



Mary Taylor, CPA
Auditor of State

CINCINNATI CITY SCHOOL DISTRICT
HAMILTON COUNTY

AGREED-UPON PROCEDURES
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**CINCINNATI CITY SCHOOL DISTRICT
HAMILTON COUNTY**

**AGREED-UPON PROCEDURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

BACKGROUND

During the fall of 2008 the Cincinnati City School District, Hamilton County, Ohio (the District), financial audit for fiscal year 2008 was being conducted by Caudill & Associates, CPA's. In November 2008 Caudill and Associates contacted the Auditor of State after the District notified them of concerns they had regarding procurement card charges. The District had internally discovered misuse of procurement cards by two employees and had worked with the Cincinnati Police Department to investigate these cases. Based upon the internal investigation performed by the District, two individuals were indicted on October 31, 2008, by the Hamilton County Court of Common Pleas for these offenses. These individuals were subsequently convicted and sentenced to three years community control and ordered to repay restitution to the District.

Caudill & Associates, CPA's performed a detailed review of procurement card charges for the 2008 audit period and the results were reviewed by the Auditor of State in March 2009. The results of the review included lack of supporting documentation for numerous transactions, unusual purchases and vendors and purchases of items specifically prohibited by written procedures related to use of procurement cards titled "Cincinnati Public Schools – Procurement Card Procedures Through PNC Bank – revised 3/07".

As a result of this review, the Auditor of State determined additional procedures should be performed relative to the District's procurement card charges to determine whether charges were for a valid school purpose and complied with the District's procurement card procedures.

In April 2009, based upon preliminary review of Caudill & Associates' work, the Auditor of State discussed with the District performing additional procedures as an Agreed-Upon Procedures engagement.

Initial review of the District's supporting documents that the District had gathered began in June 2009 by the Auditor of State. On July 16, 2009, a pre-engagement meeting was held with District officials to discuss some preliminary items reviewed and the proposed agreed-upon procedures and letter of arrangement for the engagement prepared by the Auditor of State. The agreed-upon procedures were agreed to by the District on October 31, 2009.

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Board of Education
Mr. Jonathan Boyd, Treasurer
Cincinnati City School District
Hamilton County
2651 Burnet Avenue
Cincinnati, Ohio 45219-2551

We performed the procedures enumerated below, which were agreed to by the Board of Education (the Board) and the District Treasurer, related to Cincinnati City School District, Hamilton County, Ohio (the District), procurement card transactions made for the period July 1, 2007 through June 30, 2008. We followed the American Institute of Certified Public Accountants' attestation standards for agreed-upon procedures engagements and applicable attestation engagement standards included in the Comptroller General of the United States' *Government Auditing Standards*. The sufficiency of the procedures is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. Our procedures were as follows:

PROCEDURE 1

From the PNC Bank Works system, we obtained an electronic listing of all charges made using District's 265 procurement cards for the period July 1, 2007 through June 30, 2008. We agreed these charges to the documentation supporting District payments to PNC Bank for charges incurred during the period July 1, 2007 through June 30, 2008 to verify our population used for testing was complete.

RESULTS

All 12,444 transactions, totaling \$1,433,829, were reconciled with payments to PNC Bank, and therefore we determined that the transaction population was complete.

Total District expenses during the year ended June 30, 2008 were approximately \$561 million.

PROCEDURE 2

Test of all Procurement Card Transactions for the Existence of Supporting Documentation

We compared monthly credit card statements to available supporting documentation. We determined whether supporting documentation was on file to support all 12,444 transactions on the statements. The District was unable to provide detailed receipts or invoices for 1,253 transactions (10.1%) totaling \$146,495 (10.2% of the total transactions amounting to \$1,433,829). This total includes 40 transactions totaling \$12,764 that were charged to federal grant funds.

Sampling of Procurement Card Transactions' Supporting Documentation for Evidence of Compliance with Policies

We categorized all credit card transactions as: (1) gifts, (2) repair / maintenance purchases, (3) tools, (4) travel or (5) other. From these subpopulations, we haphazardly selected individual transactions in each of the categories noted below, and examined the supporting documentation (such as vendor invoices) to judge its allowability under District policies and administrative procedures, such as the Cincinnati Public Schools Procurement Card Procedures Through PNC Bank (dated 03/07), the Ohio Revised Code Sections described in the remainder of this report; and whether in our judgment, the purchase was for a **proper public purpose** of the District or otherwise met the goals and mission of the District.

