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June 14, 2019

Ms. Sally J. Scott, Partner
Franczek P.C.
300 S. Wacker Drive, Suite 3400
Chicago, IL 60606

Re: Forensic Investigation – Champaign Unit School District 4

Dear Ms. Scott,

Sikich was engaged to review Champaign Unit 4 School District (“District”) P-Card policies and procedures, analyze P-Card transactions and supporting documentation, and interview relevant staff to determine if current P-Card practices align with best practices and effective internal controls. During the engagement, Sikich requested and received various records from the District, including a list of all P-Card holders and reports of all P-Card transactions since July 1, 2016. Sikich was also provided with two draft P-Card policies, one dated December 18, 2013 and another dated August 22, 2018.

The following report details Sikich’s investigation into this matter. The report provides recommendations designed to reduce the District’s risk of waste, fraud, and financial mismanagement and to align processes with best practices.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. Sullivan', written in a cursive style.

James M. Sullivan, JD, CFE, CIG
Managing Director, Forensic and Valuation Services



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INVESTIGATIVE REPORT

Sikich was engaged to review Champaign Unit 4 School District (“District”) P-Card policies and procedures, analyze P-Card transactions and supporting documentation, and interview relevant staff to determine if current P-Card practices align with best practices and effective internal controls. Sikich requested and received various records from the District, including a list of all P-Card holders and reports of all P-Card transactions since July 1, 2016. Sikich was also provided with two draft P-Card policies, one dated December 18, 2013 and another dated August 22, 2018. The latter policy was accompanied by other documents dated October 24, 2018 including the following:

- P-Card Use Agreement
- P-Card Statement of Authority
- P-Card Dispute Form
- P-Card Summary Form
- Two Purchasing Card Cardholder Agreement forms
- P-Card Account Maintenance Form
- Missing Documentation Form
- Hotel Authorization form
- An 18-page Purchasing Card Program Cardholder Procedure Manual

After receiving the above reports and forms, Sikich began analyzing P-Card transactions for the period from July 2016 to March 2019.

District P-Card Use

On December 9, 2013, the Board of Education approved issuing individual P-Cards through a contract with Commerce Bank. A pilot program was initiated, followed by District-wide P-Card use. Currently, the District has at least 70 P-Card users.

Sikich reduced the number of Merchant Category Codes provided with the data to simplify analysis. Adjustments were made for consistency within a merchant/vendor or based on best judgment. The table below is illustrative of District P-Card transactions from July 2016 to March 2019.

Exhibit 1

Category	# of Transactions	Average Transaction	Total Amount
Food and Restaurants	3,021	\$ 97.07	\$ 293,258.11
Office / School Supplies	1,162	129.94	150,990.95
Grocery Stores	1,638	81.05	132,761.45
Hotels	423	240.83	101,872.95
Clothing	272	311.29	84,671.48
Education	370	219.30	81,141.95
Associations and Organizations	382	191.09	72,994.60
Shopping	832	84.92	70,655.81
Services	302	224.79	67,886.73
Equipment and Furniture	247	273.14	67,466.44
Computers, Software, IT	258	238.55	61,545.18
Recreation	347	164.57	57,104.62
Home Improvement Supplies	289	100.13	28,937.40
Airfare	162	171.63	27,803.28
Colleges, Universities	95	205.22	19,496.31
Charities	31	519.46	16,103.20
Postage and Shipping	123	56.87	6,995.27
Transportation	109	63.84	6,958.10
Government Services	90	54.91	4,941.77
Auto, Fuel, Parking	107	43.45	4,649.56
Cable, TV, Internet	35	105.10	3,678.56
Miscellaneous	31	72.51	2,247.79
TOTAL	10,326	\$ 132.11	\$ 1,364,161.51

Data reveals the following vendors that were paid more than \$10,000 during the period July 2016 to March 2019:

Exhibit 2

Vendor	# of Transactions	Total Amount
Walmart	617	\$ 46,579.12
Panera Bread	371	36,776.01
Amazon.com	350	35,784.76
Office Depot	285	32,884.60
Sam's Club	249	32,288.25
BSN Sport Supply	82	25,866.48
Jimmy John's	303	24,222.21
KEC Design	120	23,202.89
Schnucks	262	18,633.43
American Airlines	102	18,136.75
Hilton	61	16,865.43
Walgreens	169	16,760.85
Papa Del's	55	15,002.65
County Market	225	14,110.17
Einstein Bros. Bagels	89	13,893.97
STAPLES	105	13,582.08
Best Buy	54	13,536.49
Webstaurant Store	49	13,327.37
Gordon Food Service Store	116	13,207.11
Papa John's	167	12,764.66
University of Illinois, Urbana-Champaign	58	11,380.52
Meijer	229	11,360.03
Menard's	83	10,709.39
Café Britt	6	10,264.13
TOTAL	4,207	\$ 481,139.35

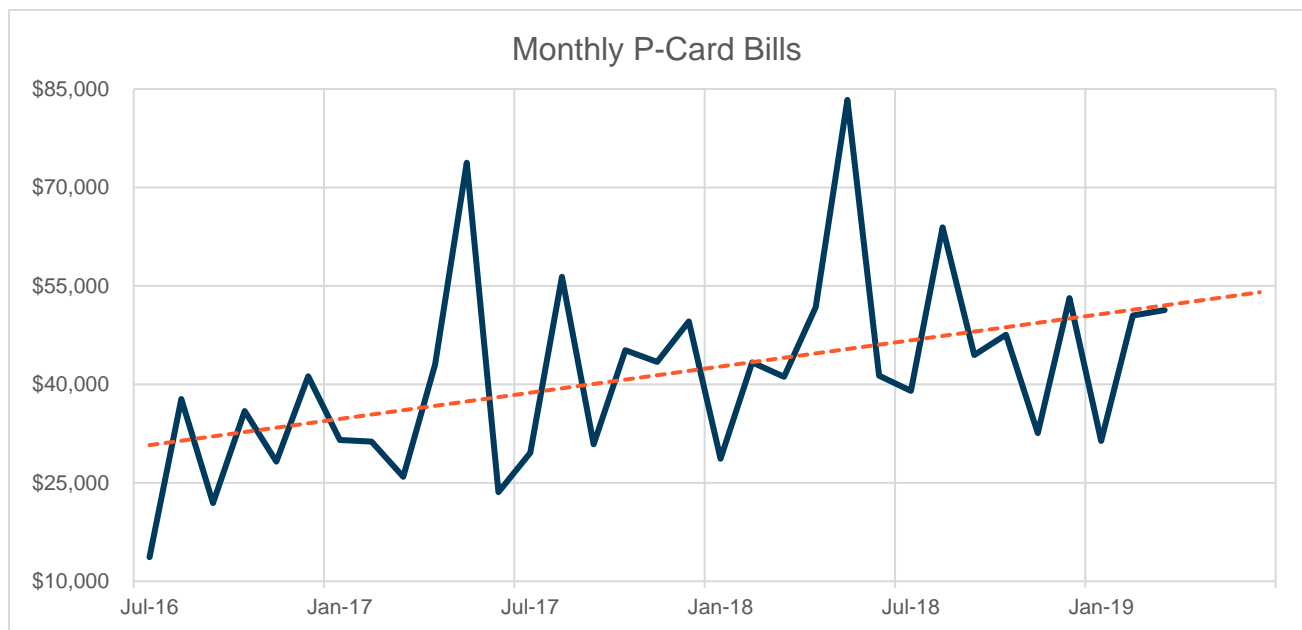
Data also revealed that District P-Cards were used primarily for small transactions, with nearly 45% of the transactions in amounts less than \$50, and 65% of the transactions in amounts less than \$100, as depicted in the table below for the period July 2016 to March 2019.

