



# **Department of Education**

## **Internal Audit**

# **Procurement & Contracting Process Follow-Up Review**

**Issue Date: October 2015**

**Report Number: FY2016-01**

Department of Education  
Procurement & Contracting Process Follow-Up Review

*Executive Summary*

<b>AUDIT OF:</b> Procurement & Contracting Process Follow-up Review	<b>DATE:</b> Fieldwork performed June 2015 – August 2015	<b>AUDIT RATING:</b> Acceptable [ ] Marginal [ <b>X</b> ] Unacceptable [ ]
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**INTRODUCTION:**

In connection with the Department of Education’s (DOE) Updated Risk Assessment and Internal Audit Plan approved on August 4, 2015, Internal Audit (IA) performed a “*Procurement & Contracting Process Follow-Up Review*.” The purpose of this review was to assess the implementation of Management’s Plans as described in the “*Procurement & Contracting Process Review*” issued in July 2012 and the “*Consolidated Report of Procurement Card (“P-Card”) Reviews*” issued in August 2013.

**BACKGROUND:**

The Procurement and Contracts Branch (PCB) under the Office of Fiscal Services (OFS) is the office that represents the Superintendent of Education in procurement and contracting matters. Guidelines, prepared by PCB, provide a summary of the laws and administrative rules that govern the expenditure of public funds and the contracts associated with these purchases. These guidelines primarily focus on those procurement and contracting responsibilities that have been specifically delegated by the Superintendent, who serves as the Chief Procurement Officer of the DOE.

The P-Card is a MasterCard credit card issued by First Hawaiian Bank (FHB) to be used for official DOE purchases only. The P-Card is seen as an alternative form of purchasing from the traditional purchase order method. The P-Card saves time as oppose to traditional purchase orders. P-Card transactions are subject to the procurement code. Specifically, if the School/Office is participating in a bid or vendor list, purchases must be made from these lists.

The following is a status summary of the prior audit findings from the “*Procurement & Contracting Process Review*” along with the corrective action plans by management.

Procurement & Contracting Process Review, July 2012		
Prior Audit Finding	Management’s Corrective Action Plan Status	Status
Lack of oversight, monitoring and accountability at the school/office level	PCB continues to provide training workshops annually through an online training program (SASA Academy). PCB continues to communicate procurement and contracting updates and reminders via an "opening of school/office" memo and other DOE Memos and Notices. The current evaluation system allows for fiscal/ operational matters to be addressed if necessary. OFS, through its delivery plan, is working on prioritization of Complex Area Business Managers (CABM) supports. OFS is working toward evaluating how to implement the Procurement Section of the SASA Academy as mandatory. OFS continues to develop and distribute reports, including procurement violation reports, to share data around fiscal information in key audit areas of concern to Complex Areas Superintendents (CAS) and Assistant Superintendents (AS).	Completed

Department of Education  
Procurement & Contracting Process Follow-Up Review

*Executive Summary*

<b>Procurement &amp; Contracting Process Review, July 2012 (continued)</b>		
<b>Prior Audit Finding</b>	<b>Management's Corrective Action Plan Status</b>	<b>Status</b>
Lack of oversight, monitoring and accountability of the P-Card Administration Office	Memos have been issued annually via DOE Memos and Notices regarding P-Card Changes and Reminders. Actions have been taken by management to remove previously identified separated/transferred employees. Purchasing Card Request Forms are received from cardholders, schools, and offices on an on-going basis. Processes are in place to ensure that all necessary P-Card updates are performed. Guidelines have been created for P-Card violations. Mandatory online training program (SASA Academy) has been created for P-Card.	Completed
Lack of consequences and enforcement for violations of procurement procedures	PCB continues to provide training workshops annually through the SASA Academy. PCB continues to communicate procurement and contracting updates and reminders via an "opening of school/office" memo and other DOE Memos and Notices reminders. OFS, through its delivery plan, is working on prioritization of CABM supports. OFS is working toward evaluating how to implement the Procurement Section of the SASA Academy as mandatory. OFS continues to develop and distribute reports, including procurement violation reports, to share data around fiscal information in key audit areas of concern to CASs and ASs.	Completed
Proper forms and supporting documents are not always submitted	PCB continues to provide training workshops annually through the SASA Academy. PCB continues to communicate procurement and contracting updates and reminders via an "opening of school/office" memo and other DOE Memos and Notices reminders. The current evaluation system allows for fiscal/operational matters to be addressed if necessary. OFS, through its delivery plan, is working on prioritization of CABM supports. OFS is working toward evaluating how to implement the Procurement Section of the SASA Academy as mandatory. OFS continues to develop and distribute reports, including procurement violation reports, to share data around fiscal information in key audit areas of concern to CASs and ASs. Memos have been issued annually regarding P-Card Changes and Reminders. Purchasing Card Request Forms are received from cardholders, schools, and offices on an on-going basis. Processes in place to ensure that all necessary P-Card updates are performed. Guidelines have been created for P-Card violations. Mandatory SASA Academy course has been created for P-Card.	Completed

