The Office of Internal Performance Audit

Internal Audit Report

Procurement Card (PCard) Audit

Issue Date: October 2021

Senior Internal Performance Auditor
Janise Hansen, CIA

Internal Performance Auditor
Mary Catherine Moore

Table of Contents

PORTLAND PUBLIC SCHOOLS

Letter of Transmittal

October 8, 2021

Portland Public Schools - Audit Committee
501 North Dixon Street
Portland, OR 97227

The Office of Internal Performance Audit (OIPA) has completed the Procurement Card (PCard) Audit of selected P-Card transactions that occurred during the 2019-20 fiscal year. The audit was included in the Audit Plan approved by the Portland Public Schools (PPS) Board of Education on July 16, 2019, resolution number 5935.

The objective of the audit was to assess the adequacy of internal controls over the school district's PCard Program; determine whether the PCard activity is compliant with applicable policies, procedures, administrative directives, and best practices. To meet the audit objective, we examined accounting documents; tested PCard transactions; reviewed required PCard training materials/modules; reviewed the PCard Manual, applicable policy, procedures, administrative directives, and best practices; and interviewed PCard personnel.

Based on the results of the audit, we found the school district's internal controls over PCard usage are adequate to maintain the overall integrity of the PCard Program. The audit did not identify any evidence of intentional fraud, but did identify opportunities for improvement and some instances of noncompliance. The corresponding audit results and recommendations are included in the audit report.

The audit made 13 recommendations and the Purchasing & Contracting Department agreed with 11 and partly agreed with the remaining two. When possible, recommendations were made incrementally throughout the audit. As a result, implementation of four recommendations are already complete.

We extend our appreciation to the staff within the Purchasing & Contracting Department and specifically the school district's PCard Manager and PCard Accountant for their assistance and cooperation during the course of the audit.

We look forward to meeting with you at an upcoming Audit Committee meeting to more fully discuss the report's results and recommendations. Thank you for your ongoing support of the Office of Internal Performance Audit.

Janise Hansen
Janise Hansen, CIA
Senior Internal Performance Auditor

Mary Catherine Moore
Mary Catherine Moore
Internal Performance Auditor

PORTLAND PUBLIC SCHOOLS

About the Office of Internal Performance Audit (OIPA)

Purpose and Mission
State and local governments can enhance credibility with the taxpayers by implementing performance audits to support accountability and ensure that tax dollars are spent as effectively as possible.

PPS performance auditing, conducted by the OIPA, is an objective and systematic examination of evidence to provide an independent assessment of a government organization, program, activity, or function. The goal of these audits is to improve program effectiveness; improve the equity of service delivery; provide useful, objective, and timely information; strengthen administrative and management systems and controls; facilitate decision-making by parties with responsibility for overseeing or initiating corrective action; and improve student achievement District-wide. The objectives of performance audits vary, but generally address whether PPS is operating economically and efficiently, and/or whether it is achieving desired results.

The purpose of the internal performance audit function is to help improve the accountability and performance of PPS through independent auditing and reporting.

Independence and Objectivity
The OIPA Senior Internal Performance Auditor is hired, evaluated, and may only be removed by the PPS Board of Education. Reporting directly to the PPS Board of Education is meant to ensure the work of the OIPA is independent, impartial, and objective so stakeholders can trust the audit results and recommendations.

Standards
The OIPA adheres to very rigorous and demanding professional auditing requirements described in Generally Accepted Government Auditing Standards, or more commonly referred to as GAGAS or the Yellow Book.

Authority and Responsibilities
The authority and responsibilities of the OIPA are defined in its charter and PPS Board Policy 1.60.040-P, both approved by the PPS Board of Education.

PORTLAND PUBLIC SCHOOLS

Executive Summary

Procurement Cards (PCards) are a Portland Public Schools (PPS) issued credit card that can be used by PPS staff to make school district purchases. While PCards present an efficient and cost-effective way for PPS staff to make simple school district purchases, PCards are also inherently high risk and are vulnerable to misuse. As a result, adequate internal control over the PCard Program is critical.