Exhibit 3

Range	# of Transactions	Total Amount
\$0 - \$50	4,619	\$ 98,162.77
\$50 - \$100	2,096	144,054.28
\$100 - \$500	3,089	610,371.90
\$500 - \$1000	362	231,917.38
\$1000 +	160	279,655.18
TOTAL	10,326	\$ 1,364,161.51

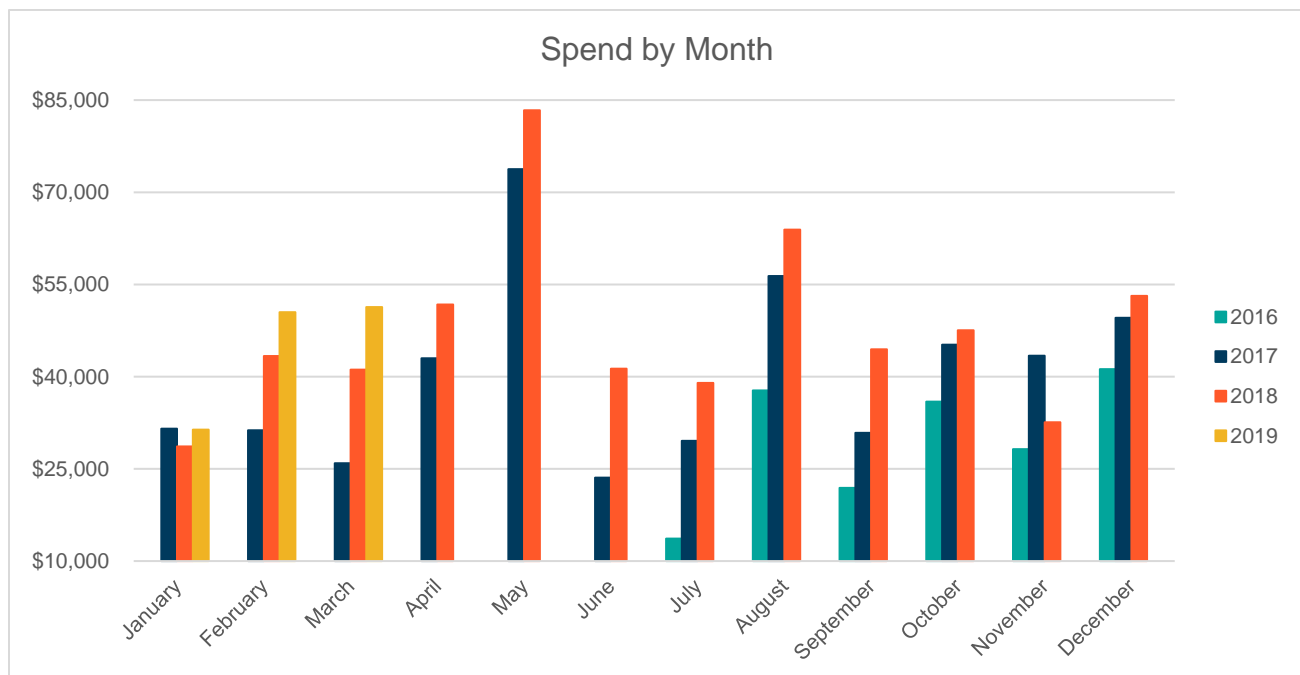
The District's monthly credit card expenditures have trended higher over the last three years, with clear spikes in monthly P-Card expenditures occurring in May, at the end of the school year, and in August, at the beginning of the school year, as illustrated below.

Exhibit 4



As the below table further reflects, December is the third highest month for P-Card transactions.

Exhibit 5



P-Card Policy

Draft Policies

Sikich learned the District has not approved a P-Card Policy to date. Sikich was provided with two draft versions of policies.

Draft Policy 415.05, dated December 18, 2013, reflects the following:

1. The Superintendent and employees designated by the Superintendent are authorized to use District credit and procurement cards to simplify the acquisition, receipt, and payment of purchases and travel expenses incurred on the District's behalf. Credit and procurement cards shall only be used for those expenses that are for the District's benefit and serve a valid and proper public purpose; they shall not be used for personal purchases.

The 2013 Draft Policy listed the following guidelines for P-Card use:

1. Credit and/or procurement cards may only be used to pay certain job-related expenses or to make purchases on behalf of the Board or District or any student activity fund, or for purposes that would otherwise be addressed through a conventional revolving fund.
2. The Superintendent or designee shall instruct the issuing institution to block the cards' use at unapproved merchants.
3. The Superintendent or designee may limit the amount each cardholder may charge in a single purchase or within a given month and inform the issuing institution of these limitations.

