



**A Report to the  
Audit Committee**

**Mayor**  
David Briley

**Director of Schools**  
Dr. Shawn Joseph

**Audit Committee Members**  
John Cooper  
Charles Frasier  
Talia Lomax-O'dneal  
Bob Mendes  
Brackney Reed

# Audit of the Metro Nashville Public Schools Purchasing Card Program

August 1, 2018

Metropolitan  
Nashville  
Office of  
Internal Audit

## EXECUTIVE SUMMARY

August 1, 2018



### Why We Did This Audit

The audit was initiated because the Metropolitan Nashville Office of Internal Audit has not previously performed an audit of Metro Nashville Public Schools purchasing card activity.

### What We Recommend

Management should ensure that all transactions are conducted in accordance with policies and standard operating procedure.

# Audit of the Metro Nashville Public Schools Purchasing Card Program

## BACKGROUND

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The Purchasing Card Program supports the procurement function for the Metro Nashville Public Schools. Purchasing cards are issued by Metro Nashville Public Schools as a mechanism to (a) ensure the timely obtainment of goods and services necessary for the sustainment of critical operation functions (for example maintenance, transportation and so forth), (b) obtain the goods and services of best value to the district in cases where the supplier does not accept a purchase order, and (c) book and pay for travel-related expenses.

Between July 1, 2015, and September 30, 2017, 55 purchasing cardholders processed \$6.1 million in charges through 12,935 purchasing card transactions.

## OBJECTIVES AND SCOPE

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The audit objective is to determine if Metro Nashville Public Schools management's expectations for the use of purchasing cards are being practiced by purchase cardholders. Management's expectations are communicated to staff in FM 2.111 - Purchasing Policy, FM 2.112 - Purchasing Card Program, and FMp 2.144 - Purchasing Card Program Standard Operating Procedure Outline.

The scope of the audit included the 12,935 purchasing card transactions processed between July 1, 2015, and September 30, 2017.

## WHAT WE FOUND

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The Metro Nashville Public Schools has policies in place and are generally implementing purchasing card policies effectively. Controls are in place to provide assurance that purchasing card transactions are appropriate, approved, and recorded in the general ledger. Our random and purposeful samples consisting of 124 purchasing card transactions showed all of these expenditures were related to the mission of the Metro Nashville Public Schools.

However, instances of cardholder performance as defined through purchasing card policy and procedures were not consistently practiced. Retention of documentation could be improved. Monthly reconciliations were not signed by the reviewer and cardholder in every case.

## GOVERNANCE

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Metro Nashville Public Schools reports to the Metro Nashville Board of Public Education. The Metro Nashville Board of Public Education manages and controls all public schools established under its jurisdiction. It has primary authority over school matters, but management responsibilities are delegated to the Director of Schools.

Purchasing card activity is also governed by several internal policies and procedures. Management's expectations are communicated to staff in FM 2.111 - Purchasing Policy, FM 2.112 - Purchasing Card Program, and FMP 2.144 - Purchasing Card Program Standard Operating Procedure Outline.

## PURCHASING CARD PROCESS

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The Purchasing Card program supports the procurement function of the Metro Nashville Public Schools. Purchasing cards are a mechanism to provide a cost-effective method to procure goods and services.

A breakdown of the top five purchase card merchants expenditures is presented in Exhibit A below.

### Exhibit A – Top Five Purchasing Card Merchants between July 1, 2015, and September 30, 2017

Merchant	Amount	Purpose
Southwest Airlines	\$748,900	Travel
Marriott	256,219	Travel
Hilton	194,591	Travel
Amazon	114,407	Various
Neely Coble Company	92,837	Vehicle Parts and Service

Source: Metro Nashville Public Schools purchasing card data from JP Morgan

## OBJECTIVE AND CONCLUSION

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1. *Did Metro Nashville Public Schools purchasing cardholders perform management expectations as defined through Purchasing Card policy and procedures, specifically FM 2.111 - Purchasing Policy (November 2016), FM 2.112 - Purchasing Card Program (May 2014), and FMP 2.144 - Purchasing Card Program Standard Operating Procedure Outline (March 2012)?*

**Generally, yes.** Policies and procedures are in place and are generally being followed. Our random and purposeful samples consisting of 124 purchasing card transactions showed all of these expenditures were related to the mission of the Metro Nashville Public Schools. However, instances of cardholder performance as defined through purchasing card policy and procedures were not consistently practiced. (See Observation A.)

