

November 2019



Office of Internal Audit

Why We Did This Audit

This audit was conducted as part of the Office of Internal Audit's Fiscal Year (FY) 2019 Audit Plan.

Key Recommendations

- The Springfield Public Schools (SPS) update their Purchase Card Policy to clarify authorization procedures.
- The SPS adhere to procurement laws by allowing expenditures only for public purposes, requiring a signature page to comply with the City Charter's contract requirement for individual purchases greater than \$5,000, and obtaining quotes for expenditures greater than \$10,000. The SPS consider establishing a threshold for limiting individual purchases to \$4,000 for operational convenience.
- The SPS adhere to its P-Card Policy by having the appropriate supervisor approve of P-Card use and by ensuring expenditures qualify for P-Card use.
- The SPS amend its contract with the Bank of Montreal in which a termination date is specified and required signatures are obtained.

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Springfield Public Schools Department Procurement Card Audit Executive Summary

Background

The Springfield Public Schools (SPS) established a purchase card (P-Card) program to streamline the acquisition and payment of SPS travel costs, purchases from vendors who do not accept purchase orders from the City of Springfield (CoS), and to reduce paperwork and administrative costs. The P-Card works as a credit card for the SPS and is maintained by the SPS Business Office. The SPS has a contract with the Bank of Montreal to establish the P-Card program through MasterCard.

What We Found

- Certain purchases did not comply with the SPS P-Card policy, including:
 - The Purchase Card form was not always completed or approved.
 - Certain purchases were unallowable.
 - Purchases were made from existing City vendors that accept purchase orders.
- Certain purchases did not comply with the City's Charter and procurement laws, including:
 - Written contracts were not in place for some purchases exceeding \$5,000.
 - Vendor quotes were not obtained for some purchases exceeding \$10,000.
 - Certain purchases were made for nonbusiness purposes.
- Some purchases were improperly classified and recorded to incorrect accounts in MUNIS.
- The City's agreement with the Bank of Montreal does not have a termination date.



Introduction

Chapter 468 of the Acts of 2008 authorizes the Director of Internal Audit to examine the records of the City of Springfield, MA (City or COS) and its departments to prevent and detect waste, fraud and abuse and to improve the efficiency, effectiveness and quality of public services provided in and by the City. In accordance with this legislation, all offices and employees of officers, boards, commissions, agencies and other units of City government are required to comply with requests for information or access to systems and records by the Office of Internal Audit (OIA). The following review aligns the authority and goals of the OIA with those of the City. Specifically, this audit addresses the City's values related to accountability such as integrity, fiscal responsibility and transparent practices. The audit also supports the City's strategic priorities ensuring operational excellence, fiscal health and sustainability in all divisions, departments, programs and activities.

This report is not intended to be an adverse reflection of the City or of its departments. The intent is for City management to utilize these findings and recommendations to help in making future well-informed strategic decisions while ultimately meeting City objectives.

Background

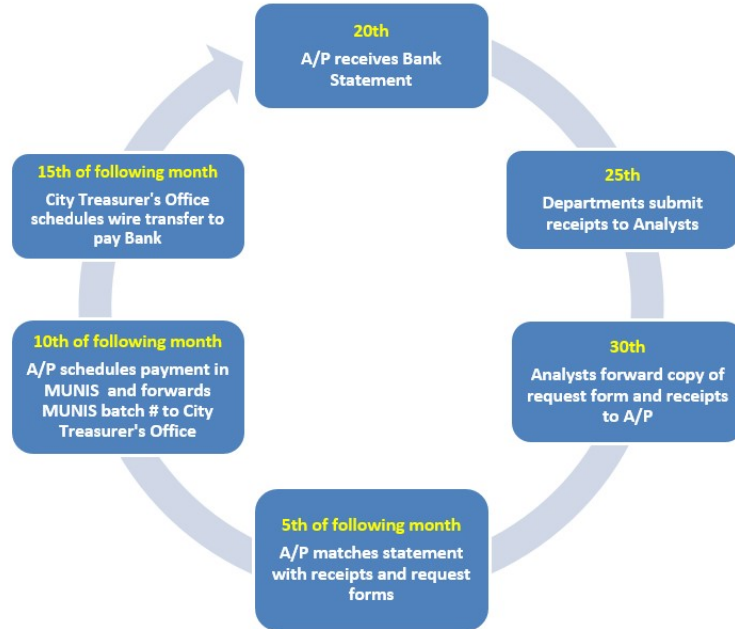
The Springfield Public Schools (SPS) established a purchase card (P-Card) program to streamline the acquisition and payment of SPS travel costs, purchases from vendors who do not accept purchase orders from the City of Springfield (CoS), and to reduce paperwork and administrative costs. The P-Card works as a credit card for the SPS and is maintained by the SPS Business Office. The SPS has a contract with the Bank of Montreal to establish the P-Card program through MasterCard.