1. We selected Gift card purchases for 81 gift card transactions totaling \$20,574, from a total population of 131 gift card purchases;
2. Thirty transactions, totaling \$6,771 for repair/maintenance purchases made by Building Operations and Food Services (BOFS) and Facilities Department (Facilities) personnel;
3. Tool purchases for 39 transactions totaling \$6,040 made by Facilities personnel;
4. All travel related charges for 23 employees' travel for professional development and travel related to student activities/ student trips for 576 transactions totaling \$142,992; and 44 other individual travel related transactions totaling \$19,086;
5. We selected 132 other transactions totaling \$25,160 from the remaining population that could be personal in nature such as televisions, DVD players, iPods, digital cameras and camcorders.

From the subpopulations above, we agreed available documentation supporting charges on 265 individual PNC Bank procurement cards issued to employees and determined whether charges: were supported with documentation (i.e. invoices), were for valid District operations, and made in accordance with District policies and administrative procedures, such as the Cincinnati Public Schools Procurement Card Procedures Through PNC Bank (dated 03/07) and the Ohio Revised Code Sections described in the remainder of this report, and whether in our judgment, the purchase was for a **proper public purpose** of the District or otherwise met the goals and mission of the District.

Prohibited Purchases

The following summarizes purchases the District's procedures prohibit:

Section IV of the Procurement Card Procedures states "[t]he Purchasing Card is to be used for Cincinnati Public School authorized purchases only and cannot be used for personal items." Additionally, Section V(C)(2) of the Procurement Card Procedures states that "the Procurement Card shall be only used for purchases necessary for school and/or operational use only. The Procurement Card cannot be used for any personal items. The following supplies and services shall not be purchased with the Procurement Card:

- Personal Items
- Cash advances
- Gift certificates
- Postage
- Hotel and airfare (except travel-authorized)
- Vehicle repairs (except fleet)
- Gas and oil products (except fleet)
- Entertainment

- Telephone calls
- Capital equipment (fixed assets)
- Medical services
- Legal services
- New cellular phones"

In our tests of the subpopulations described above, we found the following violations of District procedures:

1. Gift Card Purchases:

We identified 131 gift card purchases totaling \$24,822. Sixty eight of these were gift cards from Kroger totaling \$10,945. The gift cards purchased were for Master Card gift cards or Kroger gift cards. The remaining 63 transactions totaling \$13,877 were for the purchase of gift cards from the following vendors: Wireless Living, Cincinnati Bell Store, Claire's Boutiques, Golden Corral, Barnes and Noble, Borders Books, Blossom's Florist, Larosa's Restaurant, Devero's Clothing Store, Gamestop, Biggs, Panera Bread, Tri-County Mall, McDonald's and Walmart.

We selected 81 of these transactions for which we requested additional supporting documentation from the District. The District did not provide detailed receipts for nine of the transactions in the sample (11.1%). Of these nine transactions, seven were charged to federal grant funds.

For many of these transactions, there was no documentation attached to support the purpose or use of the gift cards. With the exception of one school, whose employees maintained required documentation, no logs were maintained to show the distribution of gift cards. Subsequently, the District was able to obtain emails and letters from District employees that certain transactions were for student incentives, student event meals, parent meeting attendance incentives or food for parent meetings. However, there were no records, emails, letters or other documentation prepared at the time of transaction or during the school year to support the purpose or use of the gift card.

Purchasing gift cards is not allowable per the District's procedures. Should the District choose to allow the purchase of gift cards, we recommend internal controls are put in place to monitor these purchases due to the high risk of fraud associated with gift cards. In addition, we recommend distribution lists be maintained, similar to the policy implemented by Aiken College and Career High School. The Distribution List policy should, at a minimum, identify who received the incentive, the actual item given as incentive, and the reason for the incentive. The District should ensure appropriate documentation is maintained supporting gift card purchases were for a school-related purpose.