4. Cardholders must submit all original receipts with the monthly statement for each purchase made using the credit or procurement card. If the purchase is via phone, fax, internet, or mail, the cardholder shall request the vendor to include a receipt with the items when the product is ordered or shipped. If a receipt is not provided with the order, the cardholder must obtain a packing slip to document the purchase. In all cases, the cardholder shall verify security of account numbers. The cardholder should keep a log of transactions of all orders, receipts and statements in order to reconcile monthly statements. A periodic audit will be conducted of card activity, receipt retention, reconciled detail and monthly statements.
5. The consequences for unauthorized purchases include, but are not limited to, reimbursing the District for the purchase amount, loss of cardholding privileges, and discipline up to and including discharge.
6. All cardholders must sign a statement affirming that they are familiar with this policy.
7. The Superintendent or designee shall implement a process whereby all purchases using a District credit or procurement card are reviewed and approved by someone other than the cardholder or someone under the cardholder's supervision.
8. No individual may use a District credit or procurement card to make purchases in a manner contrary to State law, including, but not limited to, the bidding and other purchasing requirements in 105 ILCS 5/10-20.21, or any Board policy.
9. The Superintendent or designee shall account for any financial or material reward or rebate offered by the company or institution issuing the District credit or procurement card and shall ensure that it is used for the District's benefit.
10. The credit or procurement card is the property of the District and should be secured as one would secure their own personal card. The card should be kept in a secure location in a District building when not in use.
11. It is the cardholder's responsibility to notify the vendor that the District is tax exempt. The State tax-exempt number and form are available from the District's Business Office. Cardholders need to present this form for all purchases. The cardholder will be responsible to reimburse the District for any sales tax paid with the District credit or procurement card.

Sikich was also provided with a draft Administrative Procedure 415.05 AP, for the Use of Procurement Cards, that was to be implemented upon approval of the above noted P-Card policy, 415.05. This document reflects that the Business Office shall oversee several controls related to P-Card use and processes. Specifically, the document details procedures to "monitor that credit and/or procurement cards are being used for appropriate purposes" including:

- Prohibiting the use of District credit and procurement cards for personal expenses;
- Blocking certain types of vendors or purchases using Merchant Category Codes;
- Performing scheduled and random analyses of individual cardholders. This includes examining the continued need for the card and the nature of purchases being made.

- Perform scheduled and random analyses to determine whether Board policy is being followed;
- Having a reconciliation process and timetable that includes examining the documentation supporting purchases to ensure charges are authorized and reasonable;
- Delegating approval, verification and payment of bills to different individuals; and,
- Requiring someone other than the cardholder or an individual supervised by the cardholder to review and approve transactions.

The draft Administrative Procedure further detailed authorized use of the P-Card for each employee position. The procedure noted the following authorized uses:

- Superintendent: Actual and necessary expenses incurred in the performance of the Superintendent's duties and expenses related to professional development.
- Director of Transportation: expenses for maintaining and fueling District vehicles.
- Assistant Superintendents: Actual and necessary expenses incurred in the performance of the job duties and expenses related to professional development.
- Building Principals: Purchases of materials and supplies for his or her building that must be made quickly and/or are too small to process through the regular procedure. Expenses from student activity funds for educational, recreational, or cultural purposes. Expenses related to professional development.

Another draft P-Card policy, dated in 2018, contains much the same language as in the 2013 draft, with two substantive alterations to paragraphs 3 and 4, specifically:

3. Each cardholder, other than the Superintendent, may charge no more than \$500 in a single purchase and no more than \$1,000 within a given month without prior authorization from the Superintendent.
4. The Superintendent or designee must approve the use of a District credit or procurement card whenever such use is by telephone, fax, and the Internet. Permission shall be withheld when the use violates any Board policy, is from a vendor whose reputation has not been verified or would be more expensive than if another available payment method were used.

Draft Policy Implementation Attempts

Sikich was provided with several documents obtained when the District attempted to determine why the initial P-Card policy and Administrative Procedure were never approved and implemented. These documents reflect that the initial P-Card policy appeared on the Policy Committee agenda for its December 18, 2013 meeting, but meeting minutes reflect there was no significant discussion on the item.

