

October 2021



Office of Internal Audit

Why We Did This Review

This review was conducted as part of the Office of Internal Audit's Fiscal Year 2021 Audit Plan.

Key Recommendations

- Replace the use of Big Y gift program with a corporate account at Big Y, in which merchandise could be purchased on credit. Thus the use of gift cards would only be for student incentives.
- At the school level, monitor and reconcile gift card activity, and perform an inventory of on hand Gift Cards, verifying remaining values at least monthly.
- Turn in unspent gift cards to the Business Office.
- All recipients and custodians of gift cards sign and date the Gift Card Acknowledgement Form at the time of transfer, without exception.
- Store gift cards in the school safe when not in use.

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Review of the Big Y Gift Card Program at Springfield Public Schools Highlights

Background

Springfield Public Schools (SPS) purchase Big Y gift cards (Gift Cards) and provide them to school principals, teachers, and staff so that they can purchase miscellaneous food/supplies for school sponsored events and prizes, including other retail gift cards, to distribute to students as incentives for academic performance. The maximum value of an individual Big Y gift card is \$500, and the maximum value of an individual retail gift card used as an incentive is \$25. Purchases of Gift Cards are funded from the City's General Fund and are classified as Classroom Supplies in Munis, the City's accounting system.

What We Found

Overall, the internal controls and oversight over the Big Y gift card management processes need strengthening to ensure the risk of gift card fraud, waste and abuse is sufficiently mitigated.

The results of our review revealed that Springfield Public Schools' Gift Card policy and procedures are generally not being adhered to by schools and departments primarily due to lack of school-wide and functional level accountability and monitoring structure.

Specifically, we found that at a functional level the following activities were not being performed:

- Reconciling gift activity and performing an inventory for those gift cards with account balances,
- Tracking the movement of Gift Cards to other users, and
- Properly safeguarding gift cards when not in use.

As a result, for the period under review, numerous Big Y gift cards were lost and unaccounted for. Furthermore, the lack of functional level accountability and monitoring structure helped create an environment ripe for fraud, waste and abuse. In School Year 2019, our office investigated an allegation of a fraud involving the misappropriation of Big Y gift cards. We found that Big Y gift cards with an aggregate value \$7,500 were misappropriated. We issued that investigative report under a separate cover. Although we substantiated misconduct in that particular instance, we were unable to determine whether additional Big Y gift cards were misused. There were numerous instances of lost and unaccounted for gift cards as well as missing supporting receipts for the period under review.



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

Springfield Public Schools (SPS) purchase Big Y gift cards (Gift Cards) and issue them to principals, teachers, and staff so that they can purchase miscellaneous food for school sponsored events and prizes, including other retail gift cards, to distribute to students as incentives for academic performance. The maximum value of an individual Gift Card is \$500, and the maximum value of an individual retail gift card used as an incentive is \$25. Purchases of Gift Cards are funded from the City's General Fund and are classified as Classroom Supplies in Munis, the City's accounting system. The Business Office at SPS (Business Office) has developed a system for managing the Big Y gift card program, including a revised policy that took effect in School Year 2020 that disallowed the purchase of other retail gift cards using a Big Y gift card. The gift card policy calls for the preparing a detailed budget for the use Gift Cards, approval for the procurement of Gift Cards, an acknowledgement by a principal/supervisor and user of the gift card policy as evidenced by their signature on the Gift Card Acknowledgement form (Acknowledgement Form), maintenance of logs for the distribution of gift cards to students (Student Incentive Logs), and the submission of all receipts to the Business Office throughout the Gift Card cycle. It is the responsibility of each principal/supervisor to ensure teachers/staff are properly safeguarding gift cards (both Big Y and other retail) and that Gift Card expenditures are in accordance with the gift card policy.

For the School Years 2020 and 2019, SPS purchases of Gift Cards amounted to \$65,282 and \$98,380, respectively. Tables 1 and 2 below show the quantity and the value of Gift Cards purchases by school/department for these school years.