2. Tool Purchases:

The BOFS and Facilities personnel indicated that their normal practice prohibits the purchase of tools, unless pre-approved. Of the 39 tool purchases we tested, there was no preapproval for purchases of a jigsaw, a replacement drill, batteries, a lawn mower, a chain saw, a shop vac, a heat gun, a cordless drill, a socket set, a gas can and a hedge trimmer which could be converted to personal use. Also, one transaction of the sample of 39 tool purchases we reviewed did not have a detailed receipt (2.6%) and for seven transactions for which the District did not provide a credit card log (17.9%).

3. Miscellaneous Purchases of items that could be personal in nature such as televisions, dvd players, iPods, digital cameras and camcorders:

From the sample of 132 miscellaneous transactions we selected for further testing, the District was unable to provide detailed receipts for 20 of these transactions (15.2%). Of these 20 transactions five were charged to federal grant funds.

We identified purchases for televisions, dvd players, iPods, digital cameras and camcorders, bicycles, mp3 players, flowers and toys that were supported by a detailed invoice but did not have documentation attached demonstrating the purpose or use of the items. Subsequently, the District obtained emails and letters from District employees that certain transactions were for student incentives. However, there were no records, emails, letters or other documentation prepared at the time of transaction or during the school year to support the purpose or use of the item. There also was not a listing provided to whom these items were distributed or awarded to if they were used as student incentives.

Additionally, when we initially reviewed all credit card transactions we identified 461 miscellaneous transactions (non-gift card purchases) at Kroger totaling \$26,380. These transactions included the purchases of various food items, office supplies, cleaning supplies, balloons /decorations, film processing, flowers, and the purchase of newsstand magazines. These transactions could potentially be for personal items; however, we were unable to determine if these items were for personal or school use based upon the documentation provided.

4. Postage Purchases

We identified 40 purchases of postage totaling \$2,163.

5. Purchases of entertainment tickets and admissions to various entertainment venues.

Purchases were made for entertainment items purchased during school trips including admission tickets, movie tickets, laser tag, skating, hockey tickets and NBA tickets.

Purchases for entertainment purposes are also prohibited per the District's procedures. Through testing we were able to verify that all purchases for entertainment purposes were part of approved student trips. Some of these student trips were paid for by participation fees which the students paid the District, however the District's procedures do not address whether or not these specific purchases would be allowable. We recommend that the District amend their procedures to address whether entertainment costs are an allowable procurement charge as part of student trips.

OTHER FINDINGS AND RECOMMENDATIONS

Finding for recovery repaid under audit– Alcohol Purchase

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951) provides that the primary objective of an expenditure of public funds should serve a public purpose. Typically the determination of what constitutes a "proper public purpose" rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only.

Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper "Public Purpose" states that the Auditor of State's Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect. The Bulletin further states that the Auditor of State's Office does not view the expenditure of public funds for alcoholic beverages as a proper public purpose and will issue findings for recovery for such expenditures as manifestly arbitrary and incorrect.

Principal Maria Bonavita used her procurement card to purchase alcohol in the amount of \$42.50 while at a professional development conference. The charges were paid from federal grant funds in the Title I Fund (fund 572). Payment was made by a check issued by the Treasurer's office and signed by the Treasurer.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Maria Bonavita, in the amount of \$42.50 and in favor of Cincinnati City School District Title I Fund.

Upon discussion with the District of this potential finding for recovery the Treasurer contacted Ms. Bonavita and on March 19, 2010 she repaid with a personal check \$42.50 to the District. These funds were deposited into the District bank account and were credited to the Title 1 Fund.

Finding for recovery - Purchases not related to the District

On October 31, 2008 Vanessa Nowell was indicted by the Hamilton County Court of Common Pleas for theft in office involving misuse of a procurement card assigned to her as an employee of Cincinnati Public School District. The indictment stated that from on or about September 28, 2006 to on or about October 1, 2008 this theft in office occurred. On May 15, 2009 Ms. Nowell was found guilty and on July 6, 2009 Ms. Nowell was sentenced for theft in office and ordered to make restitution to Cincinnati City School District in an amount of \$15,000 through the Probation Department.