During Fiscal Year (FY) 2017 and FY 2018, the Purchase Card program had expenditures of \$247,468 and \$398,250, respectively.

The SPS purchase card payment process is further described in the following flowchart:



SPS Purchase Card Payment Process



- Departments must submit all receipts to assigned analyst by the 1st week of July if travels are made in June
- All personal charges (room services, alcohol, non-business phone calls, etc.) are responsibilities of the employee and should not be charged to the P-Card

Objectives, Scope, and Methodology

Objectives

The primary objectives of this audit were to:

- Determine if Springfield Public Schools’ policy, procedures, and practices promote the efficient and effective use of P-cards.
- Determine if internal controls are in place and operating as intended to ensure P-card expenditures are proper.

Scope

Our audit included all purchases made with the P-card in Fiscal Years 2017 and 2018.



Methodology

To accomplish our objectives, we performed the following audit procedures:

- Interviewed employees to gain an understanding of the operational processes and procedures, including the Springfield Public Schools' Budget Director and P-Card Administrator.
- Reviewed applicable City policies and procedures and relevant state and federal procurement laws and regulations.
- Obtained procurement card activity reports and agreed to credit card statements.
- Tested a sample of 50 purchases for adherence to existing policies and procedures and required supporting documentation.
- Analyzed procurement card activity reports for duplicate purchases.
- Examined additional documentation, i.e., travel reimbursements.
- Performed other tests deemed as necessary.

Our findings and related recommendations are in the following sections of the report. The Springfield Public Schools Department was given the opportunity to respond to the findings. The departmental responses are incorporated verbatim into the report following each finding and recommendation.

Findings and Recommendations

The following are audit findings and their potential risks/impact, recommendations, and management responses to address the weaknesses identified during the audit.



No.	Finding	Finding Description	Potential Risk/ Impact	Recommendation	Management Response
1.	Certain purchases did not comply with the SPS P-Card policy.				
a.	The Purchase Card form was not always completed or approved.	<p>In accordance with the SPS P-Card policy, employees looking to make purchases using the P-Card must fill out a "Purchase Card Request Form." This form includes an "Authorizing Information" section which must be signed by an authorized supervisor.</p> <p>We noted the following violations to this policy:</p> <ul style="list-style-type: none"> • Missing completed Purchase Request Form: there were twelve (12) occurrences in FY18 totaling \$76,249, and ten (10) occurrences in FY17 totaling \$39,354. • Missing approval signatory on the Purchase Request form: there were two (2) occurrences in FY18 totaling \$8,760, and one occurrence in FY17 for \$2,530. • Other documents used to authorize P-Card use, including emails and invoices, instead of the Purchase Request form: there were four (4) occurrences in FY18, totaling \$39,421, and twelve (12) in FY17, totaling \$28,624. 	Failure to adhere to procurement laws, policies, and regulations could lead to budget overages, fraudulent spending, or improper use of funds.	<p>We recommend the SPS develop procedures to ensure compliance with the P-Card policy. In particular, we recommend that the SPS develop a checklist of items to "look for" to assist in the review of P-Card transactions. The following are examples of such items to "look for" on the checklist:</p> <ul style="list-style-type: none"> • Is the P-Card form complete? • Has the P-Card form been approved? • Does the vendor accept a purchase order? • Is the purchase allowable? 	The District agrees with the recommendation and has already updated the P-Card Request Form to ensure compliance with the P-Card Policy.