Department of Education  
Procurement & Contracting Process Follow-Up Review

*Executive Summary*

<b>Procurement &amp; Contracting Process Review, July 2012 (continued)</b>		
<b>Prior Audit Finding</b>	<b>Management's Corrective Action Plan Status</b>	<b>Status</b>
Incorrect procurement method identified at the school/office level	PCB continues to provide training workshops annually through the SASA Academy. PCB continues to communicate procurement and contracting updates and reminders via an "opening of school/office" memo and other DOE Memos and Notices reminders. The current evaluation system allows for fiscal/operational matters to be addressed if necessary. OFS, through its delivery plan, is working on prioritization of CABM supports. OFS is working toward evaluating how to implement the Procurement Section of the SASA Academy as mandatory. OFS continues to develop and distribute reports, including procurement violation reports, to share data around fiscal information in key audit areas of concern to CASs and ASs.	Completed
Procurement procedures are not always followed at the school/office level	PCB continues to provide training workshops annually through the SASA Academy. PCB continues to communicate procurement and contracting updates and reminders via an "opening of school/office" memo and other DOE Memos and Notices reminders. The current evaluation system allows for fiscal/operational matters to be addressed if necessary. OFS, through its delivery plan, is working on prioritization of CABM supports. OFS is working toward evaluating how to implement the Procurement Section of the SASA Academy as mandatory. OFS continues to develop and distribute reports, including procurement violation reports, to share data around fiscal information in key audit areas of concern to CASs and ASs. Memos have been issued annually regarding P-Card Changes and Reminders. Purchasing Card Request Forms are received from cardholders, schools, and offices on an on-going basis. Processes in place to ensure that all necessary P-Card updates are performed. Guidelines have been created for P-Card violations. Mandatory SASA Academy course has been created for P-Card.	Completed
Procedures requiring the completion of forms serving similar purposes between offices/branches result in duplicated efforts	The revised Inter/Intra Island and Out-of-State Travel Form 437B incorporates information from Form 10-B, Record of Small Purchase, so it is not necessary to submit Form 10-B if the 7/2014 version of Form 437B Travel Quotations Worksheet is used. In addition, the Purchasing Worksheet has been revised to incorporate information from Form 10-B for purchases under \$5,000.	Completed

Department of Education  
Procurement & Contracting Process Follow-Up Review

*Executive Summary*

The following is a status summary of the prior audit findings from the “*Consolidated Report of Procurement Card (“P-Card”) Reviews*” along with the corrective action plans by management.

<b>Consolidated Report of Procurement Card (“P-Card”) Reviews, August 2013</b>		
<b>Prior Audit Finding</b>	<b>Management’s Corrective Action Plan Status</b>	<b>Status</b>
P-Card program procedures are not always performed properly	Consequences were implemented and incorporated into the P-Cardholder Agreement and training materials. An electronic training course for Administrators was developed for them to complete every three (3) years. A SASA Academy course for P-Cards was developed and implemented to the field and requires support staff to complete this course.	Completed
Procurement and contracting policies and procedures are not always performed properly	Consequences were implemented and incorporated into the P-Cardholder Agreement and training materials. An electronic training course for Administrators was developed for them to complete every three (3) years. A SASA Academy course for P-Cards was developed and implemented to the field and requires support staff to complete this course. The revised Inter/Intra Island and Out-of-State Travel Form 437B incorporates information from Form 10-B, Record of Small Purchase, so it is not necessary to submit Form 10-B if the 7/2014 version of Form 437B Travel Quotations Worksheet is used. In addition, the Purchasing Worksheet has been revised to incorporate information from Form 10-B for purchases under \$5,000.	Completed
Original receipts are not always submitted	Consequences were implemented and incorporated into the P-Cardholder Agreement and training materials. An electronic training course for Administrators was developed for them to complete every three (3) years. A SASA Academy course for P-Cards was developed and implemented to the field and requires support staff to complete this course.	Completed
Restricted purchases are made	Consequences were implemented and incorporated into the P-Cardholder Agreement and training materials. An electronic training course for Administrators was developed for them to complete every three (3) years. A SASA Academy course for P-Cards was developed and implemented to the field and requires support staff to complete this course.	Completed
Purchases are not always made using good practice or in the best interest of the Department	Consequences were implemented and incorporated into the P-Cardholder Agreement and training materials. An electronic training course for Administrators was developed for them to complete every three (3) years. A SASA Academy course for P-Cards was developed and implemented to the field and requires support staff to complete this course.	Completed

Department of Education  
Procurement & Contracting Process Follow-Up Review

*Executive Summary*

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**SCOPE and OBJECTIVES:**

The scope of our review included an examination of management’s corrective action plans. In addition, we reviewed the design and operating effectiveness of the existing control procedures in place over P-Cards. We performed detailed testing on a sample of P-Card holders that had P-Card transactions between December 15, 2014 to May 14, 2015. We selected the top five (5) P-Card holder accounts with the highest dollar purchases during the period from each complex area and state office for a total of 95 P-Card holder accounts.

The objectives of our review included the following:

1. To ensure that Management adequately addressed and resolved the audit findings that resulted from the “*Procurement & Contracting Process Review*” issued in July 2012 and the “*Consolidated Report of Procurement Card (“P-Card”) Reviews*” issued in August 2013.
2. To perform detailed test work to determine the operating effectiveness of the procedures put into place to remediate the P-Card findings.