The District provided documentation that nine payments of \$100 each totaling \$900 had been repaid via restitution payments made by Ms. Nowell and received by the District during the period of August 14, 2009 through May 13, 2010. Additionally the District had indicated they had recovered \$13,430.16 in unpaid but earned annual, personal and sick leave payments that were not paid to Ms. Nowell upon her severance of employment with the District.

Based upon the court ordered restitution of \$15,000 less the \$13,430.16 in unpaid earnings and the \$900 paid to the District in restitution there is a balance of \$669.84 due the District.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Vanessa Nowell, former Cincinnati City School District employee in the amount of \$669, and in favor of the Cincinnati City School District general fund.

OTHER NON-COMPLIANCE FINDINGS

1. Use of Procurement Card by Someone Other Than Employee Whose Name is on the Card

Section IV of the Procurement Card Procedures, states that "only the CPS (Cincinnati Public Schools) employee whose name is embossed on the card may use the Procurement Card. No other person is authorized to use the card." Section V(C) also states "the Procurement Card shall only be used by the assigned cardholder and is not to be used by other co-workers, family members and/or friends and acquaintances. These transactions are considered abuse of the Procurement Card Program and usage of the procurement card will be terminated."

We identified three District employees who allowed another person to use their procurement cards. In one instance, a charge slip was signed by a non-District employee who was employed by Families First. In this case, the transaction was charged to Fund 019-Quebec Heights/Family & Children First.

It is the responsibility of the Cardholder to verify each purchase on their card was for a proper District purpose (per Procurement Card Procedures, Section (V)(G)(3)), and allowing use by another employee could result in expenditures that are not for a proper public purpose.

We recommend that the District review procurement card charge receipts to verify that only the employee to whom the card was issued is using the card.

2. Splitting Procurement Card Purchases

Section IV of the Procurement Card Procedures states “the PNC procurement cardholder is issued a credit limit of \$100 for a single purchase made on the procurement card. Prior approval must be made in writing to the Purchasing Card Administrator should the single transaction amount need to be increased. Purchases over \$100 (or the cardholder’s approved single purchase limit) must be submitted through an on-line purchase requisition made through the CPS purchasing system and a purchase order processed. Charges for the purchases shall not be split in order to stay within the \$100 purchase limit. Splitting charges will be considered abuse of the Procurement Card Program and usage of the procurement may be terminated.” (Note: some employees were issued a higher single transaction limit due to the nature of their positions.)

Additionally, Section V(C)(3) of the Procurement Card Procedures states “[a] purchase may be made up of multiple items, but the total invoice (including shipping) cannot exceed \$100.00 or the cardholder’s single purchase limit. Upper dollar limits will be available for Travel-related expenses, as approved by the School Principal/ Department Head. With the exception of travel-related expenses, all purchases over \$100.00 must be made by purchase order. Charges for purchases shall not be split to stay within the single purchase limit. Splitting charges will be considered abuse of the Procurement Card Program and usage of the procurement may be terminated.”

During our testing we identified 658 transactions that were part of a purchase which may have been split to stay within the single transaction limit in force for the employee at the time of the transaction (5.3% of a total of 12,444 transactions). We identified instances where employees made several purchase transactions of under \$100 in a sequential pattern at the same time period. Of the 265 procurement cardholders, 75 (28.3%) had at least one split transaction during the period tested. There was no evidence that any employees were given warnings or had their procurement card terminated due to splitting charges.

Splitting charges to make purchases of items above the approved single transaction limit could result in improper or unauthorized expenditures and could indicate excessive use of the procurement cards by the employee when the purpose of the procurement card, as stated in Section I of the Procurement Card Procedures, is to “provide an efficient and cost effective method of purchasing and paying for goods and services not exceeding \$100.00 per purchase.”

We recommend that the District review monthly procurement card statements for any split charges to ensure compliance with District procedures.

3. Sales Tax

Section V(C)(4) of the Procurement Card Procedures states “CPS is exempt from paying any State of Ohio (and generally all other states’) sales and/or use tax, even if the purchase is made with the Procurement Card. CPS sales tax exemption number is printed on the face of the PNC Procurement Card.