## AUDIT OBSERVATIONS

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Internal control helps entities achieve important objectives, and sustain and improve performance. The Committee of Sponsoring Organizations of the Treadway Commission (*COSO*), *Internal Control – Integrated Framework*, enables organizations to effectively and efficiently develop systems of internal control that adapt to changing business and operating environment, mitigate risks to acceptable levels, and support sound decision making and governance of the organization. The audit observations listed are offered to assist management in fulfilling their internal control responsibilities.

### ***Observation A - Purchasing Card Policies and Procedures Performance***

Management expectations as defined through purchasing card policy and procedures were not consistently practiced. Random and purposeful samples consisting of 124 purchasing card transactions demonstrated the following areas of performance concerns:

- Monthly purchasing card statement reconciliations were not complete for 19 statements.
  - Staff was unable to locate 7 statements.
  - Both supervisor approval and cardholder attestation signatures were not completed on 3 statements.
  - Supervisor approval signatures were not completed in 2 statements.
  - Cardholder attestation signatures were not completed on 2 statements.
  - Receipts were missing for 4 statements.
  - All dates within the statement reconciliation month were not complete for 1 statement.
- One expenditure was made by an employee who was not the cardholder. The cardholder stated that his prior department director authorized another employee to use his card.
- Management did not maintain Purchasing Card Applications after the cardholder profile was input on the bank site due to cardholder personal information on the forms. Management's card approval and authorized purchasing limits are documented on the Purchasing Card Applications.
- Management was not conducting an annual inventory of purchasing cards.
- Management did monitor transactions; however, not all of the documentation for transactions that were reported as card loss or theft was maintained.

#### *Criteria:*

- COSO, Control Activities—Principle 12—The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.
- Purchasing Card Program FM 2.112:
  - Obtaining a Card – Requires the *Purchasing Card Application* form to document approval signatures by the department head and the purchasing manager, as well as the approved transaction limit and account limit.
  - Card Use - Only the employee whose name is embossed on the card may use it. No other person is authorized to use it.

- Lost or Stolen Cards - Cardholder must notify MNPS Purchasing Department immediately by telephone and email, describing the details of the loss or theft.
- Annual Inventory – The Purchasing Department shall provide to each department a list of purchasing cards issued to its employees. The department head must conduct a physical inventory of all purchasing cards and provide a list of cards that cannot be found to the Purchasing Department by email.
- Purchasing Card Program FMP 2.144, Standard Operating Procedure Outline - Requires “department heads” to sign the summary of charges each month before forwarding to accounts payable for processing and cardholders are responsible for obtaining receipts for transactions and submitting the receipts with their monthly card statement.

*Recommendation for the management of the Metro Nashville Public Schools to:*

1. Ensure all purchasing card transactions comply with Purchasing Card policies and procedures.
2. Review Purchasing Card Program policies and procedures to ensure they reflect management’s expectations and current practices.

***Observation B - Travel Approval for the Director of Schools***

The approval route for purchasing card expenses made on behalf of the Director of Schools should be changed. The various staff members making purchases on behalf of the Director and approving the related expense reports to the Director of Schools. This condition potentially diminishes the integrity and strength of the review. Sound internal controls and proper management review dictate someone outside the Director of Schools span of control approve the purchase.

*Criteria:*

- COSO, Control Activities—Principle 10—The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
- Purchasing Card Program FMP 2.144, Standard Operating Procedure Outline—Reconciliation of P-Card Statement— Department heads approve the summary of charges each month.