**OBSERVATIONS:**

Based upon our review, we found the DOE’s controls related to procurement and contracting processes and P-Card processes are functioning at a “marginal” level. A marginal rating indicates that there may be a potential for loss to the auditable area and ultimately to the DOE. Some improvements are necessary to bring the unit to an acceptable status, and if weaknesses continue without attention, further deterioration of the rating to an unacceptable status may occur.

Please refer to the Risk Ratings section of this report for a complete definition of the ratings used by IA and the Observations and Recommendations section for a detailed description of our findings.

Although there were improvements in the field on following P-Card policies and procedures, IA still noted some repeat findings. We discussed our preliminary findings and recommendations with management and they were receptive to our findings and agreed to consider our recommendations for implementation.

Each observation presented in this report is followed by specific recommendations that will help to ensure that control gaps are addressed and, if enforced and monitored, will mitigate the control weaknesses. In summary, our observations are as follows:

1. Procurement and contracting procedures are not always performed
2. P-Card procedures are not always performed at the school/office level
3. Proper forms and supporting documents are not always submitted or kept of file
4. Lack of controls when employees separate from the DOE or transfer to another school/office

**PLANNED FOLLOW UP BY MANAGEMENT AND INTERNAL AUDIT:**

IA will follow up with management on their progress of completion for their action plans, and report accordingly through the audit committee quarterly updates. In addition, IA has incorporated P-Card testing into the school monitoring procedures.

Department of Education  
Procurement & Contracting Process Follow-Up Review

*Rating Scale Definitions*

<b>OVERALL RATING SCALE</b>	
<b><i>Acceptable</i></b>	No significant deficiencies exist, while improvement continues to be appropriate; controls are considered adequate and findings are not significant to the overall unit/department.
<b><i>Marginal</i></b>	Potential for loss to the auditable unit/department and ultimately to the DOE. Indicates a number of observations, more serious in nature related to the control environment. Some improvement is needed to bring the unit to an acceptable status, but if weaknesses continue without attention, it could lead to further deterioration of the rating to an unacceptable status.
<b><i>Unacceptable</i></b>	Significant deficiencies exist which could lead to material financial loss to the auditable unit/department and potentially to the DOE. Corrective action should be a high priority of management and may require significant amounts of time and resources to implement.

<b>OBSERVATION RATING SCALE</b>	
<b><i>High (1)</i></b>	<p>1 - The impact of the finding is <i>material</i><sup>1</sup> and the likelihood of loss is probable in one (1) of the following ways:</p> <ul style="list-style-type: none"> <li>• A material misstatement of the DOE’s financial statements could occur;</li> <li>• The DOE’s business objectives, processes, financial results or image could be materially impaired;</li> <li>• The DOE may fail to comply with applicable laws, regulations or contractual agreements, which could result in fines, sanctions and/or liabilities that are material to the DOE’s financial performance, operations or image.</li> </ul> <p><i>Immediate action is recommended to mitigate the DOE’s exposure</i></p>
<b><i>Moderate (2)</i></b>	<p>2 - The impact of the finding is <i>significant</i><sup>1</sup> and the likelihood of loss is possible in one (1) of the following ways:</p> <ul style="list-style-type: none"> <li>• A significant misstatement of the DOE’s financial statements could occur;</li> <li>• The DOE’s business objectives, processes, financial performance or image could be notably impaired;</li> <li>• The DOE may fail to comply with applicable laws, regulations or contractual agreements, which could result in fines, sanctions and/or liabilities that are significant to the DOE’s financial performance, operations or image.</li> </ul> <p><i>Corrective action by management should be prioritized and completed in a timely manner to mitigate any risk exposure.</i></p>
<b><i>Low (3)</i></b>	<p>3 - The impact of the finding is moderate and the probability of an event resulting in a loss is possible.</p> <p><i>Action is recommended to limit further deterioration of controls.</i></p>

<sup>1</sup> The application of these terms are consistent with the guidelines provided by the Institute of Internal Auditors

Department of Education  
Procurement & Contracting Process Follow-Up Review

*Observations*

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The detailed observations noted herein were based on work performed by IA through the last date of fieldwork and are generally focused on internal controls and enhancing the effectiveness of processes for future organizational benefit. Many of these findings are repeat findings from the July 2012 Internal Audit “*Procurement & Contracting Process Review*” and the August 2013 Internal Audit “*Consolidated Report of Procurement Card (“P-Card”) Reviews.*”

<b>Obs. No</b>	<b>Description</b>	<b>Page #</b>
1	Procurement and contracting procedures are not always performed	8
2	P-Card procedures are not always performed at the school/office level	12
3	Proper forms and supporting documents are not always submitted or kept of file	14
4	Lack of controls when employees separate from the DOE or transfer to another school/office	17