Table 1			Table 2		
School Year 2020			School Year 2019		
School/Department	Number of Big Y Gift Cards	Cost	School/Department	Number of Big Y Gift Cards	Cost
SEZP	522*	\$ 15,930	SEZP	26	\$ 11,980
Chestnut	38	4,345	Kiley	13	8,600
Sci Tech	9	4,000	Chestnut	17	8,500
STEM	8	4,000	Guidance	29	8,150
Academics	5	2,500	Commerce	12	5,400
Lincoln	5	2,500	Sci Tech	48	4,250
Forest Park	9	2,401	Rise Academy	11	4,100
Springfield Public Day	14	2,300	Pupil Services	12	4,050
Commerce	7	2,117	STEM	7	3,500
Rise Academy	5	2,100	Renaissance	7	3,500
Springfield High School	5	2,000	Boland	7	2,900
Putnam	5	1,850	Academics	6	2,860
Kennedy	3	1,500	Putnam	7	2,700
Dryden	3	1,500	Freedman	2	2,500
Gerena	3	1,500	Lincoln Magnet	5	2,500
Indian Orchard	3	1,500	Liberty Preparatory Academy	29	2,090
Liberty	6	1,500	Forest Park	5	1,700
Balliet	2	1,000	Springfield Public Day	6	1,600
Central	2	1,000	Dryden	3	1,500
Homer	2	1,000	Safe System	3	1,500
Dorman	2	1,000	Duggan	3	1,500
Duggan	2	1,000	Gerena	3	1,500
Mary Lynch	2	740	Parent Information Center	11	1,500
Bradley	2	600	Dorman	2	1,000
Springfield Early Childhood	2	550	Glenwood	2	1,000
Rebecca Johnson	15	550	Washington	2	1,000
Sumner Ave	1	500	Deberry	2	1,000
Glenwood	1	500	Springfield High School	3	900
White Street	1	500	Brookings	16	800
Beal	1	500	Brightwood	2	680
Kennsington	1	500	Zinetti	1	500
Washington	2	500	White Street	1	500
SAFE	1	500	Beal	1	500
Duggan	1	500	Bradley	1	500
Warner	1	300	Indian Orchard	1	500
			Balliet	1	418
			Harris	1	403
			Warner	1	300
Total	691	\$ 65,282	Total	309	\$ 98,380

* Includes 492 other retail gift cards with an aggregate value of \$8,625.



Gift cards are subject to the same risks as cash and must be safeguarded to prevent theft or use for unauthorized purposes. Although the Business Office has defined procedures to safeguard gift cards and monitor the appropriateness of their use, these procedures are often not implemented or enforced, creating an environment ripe for misuse and abuse. In School Year 2019, our office investigated an allegation of a fraud involving the misappropriation of Gift Cards. We found that Big Y gift cards with an aggregate value \$7,500 were misappropriated. We issued that investigative report under a separate cover. Although we substantiated misconduct in that particular instance, we were unable to determine whether additional Big Y gift cards were misused. There were numerous instances of lost and unaccounted for gift cards as well as missing supporting receipts for the period under review.

Objectives, Scope, and Methodology

Objectives

The primary objective of this review were to determine whether there are controls to ensure that Gift Cards are safeguarded and their expenditures are accounted for and appropriate.

Scope

Our scope included Big Y gift card activity at Springfield Public Schools for the School Years 2020 and 2019.

Methodology

To accomplish our objective, we performed the following procedures:

- Reviewed SPS Big Y Gift Card policies and procedures,
- Reviewed Big Y Gift Card Acknowledgment Forms and Student Incentive Logs,
- On a judgmental sample basis, performed detailed testing over the following:
 - Purchase orders (POs) of Big Y gift cards to determine whether they included gift budgets and rational for purchase,
 - Individual gift cards related to the sampled POs to ensure that they were properly accounted for and expenditures were appropriate,
 - Verified with the user/custodian the possession of Big Y gift cards with their stated value,
- Conducted interviews, and
- Performed other tests deemed as necessary.