It is the responsibility of the cardholder to make the vendor aware that the sale transaction will be tax exempt prior to processing the sale. If the vendor charges sales tax, the cardholder must contact the vendor and obtain a credit equal to the amount of the sales tax.”

We identified \$9,414 in sales tax paid for purchases made on the procurement cards.

We recommend the District review detailed receipts submitted for procurement card purchases to verify sales tax is not being paid. If sales tax is paid per the District’s procedures the employee should obtain a credit to the procurement card for the amount of the sales tax.

4. Supporting Documentation for Procurement Card Charges

Section V(E)(1) of the Procurement Card Procedures states "the cardholder must retain the original customer's copy of the summary charge slip, along with the detailed receipt which identifies every item purchased and the corresponding item cost. For telephone orders, the Cardholder must retain the receipt and/or packing slip. The Cardholder must also write the alias number to be charged on the statement received from PNC Bank. It shall be the responsibility of the Cardholder to retain and submit to the Accounts Payable Supervisor all detailed receipts, confirmation numbers, and paperwork pertinent to each purchase made."

Furthermore, Section V(E)(2) states "[w]here supporting documentation is missing, the cardholder must contact the vendor and request a duplicate receipt. Failure to provide adequate documentation may result in procurement card privileges becoming suspended or terminated. In addition, if receipts cannot be located or duplicate provided, it will be the responsibility of the cardholder to pay for the item(s)."

Additionally, Section V(L) of the Procedures states, in part, that inadequate record keeping and/or documentation of purchases is prohibited. Section V(L) also states that "failure to comply with this policy will result in employee removal from the PNC Procurement Card Program and other disciplinary action as appropriate in accordance with CPS disciplinary procedures. The procedures are stated in the Cardholder Acceptance Form, signed by the employee when issued the PNC Procurement Card."

The District was unable to provide detailed receipts or invoices for 1,253 transactions out of a total of 12,444 transactions (10.1%) during our initial review.

Various samples of transactions were selected to obtain additional supporting documentation after the initial review. From the 902 total transactions sampled, the District was unable to provide a detailed receipt for 166 of the transactions (18.4%). Of these 166 transactions 40 were charged to federal grant funds.

Repair/ Maintenance Purchases:

A sample of 30 transactions for repair/maintenance purchases were selected for review. The District indicated that the BOFS and Facilities' normal practice is for employees to complete weekly credit card log sheets for all purchases made using their procurement cards. The District did not provide a credit card log sheet for six transactions (20.0%) The District provided a weekly credit card log sheet instead of detailed receipts supporting the other 24 transactions.

Travel (professional development/student trips):

A total of 620 transactions for travel-related purchases were selected (576 travel transactions for 23 employees plus an additional sample of 44 transactions). The District was unable to provide detailed receipts for 136 of the transactions selected (21.9%). Of these 136 transactions 28 were charged to federal grant funds;

Failure to maintain adequate support for procurement card charges could result in a loss of accountability over the District's finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose. Without appropriate documentation it is not possible to determine if the charges included items that would not be considered to be for a proper public purpose.

For those transactions where a receipt could not be provided by the employee, we recommend the District consult with their legal counsel to collect those amounts from the employee in accordance with the Cincinnati Public Schools Procurement Card Procedures Through PNC Bank.

5. Responsibilities of Participants in the Procurement Card Program

Section VI of the Procurement Card Procedures lists the responsibilities of cardholders and other District employees, in part, as follows:

a. *Cardholder* is responsible for the following:

- Informing vendor of tax exempt status prior to processing sale transaction;
- Collecting and saving sales receipts;
- Reviewing/verifying necessary charges and imputing of requested information into the PNC Works Program;
- Submitting receipts and PNC bank statement by School and/or Department deadline;
- Complying with CPS policy and procedures.

b. *School Principal/Department Head* is responsible for the following:

- Approving transactions;
- Requesting and authorizing Procurement cards for employees at their School and/or Department;
- Evaluating the need to cancel or reissue cards;
- Collecting, destroying and reporting revoked cards from Cardholders and remitting to the Procurement Card Administrator (Purchasing Director).

