

**IN RE DALLAS INDEPENDENT SCHOOL DISTRICT
PROCUREMENT CARD INVESTIGATION: FINAL REPORT**

Presented by:

**Paul E. Coggins
Madeleine Johnson
Kip Mendrygal**


 **Fish & Richardson P.C.
1717 Main Street, Suite 5000
Dallas, Texas 75201**

TABLE OF CONTENTS

Executive Summary 1

Scope of Work 3

Factual Background/History of Pcard Program..... 4

 A. Conception/Creation of the Pcard Program 4

 B. Administration of the Pcard Program—the Quality Control Office..... 4

 1. Sherri Brokaw 5

 2. Christine Perez Romo 6

 3. Sequetta Marks..... 7

 4. Nedra Ervin..... 7

 C. Applying for a Pcard..... 7

 D. Pcard Training..... 9

 E. The Pcard Manual(s)..... 11

 1. The July 27, 1999 Pcard Manual. 11

 2. 2003 Procurement Card Manual 12

 a Requirement to Maintain Original Transaction Receipts. 12

 b Requirement to Maintain Pcard Security..... 12

 c \$1,000 Purchase Limit for Non-Price Agreement Vendors..... 13

 d Gift Card Purchases. 14

 e Sales Tax..... 14

 f Requirement to Identify and Register Controllable Assets..... 14

 g Requirement to Reconcile Receipts and Verify Purchases..... 15

 h Categories of Non-Permissible Purchases. 15

 3. The June 2005 Pcard Manual..... 15

 a. Documentation Requirements.....16

 b Requirement to Maintain Original Transaction Receipts. 16

 c Requirement to Maintain Pcard Security..... 16

 d \$1,000 Purchase Limit for Non-Price Agreement Vendors..... 17

 e Gift Card Purchases. 17

 f Sales Tax..... 17

 g Requirement to Identify and Register Controllable Assets..... 17

 h Requirement to Reconcile Receipts and Verify Purchases..... 17

 i Categories of Non-Permissible Purchases. 18

Methodology 19

 A. Collection of Pcard Receipts..... 19

 B. Transfer of Pcard Receipts to Secure Facility..... 20

 C. Creation of Electronic Pcard Transaction Database 20

 1. Collection of Electronic Pcard Data. 21

 2. Validation of Electronic Pcard Transaction Data. 21

 3. Program Statistics Derived from Creation of Database..... 23

 D. Selection of Individuals for Further Investigation..... 24

1. The Top 100 Spenders.....	25
2. High Volume of Gift Card Purchases.....	26
3. High Volume of Department Store Purchases.....	27
4. Pcard Holders Who Were Subject to Parallel Investigation.....	27
5. Pcard Holders Who Were Identified by Other Employees.....	28
E. Preliminary Review of Navigant Transaction Report.....	28
F. Detailed Analysis of Pcard Receipts.....	29
G. Pcard Interviews/Site Inspections.....	30
H. Employee Referral Reports.....	31
The Good News—Successes Observed During the Investigation.....	33
A. High Degree of Cooperation from District Employees.....	33
B. Organized and Skillful Recordkeeping Demonstrated by Certain Employees.....	34
C. Proper Stewardship of District Property Purchased with Pcards.....	35
The Bad News—Systemic Issues Identified During the Investigation.....	37
A. Breakdowns in the Structure/Administration of the Pcard Program—Failure to Monitor/Supervise Pcard Transactions.....	37
1. Failure to Monitor/Reconcile One’s Own Pcard Purchases.....	37
2. Breakdowns in Pcard Monitoring by Direct Supervisors.....	39
a. Limited requirement for supervisors to review and sign monthly credit card statements.....	39
b. Manager notifications generated by Oracle system.....	41
3. Lack of Supervision of Pcard Purchases by the Quality Control Office.....	45
4. Warning Signs Regarding the Supervision of Pcard Transactions.....	47
B. Systemic Issues in the Pcard Transactions of Pcard Holders.....	48
1. Failure to Maintain Original Receipts for Pcard Transactions.....	49
2. Failure to Maintain Itemized Receipts for Pcard Transactions.....	51
3. Failure to Maintain Gift Card Documentation.....	53
4. Systemic Issues with the Payment of Sales Tax on Pcard Transactions.....	56
5. Systemic Violations of the \$1,000 Limit on Pcard Purchases.....	57
a. Single transactions in excess of \$1,000.....	58
b. “Structured” transactions in excess of \$1,000.....	59
6. Breach of Pcard Security.....	62
7. Pcard Expenditures Which May Violate Federal Funding Guidelines.....	64
a. Food expenditures which may not meet TEA guidelines.....	66
b. “Incentives.”.....	69
Suggested Internal Controls.....	72
A. Sales Tax Audit.....	72
B. Federal Funds Audit and Training on TEA Regulations for Federal Expenditures.....	73
C. Implementation of District-Wide Training on Bidding Regulations.....	74
D. Implementation of Guidelines to Control Food Expenditures.....	75
E. Implementation of Guidelines to Regulate “Incentive” Expenditures.....	77

F. Controllable Asset Audit.....	79
Conclusion	81
Appendix of Exhibits to Final Report.....	82

EXECUTIVE SUMMARY

In the summer of 2006, the Dallas Morning News published several pieces of investigative journalism highlighting expenditures made by Dallas ISD employees using District-issued credit cards (called “Procurement Cards” or “Pcards,” for short). Shortly thereafter, Fish & Richardson P.C. was engaged to independently analyze and investigate the structure, management, and supervision of the Pcard program, as well as the expenditures of the District employees who held these Pcards. In addition to the investigation, Fish & Richardson P.C. was engaged to respond to two federal subpoenas related to the Dallas ISD Pcard program and to interface with the FBI and United States Attorney’s Office in connection with their parallel investigation into the Pcard program.