No.	Finding	Finding Description	Potential Risk/ Impact	Recommendation	Management Response
b.	Certain purchases were unallowable.	The SPS' P-Card program policy states acceptable purchases include travel, field trip, and conference expenses (airfare, hotel, registration, etc.) as well as purchases from vendors that do not accept purchase orders. There were six (6) occurrences in FY18 totaling \$20,028 and three (3) occurrences in FY17 totaling \$12,678 in which the purchases did not fall within these acceptable purchase categories. These noncompliant purchases included office and school supplies, subscriptions, vehicle equipment, and liability insurance.	Failure to adhere to procurement laws, policies, and regulations could lead to budget overages, fraudulent spending, or improper use of public funds.	See recommendation in 1a.	The District agrees with the recommendation and has already updated the P-Card Request Form to ensure compliance with the P-Card Policy.
c.	Purchases were made from vendors that accept purchase orders from the City of Springfield.	The Springfield Public Schools P-Card policy states acceptable purchases include travel, field trip, and conference expenses (airfare, hotel, registration, etc.) as well as purchases from vendors that do not accept purchase orders from the City of Springfield. There were twelve (12) occurrences totaling \$100,405 in FY 18 and four (4) occurrences totaling \$9,086 in FY 17 in which purchases were made from existing vendors who are currently set up in the City's accounts payable system and that do accept purchase orders. These purchases should have followed the City's general procurement procedures, and purchases with these vendors should not be made on the P-Card.	Failure to adhere to procurement laws, policies, and regulations could lead to budget overages, fraudulent spending, or improper use of funds.	See recommendation in 1a.	The District agrees with the recommendation and has already updated the P-Card Request Form to ensure compliance with the P-Card Policy.



No.	Finding	Finding Description	Potential Risk/ Impact	Recommendation	Management Response
		<p>There was one occurrence in FY 17 in which the vendor was not set up in MUNIS; however, there was an invoice found within the support indicating the vendor accepts purchase orders. The vendor should be set up in MUNIS as they accept purchase orders.</p>			
2.	Certain purchases did not comply with procurement laws.				
a.	No written contract in place.	<p>The City's ordinances¹ and Massachusetts General Laws² require that purchases over \$5,000 have a contract in place signed by the Mayor, Department Head, Chief Procurement Officer, and City Comptroller. There were four (4) occurrences in FY18 totaling \$88,040 and three (3) occurrences in FY17 totaling \$27,207 in which there were no executed contracts for purchases over \$5,000.</p>	<p>Failure to adhere to procurement laws could lead to lead to budget overages, fraudulent spending, and or improper use of public funds.</p>	<p>We recommend the SPS develop procedures to comply with the City's ordinances and Massachusetts General Laws. Specifically, we recommend that the SPS include a signature page that includes the Superintendent's, Mayor's, Comptroller's, signatures and any other signatories as required with the invoice(s) (>\$5,000)</p>	<p>The District will ensure that procedures are in compliance with city ordinances and Massachusetts General Laws.</p>

¹ City of Springfield Ordinance, Chapter 82, Article I, § 82-11 Purchases of \$5,000 or more; and competitive bids.

² Massachusetts General Laws, Chapter 43, Section 29.