Department of Education  
Procurement & Contracting Process Follow-Up Review

*Observations*

**Observation Number: 1**

**Observation: Procurement and contracting procedures are not always performed**

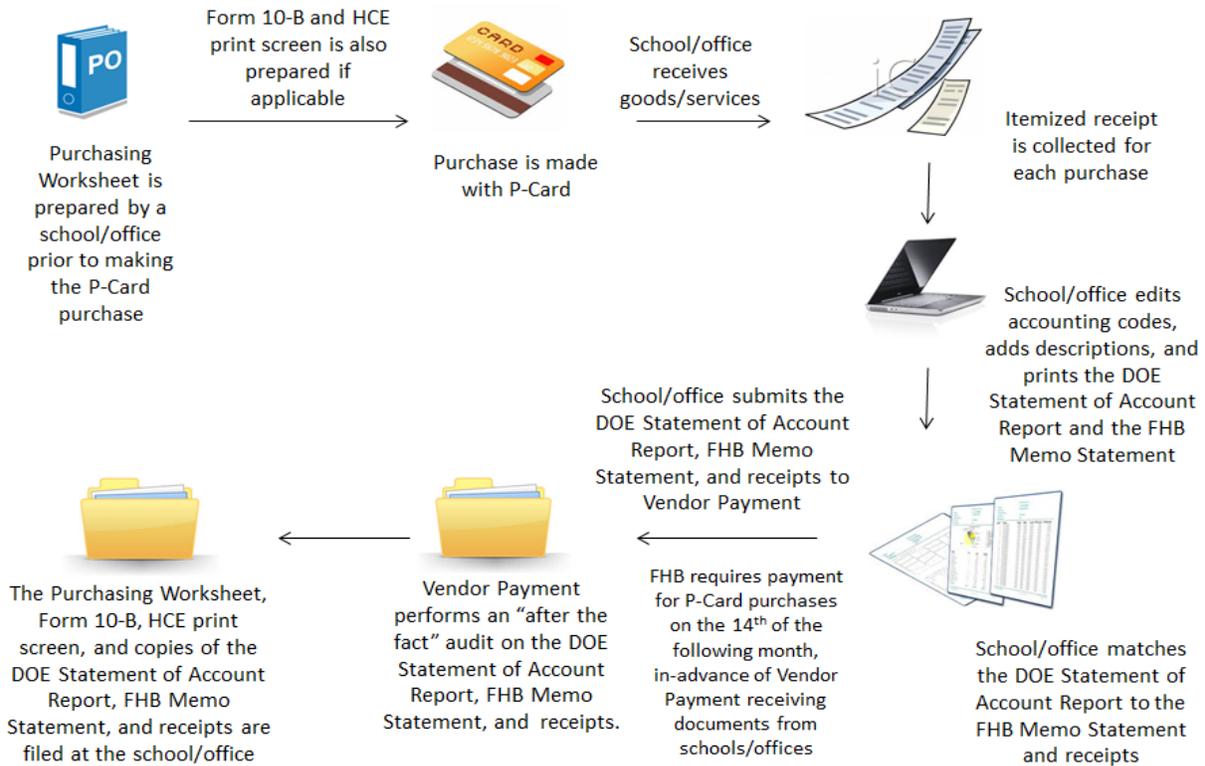
**Rating: 1**

This current observation is a repeat finding from the August 2013 Internal Audit “*Consolidated Report of Procurement Card (“P-Card”) Reviews.*” Based on IA’s review, we found that procurement and contracting procedures are not always performed. In general, P-Card program procedures, as stated in the “SASA & SEC Academy, Course 5 - P-Card” Training from April 2014, include:

1. Get receipts that show complete itemization for each purchase.
2. Edit Accounting Codes for Sub-Org, Program ID and Object Code in CentreSuite, and add Descriptions.
3. Match the DOE Statement of Account Report with the First Hawaiian Bank (FHB) Memo Statement and receipts.
4. Submit to Vendor Payment the approved DOE Statement of Account Report, FHB Memo Statement, and receipts/invoices.
5. Store at the school or office the Purchasing Worksheet and attachments such as Form 10-B and Hawaii Compliance Express (HCE) screen print, and the copies of documents sent to Vendor Payment.

Below is a detailed depiction of the P-Card process as described above:

**P-Card Process**



Department of Education  
Procurement & Contracting Process Follow-Up Review

*Observations*

The following table references the exceptions noted during our review, indicating procurement and contracting procedures are not always performed. Further details are provided in the 'Summary of Observations Noted' column. 'Reference(s)' information was obtained from the "SASA & SEC Academy, Course 5 - P-Card" Training from April 2014 and various OFS memorandums issued regarding P-Card procedures.