The Dallas ISD Pcard program was noble in concept but haphazard in its execution. The Pcard program was implemented without adequate and regimented supervisory protocols, and, despite the warnings in two internal audits and one external audit about weaknesses in Pcard supervision, the few monitoring procedures that were in place were largely ignored. There were extensive failures in the supervision of Pcard purchases at all levels, including by the Pcard holders themselves, by their direct supervisors, and by the Quality Control Office. These breakdowns ranged from the simple failure to monitor and reconcile one’s own Pcard purchases, to the failure of supervisors to monitor the Pcard purchases of their subordinates, to the intentional disablement of electronic notifications that were supposed to be sent to the direct supervisors of Pcard holders.

Our investigation into the specific transactions executed by Pcard holders focused on an objectively-selected subset of the nearly 1,400 Pcard holders and over \$71,500,000 in Pcard expenditures between January 2003 and July 2006. Although we identified many Pcard holders

who were conscientious record keepers and vigilant stewards of District funds, we also documented systemic violations of both internal rules (violations of the District’s Pcard manual) and external regulations (expenditures which may not meet the Texas Education Agency’s guidelines regarding the use of federal funds). Such violations include: the failure to submit itemized receipts (or, in some cases, *any* receipts) documenting Pcard purchases; the failure to submit receipts documenting the redemption of gift cards purchased with Pcards; breach of Pcard security; circumvention of limitations on Pcard transaction amounts; the widespread payment of sales tax on tax-exempt purchases; and the purchase of items—particularly food and incentives—that may have violated federal spending regulations.

In addition, a handful of the individuals we interviewed used their Pcards (or gift cards purchased with Pcards) to make personal expenditures, including (as of the time of this report) two individuals who were charged with criminal activity by the federal authorities. Combined, these two Pcard holders converted as much as \$160,000 in District funds to personal use. As of the date of this report, these two Pcard holders are awaiting sentencing in federal court.

Based upon these widespread issues, the District should consider the immediate implementation of several global internal controls—ranging from District-wide re-training on several procurement topics, to a comprehensive audit of the District’s federal expenditures, to an attempt to obtain a refund of sales tax paid on Pcard transactions—that could be implemented to help ensure the appropriate and efficient use of District funds in the future.

SCOPE OF WORK

In July 2006, the Dallas Independent School District (hereafter “Dallas ISD” or “the District”) retained Fish & Richardson P.C. (hereafter “F&R”) to investigate allegations of misconduct in connection with the District’s Procurement Card (hereafter “Pcard”) program. F&R’s involvement in the Pcard investigation involved two separate but related components.

First, F&R conducted an internal investigation into the use of the District-issued Pcards, which involved tasks including, but not limited to: the gathering, transport, and organization of Pcard receipts; the creation and validation of an electronic database of Pcard transactions; the review and analysis of Pcard transactions; the selection of a subset of Pcard holders to further investigate; the organization and execution of interviews of Pcard holders (and other individuals) about Pcard-related matters; the organization and execution of unannounced site inspections to verify the existence of certain property purchased with the Pcard; the compilation and presentation of reports about the transactions of Pcard holders; and the preparation for and participation in the proceedings and review processes stemming from the District’s personnel actions resulting from this investigation.

F&R analyzed Pcard transactions between January 1, 2003 and the termination of the Pcard program in June 2006. This period was selected to match the time frame being investigated by the FBI in its parallel inquiry into Dallas ISD’s Pcard program. The internal investigation (including the tasks described above) consumed most of the time and resources that the District devoted to the project.

Concurrent with the internal investigation, F&R also: (1) gathered, organized, and produced the Pcard-related documents responsive to two subpoenas served upon Dallas ISD by the United States Attorney’s Office for the Northern District of Texas (as well as dozens of

informal document requests from the FBI that were made in lieu of additional subpoenas); (2) acted as an interface between Dallas ISD and the FBI and United States Attorney's Office regarding the parallel investigation being conducted by the federal agencies; and (3) provided public testimony required by the federal agencies as part of their investigation.

This facet of the engagement (particularly the time and copying costs associated with gathering and producing approximately 600,000 paper and electronic documents responsive to the two subpoenas and additional informal requests) consumed a substantial amount of the time and resources by F&R. Responding to formal and informal requests by the federal agencies, though expensive and time-consuming, would have been required even in the absence of the internal investigation.