The Office of Internal Performance Audit (OIPA) has completed an audit of selected PCard transactions that took place during the 2019-2020 school year. The objective of the audit was to assess the adequacy of internal controls over the school district's PCard Program; determine whether the PCard activity is compliant with applicable policy, procedures, administrative directives, and best practices.

Based on the results of the audit, we found the school district's internal controls over PCard usage are adequate to maintain the overall integrity of the PCard Program. The audit did not identify any evidence of intentional fraud, but did identify opportunities for improvement, and some instances of noncompliance. The corresponding audit results and recommendations are included in this report.

The audit made 13 recommendations and the Purchasing & Contracting Department agreed with 11 and partly agreed with the remaining two. When possible, recommendations were made incrementally throughout the audit. As a result, implementation of four recommendations are already complete.

Below is a list of the recommendations:

1. We recommend PCard the training modules, PCard Updates and Best Practices and the PCard Budget Holder Review & Sign Off Training, be required annually for all PCard and budget holders. (Management partly agreed and implementation is complete)
2. In an effort to streamline the processing of PCard transactions, we recommend the PCard Program discontinue the duplicative requirement to save supporting documentation for PCards in a Google folder, in addition to uploading them into Works. (Management agreed)
3. In an effort to streamline the PCard application process, we recommend the PCard Program update guidance to require proof of the completed training modules be included with the PCard application. (Management agreed and implementation is complete)
4. We recommend PCard holders load appropriate supporting documentation into Works. (Management agreed and implementation is complete)
5. We recommend the PCard Program continue to enforce appropriate disciplinary actions detailed in the PCard Infraction Table. (Management agreed and implementation is complete)
6. We recommend PCard budget holders strengthen their review and sign off processes to include a manual review of PCard receipts and/or other appropriate supporting documentation. (Management agreed)
7. We recommend the PCard Infraction Table be updated to include a Level IV Infraction as the budget holder's failure to timely review and sign off on the PCard holders monthly transaction reconciliation; and identify, implement, and enforce appropriate discipline actions. (Management agreed)
8. A. We recommend the PCard Program obtain a signed proxy form for all PCard budget holders who utilize a group proxy to reconcile monthly PCard transaction reconciliation completed by PCard holders, as required by current policies and procedures. -OR-

PORTLAND PUBLIC SCHOOLS

    B. We recommend the PCard Program update current guidance to reflect their current practice of notifying new budget holders of the existing proxy access and save documentation of the notification. (Management agreed)

9.   A. We recommend the PCard Program Manager obtain a list of employee status changes at least every other week. -OR-

    B. We recommend the PCard Program Manager work with the Human Resources department to obtain reports that identify an employee's last day at least every other week. This will enable the PCard Program Manager to follow up with the PCard holder related to any outstanding transactions and deactivate the PCard timely. (Management agreed)

10. We recommend the PCard Program transition to a risk-based PCard transaction review procedure that includes a thorough and complete review of all high-risk transactions. (Management partly agreed)

11. We recommend the PCard Manager/Administrator review and update current Merchant Category Codes (MCC[1]) include and MCCs exclude lists to ensure MCCs are not listed on both. (Management agreed)

12. We recommend the PCard Program Manager/Administrator add the list of MCCs identified by OIPA to the MCCs exclude list. (Management agreed)

13. We recommend the PCard Program Manager/Administrator obtain and review Bank of America's Commercial Card Authorization Data Source System annual SOC 2[2] audit report on the design and operating effectiveness of its controls relevant to security, availability, processing integrity, and confidentiality. If concerns related to Works system are identified, the PCard Program Manger should determine the impact to the PPS PCard Program and implement mitigating internal controls when appropriate. (Management agreed)

The above-mentioned recommendations are intended to assist the Purchasing & Contracting Department, in strengthening internal controls to further reduce the risks associated with the use of PCards. Management's full response to each recommendation is included in this report on pages 10-16.

---

[1] MCC – Merchant Category Code is a four-digit number used to classify a business by the types of goods or services it provides.

[2] SOC 2 – System and Organization Controls 2 audit is conducted to ensure the service providers securely manage data and protect the interest of your organization and the privacy of its clients.