Reference(s)	Summary of Observations Noted
<b>No Purchasing Worksheets or Late Approval</b>	
<ul style="list-style-type: none"> <li>➤ Before making a purchase, schools/offices are required complete the FMS-P1 Purchasing Worksheet or the Lotus Notes Purchasing Worksheet for each purchase and have the Cardholder approve the worksheet.</li> </ul>	<ul style="list-style-type: none"> <li>➤ 815 of 6,265 P-Card samples, 13%, where the school/office did not complete the Purchasing Worksheet. (There was a decrease of 26% for this finding compared to the prior audit)</li> <li>➤ 360 of 6,265 P-Card samples where the school/office completed the Purchasing Worksheet after the purchase was made. (There was a decrease of 10% for this finding compared to the prior audit)</li> </ul>
<b>No Record of Small Purchase (Form 10-B)</b>	
<ul style="list-style-type: none"> <li>➤ Schools/offices should ensure that other documents, such as Form 10-B, are attached if required for the type of purchase.</li> </ul>	<ul style="list-style-type: none"> <li>➤ 666 of 6,265 P-Card samples, 11%, where the school/office did not complete the Record of Small Purchase (Form 10-B). (There was a decrease of 27% for this finding compared to the prior audit)</li> </ul>
<b>No Certificate of Vendor Compliance Form</b>	
<ul style="list-style-type: none"> <li>➤ Per Act 90, Session Laws of Hawaii 2011, purchases from \$2,500 to \$24,999 require the vendor to be compliant on the Hawaii Compliance Express (HCE) at the time of purchase, whether the purchase is made by purchase order, direct payment, or P-Card.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Four (4) of 13 P-Card sample over \$2,500, 31%, where the Certificate of Vendor Compliance through the HCE system was not completed for single small purchase of \$2,500 up to \$24,999. (There was a decrease of 69% for this finding compared to the prior audit)</li> </ul>

On August 5, 2015, OFS issued new versions of the Purchase Order Worksheet (FMS-P1 EZ) and the Record of Small Purchase (Form 10-B EZ). These forms were created in response to the recommendations from prior internal audits and requests from the Deputy Superintendent's Principal Roundtable to streamline the small purchase process and paperwork requirements with the focus on small purchases less than \$5,000. If the Purchase Order Worksheet EZ is used, a separate Form 10-B is no longer needed for small purchases under \$5,000.

Department of Education  
Procurement & Contracting Process Follow-Up Review

*Observations*

<b>Impact</b>
<p>Procurement and contracting procedures not always performed can lead to:</p> <ul style="list-style-type: none"> <li>➤ Unauthorized and improper purchase made on the P-Card which may result in a financial loss to the DOE.</li> <li>➤ Potential procurement violations which may result in financial loss to the DOE as well as reputational risk for the DOE.</li> <li>➤ Potential employee fraud which may result in a misappropriation of assets and a financial loss.</li> <li>➤ Lack of competitive pricing which may lead to a financial loss to the DOE.</li> </ul>
<b>Recommendation</b>
<p>Recommendations for procurement and contracting procedures not always performed include:</p> <ul style="list-style-type: none"> <li>➤ P-Card holders should ensure that Purchasing Worksheets are completed timely and reviewed by the P-Card Administrator for every P-Card transaction to indicate prior approval for P-Card purchases.</li> <li>➤ Continuous training and assistance should be provided to the field.</li> <li>➤ Management should continue to send reminders to the field to follow proper P-Card procedures.</li> <li>➤ Training should be provided to the field regarding the new version of the Purchasing Worksheet that integrates the Form 10-B.</li> <li>➤ CABMs should coordinate with Administrative Services Assistants (ASA) to perform fiscal audits of each school on a quarterly basis, ensuring adherence to standard procedures by the DOE.</li> <li>➤ Management should require P-Card holders to submit the Purchasing Worksheet, Form 10-B, and HCE screen print, in addition to the required P-Card documents, to Vendor Payment. Vendor Payment should review these documents to ensure compliance with DOE Procurement Guides.</li> <li>➤ Management should consider including fiscal stewardship in personnel evaluations to ensure that P-Card holders are following DOE policies and procedures.</li> <li>➤ Management may want to review current policies and procedures to determine its applicability and practicality so that Vendor Payment can efficiently perform “after the fact” audits.</li> </ul>
<b>Management Plan</b>
<p><u>Accounting Services Branch, Operations Section Management Plan:</u></p> <p>The Accounting Services Branch, Operations Section acknowledges that there are internal control concerns in their processes as identified and noted by IA in the report. In addressing these findings, we will assemble a focus group, which will comprise of OFS, Office of Human Resources (OHR), and field subject matter experts. The focus group's mission will be to review and discuss IA's recommendations and formulate a plan of action on how best to mitigate the audit findings. After the focus group develops a plan, the Accounting Services Branch, Operations Section will submit a corrective action plan to IA by February 2016 and provide quarterly updates on its progress thereafter.</p> <p>Contact Person: Tom Ishimaru, Accounting Director Accounting Services Branch Office of Fiscal Services</p> <p>Anticipated Completion Date: February 2016</p>

Department of Education  
Procurement & Contracting Process Follow-Up Review

*Observations*

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Procurement and Contracts Branch Management Plan:

Purchasing Worksheet/10-B Training – Although no training to the field is planned, around the time the memo was released, the new forms were presented at the Principal Round Table and at the CABM meeting. An overview of the new forms was also provided to the CASs at the Leadership meeting. The Procurement and Contracts Branch (PCB) continues to remain available via phone and email if schools and offices have any questions on the forms.