FACTUAL BACKGROUND/HISTORY OF PCARD PROGRAM

A. Conception/Creation of the Pcard Program

The Pcard program began in 1999 as a tool to reduce the transaction costs associated with the processing of frequent, small purchases of District supplies.¹ The first iteration of the Pcard program was a small pilot program and involved the issuance of a District credit card to a small number of individuals in order to test the viability of a comprehensive, District-wide Pcard program. After approximately six months, the District deemed the pilot program a success, and took steps to implement a District-wide program.

B. Administration of the Pcard Program—the Quality Control Office

During the time frame covered by our investigation (January 1, 2003 through July 2006, which is the date the Pcard program was terminated), the responsibility of managing and

¹ The information contained in this section was compiled from our review of Dallas ISD's documentation regarding the Pcard program, as well as information received during our interviews of employees knowledgeable about the creation of the Pcard program, including Sherri Brokaw, Sequetta Marks, Chris Romo, and Nedra Ervin.

administering the Pcard program fell upon the District’s Quality Control Office. Between 1999 and the present, there were four² Quality Control employees who had some responsibility for managing and administering the Pcard program, as described below:

1. Sherry Brokaw

In February 1999, Ms. Sherry Brokaw was hired as a “Quality Control Employee,³” and became the first employee of the District’s Quality Control Office. Ms. Brokaw has a degree in accounting, and stated that she had worked in the accounting/consulting field for approximately eighteen years before joining Dallas ISD. Upon being hired, Ms. Brokaw reported directly to the District’s Chief Financial Officer, who, in 1999, was Janice Davis. Subsequent to Ms. Davis’s departure, Ms. Brokaw reported to a series of successor CFOs, including Mr. Ray Zies, Ms. Karen Wilson and, most recently, Mr. David Rastellini.⁴

Ms. Brokaw explained that Dallas ISD’s Quality Control Office was charged with the management and administration of both the pilot Pcard program and the fully implemented, District-wide Pcard program. However, Ms. Brokaw stated that the Quality Control Office was also charged with two other functions—namely: (1) performing and managing bank reconciliations and (2) administering and managing the District’s activity fund accounts.⁵

Ms. Brokaw stated that, in November 1999, the District hired Ms. Janice Henderson to assume the bank reconciliation responsibilities. Shortly thereafter, the District hired three more

² Although there were four Quality Control employees with Pcard responsibilities, due to overlapping tenures, there was a maximum of three employees working with the Pcard program at any given time.

³ Ms. Brokaw stated that, sometime in late 1999, her title changed from “Quality Control Employee” to “Director of Quality Control,” although she continued to report directly to the District’s Chief Financial Officer.

⁴ Ms. Brokaw reported to Mr. Rastellini from November 1, 2005, when Mr. Rastellini was hired as Dallas ISD’s CFO, through July 18, 2006, when Ms. Brokaw was placed on administrative leave.

⁵ The District’s “activity fund accounts” are campus-based accounts that can come from any of several sources, including revenue generated by school fund raising activities. The management functions performed by the Quality Control Office regarding activity fund accounts and bank reconciliation functions will not be discussed in detail in this report.

employees—Jordan Roberts, Curtis Alexander, and Franchesca Sava—to help manage and administer the District’s activity fund accounts. According to Ms. Brokaw, these four Quality Control employees reported to her, but had no role or responsibility in the management or administration of the Pcard program.

From 1999 through October 2002, Ms. Brokaw and Ms. Christine Romo were the sole employees in charge of managing and administering the Pcard program. In October 2002, Ms. Brokaw hired Ms. Sequetta Marks as an intern in the Quality Control Office, bringing the total number of employees administering the Pcard program to three. In or around October 2004, Ms. Romo left the Quality Control Office, and Ms. Marks assumed Ms. Romo’s Pcard responsibilities.

With regard to the Pcard program, Ms. Brokaw stated that the Quality Control Office was responsible for acting as a liaison to the bank, as well as performing the monthly accounting tasks that were necessary to reconcile Pcard purchases to the bank and the District’s general ledger. In addition, the Quality Control Office was responsible for receiving and processing Pcard applications, training employees on the proper use of the Pcard, and checking/adjusting Pcard limits.

2. Christine Perez Romo

Ms. Romo began her career with Dallas ISD in 1980 as a classroom teacher. In August of 1999, Ms. Romo was hired as a “Pcard Specialist” by Ms. Brokaw. Ms. Romo stated that her job responsibilities included assisting Pcard holders with questions about the use of the Pcard and training Pcard holders on the proper use of the Pcard. Ms. Romo stated that, between 1999 and 2002, she and Ms. Brokaw were the only two individuals working with the Pcard program.

3. Sequetta Marks

Ms. Marks was hired by Dallas ISD in August 2003 as a temporary employee to provide assistance in the Quality Control Office and, specifically, the Pcard program. In or around October 2003, Ms. Marks became a permanent employee in the Quality Control Office. Ms. Marks stated that her job responsibilities included assisting Ms. Romo with processing Pcard applications, ordering and distributing Pcards, and logging information about Pcard transactions into monthly reports. In or about October 2004, Ms. Romo left the Quality Control Office, and Ms. Marks took over Ms. Romo's responsibilities, including training of Pcard holders and responding to questions and inquiries from Pcard holders.