PORTLAND PUBLIC SCHOOLS

Background Information

In 2008, PPS entered into a contract with Bank of America to administer the PPS PCard Program. Under the contract, there is no charge for issuance or maintenance of the cards. Additionally, the PCard Program takes advantage of a cash rebate of approximately 1.7% on standard card purchases generating an average of about $250,000 in rebates annually over the last nine years.

As part of the contract, Bank of America provides access to an electronic payment application, Works. The Works system is an online web-based application that allows the PCard Administrator the ability to assign customized transaction limits and a monthly purchase limit based on the individual PCard holder's needs. The PCard Administrator can also restrict the use of PCards at certain types of vendors, by excluding certain Merchant Category Codes (MCC). The reverse is also true, the PCard Administrator can also create a customized MCCs include list that restricts PCard use to only the MCCs on the list.

Works also allows cardholders to review, reconcile, and run reports on purchases made with their PCard. Given Works is a real-time system, purchase data usually posts to Works within a two-day period after the purchase. Once posted, PCard holders have the ability to review, approve, and sign off on transactions. There is no need to wait until the end of the month to reconcile; it can be done anytime. These Works system features enhance PPS' ability to manage PCard transactions.

The Purchasing & Contracting Department is responsible for administering and monitoring PCard Program.

PCards are often used instead of Purchase Orders (POs), petty cash, or employee reimbursements because PCard purchases are much less labor-intensive saving time spent by the employee placing the order, time spent in Purchasing & Contracting dispatching and managing POs, and time spent in Accounting Services making payments and communicating with vendors.

The number of PCard transactions and total expenditures annually are approximately:

- 2018-19 school year: 46,386 transaction totaling $15.5 million
- 2019-20 school year: 36,357 transaction totaling $14.4 million
- 2020-21 school year: 26,295 transaction totaling $14.5 million

The decrease in PCard activity during the 2019-20 and 2020-21 school year is a result of the change in typical school district activity due to the on-going Coronavirus pandemic.

During the 2019-20 school year:

- There were 311 PCard holders
- PCard transaction account for less than 2.7% of non-salary related expenditures
- PCard purchases consisted of the following:
    o 5.3% were $100 or less
    o 26.6% ranged from $101 to $999
    o 68.1% exceeded $1,000

PORTLAND PUBLIC SCHOOLS

The PCard Audit was included in the Audit Plan approved by the Portland Public Schools (PPS) Board of Education on July 16, 2019, resolution number 5935.

Prior Audit History

In January of 2019, the Oregon Secretary of State Audit's Division (SoS) issued an audit report of its examination of spending at Oregon Department of Education (ODE) and Portland Public Schools (PPS), which included a review of transparency, controls, and priorities. The audit identified additional steps these agencies could take to improve returns on the state's education investments and increase achievement. While the report provided insight into a variety of topics, for the purposes of this audit, we focused on the portions of the report related to PCard use.

The SoS report made the following recommendation to PPS related to the PPS PCard Program:

● PPS should improve controls over purchasing card use. Improvement include requiring management review for at least non-standard and high-dollar transactions, and improving policy guidance on appropriate business purpose, taxpayer-funded meals, parties, student incentives, gifts, and use of unusual merchants. Also, the district should improve aggregate analysis of PCard use data to identify spending trends and unusual transactions.

The SoS report also included comments throughout the report related to the school district's PCard use. The full SoS report, as well as the status of the implementation of recommendations, is posted on the school district's web site at: https://www.pps.net/Page/15139.

The SoS Audit's Division is currently working on their follow up on the recommendations included in their report. In an effort to not duplicate efforts, we did not perform any specific follow up procedures on their recommendations. However, within the scope of our audit, we did review evidence of the improved internal controls over PCard use. Specifically, on April 4, 2019, the PCard Program Manager issued a memo to all PCard holders, supervisors, budget holders, and proxies detailing the summary of changes made to the PCard Program to comply with the recommendations of the SoS report. We observed evidence of the implementation of each of the items included in the memo. This memo is included in this report in Appendix B.