Contact Person: Lois Mow, Director  
Procurement and Contracts Branch  
Office of Fiscal Services

Anticipated Completion Date: Completed

**Responsible Party**

Accounting Services Branch, Operations Section, OFS  
Procurement and Contracts Branch, OFS

Department of Education  
Procurement & Contracting Process Follow-Up Review

*Observations*

<b>Observation Number: 2</b>	
<b>Observation: P-Card procedures are not always performed at the school/office level</b>	<b>Rating: 2</b>
<p>This current observation is a repeat finding from the August 2013 Internal Audit “<i>Consolidated Report of Procurement Card (“P-Card”) Reviews.</i>” Based on IA’s review, we found that schools and offices are not properly following P-Card program procedures. The following table references the exceptions noted during our review. Further details are provided in the ‘Summary of Observations Noted’ column. ‘Reference(s)’ information was obtained from the “SASA &amp; SEC Academy, Course 5 - P-Card” Training from April 2014 and various OFS memorandums issued regarding P-Card procedures.</p>	
Reference(s)	Summary of Observations Noted
<b>Improper Purchases</b>	
<ul style="list-style-type: none"> <li>➤ Schools and offices are allowed to use the P-Card for the following: out-of-state airfare, inter-island airfare and car rental, registration, classroom supplies and office supplies, custodial supplies and repair and maintenance supplies, postage, internet on-line purchases, telephone orders, equipment and furniture, and software.</li> </ul>	<ul style="list-style-type: none"> <li>➤ 10 of 6,265 P-Card samples where the school purchased items that IA deemed to be improper purchases. Improper purchases include snacks, prom supplies, and grade level banquet supplies. (This finding remained the same compared to the prior audit)</li> </ul>
<b>Unsigned Reports</b>	
<ul style="list-style-type: none"> <li>➤ The DOE Statement of Account Report should be signed and dated by the Administrator.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Two (2) of 186 months sampled where the DOE Statement of Account Report was not signed and/or dated by the administrator. (There was a decrease of 6% for this finding compared to the prior audit)</li> </ul>
<b>Incorrect Accounting Codes</b>	
<ul style="list-style-type: none"> <li>➤ Proper accounting codes should be documented on the Purchasing Worksheet before the purchase is made. As soon as a transaction is posted, the clerical support staff can change the accounting codes to match the Purchasing Worksheet.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Seven (7) of 6,265 P-Card samples where IA deemed the program ID to be inaccurate.</li> <li>➤ 97 of 6,265 samples where IA deemed the object code to be inaccurate. (This finding remained the same compared to the prior audit)</li> </ul>
<b>Impact</b>	
<p>P-Card procedures not performed at the school/office level can lead to:</p> <ul style="list-style-type: none"> <li>➤ Unauthorized and improper purchase made on the P-Card which may result in a financial loss to the DOE.</li> <li>➤ Potential procurement violations which may result in financial loss to the DOE as well as reputational risk for the DOE.</li> <li>➤ Potential misappropriation of assets which may result in financial loss to the DOE.</li> <li>➤ Inaccurate financial reporting of expenditures by the DOE.</li> </ul>	

Department of Education  
Procurement & Contracting Process Follow-Up Review

*Observations*

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<b>Recommendation</b>
<p>Recommendations for P-Card procedures not always performed at the school/office level include:</p> <ul style="list-style-type: none"><li>➤ P-Card holders should ensure that only proper school/office related purchases are made using the P-Card or any other DOE funds; Purchasing Worksheets are completed timely and reviewed by the P-Card Administrator for every P-Card transaction to indicate prior approval for P-Card purchases; the Statement of Account Report is reviewed, signed, and dated on a monthly basis; and that accounting codes are recorded properly for each transaction.</li><li>➤ Continuous training and assistance should be provided to the field.</li><li>➤ Management should continue to send reminders to the field to follow proper P-Card procedures.</li><li>➤ CABMs should coordinate with ASAs to perform fiscal audits of each school on a quarterly basis, ensuring adherence to standard procedures by the DOE.</li><li>➤ Management should require P-Card holders to submit the Purchasing Worksheet, Form 10-B, and HCE screen print, in addition to the required P-Card documents, to Vendor Payment. Vendor Payment should review these documents to ensure compliance with DOE Procurement Guides.</li><li>➤ Management should consider including fiscal stewardship in personnel evaluations to ensure that P-Card holders are following DOE policies and procedures.</li><li>➤ Management may want to review current policies and procedures to determine its applicability and practicality so that Vendor Payment can efficiently perform “after the fact” audits.</li></ul>
<b>Management Plan</b>
<p>Please see Management’s Plan in Observation #1</p> <p>Contact Person: Tom Ishimaru, Accounting Director Accounting Services Branch Office of Fiscal Services</p> <p>Anticipated Completion Date: February 2016</p>
<b>Responsible Party</b>
Accounting Services Branch, Operations Section, OFS

Department of Education  
Procurement & Contracting Process Follow-Up Review

*Observations*

**Observation Number: 3**

**Observation: Proper forms and supporting documents are not always submitted or kept of file** **Rating: 2**

This current observation is a repeat finding from the August 2013 Internal Audit “*Consolidated Report of Procurement Card (“P-Card”) Reviews.*” Based on IA’s review, we found that proper forms and supporting documents are not always submitted or kept of file. The following table references the exceptions noted during our review. Further details are provided in the ‘Summary of Observations Noted’ column. ‘Reference(s)’ information was obtained from the “SASA & SEC Academy, Course 5 - P-Card” Training from April 2014 and various OFS memorandums issued regarding P-Card procedures.