c. *Procurement Card Administrator (Purchasing Director)* is responsible for the following:

- Reviewing and making appropriate changes in the PNC Works Program for all Purchasing Card requests and changes to card limits;
- Training Cardholders;
- Reviewing the monthly purchasing trends of Cardholders within the School District;
- Review Cardholders use of cards;
- Coordinating the issuance and cancellation of cards;
- Maintaining program policy and procedures, Cardholder guides and/or manuals and all Cardholder Application Forms;
- Coordinating and maintaining internal controls;
- Coordinating program policy issues;
- Participating in ongoing program reviews;
- Participating in resolving billing disputes;
- Monitoring program for compliance with all CPS policy and procedures and recommending disciplinary action to the School Principal and/or Department Head if misuse of card is discovered;
- Controlling pre-defined Cardholder limits.

d. *Accounts Payable Supervisor* is responsible for the following:

- Payment of statements issued with receipts and appropriate alias to be charged by Procurement Cardholder;
- Contacting Procurement Cardholder regarding payables discrepancies, missing receipts, missing aliases.

As noted in our results above, it did not appear that all cardholders were informing vendors of tax exempt status, saving sales receipts and submitting them, or complying with District procedures related to the procurement cards. It also did not appear that School Principals/Department Heads were approving transactions. The Procurement Card Administrator (Purchasing Director) did not maintain all Cardholder Application Forms or monitor the procurement card program for compliance with District procedures. We were informed however that prior to March 2008, the Accounts Payable Supervisor functioned as the Procurement Card Administrator and was responsible for the signed cardholder applications. The Accounts Payable Supervisor did not always contact cardholders and obtain all missing receipts.

We recommend that School Principals/Department Heads review all monthly procurement card statements to verify that all transactions are for a school purpose, and that transactions are supported by an original receipt. School Principals/Department Heads should ensure documentation is maintained at each building/department to support the school purpose of each purchase. Examples of such documentation may include school and athletic event calendars.

During our review we observed only one employee who utilized a Request for Purchase form for each transaction on their procurement card. This form included the vendor name, description of the purchase, and the purpose of the purchase. It was also signed by the school principal and the original receipt was attached to the form. This form, if prepared at the time of purchase for each transaction, could be used to demonstrate the school purpose of each purchase and document the approval of School Principals/Department Heads.

We also recommend that the Procurement Card Administrator or the District's Internal Auditor perform regular monitoring of the procurement card program to verify that all cardholders and school principals/department heads are complying with District policy and procedures related to the program.

6. Records Retention

Ohio Rev. Code Section 149.351 provides a general prohibition against the destruction or damage of public records. Ohio Rev. Code Section 149.351(A) states, in pertinent part, "[a]ll records are the property of the public office and shall not be mutilated, transferred or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under sections 149.38 to 149.42 of the Revised Code."

The District did not provide documentation (detailed invoices or sales receipts) supporting 1,253 procurement card purchases. The District also did not provide any of the Cardholder Acceptance Forms in effect during the period July 1, 2007 through June 30, 2008.

We recommend the District maintain documentation supporting expenses in accordance with District policy and procedures, and assure that Cardholder Acceptance Forms are on file for each cardholder. The District did inform us that 200 procurement cards were set to expire March 31, 2009 and the Purchasing Director required a new Cardholder Acceptance Form to be signed prior to issuing a new card to any employee.

MANAGEMENT COMMENTS

1. Policy for Using Procurement Cards

Although the District has established written procedures for the use of the procurement cards, they have not been implemented or approved as a formal policy by the Board. They have also not been consistently enforced. A lack of consistent enforcement undermines these policies and infers that employees need not comply.

The lack of a formal policy over purchasing cards may lead to unauthorized or unallowable usage without timely detection by management. In addition, an abuse of procurement cards could result in substantial charges or liabilities to the District that does not meet proper public purpose guidelines or the Board's intent.