Roles and Responsibilities

PPS Management has the primary responsibility to establish, implement, and monitor internal controls. Internal Audit's function is to assess and test those controls in order to provide reasonable assurance that the controls are adequate and operating effectively.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (aka GAGAS). Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Audit Objective

The objective of the audit was to assess the adequacy of internal controls over the school district's PCard Program and determine whether the PCard activity is compliant with applicable policies, procedures, administrative directives, and best practices.

PORTLAND PUBLIC SCHOOLS
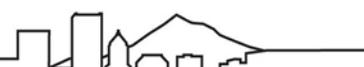
Scope of the Audit

The scope of the audit included PCard transactions that occurred during the 2019-20 school year (July 1,2019 – June 30, 2020).

Audit Approach and Methodology

To achieve the audit objective, we performed the following procedures:

- Planned the audit with input and cooperation of the Purchasing & Contracting Department to ensure we had an adequate understanding of the PCard Program.
- Reviewed applicable policies, procedures, administrative directives, and best practices.
- Reviewed the PPS PCard Manual, Infraction Table, PCard Guides and PCard FAQs (frequently asked questions) as well as other PCard resources and information posted on the Purchasing & Contracting Department webpages.
- Reviewed PCard training modules including the following: PCard Application Training, PCard Updates and Best Practices, Transaction Approval, PCard Reconciliation Retraining, and the PCard Manual Retraining.
- Attended a One-on-One Training session the PCard Manager and/or PCard Accountant performs with each new PCard holder.
- Attended a PCard Infraction Review Committee meeting the PCard Manager conducts monthly that includes the Director of Purchasing & Contracting and representatives from the Finance Department and Human Resources.
- Reviewed supporting documentation for tested PCard transactions.
- Reviewed transaction reports from Works.
- Interviewed the PCard Program Administrator/Manager and PCard Accountant.
- When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.
- Analyzed available data to corroborate information obtained during interviews with PPS staff.
- Reviewed the PCard Program Summary of Changes that was issued by the PCard Program Manager in response to the SoS audit.

Conclusion

Based on the results of the audit, we found the school district's internal controls over PCard usage are adequate to maintain the overall integrity of the school district's PCard Program. The audit did not identify any evidence of intentional fraud, but did identify opportunities for improvement, and some instances of noncompliance. The corresponding audit results and recommendations are included in this audit report.

PORTLAND PUBLIC SCHOOLS

Procedures, Results, What Works Well, and Recommendations

Procedure:	Recommendation:
Procedure: Determine whether PCard policies, procedures, administrative directive, PCard Manual, and PCard training modules contain best practices, are consistent, and are reviewed and updated as necessary. Results: We determined PCard policies, procedures, administrative directive, the PCard Manual and PCard training modules contain best practices, are consistent, and are reviewed and updated as necessary. However, we noted best-practices indicate PCard training be completed annually which is not currently required by PPS. Additionally, we noted the PCard Manual and training modules currently required supporting documentation like receipts be uploaded into Works and also saved in a Google folder. This process is duplicative. What Works Well: • Training materials are reviewed and updated yearly. • Good mechanism for tracking completed training. • PCard Program provides clear instructions and FQAs on PCard use on its program webpage.	Recommendation: 1. We recommend PCard training modules, PCard Updates and Best Practices and the PCard Budget Holder Review & Sign Off Training, be required annually for all PCard and budget holders. 2. In an effort to streamline the processing of PCard transactions, we recommend the PCard Program discontinue the duplicative requirement to save supporting documentation for PCards in a Google folder in addition to uploading them into Works.

Management Response:
Management Response: Recommendation 1: We agree with the PCard holder training recommendations. All mentioned mandatory annual PCard holder trainings have already been developed and implemented as of July 2021. However, we disagree that an online annual budget holder review training is necessary. We already provide one-on-one initial trainings for budget holders whenever requested. We also provide the PCard Budget Holder Review and Sign Off Guide, a short and concise guide with screenshots showing how to review transactions in Bank of America Works, to all new budget holders. The same Guide is linked to each budget holder approval reminder email. We believe an online training would be superfluous and unlikely to add value. Recommendation 2: We agree with the recommendation to discontinue the PCard Google Team Drive and will do so immediately.