*Recommendation for the management of the Metro Nashville Public Schools to:*

Revise the approval route for purchasing card expenses made on behalf of the Director of Schools, preferably a member of the Metropolitan Nashville Board of Public Education or the Executive Team.

***Observation C- Document Management***

The Purchasing Card Program’s manual paper filing system is cumbersome, time-consuming, and requires a physical room for filing. All receipts, statements, and reconciliations for purchasing card activities are retained as physical copies, not an electronic format. Maintaining the large volume of paper documentation is inefficient and somewhat ineffective. The risk of documentation being lost, destroyed, or not properly maintained is enhanced in a manual filing system.

*Criteria:*

COSO, Control Activities—Principle 10—The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

*Recommendation for the management of the Metro Nashville Public Schools to:*  
Implement an electronic filing method for the retention of purchasing card program documentation.

## **GOVERNMENT AUDITING STANDARDS COMPLIANCE**

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We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

## **METHODOLOGY**

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

- Interviewed key personnel within the Metro Nashville Public Schools administrative office.
- Reviewed existing policies.
- Evaluated internal controls currently in place.
- Tested samples to determine if policies and procedures were followed.
- Considered risk of fraud, waste, and abuse.

## **AUDIT TEAM**

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Mary Cole, CPA, CFE, CISA, CGFM, Project In-Charge Auditor

Bill Walker, CPA, CIA, Quality Assurance

Mark Swann, CPA, CIA, CISA, ACDA, CFMO, Metropolitan Auditor



METRO  
NASHVILLE  
PUBLIC  
SCHOOLS

SHAWN JOSEPH, ED.D.  
Director of Schools

☎ 615.259.8421  
☎ 615.214.8850  
✉ Directorofschools@mnps.org  
🐦 @MNPSDirector

July 19, 2018

Mr. Mark Swann  
Metropolitan Auditor  
Office of Internal Audit  
404 James Robertston Pkwy, Suite 190  
Nashville, TN 37219

Dear Mr. Swann,

This letter acknowledges Metropolitan Nashville Public Schools (MNPS) has received the final audit report from the Metropolitan Nashville Office of Internal Audit on the MNPS Purchasing Card Program. Your analysis and insights align with the direction our team has taken or will take to improve our process. Thank you for your diligent work, expertise, and partnership with the district to better serve our students.

MNPS has evaluated the observations and the recommendations in the report, and we have attached our management response. We accept each recommendation and have made progress on several in real time. That said, the recommendation for the implementation of an electronic filing method for the retention of purchasing card program documentation is a cost benefit decision we must make prior to fully committing to this recommendation. We are not aware of a Metro general government solution for this, and it seems mutually beneficial if both adopt a digital solution.

We look forward to working together on future projects as MNPS works to exceed great expectations for each of our students.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Joseph".

Shawn Joseph, Ed D.  
SJ/mrb

## APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

We believe that operational management is in a unique position to best understand their operations and may be able to identify more innovative and effective approaches, and we encourage them to do so when providing their response to our recommendations.

Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
<i>Recommendations for the management of the Metro Nashville Public Schools to:</i>		
<b>A.1</b> - Ensure all purchasing card transactions comply with Purchasing Card policies and procedures.	<b>Accept.</b> Accept and is currently the practice.	4/30/2018
<b>A.2</b> - Review Purchasing Card Program policies and procedures to ensure they reflect management's expectations and current practices.	<b>Accept.</b> Accept and will be finalized during the current fiscal period.	10/1/2018
<b>B.1</b> - Revise the approval route for Director of Schools' travel expenditures, preferably a member of the Metro Nashville Board of Public Education or the Executive Team.	<b>Accept.</b> Accept and is currently the practice.	3/15/2018
<b>C.1</b> - Implement an electronic filing method for the retention of purchasing card program documentation.	<b>Accept.</b> Accept the research of solutions, identification of costs, and possible inclusion in budget request. Would like to work with Metro to achieve an Enterprise Solution.	6/30/2019