4. Nedra Ervin

Ms. Ervin was hired by Ms. Brokaw as a "Quality Control Specialist" in September 2005. Ms. Ervin stated that her job consisted of processing Pcard applications, responding to questions from Pcard holders about the Pcard program, maintaining the Dallas ISD vendor database and, beginning in October 2005, training Pcard holders on the proper use of the Pcard. Ms. Ervin stated that she performed these functions through the termination of the Pcard program in July 2006.

C. Applying for a Pcard

In order to obtain a Pcard, District employees were required to submit a Pcard request form to the Quality Control Office. The Pcard request form solicited basic information such as the prospective cardholder's name, social security number, school/department name, and signature. See SAMPLE PROCUREMENT CARD REQUEST FORM, attached to the APPENDIX as Exhibit "1." The Pcard request form also had a space for the prospective Pcard holder's

supervisor to approve the application (if the prospective Pcard holder was not a “budget manager” in Dallas ISD). *Id.*

Many individuals who applied for Pcards, including campus Principals, area superintendents, and departmental executives, were “budget managers” for the purpose of the Pcard request form. In these cases, a supervisory signature was not required to obtain a Pcard. Other individuals at all levels of the District’s hierarchy, including classroom teachers, administrative assistants, grant coordinators, office managers, and maintenance staff also applied for and received Pcards. In these instances, the District’s records reflect that the required supervisory signature was almost always included. We did not identify any instances where an employee was able to receive a Pcard without the knowledge and permission of his/her supervisor.

The District employees who applied for and received Pcards ranged from non-school personnel, such as Administrative Assistants, Maintenance staff, and departmental managers, to campus employees such as Teachers, Office Managers, Deans of Instruction, Assistant Principals, and Principals. According to the Quality Control employees, there were no regulations regarding who could (and/or could not) be issued a Pcard, or how many Pcards per person, campus, and/or department were allowed. Both Ms. Brokaw and Ms. Marks stated that if a supervisor signed a Pcard request form authorizing a prospective Pcard holder to receive a card, the Quality Control Office would issue a Pcard without further approval or objection. Therefore, the Quality Control Office did not “approve” Pcard request forms as much as “process” them—the approval for Pcards was performed at the budget manager level.

D. Pcard Training

Once the Pcard request form was received and processed by the Quality Control Office, the issuing bank⁶ would create a Pcard in the requestor's name, and would ship the Pcard directly to the Quality Control Office. Although each of the four Quality Control employees named above conducted at least a few training sessions during the 2003-2006 time frame, most Pcard holders stated that Ms. Brokaw or Ms. Romo conducted his/her Pcard training. The description of the Pcard training varied, depending on whether we were speaking to the *trainers*, or the *trainees*.

According to the *trainers* (the Quality Control employees who conducted the training), all Pcard holders were required to complete Pcard training before receiving their Pcards. The trainers stated that Pcard training involved a comprehensive, "page-by-page" discussion of the Pcard manual, followed by a question-and-answer session to clarify the Pcard rules and regulations. Pcard training lasted between 20 and 45 minutes, involved between two and ten individuals per session, and almost invariably took place at the Dallas ISD administration building at 3700 Ross. In the early days of the Pcard program, individuals were also given a short, true-false Pcard test at the conclusion of training. See SAMPLE PCARD TEST (redacted to remove identity of Pcard holder), attached to APPENDIX as Exhibit "2." However, the formal testing of Pcard holders was later phased out, and most interviewees stated that they did not receive or take a Pcard test during training.

According to many of the *trainees* (Pcard holders), however, Pcard training—for those who completed it—consisted of a "brief," "perfunctory," "incomplete," "vague," and/or

⁶ During the time frame covered by our investigation, Dallas ISD used two different banks. From 1999 through late 2003, Bank of America issued and administered the District Pcards. From late 2003 through the end of the program in June 2006, Bank One (which subsequently changed its name to Chase Bank) issued and administered the Pcards. All Pcard holders who held a card during the transition period surrendered their Bank of America card(s), and were issued replacement card(s) from Chase.

“confusing” overview of the Pcard rules, and only sometimes involved the receipt of a Pcard manual. Many trainees stated that the “training” lasted about ten minutes.

A handful of Pcard holders contended that they received their Pcards without completing Pcard training. These Pcard holders stated that Ms. Brokaw (or another Quality Control employee) called them and stated that their Pcards were ready to pick up. When they picked up the Pcard, some acknowledged receiving a copy of the Pcard manual, but a few stated that they were handed their Pcard without any documentation or training. Most Pcard holders we interviewed acknowledged receiving some level of training, even if it was minimal.

After “training” concluded, each Pcard holder was required to execute a Pcard agreement form. *See* SAMPLE PCARD AGREEMENT FORM, attached to APPENDIX as Exhibit “3.” This agreement form required the prospective Pcard holder to acknowledge, among other things, that “under no circumstances will I use the procurement card to make personal purchases, either for others or myself.” *Id.* In addition, the Pcard holder acknowledged that “I have been given a copy of the procurement card manual and understand the requirements for using the procurement card program,” and agreed that “I will adhere to the specific purchasing requirements of the object code and funding source of this procurement card.” *Id.* Based on our interviews, it appears that there was nearly 100% compliance with the execution of these agreement forms.