Reference(s)	Summary of Observations Noted
<b>Documents to Vendor Payment</b>	
<ul style="list-style-type: none"> <li>➤ Schools and offices are required to submit the DOE statement of Account Report, First Hawaiian Bank memo statement, and itemized receipts/invoices to Vendor Payment by the respective period's month end.</li> </ul>	<ul style="list-style-type: none"> <li>➤ 25 of 95 schools/offices, 26%, did not submit P-Card documents to Vendor Payment for 39 of 186 months sampled, 21%. For one (1) school, P-Card documents were not available as the former clerk only processed the P-Card account until September 2014. No documents were turned into Vendor Payment or kept at the school after September 2014. (There was an increase of 18% for this finding compared to the prior audit)</li> <li>➤ 16 of 95 schools/offices, 17%, did not submit P-Card documents to Vendor Payment timely for 21 of 186 months sampled, 11%. (There was a decrease of 72% for this finding compared to the prior audit)</li> </ul>
<b>Itemized Receipts</b>	
<ul style="list-style-type: none"> <li>➤ Schools and offices are required to submit original itemized receipts/invoices to Vendor Payment by the respective period's month end.</li> </ul>	<ul style="list-style-type: none"> <li>➤ 86 of 6,265 P-Card samples did not have original itemized invoices, receipts, or order confirmations.</li> <li>➤ Six (6) of 6,265 P-Card samples did not have the proper corresponding invoices, receipts, or order confirmations. A different receipt, invoice, and/or order confirmation was submitted instead.</li> <li>➤ One (1) of 6,265 P-Card samples where IA could not determine if the program ID or object code is correct because there were no supporting documentation provided. (There was a decrease of 3% for this finding compared to the prior audit)</li> </ul>

Department of Education  
Procurement & Contracting Process Follow-Up Review

*Observations*

Reference(s)	Summary of Observations Noted
<b>DOE Statement of Account Report</b>	
<ul style="list-style-type: none"> <li>➤ Schools and offices are required to submit the DOE statement of Account Report, First Hawaiian Bank memo statement, and itemized receipts/ invoices to Vendor Payment by the respective period's month end.</li> </ul>	<ul style="list-style-type: none"> <li>➤ One (1) of 186 months sampled, where the school did not submit the DOE Statement of Account Report. (This finding remained the same compared to the prior audit)</li> </ul>
<p>Based on inquires with Vendor Payment and detailed testing, IA noted that Vendor Payment does not follow up with schools and offices timely to retrieve P-Card documents that are not submitted. A non-submittal report of cardholders who haven't submitted their P-Card documents is prepared once a year. The non-submittal reports are distributed to CASs and ASs once a year.</p> <p>In addition, Vendor Payment does not require the P-Card holders to submit the Purchasing Worksheet, Form 10-B, and the HCE screen print with the P-Card documents. The Purchasing Worksheet, Form 10-B, and the HCE screen print documents are kept at the school or office for auditing purposes.</p>	
<b>Impact</b>	
<p>Proper forms and supporting documents not submitted or kept of file can lead to:</p> <ul style="list-style-type: none"> <li>➤ Unauthorized and improper purchase made on the P-Card which may result in a financial loss to the DOE.</li> <li>➤ Potential procurement violations which may result in financial loss to the DOE as well as reputational risk for the DOE.</li> <li>➤ Potential employee fraud which may result in a misappropriation of assets and a financial loss.</li> <li>➤ Delays to post-audit P-Card transactions and supporting documents which may result in inefficiencies and wasted DOE resources.</li> <li>➤ Potential financial losses to the DOE due to fraudulent charges. The “SASA &amp; SEC Academy, Course 5 - P-Card” Training from April 2014 states that schools and offices have 60 days after the close of the monthly billing cycle date (14<sup>th</sup> of the month) to dispute any charges with First Hawaiian Bank. If charges are not disputed within 60 days, schools and office will have to absorb the loss.</li> <li>➤ Inaccurate financial reporting of expenditures by the DOE.</li> </ul>	
<b>Recommendation</b>	
<p>Recommendations for proper forms and supporting documents not submitted or kept of file include:</p> <ul style="list-style-type: none"> <li>➤ P-Card holders should ensure that all required P-Card documents are submitted to Vendor Payment on time on a monthly basis.</li> <li>➤ Continuous training and assistance should be provided to the field.</li> <li>➤ Management should continue to send reminders to the field to follow proper P-Card procedures.</li> <li>➤ CABMs should coordinate with ASAs to perform fiscal audits of each school on a quarterly basis, ensuring adherence to standard procedures by the DOE.</li> <li>➤ For non-submittals, Vendor Payment should follow up with P-Card holders on a timely basis (i.e. monthly or quarterly).</li> </ul>	

Department of Education  
Procurement & Contracting Process Follow-Up Review

*Observations*

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- Management should require P-Card holders to submit the Purchasing Worksheet, Form 10-B, and HCE screen print, in addition to the required P-Card documents, to Vendor Payment. Vendor Payment should review these documents to ensure compliance with DOE Procurement Guides.
- Management should consider including fiscal stewardship in personnel evaluations to ensure that P-Card holders are following DOE policies and procedures.
- Management may want to review current policies and procedures to determine its applicability and practicality so that Vendor Payment can efficiently perform “after the fact” audits.

