

WASHINGTON COUNTY SCHOOL DISTRICT

Report on Internal Control and Compliance Over Credit Card Use

Findings and Recommendations
For the Period May 2014 through May 2015

Report No. 15-WGSD-3L



**OFFICE OF THE
UTAH STATE AUDITOR**

WASHINGTON COUNTY SCHOOL DISTRICT

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UTAH STATE AUDITOR

REPORT NO. 15-WGSD-3L

April 12, 2016

To the Washington County School Board
and
Superintendent Larry Bergeson
Washington County School District
121 West Tabernacle
Saint George, Utah 84770

Dear Board Members and Superintendent Bergeson:

We have performed the procedures described below to certain aspects of Washington County School District's (District) internal control and compliance over the use of credit cards for the period May 2014 through May 2015. We reviewed both the District credit card account and an account held in the name of the Business Administrator that is used for District business and paid by the District. The purpose of these procedures is to assist the District in evaluating its internal control over credit card use. We performed the following procedures at the District:

1. We analyzed District credit card use for the period and identified and tested a sample of transactions that we deemed to be high risk for noncompliance with policies.
2. We reviewed the internal control over credit card use, including the review and approval process.
3. We reviewed the activity on the Business Administrator's personal credit card account which he uses for District business and tested certain transactions to determine if they were reasonable.
4. We determined whether District Administration and Board Members had reimbursed the District for spouse and family member travel initially paid for by the District.

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

Our findings resulting from the above procedures are included in the attached findings and recommendations section of this report. We feel that all findings are key internal control weaknesses or important compliance issues to the District.

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

If you have any questions, please contact Van Christensen, Audit Director (vchristensen@utah.gov or 801-538-1394) or Julie Wrigley, Audit Supervisor (jwrigley@utah.gov or 801-538-1340).

Office of the Utah State Auditor

Office of the Utah State Auditor

cc: Brent Bills, Business Administrator, Washington County School District
Debbie Davis, Internal Audit Director, Utah State Board of Education

WASHINGTON COUNTY SCHOOL DISTRICT
Report on Internal Control and Compliance Over Credit Card Use

FOR THE PERIOD MAY 2014 THROUGH MAY 2015

TABLE OF CONTENTS

	<u>Page</u>
FINDINGS AND RECOMMENDATIONS:	
1. NONCOMPLIANCE WITH DISTRICT CREDIT CARD POLICIES	1
2. UNUSUAL COMPENSATION ARRANGEMENT INCREASES DISTRICT RISK	3
3. DISTRICT FUNDS USED TO PAY FOR PERSONAL TRAVEL EXPENSES	5

WASHINGTON COUNTY SCHOOL DISTRICT
Report on Internal Control and Compliance Over Credit Card Use

FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD MAY 2014 THROUGH MAY 2015

1. **NONCOMPLIANCE WITH DISTRICT CREDIT CARD POLICIES**

The Washington County School District (District) has established policies over credit card purchases; however, we noted noncompliance with these policies for 16 out of 40 transactions tested. We selected 40 transactions that we deemed to be at a high risk for noncompliance and noted that some transactions violated more than one policy. Instances of noncompliance are as follows:

- a. For 12 transactions, each exceeding \$1,000, the card user failed to obtain the required written pre-approval. The District's *Purchasing Handbook, page 14* and *Purchasing Policy 6000.3.1.6* restrict credit card transactions to \$1,000 unless pre-approval is obtained from a District purchasing officer.
- b. Five of the transactions noted in a. above, appear to have been artificially divided to avoid having to obtain the required written bids. The card holder made the five purchases from the same store on the same day for the same amount. These purchases would have exceeded \$5,000 as a single purchase. *District Admin Letter #42* requires three written price quotes for purchases costing between \$5,000 and \$10,000. Additionally, *Utah Code §63G-6A-408-8* prohibits intentionally dividing a purchase into smaller amounts in order to avoid obtaining bids.
- c. One of the transactions exceeding \$1,000, noted in a. above, did not have evidence of verbal bids prior to making the purchase. *District Administrative Letter #42* requires two verbal price quotes for purchases between \$1,000 and \$5,000. Interestingly, District personnel indicated to us that for *credit card* purchases over the \$1,000 threshold, *three written* quotes are required; however, this is not documented in policy. Regardless, the documentation submitted to us indicated that only one price quote was obtained, and it was obtained only after we requested documentation for the transaction.
- d. For one meal reimbursement, there was no documentation indicating the number of people present; therefore, it was not possible to determine whether the amount spent was appropriate. *Purchasing Policy 6000.3.1.2* requires documentation sufficient to verify that all laws and policies are being followed.
- e. Four transactions exceeded the allowable per diem amount for meals or in-state lodging established by *District Administrative Letter #25*.