The P-Card policy was included in documents sent to Policy Committee members for a February 13, 2014 meeting. No minutes from this meeting have been located.

The P-Card policy was not on the agenda for the Policy Committee meetings held on May 6, 2014; October 8, 2014; and December 2, 2014; and meeting minutes do not reflect any discussion of P-Cards.

The District could not locate any documents or emails reflecting any further discussion of the P-Card policy until August 27, 2018.

It is unclear why the District failed to adopt a P-Card policy and accompanying Administrative Procedures to implement the policy. When the P-Card program was initiated, the chief financial officer chaired the Policy Committee and helped draft a policy. He chaired the committee that first considered the policy, but then the policy fell off their radar. However, when learning of potential P-Card abuses as early as November 2017, it would seem logical that, as the District's business manager and the main proponent of fiscal responsibility and accountability, the chief financial officer would have sought out a policy to support his positions.

Purchasing Card Cardholder Agreement

It is unclear when the District began requiring that P-Card users sign a Purchasing Card Cardholder Agreement. A Purchasing Card Cardholder Agreement form provided to Sikich reflects that the cardholder agrees to comply with terms and conditions of using the card, including the prohibition of paying sales tax, and that the card is to be used for District purposes only. Misuse of the card includes, but is not limited to, using the card for personal or unauthorized purposes and not adhering to the District's Purchasing Card Policies and Procedures.

The agreement also requires that card users acknowledge receipt of the Purchasing Card Policies and Procedures and having attended a training session on the proper use of the purchasing card.

It appears most, if not all, current employees with a District-issued P-Card have a signed cardholder agreement on file with the District's Business Office. The only training offered to new P-Card users deals with accessing the bank website, describing the purchase, entering a budget code and turning in all receipts with the Expense Log.

P-Card Purchases of Gift Cards

Sikich was able to identify approximately \$12,000 worth of transactions between July 2017 and December 2018 where the description, which is dictated by the cardholder, included the words "gift card." Purchases ranged from gift cards for student attendance to holiday gift cards to gift cards for staff awards.

Sikich also confirmed that the Deputy Superintendent's P-Card was used for 11 purchases from Sam's Club and Walgreens on May 7, 2018 totaling \$2,957.88 for transactions that were identified as "staff appreciation."

Sikich also confirmed that gift cards and other prizes were given to employees throughout the holiday season in 2018 and prior to the end of the 2017-18 school year.

In emails to staff in February 2019, the superintendent requested that all staff suspend the purchase of gift cards using District-issued P-Cards.

The District's Culture of Hospitality

Throughout its interviews with District personnel, Sikich was informed that the District has long had a culture of hospitality, including providing food or snacks at meetings, working lunches at local restaurants, catered meals for interview teams, food at committee meetings, dinner meetings and the seemingly regular practice of always having food and snacks in the office.

Review of P-Card Transactions and Expense Reports

District Purpose / Public Purpose

As stated above, the District has not codified P-Card policies and procedures. By signing the District's Purchasing Card Cardholder Agreement, card users agree to comply with terms and conditions including the prohibition of paying sales tax with the card and using the card for District purposes only.

The District's Expense Log form contains the following statement requiring affirmation by the P-Card user:

Signatures to this document represent that all transaction are business related and are authorized in accordance with applicable policy and procedures, and that account assignment applied to each transaction is valid for the goods and services which have been purchased and received.

At the onset of this engagement, Sikich selected a number of P-Card transactions for review. Normally, a review of this nature would analyze charges and supporting documents for compliance with the District's policies and procedures and attempt to identify any anomalous transactions. The most significant requirement placed on District P-Card users, as reflected in the Purchasing Card Cardholder Agreement and the Expense Log, is that P-Card must be used for "District purposes" and be "business related." Yet, the District has not further defined "District purpose" or "business related."

The Illinois Constitution, Article VIII, Section 1, states that:

- (a) Public funds, property or credit shall only be used for public purposes.
- (b) The State, units of local governments, and school districts shall incur obligations for payment or make payments from public funds only as authorized by law or ordinance.