We recommend the Board of Education develop and maintain a comprehensive procurement card policy which the Board adopts to govern the use of the District's procurement cards. Formal Board policies will ensure that the District administration, management, and all cardholders maintain a clear understanding of the processes and expectations surrounding the use of the District procurement cards. A formal Board policy will also allow the Board to hold individuals accountable when need be. Specifically, the Board's procurement card policy should identify authorized users, define allowable and unallowable charges, define required documentation needed for purchases, include the responsibilities of monitoring the use of procurement cards, and outline disciplinary action if the policy is not followed.

2. Policy for What Constitutes a Proper Public Purpose

The Ohio Supreme Court case of *State ex rel. McClure v. Hagerman*, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a "proper public purpose" rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable.

The decision of what constitutes a public purpose should be memorialized by a duly enacted resolution of the School Board that sets forth the policy of the District and that has prospective effect only.

The District policy should state the Board's view of what expenditures constitute a proper public purpose to support the District's educational goals or mission. Such a policy should entail:

- The permissiveness of various expenditure types or classifications to the District as a whole;
- Dollar limitations on the expenditure of funds for certain expenditure types or classifications;
- Restrictions on expenditures for specific types of District programs or activities;
- The use of gift cards in District purchasing and their required documentation;
- The allowability of certain expenditure types or classifications in regard to federal programs;
- Designation regarding the appropriate uses of, allowable types of, dollar limitations to, and types of documentation that must be maintained for student and teacher incentives.

Although the District has general purchasing guidelines and procedures, there was no policy that provides directives as to the appropriateness of expenditures in regard to an acceptable proper public purpose. In the absence of such a policy, expenditures that do not promote the goals or mission of the District or work to achieve such goals or mission, through inappropriate means, may be entered into and approved by District personnel.

We recommend the Board of Education pass a comprehensive proper public purpose policy that provides guidance and direction to staff, purchasing agents, and directors as to what expenditures are viewed to be for a proper public purpose that accomplish the goals and mission of the District.

3. Travel Policy

Governmental entities can adopt policies to allow employees and/ or officials to be reimbursed for travel related to official business, training, etc. While there is no formal Board-approved policy, travel reimbursement procedures are listed on the District's Reimbursement for Travel Expense form. These procedures indicate original receipts are required for expenses relating to transportation, hotel, registration, parking, meals, and phone calls. They also indicate that the Board has not established a maximum allowance for lodging and meals or a per diem rate, but employees are requested to observe guidelines including obtaining single occupancy accommodations in the medium price range and pairing individuals when feasible to reduce costs. Additionally, the procedures indicate that tips will not be reimbursed unless they are mandated to be assessed and are not discretionary on the part of the employee.

The aforementioned procedures are in place for the reimbursement of travel expenses; however the Procurement Card Procedures do not address these same points for travel-related expenses charged to the procurement card. During our review we noted occasions when tips were charged to the procurement card, and we also noted lodging rates that ranged from \$84 a night to \$230 a night.

We recommend the District implement a specific travel policy to address allowable travel expenses, documentation requirements, and also consider including in the policy any limitations for the following types of expenses incurred by District employees while traveling: transportation/parking, maximum in-state and out-of-state hotel rates, and the maximum meal reimbursements. We also recommend that the policy and procedures are consistent for travel expenses whether employees are reimbursed for the expenses or they are charged to the procurement card. The District should monitor the implementation of travel policies for all employees or employee groups, including any differences which may be incorporated into District bargaining agreements.

4. Policy for the Use of Reward Cards

During our review we noted cardholders were using their personal Kroger Plus rewards cards when making purchases with the District procurement cards. This results in cardholders being able to earn personal fuel rewards from school-related purchases.

We recommend the District implement a policy for the use of personal reward cards while making District purchases.

PROCEDURE 3

To determine if employees reimbursed the District for all unallowable charges, we matched each charge from Procedure 2 to a reimbursement. To determine whether employees reimbursed the District for the identified unallowable charges, we scanned District receipt ledgers for employee reimbursements for the period July 1, 2007 through June 30, 2008. Additionally, we obtained from the District a listing of employee reimbursements and supporting documentation identifying amounts reimbursed for unallowable charges beginning July 1, 2008 through the date of this report.