No.	Finding	Finding Description	Potential Risk/ Impact	Recommendation	Management Response
				<p>to comply with this requirement.</p> <p>In addition, we recommend that the SPS limit individual purchases to less than \$5,000 for goods and services, except for travel related purchases, for operational expediency. We noted that the Springfield Housing Authority (Massachusetts) has limited individual P-Card purchases to \$3,000.</p>	
b.	No vendor quotes obtained.	<p>In accordance with the procurement laws³ in Massachusetts, purchases of supplies or services that are estimated to cost at least \$10,000 require written quotes from at least three vendors. There was one occurrence in FY17 for \$10,671 in which there were no quotes obtained for that individual purchase over \$10,000.</p>	<p>Failure to adhere to procurement laws could lead to lead to budget overages, fraudulent spending, or improper use of public funds.</p>	<p>We recommend that the SPS develop procedures to obtain three vendor quotes for those individual purchases exceeding \$10,000.</p>	<p>The District will ensure that procedures refer to process of obtaining three quotes for purchases which exceed \$10,000.</p>

³ Massachusetts General Laws, Chapter 30B



No.	Finding	Finding Description	Potential Risk/ Impact	Recommendation	Management Response
c.	Purchases for nonbusiness purposes.	Municipalities in Massachusetts have the right to spend money for any purpose where the public good will be served but not where the expenditure of money is directly for the private benefit of certain individuals ⁴ . There was one occurrence totaling \$1,871 in FY18 in which the expenditure did not serve the public good. The expenditure was for baseball tickets to the San Diego Padres for a staff celebration. The SPS indicated the outing to the San Diego Padres was for team building for the teachers in the Empowerment Zone.	Failure to adhere to procurement laws could lead to budget overages, fraudulent spending, or improper use of public funds.	We recommend the SPS develop procedures to ensure expenditures are not made for nonbusiness purposes.	The District has updated the P-Card Request Form to assure its sole use for business purchases.
3.	Certain expenditures booked to the incorrect account.	We noted that certain expenditures were booked to the incorrect general ledger account in MUNIS. There were seven (7) occurrences totaling \$17,040 in FY 18 and nine occurrences totaling \$30,078 in FY 17 in which the purchase was booked to an account that did not match the classification of the purchase including office supplies recorded under Professional Services, field trips recorded under Other Supplies, office supplies recorded under Software, and hotel stays recorded under Professional Services.	Expenditures not being classified properly can result in overspending, budgets being over or under, inaccurate representation of the use of funds, and misstatement of financial statements.	We recommend the SPS' P-Card administrator and those involved in the MUNIS workflow approval process review all P-Card purchase entries to ensure they are being properly classified and booked to the appropriate general ledger account.	The District agrees the P-Card administrator will verify all accounts by the appropriate Business Office personnel.

⁴ Code of Federal Regulations, Title 2, Part 200, Section 200.445; & Mass General Law Part 1, Chapter 40, Section 5



No.	Finding	Finding Description	Potential Risk/ Impact	Recommendation	Management Response
4.	The City's agreement with the Bank of Montreal does not have a termination date.	The OIA noted that the City's agreement with the Bank of Montreal was executed on September 27, 2012 and amended on April 2, 2013. The contract has been effective for 7 years as of September 2019. The OIA noted no termination date in the agreement. The City's ordinances ⁵ require contracts that extend beyond one year be reviewed and signed by the City's Chief Administrative and Financial Officer (CAFO). Additionally, Massachusetts General Laws ⁶ require that contracts that extend beyond three (3) years require City Council approval. We noted there was no CAFO signature on the amended contract. We also noted that neither the original contract nor the amendment was approved by the City Council.	The SPS is exposed to risk of noncompliance with City and State regulations.	We recommend that the SPS amend its contract with the Bank of Montreal in which a termination date is specified and required signatures are obtained. We also, recommend that the SPS obtain quotes from other vendors to ensure the services provided by Bank of Montreal are competitive.	The District will work with the vendor and our attorneys to ensure compliance with city and state regulations.

⁵ City of Springfield Ordinance, § 27-117

⁶ Massachusetts General Laws, Chapter 30B, § 12(b)