**Management Plan**

Please see Management’s Plan in Observation #1

Contact Person: Tom Ishimaru, Accounting Director  
Accounting Services Branch  
Office of Fiscal Services

Anticipated Completion Date: February 2016

**Responsible Party**

Accounting Services Branch, Operations Section, OFS

Department of Education  
Procurement & Contracting Process Follow-Up Review

*Observations*

<b>Observation Number: 4</b>	
<b>Observation: Lack of controls when employees separate from the DOE or transfer to another school/office</b>	<b>Rating: 2</b>
<p>This current observation is a repeat finding from the July 2012 Internal Audit “<i>Procurement &amp; Contracting Process Review</i>.” Based on IA’s review, we found that there is a lack of controls when employees separate from the DOE or transfer to another DOE school/office. We noted that 129 purchases were made during our testing period for four (4) P-Card holders after they terminated employment from the DOE. There was a decrease of 4% for this finding compared to the prior audit. In addition, we noted that eight (8) purchases were made during our testing period for two (2) P-Card holders at his/her prior school/office after transferring to another school/office in the DOE. There was a decrease of 2% for this finding compared to the prior audit.</p> <p>In accordance with the “SASA &amp; SEC Academy, Course 5 - P-Card” Training PowerPoint slides dated April 2014, schools and offices are required to submit the Purchasing Card Request Form for any cancellation of existing card due to termination, retirement, resignation, or closing account due to administrator relocating to a different school or office. Vendor Payment starts the cancellation process with First Hawaiian Bank once they've received the Purchasing Card Request Forms.</p> <p>OHR receives notices of termination/resignation/transfer from all offices/schools. However, this information is not transmitted to Vendor Payment. Vendor Payment is unable to perform a cross-reference comparison of employees that have terminated, resigned, or transferred with their active P-Card holder list. Currently, there are no controls in place to detect the use of P-Cards for P-Card holders that are no longer employed by the DOE or have transferred to another school/office.</p>	
<b>Impact</b>	
<p>The lack of controls when employees separate from the DOE or transfer to another school/office can lead to:</p> <ul style="list-style-type: none"> <li>➤ Unauthorized and improper purchase made on the P-Card which may result in a financial loss to the DOE. DOE may expose itself to the risk that a cardholder will continue to use the P-Card for other means after separation/transfer of employment with the DOE. Since the monthly credit limit for most P-Card holder is \$25,000, the DOE could potentially suffer significant losses.</li> <li>➤ Potential employee fraud which may result in a misappropriation of assets and a financial loss.</li> <li>➤ Financial losses to the DOE due to fraudulent charges.</li> <li>➤ Reputational exposure for the DOE.</li> </ul>	
<b>Recommendation</b>	
<p>Recommendations for the lack of controls when employees separate from the DOE or transfer to another school/office include:</p> <ul style="list-style-type: none"> <li>➤ Vendor Payment in conjunction with OHR should develop a system in which OHR notifies Vendor Payment whenever an employee terminates or transfers in a timely manner. Vendor Payment can then ensure that the cancellation process for the terminated/transferred P-Card holder is performed.</li> <li>➤ Periodically, Vendor Payment should review the list of active P-Card holders to ensure that the cancellation process with First Hawaiian Bank has been performed for employees who have terminated, retired, resigned, or transferred.</li> </ul>	

Department of Education  
Procurement & Contracting Process Follow-Up Review

*Observations*

<b>Management Plan</b>
<p><u>Accounting Services Branch, Operations Section Management Plan:</u></p> <p>Please see Management's Plan in Observation #1</p> <p>Contact Person: Tom Ishimaru, Accounting Director Accounting Services Branch Office of Fiscal Services</p> <p>Anticipated Completion Date: February 2016</p> <p><u>Personnel Management Branch, Records and Transactions Section Management Plan:</u></p> <p>The "Employee Separation and Termination Guidelines" is being revised and will provide general responsibilities to the schools and offices when employees separate from service. It will be published for distribution by January 2016.</p> <p>Contact Person: Glenn Kunitake, Personnel Specialist Records and Transactions Section Office of Human Resources</p> <p>Anticipated Completion Date: January 2016</p>
<b>Responsible Party</b>
<p>Accounting Services Branch, Operations Section, OFS Personnel Management Branch, Records and Transactions Section, OHR</p>

Department of Education  
Procurement & Contracting Process Follow-Up Review

*Acknowledgements*

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We wish to express our appreciation for the cooperation and assistance afforded to the review team by management and staff during the course of this review. In addition, we would like to take this opportunity to thank all the P-Card cardholders and the staff at the selected school and offices for the courtesies extended to us, as well as their considerable cooperation.