatory, and continuing training program for all District government purchase cardholders to ensure their familiarity with and adherence to all policies and procedures governing purchase card usage.

Response: This recommendation does not appear to apply to DCPS directly. DCPS in prior responses to this report has indicated that training will be provided to the OCFO accounts payable staff, Central Office and school based users and authorizing officials on P-Card policies, regulations and procedures.

Recommendation: DCPS must ensure that all DCPS employees designated to use purchase cards are thoroughly trained and knowledgeable of all applicable policies and procedures. Failure to comply with applicable policies and procedures should result in the immediate suspension of purchase card privileges.

DCPS Response: The DCPS OCA and OCFO will undertake joint training of all DCPS P-Card users and authorizing officials. This training will be completed by September 30, 2003. Both OCA and OCFO will continue to evaluate the need for additional training as changes in users and authorizing officials occur. OCA and OCFO will provide annual refresher training for users and authorizing officials to assist in ensuring compliance with the P-Card policies and procedures.