Procedure:	Recommendation:
Procedure: Determine whether PPS staff complete the required PCard training modules prior to being granted a PCard. Results: We tested 20 of the 93 new PCard applicants that occurred during the 2019-20 school year and found all 20 completed the required training modules prior to being granted a PCard. No exceptions noted.	Recommendation: 3. In an effort to streamline the PCard application process, we recommend the PCard Program update guidance to require proof of the completed training modules be included with the PCard application.

PORTLAND PUBLIC SCHOOLS

What Works Well:	
• Clear PCard instructions and required training are provided to new PCard holders. • PCard Program requires a signature from a new PCard holder when the PCard is picked up.	

Management Response:
Recommendation 3: We agree with the recommendation to require proof of completed training with the PCard application and have already implemented this change as of July 1, 2021.

Procedure:	Recommendation:
Determine whether PCard transactions are for an allowable purpose. Results: We tested 122 PCard transactions and noted all were for an allowable purpose. No exceptions were noted. What Works Well: • Authorizations or pre-approvals on certain purchases and charges were obtained. • Over limit transactions include approvals from budget holders and PCard Program Manager.	None.

Management Response:
Not applicable, no recommendations were made.

Procedure:	Recommendation:
Determine whether PCard transactions are supported by the appropriate documentation. Results: We tested 122 PCard transactions and noted three (2.5%) had receipts that did not agree with the amount in Works. We shared these results with the PCard Accountant who contacted the PCard holder and was able to obtain and upload the correct receipts into Works. What Works Well: • Receipts from Level 3 vendors/suppliers are automatically uploaded in Works. • Authorizations or pre-approvals on certain purchases and charges were obtained. • Over limit transactions include approvals from budget holders and PCard Program Manager.	4. We recommend PCard holders load appropriate supporting documentation into Works. 5. We recommend the PCard Program continue to enforce appropriate disciplinary actions detailed in the PCard Infraction Table. 6. We recommend PCard budget holders strengthen their review and approval processes to include a manual review of PCard receipts and/or other appropriate supporting documentation. Also see recommendation 1.

PORTLAND PUBLIC SCHOOLS

Management Response:
Recommendations 4-6: We agree with the recommendations and will continue to support PCard holders and budget holders with training and guidance. We already require PCard holders to upload supporting documentation in Works and do enforce disciplinary action based on the Infraction Table. We will add a detailed recommendation to budget holders regarding review of documentation to our website by November 1, 2021. This recommendation is already in the Budget Holder Review and Sign Off Guide.

	Recommendation:
Procedure: Determine whether PCard holders are completing the required monthly reconciliation in Works by the 7th of the month. **Results:** We tested 122 PCard transactions and noted instances where the reconciliations were not completed timely. However, the PCard Manager and/or Accountant identified each of these instances and counted them as a PCard infraction. As a result, we do not take exception. The PCard Infraction Table is included in Appendix A. **What Works Well:** • PCard Manager/Accountant suggest PCard holders put a reminder on their calendars to help them remember to complete the reconciliation by the 7th of the month. • Transactions that were not reconciled timely were identified by the PCard Accountant and tracked as an infraction.	None.

Management Response:
Not applicable, no recommendations were made.

	Recommendation:
Procedure: Determine whether PCard budget holders are completing the required monthly review and sign off in Works by the 12th of the month. **Results:** We tested 122 PCard transactions, 11 (9%) were not reviewed by the 12th of the month following the post date, and they were not identified as failure to sign off by the PCard Program review. We noted the PCard Program currently identifies the budget holder's failure to review and sign-off the PCard holders monthly transaction reconciliation informally as a Level IV infraction. The Level IV infraction report is shared with the budget holder's manager. However, the PCard Infraction Table does not include a Level IV infraction.	7. We recommend the PCard Infraction Table be updated to include a Level IV infraction as the budget holder's failure to timely review and sign off the PCard holders monthly transaction reconciliation; and identify, implement, and enforce appropriate discipline actions.

PORTLAND PUBLIC SCHOOLS

Management Response:
Recommendation 7: We agree with the recommendation and will create a separate budget holder infraction table that details the current process for addressing budget holder failures to timely review and sign off on PCard holder transactions by the end of this fiscal year.

Procedure: If applicable, determine whether a signed proxy form was completed for PCard holders who utilize a proxy to reconcile their monthly PCard transactions. The proxy form also requires the PCard holder's budget holder to sign off on the proxy form. Results: Of the 122 PCard transactions tested, we identified the use of seven proxies. Of those seven, one (14%) had a previous budget holder's authorization to use a proxy, however they did not have their current budget holder's authorization. Per discussions with the PCard Program Manager, they approve a proxy in the system by location, and notify budget holder of PCard proxy. If the new budget holder does not wish to continue the use of the proxy they can contact the PCard Program Manager at any time to update proxy access. For the one instance where a signed proxy form was not obtained we requested the notification to the PCard holder of the proxy access, however the PCard Program was unable to locate this notification. What Works Well: • PCard holders can appoint proxies to assist in performing the required review and sign off of monthly PCard transactions. • PPS Groups or Departments can appoint a proxy to reconcile PCard transactions for more than one PCard holder.	Recommendation: 8. A. We recommend the PCard Program obtain a signed proxy form from all PCard budget holders who utilize a group proxy to reconcile monthly PCard transactions. -OR- B. We recommend the PCard Program update current guidance to reflect their current practice of notifying budget holders of the existing proxy access and save documentation of the notification.

Management Response:
Recommendation 8: We agree with the recommendation. It is our current practice to require a new proxy reconciler form for any person that wants a proxy.

Procedure: Determine whether PCards are returned or deactivated if the PCard holder leaves PPS employment or the use of the PCard is no longer needed. Results:	Recommendation: 9. A. We recommend the PCard Program Manager obtain a list of employee status changes at least every other week. -OR- B. We recommend the PCard Program Manager work with the Human Resources

PORTLAND PUBLIC SCHOOLS

We reviewed the process and procedures related to returning or deactivating PCards when the PCard holder leaves PPS employment, or the use of the P-Card is no longer needed. We found the P-Card Program Manager's processes and procedures adequate however reports listing employee status changes are only obtained and reviewed once a month.	Department to obtain reports that identify an employee's last day at least every other week. This will enable the PCard Program Manager to follow up with the PCard holder related to any outstanding transactions and deactivate the PCard timely.

Management Response:
Recommendations 9: We agree with the recommendations and are already working with the Human Resources Department to have the employee status change report updated to be run every two weeks and to show effective date of retirements, terminations, and layoffs with future dates where possible.

Procedure: Determine whether violations of PCard policy and procedures are identified as infractions and the appropriate disciplinary actions are enforced. Results: We tested 122 transactions and noted there were 16 infractions identified by the PCard Program Manager/Accountant. We confirmed each of these 16 infractions were correctly identified as the appropriate infraction and appropriate disciplinary actions were enforced. No exceptions noted. What Works Well: • PCard Infraction Table easily identifies the type, level, and consequences for the various occurrences. • PCard Program has a good tracking mechanism for addressing and resolving infractions. • PCard Program created templates that are sent to PCard holders with infractions and advises them of the action taken.	Recommendation: None.

Management Response:
Not applicable, no recommendations were made.

Procedure: Determine whether the PCard Program Manager/Accountant is completing a review of all PCard transactions. Results: In the PCard Manual – Audit and Programs section, it states the PCard Program reviews all PCard transactions. We reviewed the PCard Program's review procedures and noted that at some level, they are reviewing all PCard transactions. However, between 26,000 and 46,000 PCard transactions are processed annually and as a result, performing a thorough and complete review of all PCard transactions is not reasonable. Transitioning to a risk-based PCard transaction review will reduce the number of transactions that are reviewed, but will enable the PCard Program to complete a thorough and complete review of high-risk transactions.	Recommendation: 10. We recommend the PCard Program transition to a risk-based PCard transaction review procedure that includes a thorough and complete review of all high-risk transactions.

PORTLAND PUBLIC SCHOOLS

What Works Well:
- PCard Program has a designated staff member (PCard Accountant) who performs monthly audits.

Management Response:
Recommendation 10: We do agree to use a risk-based review but disagree with the model recommended by the auditors, as we do not believe it will fully capture instances where Board policy is not followed (e.g. meals and gifts) or accidental purchases are made. Instead we will employ a review model that focuses on the types of transactions highlighted in the SoS audit, employs tools that the SoS audit utilized (e.g. Benford curve), and pays particular attention to high dollar transactions and spend profiles that exceed standard limits. We will formalize the model in a written procedure by November 1, 2021.

Procedure:	Recommendation:
Determine whether the PCard Program is utilizing the administrative functions in Works to help reduce the risk of PCard misuse.	11. We recommend the PCard Manager/Administrator review and update current MCC include and MCC exclude lists to ensure MCCs are not listed on both.
Results: We found the PCard Program Manager/Administrator has utilized the administrative functions to help reduce the risk of PCard misuse. Further restricting additional MCCs would help reduce the risk of PCard misuse.	12. We recommend the PCard Program Manager/Administrator add the list of MCCs identified by OIPA to the MCC exclude list.
What Works Well: • Works allows receipts from Level 3 vendors/supplies to be automatically uploaded. • Reports can easily be extracted from Works.	13. We recommend the PCard Program Manager obtain and review Bank of America's Commercial Card Authorization Data Source System annual SOC 2 audit report on the design and operating effectiveness of its controls relevant to security, availability, processing integrity, and confidentiality. If concerns related to Works system are identified, the PCard Program Manager should determine the impact to the PPS PCard Program and implement mitigating internal controls when appropriate.

Management Response:
Recommendation 11: We agree with the recommendation to clarify our MCC code include or exclude lists. We will delete any unused MCC code include or exclude lists. We will continue to only utilize RESTRICTD and FAM PERMITS lists, wherein there is no duplication or inconsistency.

Recommendation 12: We partially agree with this recommendation and will review any recommended exclude lists provided. However, we will continue to allow use of those MCC codes that we identify as needing use by our schools.

Recommendation 13: We agree with this recommendation. We will obtain the SOC report annually and ask the internal audit team to train us on how to review this document and additionally assist with annual review if needed.

PORTLAND PUBLIC SCHOOLS

Appendix A: P-Card Infraction Table

P-Card Infraction Table

Infractions are classified by Tier and each Tier has its own infraction path. The Tiers and occurrence are independent of each other. For example, you can have a second occurrence of a Tier I infraction and then receive a first occurrence of a Tier II infraction within the same fiscal year.

Tier	Infraction Type	First Occurrence	Second Occurrence	Third Occurrence	Fourth Occurrence
Tier I	LVL.1.1 No Works Sign-off LVL.1.2 Lack of documentation or no receipts	• P-Card Accountant to email cardholder with supervisor in copy	• P-Card Manager to email cardholder with supervisor in copy • Card suspended until cardholder completes mandatory reconciliation training • Cardholder to sign P-Card Acknowledgement form w/ clear statement that discipline may result with next occurrence	• P-Card Manager to email cardholder and supervisor, with their supervisor in copy • Supervisor to schedule investigatory meeting with employee	• P-Card Manager to email cardholder and supervisor, with their supervisor in copy • Mandatory supervisor consultation with HR and Finance Admin. to determine appropriate disciplinary action • Card suspended
Tier II	LVL.2.1 Splitting orders to circumvent limits LVL.2.2 Unauthorized purchases per P-Card Manual (examples: gifts, meals while on travel, etc.) LVL.2.3 Accidental personal purchases	• P-Card Manager to email cardholder with supervisor in copy • Card suspended until cardholder completes mandatory P-Card manual training • Cardholder to sign P-Card Acknowledgement form w/ clear statement that discipline may result with next occurrence • Cardholder must immediately pay back the District for the accidental purchase or unauthorized purchase	• P-Card Manager to email cardholder and supervisor, with their supervisor in copy • Supervisor to schedule investigatory meeting with employee • Cardholder must immediately pay back the District for the accidental purchase or unauthorized purchase	• P-Card Manager to email cardholder and supervisor, with their supervisor in copy • Mandatory supervisor consultation with HR and Finance Admin. to determine appropriate disciplinary action • Cardholder must immediately pay back the District for the accidental purchase or unauthorized purchase • Card suspended	
Tier III	LVL.3 Fraud and Abuse	• P-Card Manager informs HR, cardholder supervisor, and supervisor's manager • Mandatory supervisor consultation with HR and Finance Admin. to determine appropriate disciplinary action • Card suspended			

Appendix B: P-Card Program Summary of Changes Memo

PORTLAND PUBLIC SCHOOLS
OFFICE OF PURCHASING & CONTRACTING
501 North Dixon Street / Portland, OR 97227
Telephone: (503) 916-3421 / Fax: (503) 916-3109
Mailing Address: P. O. Box 3107 / 97208-3107

Date:	April 4, 2019
To:	PCard Cardholders, Supervisors, Budget Holders, and Proxies
From:	Stephen Hirai, PCard Program Manager
	Emily Courtnage, Director of Purchasing & Contracting
	Cynthia Le, Chief Financial Officer
Subject:	PCard Program Summary of Changes

As you are likely aware, our PCard program was reviewed as part of the recent Secretary of State Audit. In order to comply with the recommendations of the Audit Division, we have made a number of changes to the PCard program. We need your help to ensure that we are following the best practices outlined in the PCard Manual.

PCard Budget Holder Approval in Bank of America Works Reinstated April 1st
All budget holders will be required to approve all PCard purchases utilizing their budget in the Bank of America Works system by the 12th of each month. Training will be available in Pepper in early April. We will also send out an Approval Quick Guide with screen shots for those who are already familiar with Works. The first approval deadline for April transactions will be May 12th.

If a budget holder has responsibility of multiple departments, proxy approval may be delegated to the department manager or director. A proxy approver form can be found on the PCard website.

New PCard Reconciliation Deadline on the 7th of the month
With the reinstatement of the approval process, the cardholder reconciliation deadline will change to the 7th of the month in order to allow approvers sufficient time to review and approve transactions by the 12th of the month. The reconciliation deadline for April transactions will be May 7th.

New PCard Manual Highlights
The new PCard Manual is effective April 1st. A few of the primary changes are:
- **Sharing of PCards is prohibited**
  - All purchases made with your card are your responsibility. Do not let anybody else use your card, including other PPS staff. If others in your school or department need to purchase with a PCard, they should apply for and be responsible for their own card.
- **Updated lists of acceptable and unacceptable purchases**

PORTLAND PUBLIC SCHOOLS
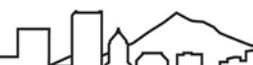
- **Guidance for Spending District Funds:** Food and beverages, gift cards, fundraising activities, and gifts
  - See new Appendix C in the PCard Manual
- **Revised infraction table**
  - The new infraction table was reviewed and approved by HR, and unions were notified of the changes. In general, the new infraction table provides for earlier PCard Manager intervention (including mandatory retraining and/or suspension of card privileges) as well as earlier supervisor and/or HR notification. Infractions will continue to be noted after the reconciliation deadline and tracked on a fiscal year basis.
- **Merchant Category Codes (MCC) restrictions**
  - To better control District spending, we have instituted MCC restrictions for certain vendor types. Your card will not work if you attempt to use it with any of the restricted vendors types. If you need to make a legitimate District purchase from a vendor type on the list, please let us know so we can review the vendor and purchase in advance.
- **Electronic statements**
  - Starting March 28th, paper statements will no longer be mailed to cardholders. Bank of America is requiring the switch from paper to electronic statements. To access your electronic statement, please go to https://www.centresuite.com and create a new account.
- **Approval process**
  - There are now detailed instructions on the PCard website for the approval process. As noted, online training is available via Pepper for all budget holders affected by this change.
- **Online Shopping**
  - PCards may never be associated with a personal online account. Always create a new, separate account for your department or school using a PPS email address and PPS physical address.

New PCard Design Coming Soon
In order to reduce the risk of accidental PCard use for personal purchases, we're redesigning PPS's PCard. The new cards will be white with the PPS emblem prominently displayed in blue.

Who Do I Contact with Questions or Problems?
Stephen Hirai, PCard Program Manager, 503-916-3314
Debra Watkins, PCard Accountant, 503-916-3750
PCard team at pcard@pps.net