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.	The Big Y gift Card Policy and Procedures are not adhered to.	<p>During our testing, we noted that schools/departments are not adhering to the requirements outlined in the SPS Big Y Gift Card Policy. Specifically:</p> <ul style="list-style-type: none"> - For 17 out of the 50 Big Y gift card purchase orders tested (Items Tested) in School Year (SY) 2020 and for 33 out of the 50 Items Tested in SY 2019, schools/departments did not prepare detailed budgets for the use of Big Y gift cards. - For 14 of the 50 Items Tested in SY 2020 and for 16 of the 50 Items Tested in SY2019, schools/departments did not provide receipts to the Business Office to support that Gift Cards have been fully and appropriately expended. - For 3 out of 50 Items Tested in SY 2020 and 2 out of the 50 Items Tested in SY 2019, principals/supervisors and users did not sign the Acknowledgement Form. - For 8 out of 50 Items Tested in SY 2020 and for 12 out of the 50 Items Tested in SY 2019, schools/departments did not maintain Student Incentive Log to support the issuance of retail gift cards to students. 	Schools/departments that do not comply with the gift card policy and procedures are at increased risk for fraud, waste and abuse.	<p>We recommend the following:</p> <ul style="list-style-type: none"> - The Business Office suspend all gift card privileges until the offending school/department becomes fully compliant with the gift card policy and procedures. - The Business Office convey all Instances of noncompliance of the gift card policy to the school principal/supervisor. - Revise the gift card policy as discussed Finding 2 below. - The Business Office train school principals, teachers, and staff on the gift card policy. <p>In addition, we recommend that SPS look into replacing the Big Y gift card program with corporate account with Big Y, in which merchandise could be purchased on credit. As such, the only gift cards in use by SPS would be for student incentives.</p>	<p>The Business Office is implementing procedures to ensure all requisitions will have a budget attached.</p> <p>The Business Office has and will continue to enforce compliance by suspending all privilege to any school/department who has not submitted all receipts.</p> <p>The Business Office has committed to ensuring all required signatures are included in the Acknowledgement Forms.</p> <p>Big Y no longer accepts requests to purchase retail gift cards as student incentives. The Business office is looking to alternative options and will implement new procedures for that process prior to implementation.</p>



No.	Finding	Finding Description	Potential Risk/ Impact	Recommendation	Management Response
2.	Gift Card activity is neither monitored nor reconciled, resulting in financial losses.	During our testing, we found no evidence that Gift Card activity is monitored and reconciled, or Gift Cards with balances are inventoried to verify there has been no loss of Gift Cards.	<p>A lack of adequate monitoring and reconciling Gift Card activity and inventorying Gift Cards with balances at the department or functional level increase the risk of fraud, waste and abuse.</p> <p>In 2020 we noted one lost and unaccounted for gift card with a balance of \$419.54. In 2019, we noted seven lost and unaccounted for gift cards with an aggregate value of \$3,500. A gift card is considered unaccounted for if the gift card was purchased and disbursed to the teacher/staff, but the teacher/staff could not locate the issued gift cards and could not locate the supporting receipts to ensure the gift cards were fully expended.</p>	<p>We recommend that each school or department that is approved to receive gift cards perform the following:</p> <ul style="list-style-type: none"> - Reconcile and monitor their Gift Card activity at least monthly. - Maintain all receipts to support the activity on the reconciliation, which are subject to audit. - Maintain all - Acknowledgement Forms and Student Incentive Logs, which are subject to audit. <p>The reconciliation process should include the following:</p> <ul style="list-style-type: none"> - At any point in time, indicate on the reconciliation how many cards are on hand, the value of each gift card, which can be verified with a physical inventory count and account verification by calling number on the back of the Gift Card. - A person who does not maintain or have access to the gift cards (e.g., 	The Business Office is considering the templates provided by the Office of Internal Audit and will work to develop final templates to distribute to schools to aid in the reconciliation process.



No.	Finding	Finding Description	Potential Risk/ Impact	Recommendation	Management Response
			<p>In addition, in 2019 we investigated an allegation of fraud related to the misappropriation of Big Y gift cards. We found that Big Y gift cards with an aggregate value \$7,500 were misappropriated. We have issued that investigative report under a separate cover.</p>	<p>not the custodian of the gift cards) prepare the reconciliation,</p> <ul style="list-style-type: none"> - The school principal or his/her designee approve the reconciliation, - Submit the reconciliation to the Business Office monthly for review. - The Business Office periodically audit reconciliations for accuracy and completeness and verify appropriate usage. <p>Additionally, we recommend that any unspent gift card be returned to the Business Office so that they cannot be used other than their intended purpose.</p> <p>The Office of Internal Audit has provided as Appendix A a reconciliation template that schools and departments could use to reconcile Gift Card activity.</p>	