There is no further definition of "public purpose" in Illinois law and the District has not attempted to define "District purpose" or "business related" for example, by detailing prohibited purchases. As such, in the absence of written procedures, or clear guidance to P-Card users, and the seeming condonation of food and gift card purchases as acceptable, testing for compliance with what has become a subjective standard is difficult. (The legal definition of public purpose is being further researched)

Review of Expense Logs

Sikich's review of a sample of Expense Logs revealed the following:

- In many instances, the only signature on the expense log was the P-Card user, meaning there was no supervisor review for the P-Card charges;

- A Paypal receipt for a conference registration did not indicate the conference attendees, although contemporaneously purchased airline tickets reflected the names of staff traveling to the event;
- Receipts for meals did not indicate those present;
- Descriptions of purchases reflect “Mistake” or “My expense/mistake” indicating the card user may have inadvertently used the wrong credit card when making a purchase;
- A P-Card was used to replenish an I-Pass account for use of a vehicle when traveling to a sports tournament, yet the description does not describe the vehicle used;
- Coaches gear was purchased from BSN Sports and the Expense Log did not reflect an approval of the purchase, other than the card user.

As stated above, there is no way to sample P-Card charges for compliance with District policy since the District does not have a policy. The points noted above point out instances of non-compliance with best practices.

Findings and Recommendations

An Effective Internal Control Framework

Before detailing findings and recommendations to enhance and implement internal controls, it is essential to understand internal controls and an effective control framework.

“Internal control is a process, affected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.”¹

To meet an entity’s objectives, an effective internal control framework contains five inter-related components of internal control:

- The Control Environment provides the foundation for the internal control system throughout the entity (the District). Established by the Board and senior management, the control environment sets the moral and ethical tone for the District, which reinforces the importance of internal controls and expected standards of conduct.
- Risk Assessment involves the identification and assessment of the risks the District faces in achieving its organizational objectives.
- Control Activities are the policies and procedures that enforce management’s directives intended to mitigate risk. These actions are performed at all levels of the organization, at all stages of business processes, and through both manual and automated procedures.
- The Information and Communication component relates to the exchange of information in a way that allows employees to carry out their internal control responsibilities and achieve the District’s objectives.

¹ COSO – Committee of the Sponsoring Organizations of the Treadway Commission, Internal Control Framework

- Monitoring is the process that assesses the effectiveness of a control system over time. This component should include both ongoing, automated evaluations and periodic, separate evaluations to ascertain whether the components of internal control are present and functioning.²

Findings - Lack of Policy

It is patently evident the District's failure to implement policies and procedures controlling P-Card use has been a critical failure resulting in a variety of District-wide interpretations of appropriate expenditures and ostensibly the misappropriation of District resources. P-Card users are left with only the guidance provided by District leadership, which for the most part condones an ever-present culture of hospitality and gift giving, clearly setting the tone-at-the-top, by example and avoidance.

Despite the lack of clear guidelines, the business office now challenges expenditures without support, other than a subjective interpretation of "District purpose" and "personal purchases" that conflicts with District culture and past practices yet fails to directly question P-Card users when seeing questionable charges. The Business Office has identified the risk of P-Card abuse but cannot rely on control activities – policies and procedures – to enforce compliance. Even without a P-Card policy, or an Administrative Procedure, if the Business Office questions a charge, why don't they have a conversation with the card user, or request a meeting with the card user and the Superintendent to resolve any disputes? Failing to do so, and continually processing expense logs, further condones the current use of P-Cards. Having failed to confront potential P-Card abuses early on has led to the current situation.

Obviously, the primary responsibility for P-Card misuse rests with the P-Card user who stretches common sense for a personal advantage. But implementing control activities rests with senior management and related to P-Cards, controls must come from the Business Office.

The conundrum related to a lack of policy is further confounded by the fact that a policy and Administrative Procedure, with significant controls, was proposed in 2013, contemplated in 2014, and then fell off the radar. All while the current CFO led a committee charged with recommending policies. Even more baffling is the exercise of challenging questionable P-Card charges without even knowing that rules governing P-Card use do not exist. It would seem the first reference when challenging conduct would be a policy manual. In addition, new P-Card users are not trained in anything other than processing their expense logs and providing receipts.