We identified the following conditions that contributed to these errors:

- The District review process may not be sufficient to detect all compliance violations.
- The District has not enforced removal of credit cards or other accountability for those who have habitually violated policies in the past. This may contribute to an

WASHINGTON COUNTY SCHOOL DISTRICT
Report on Internal Control and Compliance Over Credit Card Use

FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD MAY 2014 THROUGH MAY 2015

environment where employees feel they can disregard policies and results in a higher risk of misuse of public funds. Therefore, the District should hold employees accountable for following established policies.

- District policies over purchasing and credit card use are found in various places, including handbooks, agreements, Administrative Letters, and policies. Due to the varied sources, employees may encounter difficulty in identifying all relevant policies and procedures over credit card use. This may result in unintentional policy violations, increasing the risk of the misuse of public funds. The District should consider consolidating the policies related to credit card use.
- Authorized credit card holders have allowed other employees to use their card. These other individuals may not have received training on credit card use; therefore, violations are more likely to occur. The District should discourage the use of credit cards by users other than the authorized card holder; however, if the District allows the practice to continue, there is even more reason for them to take the steps necessary to ensure their review and approval procedures are more robust to identify violations of policy. For individuals who make infrequent purchases, the District should also consider having employees use their personal credit cards for purchases and obtain reimbursement from the District.

The violations noted above and the conditions that allowed the violations to occur represent an increased risk that public funds may be spent improperly.

Recommendation:

We recommend that the District strengthen their internal controls as follows:

- **Improve supervisory reviews and approval of credit card transactions to ensure that transactions are reasonable and that policies are followed.**
- **Enforce accountability for any employees who violate the credit card policies.**
- **Consider consolidating the policies related to purchasing and credit card use and clearly communicate all policies and controls to any credit card users.**
- **Discourage the use of credit cards by anyone other than the authorized card holder.**
- **Consider having individuals who make infrequent purchases use their personal credit cards for purchases and obtain reimbursement from the District.**

WASHINGTON COUNTY SCHOOL DISTRICT
Report on Internal Control and Compliance Over Credit Card Use

FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD MAY 2014 THROUGH MAY 2015

District's Response:

Credit card training was conducted with school principals on January 20, 2016. The training included requirements for prior approval before making purchases over \$1,000 on a district credit card, when two oral bids and three written bids are required, and ensuring that bids are attached to credit card statements. Principals were informed that violations of these purchasing policies will result in a suspension of credit card privileges and disciplinary action as necessary. The same credit card training was also held for all secondary school finance secretaries on March 23, 2016.

Principals and secondary finance secretaries were also trained on proper documentation for meal purchases and the requirement for superintendent approval for any exception to the allowable per diem amount. If proper documentation is not attached to credit card statements, the statement will be returned to the card holder for correction. If appropriate documentation becomes a habitual problem, credit card privileges will be suspended. If per diem amounts are violated, appropriate disciplinary action will be taken.

Principals and secondary finance secretaries have been reminded that credit cards are for the use of the individual to whom the credit card was issued. Principals may allow their secretary that has been properly trained to use the district credit card. The principals should not allow anyone else to use the district credit card.

Training is scheduled with elementary secretaries on April 15, 2016 to address these issues.

As hotel prices have increased in the State of Utah, District Administrative Letter #25 has not been changed to reflect the higher costs. The letter is being reissued with changes that allow for higher cost of hotel rooms when necessary, while directing employees to keep hotel costs lower in areas of the state where it is practical. The new administrative letter will be enforced, with violators subject to appropriate disciplinary action.

2. UNUSUAL COMPENSATION ARRANGEMENT INCREASES DISTRICT RISK

The Washington County School District Board (School Board) allows the Business Administrator to use a personal credit card for a substantial amount of both District travel expenditures and other items purchased for the District. The School Board also allows the Business Administrator to use the credit card rewards earned on District purchases for personal benefit, which amounts to a form of compensation. This arrangement increases risk for the District and may not comply with District policies. We noted the following problems and potential noncompliance with the arrangement:

- a. Personal Obligation is Treated as a District Obligation. The Business Administrator's credit card bill is addressed to the District and the District pays it in full as if it were

WASHINGTON COUNTY SCHOOL DISTRICT
Report on Internal Control and Compliance Over Credit Card Use

FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD MAY 2014 THROUGH MAY 2015

a District obligation. The Business Administrator or other parties (see Finding No. 3 below) reimburse the District for any personal purchases made using the card. This arrangement improperly puts the burden on the District to obtain repayment for personal purchases and contradicts other District policies which prohibit personal purchases using a District card. Therefore, this practice increases the risk of responsibility for non-District purchases, and may be in conflict with District policies. To reduce risk, the Business Administrator's personal credit card should be addressed to him, he should be responsible for paying the bill, and then he should seek reimbursement for District expenses made using his personal card.

- b. Credit Card Benefits are Unreported Compensation. The District steers numerous District purchases through the Business Administrator's personal credit card to enhance his rewards. As such, the credit card rewards earned by the Business Administrator appear to meet the definition of "Gross Compensation" found in *Utah Code 63G-2*, which outlines provisions for the Government Records Access and Management Act or GRAMA. In particular, *Utah Code 63G-2-103(12)* defines gross compensation as "...every form of remuneration payable for a given period to an individual...including...payments in kind, and any similar benefit received from the individual's employer." It follows that any form of compensation provided to a public employee should be publicly disclosed. At the time of our field work, the compensation of credit card rewards was not disclosed in the Business Administrator's contract nor was it disclosed on the Utah Public Finance Website as required by *Utah Code 63A-3-402*. Excluding this information from gross compensation impairs transparency.

We highly question the practice of steering District purchases for anything other than those related to the given employee through that employee's credit card.

Recommendation:

We recommend that the District:

- a. **Discontinue directly paying any employee's personal credit card bills and instead have employees submit reimbursement requests only for District purchases which have been approved and properly documented.**
- b. **Properly document all forms of compensation and ensure it is reported in compliance with Utah Public Finance Website reporting requirements.**

District's Response:

The District will no longer directly pay for non-district credit cards. The Business Administrator will request reimbursement for any district purchases made as per your recommendations in finding #1. This will minimize risk to the District, ensuring that all purchases are appropriate.

WASHINGTON COUNTY SCHOOL DISTRICT
Report on Internal Control and Compliance Over Credit Card Use

FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD MAY 2014 THROUGH MAY 2015

3. **DISTRICT FUNDS USED TO PAY FOR PERSONAL TRAVEL EXPENSES**

The Business Administrator used his personal credit card to charge travel expenses for some family members of the School Board and District administration to attend a District conference. As described in Finding 2.a. above, the District paid the bill in full with the expectation that the District would be reimbursed. However, 4 of the 7 District personnel did not reimburse the District for their family member's travel costs until 5 months after the initial expenditure was made. We noted that the timing of the reimbursement coincided with the District's fiscal year end and was shortly after the Office of the State Board of Education internal auditors began an audit of the District. This situation demonstrates the increased risk of using District funds to pay for non-District obligations. The District should not pay for personal expenses with public funds.

Recommendation:

We recommend that the District not expend public funds for personal expenditures.

District's Response:

When the District is sending an employee on a work related trip, all reasonable travel related expenditures will be paid by the District. If the employee is electing to take their spouse (companion) with them on the trip, the District has authorized the employee to purchase both of the plane tickets together so that side-by-side seats can be guaranteed. The purchase should be made on the employee's personal card. The District will reimburse the cost of the employee's flight. Under no circumstances should nonemployee flights be charged to the District.