

FRAUD RISK ALERT

FRAUD AND ABUSE IN THE USE OF PURCHASING CARDS

April 2010

The Board of Education for the Los Angeles Unified School District established the Office of the Inspector General to detect and prevent waste, fraud, and abuse, to improve management controls, and to increase efficiency of operations. When it becomes apparent that internal controls established by District management are not working as intended for a specific area, our Office has the duty and obligation to issue a Fraud Risk Alert to District management. The purpose of the Fraud Risk Alert is to encourage managers at all levels to assess whether there are risks that are not being addressed adequately and whether additional controls need to be enacted at the policy level.

The International Standards for the Professional Practice of Internal Auditing is a recognized body of standards created by the Institute of Internal Auditors and provides a framework for performing and promoting internal auditing. Section 2120.A2 states:

"The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk."

The office of Internal Audit has conducted 16 audits at the school, local district, and Central office level, which focused in whole or in part on the use of the District's Purchasing Cards, or more commonly known as P-Cards. Some of these audits have been based on requests from school Principals and some from Local District or central office Administrators.

We have noticed an alarming consistent trend of findings in the usage of P-Cards based on these audits. Some of the more significant findings in these reports are as follows:

- (1) **Lack of supporting documentation** for P-Card expenditures, such as, receipts of purchases or invoices; the failure to provide a single receipt or invoice for transactions; and the failure to retain P-Card bank statements at the school site for an entire year .
- (2) **Split purchases** were carried out in violation of District policy. P-Cardholders have succeeded in circumventing the single purchase limit (usually \$1,500.00) by splitting a purchase into two or more smaller purchases.
- (3) **Prohibited items** were purchased by District employees. These items included desktop and laptop computers, computer equipment, food and drinks, bus rental for a field trip, blankets, tote bags, drink coolers, travel sets, janitorial supplies, etc.
- (4) **No Independent Receivers** were identified at various schools. This is a critical function to ensure that goods are used properly and not misappropriated or misplaced. In addition, some schools failed to document whether the goods were received or not on the receipt, invoice, or other documentation.
- (5) The Approving Official was **unaware of purchases made using the P-Card** because the P-Cardholder purchased and approved the transactions in the Pro-Cure system, without the Approving Official's knowledge.

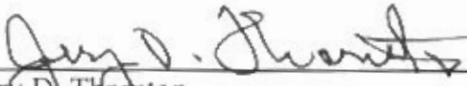
- (6) **Availability of funding was not verified** by the P-Cardholder prior to completing P-Card purchases.
- (7) Some P-Card statements had no evidence of the **Principal's review and approval**. The Principal's review and approval of P-Card statement was not always done.
- (8) **Control over the physical credit card** when an employee is on leave, transferred or terminated is an issue. In these situations, the P-Card becomes vulnerable to fraudulent charges made by non-District employees when the P-Card should be under the control of the Principal or Administrator, otherwise there is a greater risk of fraud. Unauthorized charges have been noted when a District employee was on extended leave.

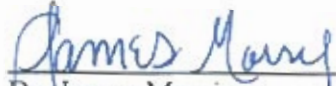
Why should we care about these audit findings? School Principals and Administrators are entrusted with public funds and must use these monies in the most effective and cost-conscious way, to serve the public's trust. A lax control environment in schools and offices can lead to waste, fraud, and abuse, which begs the question, "What can I do to ensure accountability?" Everyone has a stake in protecting public funds – and we must all realize the stakes involved in misuse of public monies. The Chief Procurement Officer, auditors, Central Office Staff cannot do this alone – it starts with the recognition of risk by the School Administrative Assistant, the Office Manager, the Assistant Principal, and finally the Principal. So what can you do to prevent fraud, waste, or abuse of P-Cards?

- You can start by reviewing the Procurement Manual, available online at the website of the Procurement Services Division. Everyone can review P-Card policies starting on Page 82.
- You can request refresher training from Procurement Services Division for your school or local district.
- Schools and offices must be more careful about retaining receipts, invoices, bank statements for the required seven years.
- Approving Officials must be more diligent in scrutinizing P-Card transactions.
- P-Cardholders must understand that there are controls in place to prevent split purchases – which includes the possible removal of the P-Card and a stain on your employment record.
- Each school or office should assign an Independent Receiver for receiving goods and document the receipt of such goods on a receipt, invoice, or other supporting document.
- Procurement Services Division should consider revocation of P-Card privileges more frequently, especially in instances of fraud, excessive waste, or abuse.

What To Do If You Suspect P-Card Fraud

If you have information about or suspect an employee may be involved in P-Card fraud or abuse, call the OIG Fraud Hotline at (213) 241-7778, or toll free at (866) LAUSD-OIG (528-7364). Your call is confidential and you may remain anonymous. You may also write to: the Office of the Inspector General, 333 S. Beaudry Avenue, 12th Floor, Los Angeles, CA 90017, or send email via our website at www.laoig.org.


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