Findings – Addressing P-Card Abuse

Throughout his interviews with Sikich, and in his memos and letters addressing fiscal responsibility, the chief financial officer contends he communicated issues to the superintendent on numerous dates. The chief financial officer indicated he communicated with the superintendent about fiscal responsibility, expenditure concerns and the allocation of District resources.

If the chief financial officer advised the superintendent in a clear, understandable fashion of P-Card abuse at anytime prior to August 7, 2018, it seems logical that the superintendent would have reacted then the same way she did on August 7th, by escalating the issue to District counsel and dealing with P-Card abuse promptly. As such, it is understandable that the superintendent did not clearly comprehend the P-Card issue at anytime

² Association of Certified Fraud Examiners 2015 Fraud Examiners Manual referencing COSO.

prior to August 7, 2018, which explains why the issue lingered and was not addressed by District administration.

Recommendations

Based on the evidence presented during this investigation, Sikich recommends the following:

1. The District should adopt a comprehensive P-Card Policy. Using the draft P-Card Policy and Administrative Procedures the District previously considered implementing would be a good starting point since the Administrative Procedure previously drafted (415.05R) includes a requirement that someone other than the cardholder or an individual supervised by the cardholder review and approve transactions.
2. The District should establish expenditure thresholds requiring additional approval of a P-Card charge. For instance, a charge exceeding \$500 should be approved by the CFO/CSBO, and a charge of more than \$1,000 should be approved by the Superintendent. (These levels should be adjusted by the District after assessing its risk tolerance.) These approvals, whether a single supervisor approval, or CFO/CSBO and Superintendent approval, should be done as close to the time of the charge as possible. Bank software should allow the card user to enter a description of the charge immediately after it has been made and identify a budget code. The system would then forward the information to the designated approver. The approver will be notified of items in his or her queue.
3. Given the current issues under investigation and the District's long-standing culture of hospitality, the District should clearly define "District purpose" specifically as it relates to allowable purchases of food if the District decides to continue allowing at least some food purchases. To reign in excessive food purchases, the District should consider:
 - a. Listing specific events where food purchases would be acceptable like
 - b. Beginning of the year teacher welcome and institute days,
 - c. End of year staff appreciation events,
 - d. Designated holiday gatherings,
 - e. Other pre-designated events.
4. Define circumstances that would cause the need to provide staff with food like
 - a. Severe weather events or other emergency circumstances that may require staff to go "above and beyond" their regular duties,
 - b. Parent-Teacher Conferences and other day-long events requiring staff presence without the likelihood of food breaks,
 - c. Other clearly defined events or circumstance that may arise.
 - d. Requiring pre-approval of designated staff – Superintendent, CFO/CSBO, or Assistant Superintendent – prior to the purchase of any food.
5. The District should prohibit the purchase of in-town food purchases other than those identified above, or those specific purchases identified by the Board and enumerated in policy.

6. The District should consider prohibiting the purchase of gift cards for staff as the practice could invoke income tax requirements. If the District wishes to award gifts or prizes to staff paid for with public funds, it should consult with a tax adviser to ensure tax code compliance.
7. Likewise, the District should consider when public funds can be spent for flowers, or other sentiments, for school families or employees going through a crisis or who have suffered a loss. These purchases should be pre-approved by the Superintendent.
8. The District's reimbursement policy, which was not part of the scope of this engagement, should mirror its P-Card policy relative to allowable food purchases and purchases of flowers or other sentiments.
9. It is also recommended that the District consider keeping single purchase and monthly P-Card limits low and adjusting limits for P-Card users when the need arises for larger purchases. Increasing P-Card limits should require the approval of the CFO/CSBO.
10. The District should ensure that all staff are trained in the acceptable use of P-Cards and continue to sign acknowledgments of P-Card policies and procedures when given P-Cards.
11. It is recommended the District create a policy addressing student incentives to ensure fair and equitable distribution of District resources.
12. In its oversight role, the Board should consider what financial reports it wants to review monthly, including a report of P-Card expenditures and reimbursement, and consider posting a monthly report of all P-Card charges on its webpage.