RESULTS

Using the list of employee reimbursements provided by the District, we were able to identify those charges that were reimbursed to the District for various reasons including for unallowable charges and for lack of supporting documentation. During January 2009, after being questioned by the District, seven employees reimbursed the District a total of \$154.09 for charges incurred between August 2007 and June 2008. Additionally, a District employee reimbursed the District in September 2009, \$19.17 for charges incurred May, 2008.

The charges reimbursed to the District are not included in our results for Procedures 2 and 4.

PROCEDURE 4

We compared PNC procurement card amounts charged to federal programs to the allowable costs and cost principles for each program and determined whether the costs were allowable charges to the program.

RESULTS

We reviewed grant agreements, budgets, and expenditures supported by documentation provided by the District and determined for 316 purchases the charges to federal grants were allowable expenditures for the federal programs.

Forty out of 316 (12.7%), transactions were charged to federal funds and no detailed receipt was presented. These transactions were charged to the federal grant funds, Fund 524 – Vocational Education grant, Fund 572 – Title I grant, Fund 598 – Schoolwide grant and Fund 599 – Miscellaneous federal grants.

Failure to acquire and maintain adequate supporting documentation for federal expenditures could result in unallowable charges to the federal grant programs and ultimately a loss in federal funding. We recommend the District obtain original receipts for all procurement card purchases charged to federal grant programs.

If we had been auditing these costs in an audit under OMB Circular A-133, we would have questioned these as **undocumented costs** totaling \$12,764, under the following Federal requirements:

2 C.F.R. Part 225 (formerly known as OMB Circular A-87), Appendix A, Section A(2)(a)(2) states that governmental units assume responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award.

2 C.F.R. Part 225 (formerly known as OMB Circular A-87), Appendix A, Section C(1)(j) also provides that for a cost to be allowable, the expenditure must be adequately documented.

Official's Response:

Cincinnati Public School District Management Response to Agreed-Upon Procedures for the Period July 1, 2007 to June 30, 2008

Cincinnati Public School District management recognizes and appreciates the agreed upon procedures performed by the Auditor of State. This report aids the District in its ongoing efforts to continuously improve and refine the procurement card policies and procedures to ensure appropriate internal controls are in place and operating.

The total estimated findings represent an estimated 0.026% of the total District expenditures of approximately \$561 million for the fiscal year ending June 30, 2008. As disclosed and reviewed with the AOS, the District took swift and decisive action after discovering misuse of procurement cards. Purchase card transactions are closely monitored by the Treasurer's Office and Board policy requires the Internal Auditor to review and report to the Audit Committee on the effectiveness of the monitoring process.

The written procedures were reviewed and strengthened to better ensure complete compliance. The procedures now include more descriptive, zero-tolerance, discipline actions. Gift cards may be purchased for student/staff recognition and parent involvement incentives. Gift card documentation will include the purpose and list of recipients. Entertainment was further clarified to allow for student intersession and field trips as they relate to student educational instruction as well as grant programs and other trust and agency student group funds that allow entertainment-like activities.

The single transaction limit of \$100 has been increased to more appropriately align with growing electronic business practices. The sales tax exemption states specifically that it is for Ohio State sales tax as other states do not honor the Ohio sales tax exemption. In many cases, cardholders did make good faith efforts to have the sales tax removed, but vendors did not honor. Going forward, the District will seek help from the Ohio Department of Taxation to deal with vendor non-compliance. Finally, cardholders have also been informed that a credit card slip with total amount is not adequate detail documentation for expenditures and that the itemized receipt must be submitted to confirm proper public purpose.

The School's response to the findings identified in our report is described above. We did not audit the School's response and, accordingly, we express no opinion on this response.

We were not engaged to and did not audit the procurement card transactions, the objective of which would be the expression of an opinion on the procurement card transactions. Accordingly, we did not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that we would have reported to you.

This report is intended solely for the information and use of the addresses listed above and is not intended to be and should not be used by anyone else.



Mary Taylor, CPA
Auditor of State

May 13, 2010



Mary Taylor, CPA
Auditor of State

CINCINNATI CITY SCHOOL DISTRICT

HAMILTON COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 8, 2010**