After the initial training was completed, some Pcard holders stated that they received no additional training as of the termination of the Pcard program in 2006. Other Pcard holders stated that Ms. Brokaw conducted a “refresher training” in connection with an annual Principals’ training, or other annual training function. In these cases, the Pcard holders stated that the training was a brief session that was limited to changes in the Pcard program from the last year.

E. The Pcard Manual(s)

As described above, Pcard training relied heavily upon the Pcard manual. According to Ms. Brokaw, the original version of the Pcard manual was based on a model manual for a procurement card program that had been implemented in Colorado. The Pcard manual was the primary source of the rules and regulations guiding the employee's use of the Dallas ISD Pcard, and was modified at least twice. Ms. Brokaw stated that revisions to the manual were reviewed and approved by a committee of District employees, which was formed for this purpose, and of which Ms. Brokaw was a member.

1. The July 27, 1999 Pcard Manual.

The Quality Control employees stated that, during the Pcard program, there were "several" versions of the Pcard manual. The first version we could locate is dated July 27, 1999, and was the manual given to Pcard holders who received a Pcard at the inception of the program. *See* JULY 27, 1999 PROCUREMENT CARD USER'S MANUAL, attached to APPENDIX as Exhibit "4." Because the July 27, 1999 version of the Pcard manual was in effect for only a small part of the time frame covered by our investigation, and was substantially revised in 2003, we will discuss this version of the manual only in general terms.

The July 1999 manual states that the Pcard was intended to help employees "make small dollar purchases so that they may address their daily operations in a timely manner." *Id.* at p. 3. However, the July 1999 manual also provides that the Pcard program "supplements the District's procurement process; it does not supplant it," and required "reasonable attempts" by the Pcard holder to "buy from vendors that provide discounts and special prices to the District." *Id.* at p. 5. The manual also provided the earliest iteration of the rules and regulations about what could be

purchased (and what could not be purchased) with the Pcard, as well as general rules and regulations about spending limits and required paperwork.

2. 2003 Procurement Card Manual

The next version of the Pcard manual we found is an undated version which the Quality Control employees believe was released in 2003. *See* 2003 PROCUREMENT CARD MANUAL⁷, attached to APPENDIX as Exhibit “5.” This version of the Pcard manual included several specific rules and regulations for the use of the Pcard which were relevant to our investigation:

a. *Requirement to Maintain Original Transaction Receipts.*

The 2003 Pcard manual required each Pcard holder to maintain an *original receipt* for each Pcard transaction. *Id.* at p. 5. In addition to an original receipt, the manual required Pcard holders to maintain a “procurement card log,” which was a written and dated accounting—similar to a checkbook register—of what purchases were made with the Pcard.⁸ *Id.* Although one provision of the manual indicated that Pcard holders were “encouraged” to keep a Pcard log, *see id.* at p. 15, several other sections of the manual indicate that the Pcard log was, in fact, mandatory. *See id.* at pp. 16-17 and 29.

b. *Requirement to Maintain Pcard Security.*

The 2003 Pcard manual limited the use of the Pcard to the employee whose name appeared on the face of the Pcard, and specifically stated that “[u]nder no circumstances should the card be loaned to another individual.” *Id.* at p. 4.

⁷ Although the Quality Control employees could not definitively state when this Pcard manual was created and distributed, the attached manual appears to have been produced sometime in the fall of 2003. However, we were told that a substantially similar version of this manual was disseminated to Pcard holders in early 2003. For the purposes of our investigation, we assumed that this version of the Pcard manual provided the Pcard rules and regulations between January 1, 2003 and June 2005, which is the date that the next version of the manual was distributed to cardholders.

⁸ The 2003 Pcard manual included a sample Pcard log as an attachment. *See* Appendix F to Exhibit “5.”

c. *\$1,000 Purchase Limit for Non-Price Agreement Vendors.*

The 2003 Pcard manual provided limitations on Pcard transactions with certain categories of vendors. The manual divided vendors who were authorized to do business with the District into two categories—“non-price agreement vendors” and “price agreement vendors.” “Non-price agreement vendors” are those vendors who are authorized to do business with the District, but do not have written agreements with the District to provide discounts or other special pricing. In order to be authorized to do business with the District, a vendor is required to submit an application and be assigned a “vendor number” by the Quality Control Office.

“Price agreement vendors,” on the other hand, are those vendors who are not only authorized to do business with the District, but are also vendors with whom the District had negotiated written contracts to provide favorable pricing for District purchases. The 2003 Pcard manual provided specific instructions about how to locate the “Active Price Agreement List,” which provided the identity of price agreement vendors, and which categories of goods were covered by active price agreements. *Id.* at p. 4. The 2003 Pcard manual instructed Pcard holders to access the latest version of the price agreement vendor list through the District’s website, and gave explicit instructions regarding how to do so. *Id.*

The 2003 Pcard manual prescribed different Pcard rules for price agreement vendors and non-price agreement vendors. The manual limited purchases from *non-price agreement vendors* to “a single card transaction of \$1,000,” and prohibited Pcard holders from “splitting purchases to bypass the \$1,000 limit.” *Id.* For price agreement vendors, the manual permitted Pcard holders to make purchases up to \$24,999. *Id.* In other words, if a Pcard holder wanted to buy goods that were covered by a District price agreement, the Pcard holder could either: (1) make a

purchase with a non-price agreement vendor, as long as the total purchase was less than \$1,000 or (2) make a purchase with a price agreement vendor for any amount up to \$24,999.

d. Gift Card Purchases.

The most significant difference between the 2003 Pcard manual and subsequent versions is the treatment of gift cards. According to the 2003 Pcard manual, Pcard holders were permitted to purchase gift cards in “nominal denominations.” *Id.* at p. 4. Pcard holders who purchased gift cards were required to obtain receipts for both: (1) the purchase of the gift card and (2) the redemption of the gift card. *Id.* In addition, gift card redemptions were required to be entered on the procurement log. *Id.* The manual did not contain any limitations regarding how many gift cards could be purchased or the vendors from whom they could be purchased.

e. Sales Tax.

The 2003 Pcard manual explained that, because Dallas ISD is a tax-exempt entity, Pcard purchases should be free of any state sales tax. *Id.* at p. 6. The manual also included a copy of Dallas ISD’s tax exemption certificate, which could be shown to a vendor in the event of a dispute. *See DALLAS ISD SALES TAX CERTIFICATE*, included as Appendix G to Exhibit “5.”

f. Requirement to Identify and Register Controllable Assets.

The 2003 Pcard manual also required each Pcard holder to identify and report any “controllable assets” purchased with the Pcard to the Inventory Control Office within five days of purchase. *Id.* at p. 5. The manual incorporated a non-exclusive list of controllable assets, which included most equipment priced at \$500 or more. *See LIST OF CONTROLLABLE ASSETS*, attached as Appendix E to Exhibit “5.” Dallas ISD’s Inventory Control Office was responsible for tagging and compiling an inventory of the controllable assets in the District.

g. Requirement to Reconcile Receipts and Verify Purchases.

The 2003 Pcard manual required each Pcard holder, on a monthly basis, to reconcile his or her Pcard statement to his or her Pcard log. *Id.* at p. 7. In addition, each month, Pcard holders were required to review their monthly credit card statement and fax or email their approval of the charges to the Quality Control Office. *Id.*

h. Categories of Non-Permissible Purchases.

The 2003 Pcard manual strictly forbade the use of the Pcard to make personal or fraudulent purchases. *Id.* at p. 5. However, several additional categories of purchases were also prohibited, including:

- cash advances;
- salary and monetary awards;
- consultant and maintenance agreements;
- purchases from sources in which the cardholder has a financial interest⁹;
- lodging, travel, training and registration fees, gifts, entertainment and alcoholic beverages at any type of establishment; and
- pagers and cellular phones.

Id. at p. 4; *see also* Appendix J attached to Exhibit “5.” As discussed later, these rules supplemented, but did not replace, any spending guidelines relevant to the source of the Pcard funds (e.g., TEA regulations governing federal funds expenditures).

3. The June 2005 Pcard Manual.

In June 2005, the Quality Control Office revised and updated the 2003 Pcard manual. *See* JUNE 2005 PROCUREMENT CARD PROGRAM MANUAL, attached to APPENDIX as Exhibit “6.” The June 2005 Pcard Manual was distributed to all Dallas ISD employees via electronic mail

⁹ Although it was not a systemic issue, we documented two instances where District employees made purchases from businesses owned and operated by family members. In one case, an employee made purchases exceeding \$38,000 over the span of fifteen months from a business owned and operated by his son. These cases are discussed in detail in the employee referral reports attached to the Appendix.

through the “Dallas ISD Notices” distribution list on July 20, 2005.¹⁰ The June 2005 Pcard manual formed the basis for the rules and regulations applicable to Pcard holders from July 20, 2005 through the end of the program in June 2006. The June 2005 Pcard manual kept most of the rules and regulations in the 2003 Pcard manual, with some notable exceptions:

a. Documentation Requirements.

The June 2005 Pcard manual continued the requirement that each Pcard holder maintain “valid and complete source documentation” for each Pcard transaction, and continued (and expanded upon) the requirement that each Pcard holder maintain a Pcard log. *Id.* at p. 16-17. However, unlike the 2003 manual, the June 2005 manual provided explicit requirements for what constitutes “valid and complete source documentation” for each purchase—specifically, each Pcard holder was required to keep a receipt, invoice, or packing slip for each Pcard purchase that showed:

- vendor identification (vendor name);
- the date the purchase was made;
- a description, quantity and unit cost of each item purchased;
- the total cost of the order; and
- the cardholder name and/or card number.

Id. at p. 17. These requirements clarified and supplemented the prior manual’s instructions to keep an “original receipt” for each Pcard purchase.

b. Requirement to Maintain Pcard Security.

The June 2005 Pcard manual continued the Pcard security requirements, adding that no Pcard holder should, under any circumstances, allow another person to use his or her Pcard, **“even if you trust them.”** *Id.* at p. 10 (bold in original).

¹⁰ Every Dallas ISD employee is assigned a District email address, through which Dallas ISD notices are distributed.

c. \$1,000 Purchase Limit for Non-Price Agreement Vendors.

The June 2005 Pcard manual continued the \$1,000 transaction limit for non-price agreement vendors and the \$24,999 transaction limit for price agreement vendors, and maintained the prohibition against splitting a purchase to bypass the \$1,000 transaction limit. *Id.* at p. 12.

d. Gift Card Purchases.

One significant difference between the 2003 Pcard manual and the June 2005 Pcard manual is the treatment of gift cards. The June 2005 Pcard manual prohibited the purchase of gift cards “from any establishment for any reason.” *Id.* at p. 12.

e. Sales Tax.

The June 2005 Pcard manual did not substantively change the requirement that Pcard holders claim Dallas ISD’s tax-exempt status for all purchases. The June 2005 Pcard manual referenced the fact that the Dallas ISD tax exempt number was printed on the face of each Pcard. *Id.* at p. 14. In addition, the Pcard holders were informed that, if necessary, they could provide a copy of the tax exemption certificate to a vendor. *Id.*

f. Requirement to Identify and Register Controllable Assets.

The June 2005 Pcard manual left the rules regarding the registration of controllable assets unchanged. *Id.* at p. 14.

g. Requirement to Reconcile Receipts and Verify Purchases.

The June 2005 Pcard manual continued the requirement that the Pcard holders reconcile the accuracy of their monthly Pcard statement to their Pcard log, and communicate their acknowledgement of the accuracy of the monthly Pcard charges to the Quality Control Office. *Id.* at p. 17. However, the June 2005 manual included additional requirements for the

reconciliation process, including (1) faxing a copy of each monthly credit card statement, *signed by the Pcard holder and his/her supervisor*, to the Quality Control Office by the 20th day of each month and (2) faxing a copy of a “transaction allocation form” to the Quality Control Office each month. *Id.*

The “transaction allocation form” was a spreadsheet to be completed by the Pcard holder that allowed each Pcard purchase to be assigned to a budget category, such as operating supplies. *Id.* at p. 19. The transaction allocation form was not required to be signed by the Pcard holder’s supervisor before being faxed to the Quality Control Office. *Id.*

h. Categories of Non-Permissible Purchases.

With the notable exception of prohibiting all gift card purchases, the June 2005 Pcard manual left the specific categories of non-permissible purchases largely unchanged, adding only that “gifts,” “vehicle expenses for personal vehicle,” and “training and registration fees” were prohibited categories. *Id.* at p. 12. However, the June 2005 manual also referred each Pcard holder to the specific spending guidelines and procedures of the underlying fund source, such as federal grant documentation. *Id.* at p. 13.

The rules and regulations contained in the three versions of the Pcard manual formed the basis for our evaluation of what administrative regulations, if any, were violated by Pcard holders.

METHODOLOGY

The following section describes the methodology we used to conduct our investigation and reach the conclusions discussed in this report.

A. Collection of Pcard Receipts

Shortly after being engaged for this investigation, we became aware that the Pcard receipts were not kept in a central location. Instead, original receipts were maintained in the possession of each individual Pcard holder at his/her campus or department. Concurrent with our engagement, Dallas ISD Superintendent Dr. Michael Hinojosa drafted and sent a letter to all Pcard holders notifying them that the Pcard program was being terminated, effective immediately. In addition, the letter required each Pcard holder to turn in the Pcard itself, along with original receipt for each Pcard transaction that occurred between January 1, 2004 and June 30, 2006. *See* JULY 20, 2006 LETTER FROM DR. MICHAEL HINOJOSA TO DALLAS ISD PCARD HOLDERS, attached to APPENDIX as Exhibit “7.”

Shortly thereafter, Dallas ISD received a federal subpoena to produce certain documents related to the Pcard program, including all Pcard receipts from January 1, 2003 through June 30, 2006. Therefore, on August 7, 2006, Dr. Hinojosa sent a second letter to all Pcard holders which required them to submit original receipts for all Pcard purchases from January 1, 2003 through June 30, 2006—effectively expanding the scope of the production by one year. *See* AUGUST 7, 2006 LETTER FROM DR. MICHAEL HINOJOSA TO DALLAS ISD PCARD HOLDERS, attached to APPENDIX as Exhibit “8.” This letter also required the submission of supporting documentation for the Pcard purchases, such as Pcard logs and Pcard transaction allocation forms. *Id.*

B. Transfer of Pcard Receipts to Secure Facility.

Pcard holders were instructed to submit Pcard documents and receipts to Dallas ISD's Legal Department, where the Pcard holder signed a log acknowledging that the documents had been surrendered. *See* PCARD LOGS DOCUMENTING SUBMISSION OF PCARD RECEIPTS, attached to APPENDIX as Exhibits "9" and "10." Once the Pcard receipts were received and logged, they were transferred from Dallas ISD's Legal Department to a secure facility on the 4th floor of the Dallas ISD Administration Building at 3700 Ross Avenue. All Pcard receipts were transferred under the supervision of F&R attorneys and investigators in order to ensure the integrity of the chain of custody for the records. The secure facility used to store the receipts had only two keys, both of which were in the possession of F&R attorneys and investigators at all times during the pendency of the investigation. In addition, the secure facility was locked at night and on weekends, and no person was permitted inside the secure facility unless at least one F&R attorney and/or investigator was present.