No.	Finding	Finding Description	Potential Risk/ Impact	Recommendation	Management Response
3.	Opportunities exist to improve the Gift Cards' chain of custody process.	We noted that when Gift Cards are picked up from the Business Office, their transfer is documented on the Acknowledgement Form with the recipient's signature and date at the time of transfer and witnessed by the custodian of Gift Cards (also evidenced by their signature). This process is referred to as the "chain of custody." However, we noted that on multiple instances principals/supervisors or custodians of Gift Cards are not documenting the transfer of Gift Cards to other users. A clear chain of custody over the Gift Card transfer process must be maintained at all times as a best practice and is required by the gift card policy through the use of the Acknowledgement Form.	<p>Not having proper sign-offs when a custodian turns over Gift Cards to the recipient creates an opportunity for fraud as the person responsible for the misappropriation of Gift Cards may not always be identifiable.</p> <p>As mentioned in Finding 2, in SY 2019 seven Gift Cards with an aggregate value of \$3,500 were lost and unaccounted for. School officials could not determine to whom these gift cards were issued.</p>	<p>We recommend the following:</p> <ul style="list-style-type: none"> - All recipients of gift cards and the custodian of gift cards sign and date the Acknowledgement Form at time of Gift Card transfer, - School/department maintain all Acknowledgement Forms. - Principal/supervisor review Acknowledgement Form (along with Student Incentive Logs) for appropriateness. 	The Business Office will update the Acknowledgment Form to account for the transfer of custodian. As well as inform the school/department of their responsibility to maintain the form.
4.	Gift cards are not adequately safeguarded.	We noted that gift cards are not stored in a secure location, such as a safe, at the school. They are often placed in a drawer, or kept at the user's home. Gift cards are like cash and should be placed in a safe with their access limited to authorized individuals.	Gift cards that are not adequately safeguarded increase the risk of misappropriation.	We recommend that gift cards be stored in the school's safe when not in use, and principals/supervisors limit access to authorized personnel.	The Business Office will continue to communicate the importance of safeguarding all gift cards while not in use.

Appendix A
Springfield Public Schools
Big Y Gift Card Reconciliation
Template

School/Department:														
Date														
Purchase Order Number	Invoice Date	Gift Card Number	Telephone Number to Verify Account Balance	Gift Card Value	Expenditures to Date (Supported by Receipts)	Remaining Balance	Remaining Balance per Verification (Calling the Number of Back of Card)	Variance	Explanation for Variance	Possession of Gift Cards with Remaining Balance Verified with Custodian (YES/NO)	Date of Transfer	Gift Card Purpose	Recipient Name/ID #	Recipient Signature/Initials Obtained (YES/NO)
1														
2				\$0.00	\$0.00	\$0.00	\$0.00	\$0.00						
3				\$0.00	\$0.00	\$0.00	\$0.00	\$0.00						
4				\$0.00	\$0.00	\$0.00	\$0.00	\$0.00						
5				\$0.00	\$0.00	\$0.00	\$0.00	\$0.00						
6				\$0.00	\$0.00	\$0.00	\$0.00	\$0.00						
7				\$0.00	\$0.00	\$0.00	\$0.00	\$0.00						
8				\$0.00	\$0.00	\$0.00	\$0.00	\$0.00						
9				\$0.00	\$0.00	\$0.00	\$0.00	\$0.00						
10				\$0.00	\$0.00	\$0.00	\$0.00	\$0.00						
11				\$0.00	\$0.00	\$0.00	\$0.00	\$0.00						
12				\$0.00	\$0.00	\$0.00	\$0.00	\$0.00						
13				\$0.00	\$0.00	\$0.00	\$0.00	\$0.00						
14				\$0.00	\$0.00	\$0.00	\$0.00	\$0.00						
15														

**Appendix A
Springfield Public Schools
Student Incentive Reconciliation
Template**

School/Department:							
Date:							
<i>Purchase Order Number</i>	<i>Card Card Number</i>	<i>Gift Card Value</i>	<i>Date Received by Custodian</i>	<i>Pocession of Undistributed Gift Cards Verified with Custodian (YES/NO)</i>	<i>Custodian Name/ID #</i>	<i>Date Disbused to Students</i>	<i>Student Signature/Initials Obtained (YES/NO)</i>
1							
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
Gift Card Reconciliation:							
Cards Purchased:		0					
Amount Disbursed		0					
Cards On-hand:		0					

Appendix A
Springfield Public Schools
Gift Card Reconciliation Checklist

School/Department:

Date:

Gift Card Reconciliation Checklist

- Obtain all receipts for the expenditures of Big Y gift cards.
- Verify ending balance of gift cards by calling the gift card telephone number on back of card.
- Verify possession of gift cards with recipients and custodians.
- Obtain explanation for variance from recipients.
- Obtain Acknowledgement Forms and verify that the forms have been signed by recipients and custodians.
- Obtain Student Incentive Logs and verify that the logs has been signed by students.
- Notify Business Office of any lost or unaccounted for gift cards.
- Instruct custodians and recipients to remit unspent gift cards to the Business Office.

Date:

Signature:

Principal/Supervisor Signature:
