

Knox County



KNOX COUNTY COMMISSION

KNOX COUNTY AUDITOR

November 5, 2015

Dr. James McIntyre, Superintendent of Knox County Schools
Bob Thomas, Knox County Schools

FINAL AUDIT REPORT – FILE NUMBER 2015-05 – KNOX COUNTY SCHOOLS CREDIT
CARD PROGRAM AUDIT

Attached is the subject audit final report for your review and action. Your management response to the audit recommendations has been included in the report. We will periodically follow-up with you to stay apprised of the status of actions taken to correct agreed-upon recommendations.

If you have any questions or wish to further discuss the findings, please contact me at (865) 215 – 2892 or andrea.addis@knoxcounty.org. We again thank you and your staff for the time and attention provided during this audit.

A handwritten signature in black ink, appearing to read "Andrea Addis".

Andrea L. Addis
Knox County Internal Auditor

cc:

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File Number 2015-05

KNOX COUNTY SCHOOLS CREDIT CARD PROGRAM

November 5, 2015



Final Audit Report

Knox County Internal Audit

File Number 2015-05

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EXECUTIVE SUMMARY

Credit Card Program Audit

BACKGROUND

The Knox County School system serves approximately 59,500 students in 89 school locations across Knox County. Schools range from traditional elementary, middle, and high schools to alternative schools and career development centers. The Schools had an approved fiscal year 2015 budget of about \$425 million (58 percent of total Knox County budget of about \$727 million).

Knox County Schools used retail, merchant and fuel cards in daily operations. Retail credit vendors included SunTrust Bank and First Tennessee Bank. Sam's Club cards were identified as merchant card vendors. Fuel cards included Fuelman and Pilot cards.

The objective of the audit was to determine if Knox County Schools' purchases made using credit cards (including but not limited to retail cards, merchant cards, and fuel cards) adhered to policies in place at the time of purchase and were made for the benefit of Knox County. The scope of the audit included retail credit cards for a period of five years and all other cards for a period of two years. The audit methodology included gaining an understanding of applicable policies, procedures, and internal controls; selecting transactions for testing and obtaining supporting documentation; and conducting interviews with personnel as needed.

WHY WE DID THIS AUDIT

The audit was conducted as a result of a request from the Knox County Commission through Resolution R-14-11-906.

WHAT WE FOUND

We found 15 issues during testing of Knox County School retail, merchant, and fuel card purchases. The issues include:

- Misuse of retail credit cards,
- Inappropriate travel reimbursements,
- Lack of proper approval of retail or merchant cards,
- Gaps in monthly statements,
- Payments made outside official processes,
- Incorrect organizational and object codes charged,
- Lack of evidence of cardholder reconciliation,
- Lack of evidence of independent review and approval,
- Lack of sufficient supporting documentation ,
- Payments not processed in a timely manner,
- Sales tax charged to purchases,
- Questioned costs on credit card statements, and
- Questioned costs on travel reimbursements associated with retail credit purchases.

None of the identified issues met the definition of significance for this audit.

WHAT WE RECOMMEND

We made two recommendations to Knox County Schools to reclaim monies identified as misuse of the retail credit card and inappropriate travel reimbursements. The other issues identified during the audit did not require recommendations due to credit cards being cancelled or Knox County Schools having already revised policies and procedures to address the issue.

MANAGEMENT RESPONSE

Knox County Schools agreed with our recommendations to reclaim the money owed to the school system for misuse of retail cards and inappropriate travel reimbursements.

BACKGROUND

The Knox County School system serves approximately 59,500 students in 89 school locations across Knox County. Schools range from traditional elementary, middle, and high schools to alternative schools and career development centers. Knox County Schools had an approved fiscal year 2015 budget of about \$424 million (58 percent of total Knox County budget of about \$727 million).

Knox County Schools used retail¹, merchant, and fuel cards as part of daily operations. Retail card vendors included First Tennessee Bank and SunTrust and were used to purchase items from supplies to travel. Approximately \$103,000 in purchases were made using twelve² retail credit cards within the audit scope. The sole merchant card vendor identified was Sam's Club used to purchase about \$21,000 in mainly food and office supplies for various Knox County Schools departments. Fuel card vendors included Fuelman and Pilot with approximately \$237,000 in transactions during the audit period.

This audit was conducted at the request of the Knox County Commission through Resolution R-14-11-906.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of the audit was to determine if Knox County Schools' purchases made using credit cards (including but not limited to retail cards, merchant cards, and fuel cards) adhered to policies in place at the time of purchase and were made for the benefit of Knox County Schools. To achieve our objective, we:

- Obtained and reviewed applicable laws, regulations, accounting guidance, policies, and / or procedures related to accounting for or governing the credit process at Knox County Schools,
- Gained an understanding of internal controls within the credit process,
- Obtained credit transactions within the scope of the audit from MUNIS, Knox County Schools, or the McAleer system,
- Selected a sample of transactions for each audit step for testing against applicable criteria, and
- Conducted interviews with applicable personnel as needed.

To evaluate the significance of audit findings we used both quantitative and qualitative factors. The qualitative factor used in evaluating the significance of a finding was whether the finding was the result of a control gap or operational risk that poses a systematic threat to properly processing credit account transactions. The quantitative factor considered was whether an error or group of errors due to the same cause with a total greater than 10 percent of the total credit expenditures for the testing period, or \$36,007.38. A finding only has to meet one of the above factors to be considered significant.

The scope of this audit included retail credit cards for a period of five years and all other credit cards for a period of two years. We could not review a full five years of retail statements as documentation prior to July 2010 was not available in the Knox County financial software system. We reviewed retail credit information included in the financial software system from July 2010 through December 2014 when retail card use was discontinued. Information prior to July 2010 was recorded in a previous financial software package to which

¹ For purposes of this audit, retail credit cards are those general use credit cards issued by national credit brands such as Visa, Mastercard, etc. that are not required to be used at a specific merchant or on a specific product.

² Six First Tennessee cards in use from July 2010 through December 2014 and six SunTrust cards in use from October 2013 through December 2014.

the County no longer has complete access to all records. Supporting documentation related to transactions prior to July 2010 is in storage; however, without access to electronic data to identify which transactions would qualify for testing, the audit team did not feel it was necessary to manually review all supporting documentation in storage to identify six months of data to complete the five year scope requested.

This performance audit was conducted in accordance with generally accepted government auditing standards except for requirement 3.96 related to an external peer review of the Internal Audit Department being conducted every three years. The last peer review was performed in December 2009 and covered internal audit work performed from January 1, 2006, through December 31, 2008. According to the three-year peer review rule, the Internal Audit Department should have had a peer review performed in calendar year 2012 to review audit work performed from January 1, 2009, through December 31, 2011, with an additional peer review scheduled for calendar year 2015 to cover audit work performed from January 1, 2012, through December 31, 2014. The audit department changed Directors in December 2013 and it is not known by the current Director why the peer review was not performed in calendar year 2012 in cadence with a three-year review cycle. A peer review is planned in calendar year 2016 depending on the amount of audit work available to review under revised procedures put in place in February 2013, the schedule of the peer review team, and approval by the Knox County Audit Committee. We do not believe the audit or assurance provided by the audit have been affected by the lack of a current peer review. The Internal Audit Department's revised audit procedures used to conduct this review are directly tied through reference to the generally accepted government auditing standards. In addition, each audit is subject to a quality control process that ensures that generally accepted government auditing standards were met within the audit prior to issuing a draft report.

The standards also require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

FINDINGS

We found purchases made with Knox County Schools credit cards did not generally adhere to established policies and procedures in place at the time of purchase and some purchases were not made for the benefit of Knox County Schools. We tested retail, merchant, and fuel card purchases for (1) identification of credit vendors beyond those known at the initiation of the audit, (2) proper approval and / or termination of credit accounts, (3) gaps in statements to identify information not contained in Knox County financial systems, (4) payments made outside official payment processes, (5) adherence to governing policies and procedures, and (6) personal reimbursements to Knox County Schools for personal purchases.

We identified one issue considered misuse of schools credit cards related to use of credit cards for personal benefit. This audit identified misuse of retail cards totaling \$24,147. See Misuse of Retail Credit Cards section below for details. We also found inappropriate reimbursement of travel costs considered misuse totaling \$2,297. See Inappropriate Travel Reimbursements section below for details. We also identified issues related to (1) lack of documentation of proper approval of retail credit cards, (2) lack of documentation of proper approval of merchant credit cards, (3) gaps in monthly statements, (4) payments made outside official processes, (5) incorrect organizational codes charged, (6) incorrect object

codes charged, (7) lack of evidence of cardholder reconciliation on retail credit statements, (8) lack of evidence of independent review and approval of monthly credit statements, (9) lack of sufficient supporting documentation accompanying monthly statements, (10) payments not processed in a timely manner, (11) sales tax charged to purchases, (12) questioned costs on credit card statements, and (13) questioned costs on travel reimbursements associated with retail credit purchases.

None of the above findings met the definition of significance for this audit. Many of the above issues do not have associated recommendations since the retail and merchant cards were cancelled or controls were put in place prior to the issuance of this report by Knox County Finance Department and Knox County Schools to address the issues described. See summary of recommendations, management response, and auditor response on page 16 of this report.

MISUSE OF RETAIL CREDIT CARDS

We identified misuse of SunTrust and First Tennessee cards issued to Roger Underwood. Mr. Underwood was dismissed from his position at Knox County Schools for admitted misuse of credit cards in October 2014. The total amount deemed as inappropriate use of the cards by this audit totaled \$24,147 and related to online gambling, ineligible travel, cash advances, finance charges, late fees, and other miscellaneous personal charges. Specifically, we found the following charges:

Transaction Description	Amount
Online Gambling	\$10,446
Prior Period Balance	5,567
Finance Charges	2,505
Travel	1,823
Cash Advances	1,715
Reception	732
Late Fee	696
Personal Charges	174
Payment Adjustments	173
Personal Vehicle Maintenance	159
Meals	56
Cash Advance Finance Charges	43
Returned Check Fee	29
Overlimit Fee	29
TOTAL	\$24,147

Table 1

We found the \$10,446 of online gambling charges related to 91 transactions made from September 27, 2014, through October 24, 2014, and ranged in amount from \$49.92 to \$299.98. The transactions appear on the statements with descriptions of 'SPA' and 'DRESS'. The retail cards did not appear to have protection in place to block certain types of vendors or transactions, which would allow the SunTrust retail card to be used for online gambling charges. In addition, the SunTrust statements were combined onto one control statement sent directly to Mr. Underwood for payment. The statements with online gambling

charges were not presented to Knox County Schools for payment until after Mr. Underwood departed his position at Knox County Schools. In order to ensure proper payment and review of statements, the SunTrust statements should have been sent to the Knox County Schools Finance Director or other executive level personnel rather than the primary cardholder.

The First Tennessee card had a beginning balance of \$5,567 per the first statement in May 2012 provided by Knox County Schools. The First Tennessee statements for Mr. Underwood's card were not processed through the established credit card procedure to (1) reconcile the statement, (2) complete a check request with appropriate supporting documentation, and (3) submit information for independent review and approval. Mr. Underwood's First Tennessee statements appear to have been withheld from the process. First Tennessee Bank provided credit statements for Mr. Underwood from May 2012 to May 2014 for review but a complete statement set from July 2010 through December 2014 was not provided for review. Since none of Mr. Underwood's First Tennessee statements were submitted through proper channels, the beginning balance on the statements is considered as misuse of the card.

Total fees and charges were \$3,475 and related to Mr. Underwood's First Tennessee card. Specifically the charges included \$2,505 in finance charges, \$696 in late fees, \$173 in payment adjustments, \$43 in finance charges related to cash advances, \$29 in overlimit fees, and \$29 in returned check fees. These fees could have been avoided had payments been processed in a timely manner and the card used only for business purposes. Statements were not required to be reviewed by an independent reviewer unless a check request was being processed which allowed Mr. Underwood to withhold his statement and continue to charge purchases to the card.

We found \$1,823 in travel costs that were for purposes other than official school business. Specifically, we found:

- \$1,064 in costs related to a trip to Biloxi, Mississippi, in July 2014 that included a three-night hotel stay at the Beau Rivage Hotel and Casino. The costs included the room for three nights, parking, and meals and refreshments. The trip was submitted for payment as a Southeastern Association of School Business Officials (SASBO) meeting for the SASBO Board, on which Mr. Underwood served. After discussion with SASBO personnel, it was determined this event was a retirement reception for the SASBO Executive Director and was optional to members as no business or training was conducted; therefore, this event was not eligible for payment by Knox County Schools.
- \$329 in costs related to a trip to Morristown, Tennessee, in December 2013 that included a hotel stay at Best Western. The cost of the trip was paid to SunTrust via personal check from Mr. Underwood and attached to the payment made by Knox County. However, the check was returned and the hotel charge added back to the outstanding balance. The amount was eventually paid by Knox County Schools.
- \$195 in car rental fees for a trip to Phoenix, Arizona, in October 2012. The rental appears to be for a weekend as the rental begins on a Friday. The charge was made to Mr. Underwood's First Tennessee card and not paid through official payment processes. There was no related travel voucher found for the trip.
- \$130 in costs related to a stay in the Galt House Hotel in Louisville, Kentucky, in May 2012. The charge was made to Mr. Underwood's First Tennessee card and not paid through official payment processes. There was no related travel voucher found for this trip.

- \$105 in costs associated with a trip to Shreveport, Louisiana, in September 2014 that included airline baggage charges and miscellaneous hotel charges at a Courtyard by Marriott. The trip was not submitted through a travel voucher to assign credit card charges to a school related trip.

Travel charges on credit cards were not always required to be associated with an official travel voucher. This practice allowed travel charges not associated with official school travel to be charged to cards.

Cash advances of \$1,715 were taken on Mr. Underwood's First Tennessee card between May 2012 through May 2014. Cash advances should not be allowed on business use credit cards since most business related needs can be charged to the card and personal cash used for business purposes can be reimbursed from Knox County Schools. Since Mr. Underwood did not submit the monthly statement for review and payment through official processes, the cash advances were not identified when being taken.

We identified \$732 charged to Mr. Underwood's SunTrust card in August 2014 for a retirement reception at the Beau Rivage Hotel and Casino in Biloxi, Mississippi, for the SASBO Executive Director. As previously stated above, this trip is not considered school related since no business or training was conducted during the trip. Additionally, the cost of the retirement reception should not be charged to Knox County Schools credit cards. After discussions with SASBO personnel, we determined Mr. Underwood was personally reimbursed approximately \$950 from SASBO members attending the reception to cover the cost. We did not find evidence this reimbursement was passed to Knox County Schools to cover the cost charged to the SunTrust card. This charge was included on the monthly statements that were not presented to Knox County Schools for review and payment through the official payment process. This charge was eventually paid by Knox County Schools in order to close out the credit card. As previously mentioned, Mr. Underwood was the recipient of SunTrust monthly statements and the catalyst for initiation of the payment process.

We also found \$389 in personal charges related to \$174 in miscellaneous personal charges, \$159 in personal vehicle maintenance costs, and \$56 in personal meals. These charges were made on Mr. Underwood's First Tennessee card. As previously mentioned, Mr. Underwood's First Tennessee card was not paid through official Knox County Schools payment processes.

We also identified \$9,071 in payments made to the First Tennessee card personally by Mr. Underwood rather than being made by Knox County Schools. Based on the documentation provided, we calculated Mr. Underwood's outstanding balance owed to Knox County Schools is \$15,076 (\$24,147 in personal charges less \$9,071 in personal payments).

Recommendation

We recommend Knox County Schools recover the monies owed by Mr. Underwood for misuse of the Knox County Schools' credit card.

INAPPROPRIATE TRAVEL REIMBURSEMENTS

We identified \$2,297 in inappropriate travel reimbursements paid to Mr. Underwood. Travel reimbursement is exclusively for payments made from employee personal funds while on official Knox County Schools business and must be requested along with appropriate supporting documentation. The inappropriate reimbursements we identified included:

- \$1,638 in reimbursements for the trip to Biloxi, Mississippi, described above. The reimbursement requested payment for hotel charges, meals per diem, and mileage. Since (1) the trip was considered optional to attend the retirement reception, (2) no business or training was provided, and (3) hotel and meals costs already being charged to the Knox County Schools credit card, the entire requested amount paid to Mr. Underwood was ineligible for reimbursement.
- \$311 in reimbursements for a trip to Murfreesboro, Tennessee, in July 2014. The trip related to a Tennessee Association of School Business Officials (TASBO) meeting. The travel reimbursement claimed higher than actual mileage³ to the destination (\$35) and hotel charges paid on Knox County Schools' credit card (\$276).
- \$292 in reimbursements for a trip to Murfreesboro, Tennessee, in September 2014. The trip related to a TASBO meeting. The travel reimbursement claimed higher than actual mileage to the destination (\$58), hotel charges paid on Knox County Schools' credit card (\$224), and parking costs exceeding allowable limit without receipt (\$10).
- \$30 in reimbursement for a trip to Murfreesboro, Tennessee, in April 2014. The trip related to a TASBO meeting. The travel reimbursement claimed higher than actual mileage.
- \$27 in reimbursement for a trip to Kingsport, Tennessee, in April 2014. The trip related to a SASBO training conference. The travel reimbursement claimed higher than actual mileage.

Inappropriate travel reimbursements were the result of lack of (1) proper controls over the credit card process, (2) reconciliation of travel vouchers to credit card charges, and (3) lack of proper documentation.

Recommendation

We recommend Knox County Schools recover the monies owed by Mr. Underwood for inappropriate travel reimbursements paid.

TESTING FOR ADDITIONAL CREDIT VENDORS

We examined financial software⁴ for additional vendors other than known retail (First Tennessee Bank and SunTrust Bank), merchant (Sam's Club), and fuel (Fuelman and Pilot) credit card vendors for the audit period. For any potential vendors we examined documentation supporting vendor transactions to determine if the vendor provided retail, merchant, or fuel credit to Knox County Schools. We did not identify any additional retail, merchant, or fuel credit vendors, other than those known when starting the audit.

PROPER APPROVAL AND / OR TERMINATION OF CREDIT CARDS

We tested retail cards issued by First Tennessee Bank and SunTrust, merchant cards issued by Sam's Club, and fuel cards issued by Fuelman and Pilot. We reviewed documentation for evidence of proper approval and / or termination of each type of card including documentation of Board of Education (Board), executive level, or County administered program approval. When accounts were terminated, we reviewed documentation to determine if the accounts were closed with the proper level of authority. We identified two issues related to (1) lack of documentation of Board or executive level approval for retail cards and (2) lack

³ Actual mileage was calculated using mapping applications with the City County Building as the starting point and hotel where meeting was held as the destination.

⁴ The financial software included in this review was MUNIS for general Knox County Schools transactions and McAleer for Knox County Schools Nutrition transactions.

of documentation of Board or executive level approval for merchant cards. We did not find any issues during testing related to (1) cancellation of retail cards, (2) cancellation of merchant cards, and (3) approval of fuel cards. We summarized the results of testing for approval and / or termination of retail, merchant, and fuel cards below.

NON-COUNTY ISSUED RETAIL CREDIT CARDS

We tested retail credit cards issued from First Tennessee Bank and SunTrust Bank for proper approval from the Board or executive level. We found these accounts did not have evidence of Board or executive level approval. We could not find any documentation authorizing the issuance of First Tennessee Cards and found the SunTrust cards were authorized by the Accounts Payable Supervisor rather than the Board or an executive. Since all retail cards have been cancelled or are in the process of being cancelled, we do not feel a recommendation related to approval of the previously issued cards is needed.

Knox County Finance has put in place controls to prevent payment of any retail card statements that are not issued through Knox County credit programs. Knox County Schools has agreed to abide by the credit policy and programs issued by Knox County Finance as well. Retail credit cards issued outside of County administered programs (1) do not leverage County-wide buying power for premium rates and terms, (2) create additional liability for Knox County not authorized by Knox County Finance, and (3) do not have centralized administration and monitoring of purchases. Retail cards are not needed within Knox County departments due to the County administered electronic purchasing card and travel card programs which gives departments credit card options to purchase needed materials, supplies, and travel arrangements.

NON-COUNTY ISSUED MERCHANT CREDIT CARDS

We tested merchant credit cards issued by Sam's Club for proper approval from the Board or executive level. We found these accounts did not have evidence of Board or executive level approval. Since these cards had been paid in full and cancelled, we do not feel a recommendation related to approval of the previously issued cards is needed.

Knox County Finance has put in place controls to prevent payment of any merchant card statements that are not issued through Knox County credit programs. Knox County Schools has agreed to abide by the credit policy and programs issued by Knox County Finance as well. Merchant credit cards issued outside of County administered programs (1) are not needed due to the availability of credit options through the Knox County administered electronic purchasing card program and (2) do not leverage County-wide buying power for premium rates and terms.

RETAIL CREDIT CARDS CANCELLED

We reviewed documentation provided by Knox County Schools and Knox County Purchasing to determine if retail credit accounts remained open. We found that the six SunTrust retail credit cards had been cancelled by the request of Knox County Purchasing Department on October 29, 2014⁵, and November 5, 2014, and the outstanding account balance of \$24,948.04 had been paid in full on November 25, 2014. We found four of the six First Tennessee cards were documented as closed as of December 22, 2014; however, two cards remained open with a balance of \$2,085.96 until July 17, 2015 when the balance was paid in order to close the cards. The delay in closing the card related to a majority of the outstanding

⁵ Roger Underwood's card was cancelled on October 29, 2014, due to misuse.

balance relating to charges made by Roger Underwood (see Misuse of Retail Cards section for additional information) being part of ongoing investigations.

MERCHANT CREDIT CARDS CANCELLED

We reviewed documentation included in the financial software system to determine if Sam's Club cards remained open. We found that all Sam's Club merchant cards had been paid in full and the accounts closed as of December 24, 2014. We did not find any transactions posted in the financial software system after the above date related to payments on Sam's Club accounts.

FUEL CARDS OBTAINED THROUGH COUNTY WIDE FUEL CARD PROGRAM

We reviewed documentation supporting the approval of fuel cards and found the cards appear to be issued through the County-wide fuel card programs to individuals as requested through proper forms and approvals. We did not find any exceptions related to approval of fuel cards issued to individuals.

GAPS IN MONTHLY STATEMENTS

We found eight instances of statement gaps totaling 21 months in retail credit statements and one instance of a statement gap totaling one month in fuel credit statements. We did not identify any statement gaps in testing of merchant credit statements. We tested 91 monthly retail statements, 50 monthly merchant statements, and 223 monthly fuel statements provided in financial software systems for information that would indicate a monthly statement was not processed through official payment processes, such as a missing month where the subsequent month's statement included a carryover balance greater than expected⁶.

The identified missing 21 months of retail statements totaled \$(5,074.10) in net retail activity on First Tennessee cards (16 months), \$24,948.04 in net retail activity on SunTrust cards (five months). We subsequently obtained the five months of missing statements for the SunTrust cards and included them in transaction testing. We did not obtain the First Tennessee statements as most of the activity related to a credit that was reversed in a subsequent month and the majority of remaining activity was supported with subsequent month's statements. We noted there were no controls in place to ensure each month's statement was submitted for review by someone other than the cardholder. However, since the retail cards were cancelled, no recommendation is considered needed at this time.

The identified missing one month of fuel statements totaled \$10 in net activity on a Pilot card assigned to the Knox County Schools Driver Education program. The amount was carried over for 10 months before being paid and no supporting documentation (statement or receipt) was provided to support the payment. Due to the small amount of net activity in the gap month, we did not obtain the statement to include in transaction testing. We reviewed the Knox County Schools revised proposed Fuel Card procedures and noted the addition of a control for monthly monitoring of fuel card statements; therefore, we do not feel additional recommendations related to this issue are needed.

⁶ Expected balances include the previous known balance less known applied payments plus applicable finance charges and late fees.

PAYMENTS MADE OUTSIDE OFFICIAL PROCESSES

We found nine instances of payments made outside of the official retail and merchant card payment processes totaling \$1,032. We did not identify any instances of payments made outside the official fuel card payment processes. We identified payments made on each monthly statement and tied the amounts back to previous payments posted in the financial software. Any payments included on monthly statements that could not be tied back to payments processed in the financial software were considered an exception. The nine instances we identified included:

- Eight instances in the 95 monthly retail card statements. These instances showed evidence of payments totaling \$1,018 made outside of official payment processes. Three of these eight instances appear to be personal reimbursement by Roger Underwood for personal travel related charges made on the credit card (such as parking, fuel, and hotel charges) and totaled \$558. One payment for \$329 was returned and added back to the monthly statement total as described under the Misuse of Retail Credit Cards section above. The remaining five instances totaling \$460 could not be tied to specific purchases and were made on two First Tennessee cardholder accounts.
- One instance in the 50 monthly merchant card statements tested showed evidence of a payment totaling \$14. We could not tie the payment to a specific purchase made in the previous month.

Adequate internal controls were not in place within the retail and merchant credit card payment processes to prevent personal purchases and payments from being made. Since retail and merchant card accounts have been paid in full and the cards cancelled, no recommendation is considered necessary.

ADHERENCE TO POLICIES AND PROCEDURES

We tested 614 retail card purchases totaling \$102,762, 249 merchant card purchases totaling \$20,665, and 291 fuel card purchases totaling \$15,711. We selected all retail card purchases for testing due to known issues with charges made by Mr. Underwood. We selected all merchant card purchases for testing due to the higher risk stemming from known issues with the retail credit cards and the lack of a strong control environment. We haphazardly selected a sample⁷ of transactions from each month of fuel statements to include in testing. We tested each purchase in the samples for evidence of (1) correct organization and object code charged (retail and merchant card transactions), (2) cardholder reconciliation (retail card transactions), (3) independent review and approval of payment requests, (4) adequate supporting documentation, (5) payments processed in a timely manner, (6) sales tax charged, (7) questioned costs on credit statements, and (8) questioned costs on associated travel vouchers. We identified nine issues related to (1) incorrect organizational codes charged, (2) incorrect object codes charged, (3) lack of evidence of cardholder reconciliation on retail credit statements, (4) lack of evidence of independent review and approval of monthly credit statements, (5) lack of sufficient supporting documentation accompanying monthly statements, (6) payments not processed in a timely manner, (7) sales tax charged to purchases, (8) questioned costs on credit card statements, and (9) questioned costs on travel vouchers associated with retail credit purchases. We summarized the results of testing for adherence to policies and procedures of retail, merchant, and fuel cards below.

⁷ This is not a statistical sample and the results of testing cannot be projected to the entire fuel card population of \$235,711.

INCORRECT ORGANIZATIONAL CODES CHARGED

We tested the 614 retail card purchases and 249 merchant card purchases for evidence the correct organizational codes were charged. We did not test fuel card transactions for correct organizational code assignment since fuel cards are assigned by department and organizational codes will not change on a monthly basis as the codes can with retail or merchant cards. An organizational code determines which departmental budget is assigned the cost of the purchase. Organizational codes are assigned on the check request to distribute the total purchase amount to one or more departments. Incorrectly assigned organizational codes would charge purchase amounts to the incorrect department and may distort the department's actual spend to budget reports. We examined supporting documentation for purchaser and purpose to determine if the correct organizational codes were charged.

Of the 614 retail card purchases tested, we found:

- 338 (55%) purchases appear to be charged to the correct organizational code.
- 7 (1%) purchases appear to be charged to the incorrect organizational code.
- 153 (25%) purchases could not be determined if the correct organizational code was charged due to insufficient documentation supporting the purchases. Of the 153, 151 were SunTrust purchases of which statements were not provided when making the final payment to close the account. The final payment was posted to one organizational code with the intent of distributing the costs to the correct organizational codes after supporting documentation was collected and examined. Knox County Schools has been working with Knox County Finance to distribute the lump payment.
- 116 (19%) purchases related to Mr. Underwood's First Tennessee card that were not processed through the official payment system; therefore, these purchases were not charged to an organizational code.

Of the 249 merchant card purchases tested, we found:

- 249 purchases could not be determined if the correct organizational code was charged due to insufficient documentation supporting the purchases. The documentation provided included monthly statements and some detailed receipts for purchases but documentation does not indicate department benefitting from the purchase.

Organizational codes were assigned to purchases by the originator of the check request and should be reviewed by the assigned approver for accuracy. Since all retail and merchant cards were paid in full and cancelled, we do not feel a recommendation related to this issue is necessary.

INCORRECT OBJECT CODES CHARGED

We tested the 614 retail card purchases and 249 merchant card purchases for evidence the correct object codes were charged. We did not test fuel card transactions for correct object code assignment since fuel cards purchases will not change on a monthly basis as the codes can with retail or merchant cards. An object code determines which expense type is assigned to the cost of the purchase. Object codes are assigned on the check request to distribute the total purchase amount to one or more expense types. Incorrectly assigned object codes would charge purchase amounts to the incorrect expense type and may

distort the department's line item spending. We examined supporting documentation for items purchased to determine if the correct object codes were charged.

Of the 614 retail purchases tested, we found the following related to object codes charged:

- 227 (37%) purchases were charged to the correct object code.
- 114 (19%) purchases were not charged to the correct object code.
- 157 (25%) purchases could not be determined if the correct object code was charged due to insufficient documentation supporting the purchases. Of this 157, 151 were SunTrust purchases of which statements were not provided when making the final payment to close the account. The final payment was posted to one object code with the intent of distributing the costs to the correct object codes after supporting documentation was collected and examined. Knox County Schools has been working with Knox County Finance to distribute the lump payment.
- 116 (19%) purchases related to Mr. Underwood's First Tennessee card that were not processed through the official payment system; therefore, these purchases were not charged to an object code.

Of the 249 merchant card purchases tested, we found:

- 106 (43%) purchases were charged to the correct object code.
- 42 (17%) purchases were not charged to the correct object code.
- 101 (40%) purchases could not be determined if the correct object code was charged due to insufficient documentation supporting the purchases.

Object codes were assigned to purchases by the originator of the check request and should be reviewed by the assigned approver for accuracy. Since all retail and merchant cards were paid in full and cancelled, we do not feel a recommendation related to this issue is necessary.

LACK OF EVIDENCE OF CARDHOLDER RECONCILIATION

We found the 614 retail card purchases were included on 136 monthly statements. We examined each monthly statement and associated supporting documentation for evidence of cardholder reconciliation as required by the retail credit card policy at Knox County Schools at the time of the purchases. The policy did not allow for a delegate to perform the reconciliation. Cardholder reconciliation provides assurance charges on the card are actual charges made by the cardholder, the amount on receipts matches charges on the statement, and charges are appropriately designated to the correct organizational and object codes. Without cardholder reconciliation, charges could lack proper supporting documentation or not be correctly charged.

We found the following for the 136 monthly statements tested for evidence of cardholder reconciliation:

- 56 (41%) statements contained evidence of cardholder reconciliation on the check request form. The cardholder was the person who prepared the check request for payment, indicated the amount to be paid, and provided supporting documentation.
- 43 (32%) statements did not contain evidence of cardholder reconciliation on the check request form. Of these 43 statements, 30 check requests were prepared by someone other than the cardholder and contained no evidence the cardholder reviewed the statement. As stated above,

the retail credit card policy did not allow for a delegate to perform the reconciliation. The remaining 13 statements lacking evidence of cardholder reconciliation related to SunTrust statements. The SunTrust statements were provided as a monthly control statement with all cardholder charges appearing on one statement. These statements did not contain evidence of individual cardholder reconciliation nor was the check request prepared by a cardholder.

- 37 (27%) statements were related to Mr. Underwood's First Tennessee card and did not contain evidence of cardholder reconciliation and there was no associated check request since the statements were not processed through Knox County Schools.

Since the retail credit cards have been paid in full and cancelled, we do not feel a recommendation related to this issue is necessary. In addition, Knox County Schools have joined the Knox County-wide travel card program which has policies / procedures and is centrally monitored by Knox County Purchasing.

LACK OF EVIDENCE OF INDEPENDENT REVIEW AND APPROVAL

We tested 409 monthly statements (136 retail, 51 merchant, 222 fuel) associated with the 1,154 retail, merchant, and fuel card purchases for evidence of independent review and approval by Knox County Schools personnel. We examined each monthly statement and associated supporting documentation for evidence of independent review and approval of the monthly statement and payment request. An independent review and approval of monthly statements and payment requests provides an objective review of the statement, charges, and supporting documentation. Lack of independent review and approval of monthly statements and payment requests could lead to incorrect payment amounts, incorrect accounts charged, or payment of erroneous or fraudulent charges.

For the 409 monthly transactions tested, we found:

- 351 (86%) monthly statements (85 retail, 48 merchant, 218 fuel) contained evidence of independent review and approval.
- 21 (5%) monthly statements (14 retail, 3 merchant, 4 fuel) did not contain evidence of independent review and approval. The 14 monthly statements related to retail credit cards were signed by cardholder as the reviewer / approver rather than someone independent of the process. The three merchant monthly statements without evidence of review and approval did not contain complete documentation in the financial software. Specifically, the documentation for these three monthly statements did not contain a copy of the check request where the evidence of review and approval is usually indicated and the provided supporting documentation did not contain evidence of review and approval. The four fuel monthly statements without evidence of review and approval did not have a signature on the purchase order request for nutrition program fuel purchases.
- 37 (9%) monthly statements related to Mr. Underwood's First Tennessee retail card were not processed through the Knox County Schools payment process and therefore were not independently reviewed and approved.

Due to retail and merchant card accounts being cancelled and the low number of monthly fuel statements without evidence of independent review and approval, we do not feel a recommendation is necessary.

LACK OF SUFFICIENT SUPPORTING DOCUMENTATION

We tested 614 retail card purchases, 249 merchant card purchases, and 291 fuel card purchases to determine if the payment for the tested purchases contained sufficient documentation to support the purchase. We obtained the documentation supporting the check request or purchase order for payment of the sampled items and reviewed the documentation to determine if it supported the charge showing on the associated monthly credit statement. Sufficient supporting documentation was considered documentation provided by the vendor showing date of purchase, specific items purchased, taxes and fees applied to the transaction, and total purchase amount. Insufficient documentation supporting purchases does not provide detailed information about the purchase and could lead to personal purchases being made on Knox County Schools' credit cards or assigning the purchase to the incorrect organizational or object code.

Of the 1,154 purchases tested, we found:

- 487 (42%) purchases (287 retail, 142 merchant, 58 fuel) had sufficient documentation supporting the purchase included with the payment request or purchase order.
- 400 (35%) purchases (60 retail, 107 merchant, 233 fuel) did not have sufficient documentation supporting the purchase. These purchases were missing documentation or documentation was incomplete.
- 151 (13%) retail purchases were processed outside the normal method due to the need to pay off and close out SunTrust cards. The SunTrust account was behind several months and all months were paid at once after the discovery of Mr. Underwood's misuse of the card. Knox County Finance and Knox County Schools worked together to pay off the account and supporting documentation was not provided at the time of payment. According to the documentation in the financial software, the documentation would be collected to support the payment at a later time.
- 116 (10%) purchases made on Mr. Underwood's First Tennessee card were not processed through Knox County financial software; therefore, no supporting documentation was provided for these purchases.

Since retail and merchant cards were cancelled, we do not feel recommendations related to this issue is necessary. Knox County Schools recently revised fuel card procedures to include monitoring of fuel card statements and receipts by the Business Manager, who is an independent, central administration employee. As a result, we do not feel a recommendation related to fuel card documentation is necessary at this time.

PAYMENTS NOT PROCESSED IN A TIMELY MANNER

We tested 409 retail, merchant, and fuel card monthly statements to determine if the statements were paid in a timely manner prior to the statement due date to avoid late fees and finance charges. We examined monthly statements to identify the statement due date and compared the due date to the check issue date to determine if the payment was processed in a timely manner to avoid late fees and finance charges. Late fees and finance charges are excess fees that do not wisely spend funds allotted in the Knox County Schools budget.

Of the 409 monthly statements tested, we found:

- 234 (57%) monthly statements (53 retail, 40 merchant, 141 fuel) were paid in a timely manner to avoid late fees and finance charges.
- 130 (32%) monthly statements (46 retail, 10 merchant, 74 fuel) were not paid in a timely manner and generally resulted in finance charges and late fees on subsequent month statements. We found \$6,008 in total finance charges and late fees on retail, merchant, and fuel credit statements paid by Knox County Schools.
- 8 (2%) monthly statements (1 merchant, 7 fuel) could not be determined if they were processed in a timely manner due to lack of sufficient documentation to support the statement date or check issued date.
- 37 (9%) monthly statements related to Mr. Underwood's First Tennessee Card that was not processed through Knox County payment procedures; therefore, these statements could not be tested for timely payment as no check issue date could be obtained. As stated in the Misuse of Retail Credit Cards section above, we identified \$3,273 in finance charges, late fees, and overlimit fees related to these 37 monthly statements.

Late fees and finance charges could be avoided if payments are processed in a timely manner. Since retail and merchant cards were cancelled, we do not feel a recommendation related to late payments on these accounts is needed. Fuel card payments were issued past the statement due date for 74 of 222 (33%) monthly statements with resulting late fees and finance charges totaling \$28. While the resulting late fees are low, approximately one third of fuel monthly statements tested were not processed in a timely manner. Knox County Schools have revised the fuel statement payment process to include additional controls to ensure statements are submitted for payment in a timely manner and late payments are investigated. As a result, no additional recommendation is considered necessary.

SALES TAX CHARGED ON SCHOOL PURCHASES

According to Knox County Schools, sales tax should not be charged on credit card purchases. We tested 856 retail and merchant card purchases to determine if sales tax was charged on the purchases. We relied on supporting documentation, specifically receipts, to make our determination. We did not review fuel card transactions for sales tax since fuel purchases do not apply sales tax. We found:

- 489 (57%) purchases (350 retail, 139 merchant) did not have sales tax charged.
- 102 (12%) purchases (96 retail, 6 merchant) had sales tax charged totaling \$1,342.
- 265 (31%) purchases (161 retail, 104 merchant) could not determine if sales tax was charged due to lack of sufficient or complete supporting documentation.

Since retail and merchant card accounts have been cancelled, we do not feel a recommendation is needed.

QUESTIONED COSTS ON CREDIT STATEMENTS

During our testing of retail and merchant purchases, we found some transactions that did not follow stated policies or did not appear for the benefit of Knox County Schools. We examined 863 retail and merchant transactions and found \$13,421 in questioned costs that did not adhere to established policies. Specifically, we found \$13,183 related to retail purchases. These costs generally related to charging hotel room rates

that were higher than the allowable \$85 without evidence of pre-approval as required by the travel policy. We found \$237 in questioned costs charged to merchant cards. These costs related to clothing (dress slacks and dress shirts) purchased on the merchant card. This purchase appears personal in nature as Knox County Schools does not provide a dress clothing allowance for central administration employees.

Both the retail and merchant credit accounts have been closed. Knox County Schools have moved to the Knox County administered travel card program and have adopted the Knox County travel policy to cover travel related purchases. The Knox County travel card program has centralized policies and includes a monitoring program administered by Knox County Purchasing. As a result, we do not feel a recommendation is needed.

QUESTIONED COSTS ON TRAVEL REIMBURSEMENT ASSOCIATED WITH RETAIL CREDIT PURCHASES

Where applicable on retail card purchases related to travel, we obtained associated travel reimbursement requests for the same trip as the travel costs charged to the retail card. We reviewed the travel reimbursements to determine if any costs did not adhere to established travel policies. We could not locate travel reimbursement requests for many travel related charges even though it did not appear that an entire trip (transportation, meals, and hotel) was charged to the card. For the travel vouchers we could locate we found \$3,477 in costs reimbursed to School personnel that did not adhere to the established policy. Specifically, hotel room rates were reimbursed for higher than the allowable room rate without evidence of pre-approval for the higher rate. Knox County Schools have revised their travel policy and begun training employees on requirements including the pre-approval for higher room rate requirement.

We also noted organizational or object codes assigned to travel purchases on retail cards did not always match the codes charged for the reimbursed costs of the trip on travel vouchers. All costs related to a single trip should be charged to the same organizational and object codes whether charged on a credit card or reimbursed to an employee.

As described above in the Inappropriate Travel Reimbursements section, we found instances where travel reimbursement was requested and paid for charges made on Knox County Schools retail cards. Knox County Schools now requires that credit card payments for travel made through the Knox County travel card program and personal travel reimbursements be reconciled to a travel pre-authorization form to check that the correct account codes are used and only proper items are reimbursed to employees. As a result of this policy change, we do not feel a recommendation is necessary.

PERSONAL REIMBURSEMENT MADE TO KNOX COUNTY SCHOOLS

We examined information in the financial software system to determine if reimbursement to Knox County Schools was made by Schools personnel for charges made on retail, merchant, or fuel credit cards. If a personal reimbursement had been made it would likely mean the charge made on the card was for personal purposes rather than for the benefit of Knox County Schools. After examining the financial software we determined the cash receipt information did not contain enough information to complete this step. Cash receipt amounts often included multiple receipts in the deposit and individual amounts, purpose of the item, and payer were not included in the details. Therefore, we could not determine if personal reimbursement was made to Knox County Schools for personal charges on credit cards.

RECOMMENDATIONS

We listed associated recommendations under each finding in the body of this report. We summarized the recommendations below.

We recommend Knox County Schools:

1. Recover the monies owed by Mr. Underwood for misuse of the Knox County Schools' credit card.
2. Recover the monies owed by Mr. Underwood for inappropriate travel reimbursements paid.

Management Response: Knox County Schools has agreed with the recommendations above and will work with the Knox County District Attorney to recover the funds.

Auditor Response: We concur with management's response.

Knox County Schools
Credit Card Audit Response and Status Update
November 4, 2015

1. *"Recover the monies owed by Mr. Underwood for misuse of the Knox County Schools' credit card."*

KCS agrees with this recommendation and will work with the Knox County District Attorney to recover the monies owed by Mr. Underwood.

2. *"Recover the monies owed by Mr. Underwood for inappropriate travel reimbursements paid."*

KCS agrees with this recommendation and will work with the Knox County District Attorney to recover the monies owed by Mr. Underwood.