Once all of the Pcard records had been transferred to the secure facility, the Pcard receipts were re-boxed and organized alphabetically by the Pcard holder's last name to facilitate our review, and to expedite document productions to the FBI. None of the receipts were altered in any way at any time during the pendency of the investigation—instead, if any person needed to mark on a receipt, a copy of the receipt was made for this purpose.

C. Creation of Electronic Pcard Transaction Database

In order to review the Pcard transactions in an orderly and efficient manner, we created a functional electronic database of all Pcard transactions between January 1, 2003 and the termination of the Pcard program in July 2006.

To facilitate the creation of the database, F&R retained Navigant Consulting, Inc. (hereafter “Navigant”), an international firm of advisors and consultants who specialize in data acquisition, database design, database development, and the financial, economic, and statistical analysis of large volumes of electronic data for both business disputes and investigations.

1. Collection of Electronic Pcard Data.

Under the direction and supervision of Navigant, Dallas ISD’s IT and database personnel downloaded all of the Pcard transactions from Dallas ISD’s Oracle database system, as well as summary-level human resources information for the Pcard holders (to discern criteria such as hire date, job title, campus/department, employee number, and termination date). Navigant did not evaluate or use any information about the age, sex, or ethnicity of any District employee in creating the database, or in generating any report requested by F&R in this investigation.

Navigant then imported the Pcard transaction data files into a SQL Server database and performed additional processing steps to facilitate analysis of the data, such as de-duplicating the transactions and correcting several minor formatting problems with the District’s data. These corrections were limited to a small number of transactions. Finally, Navigant removed all transactions occurring prior to January 1, 2003, so that the database contained only those transactions relevant to the time frame of our investigation.¹¹

2. Validation of Electronic Pcard Transaction Data.

To assess the completeness and validity of the data extracted from Dallas ISD’s Oracle system, Navigant performed a reconciliation between Dallas ISD’s electronic data and native information provided by the two banks who administered the District’s Pcard Program. As stated above, Bank of America issued the credit cards used in the Pcard program between its

¹¹ There were not a substantial number of pre-2003 transactions to be removed. According to District personnel, Dallas ISD began loading the Pcard transactions into the Oracle database system in the latter part of 2002. Navigant confirmed this fact during the database reconciliation process.

inception in 1999 and late 2003. Beginning in late 2003, Bank One (subsequently Chase Bank) issued the credit cards used in the Pcard program.

Bank of America provided Navigant a data extract of all Dallas ISD credit card transactions from January 1, 2003 through the date it ceased administering the Pcard program in late 2003. Despite the fact that the data was more recent, Chase Bank was unable to provide electronic data in any format. Instead, Chase Bank provided copies of the monthly master Pcard statements in a searchable PDF format.

To ensure the quality and reliability of the Dallas ISD data, Navigant performed a reconciliation of the Bank of America transaction data to the Dallas ISD Oracle data in an attempt to identify any discrepancies in the two data sets. The results of this analysis indicated that, although almost all of the Dallas ISD Oracle transactions were matched to the Bank of America credit card transactions, only 95% of the Bank of America transactions were found in the Dallas ISD data. *See* NAVIGANT PCARD DATA VALIDATION, attached to APPENDIX as Exhibit “11.”

However, when Navigant analyzed the 5% of Bank of America transactions not found in the Dallas ISD information, the randomness of the timing, locations, purchasing employees, and vendors associated with the transactions did not suggest any manipulation of the data to exclude transactions from the Dallas ISD Oracle data. Rather, these anomalies may have resulted from errors in the data transfer and/or uploading of data to the Dallas ISD Oracle system. Therefore, Navigant determined that, despite these discrepancies, the pre-2004 Pcard transaction data retrieved from Dallas ISD’s Oracle system was sufficient for use in the Pcard investigation.

Because Bank One/Chase was unable to provide detailed transactions in the requested electronic format, Navigant’s validation of the post-2003 Dallas ISD Oracle transactions’

completeness consisted of comparing total monthly purchases and credits found in the Bank One/Chase credit card statements to aggregate amounts calculated from the Dallas ISD Oracle database. Month-to-month variances were most likely due to posting date cut-off differences and the timing of adjustments. In aggregate, over 99% of the purchases and credit amounts included in the Bank One/Chase statements were found in the Dallas ISD Oracle data.

In addition to the aggregated summary comparison, Navigant sampled transactions from the images of the monthly Bank One card statements, located the corresponding records for these transactions found in the database, and determined if the data element values were identical. After completing these validations, the post-2003 Dallas ISD Oracle data was also determined to be sufficient for use in the Pcard investigation.

3. Program Statistics Derived from Creation of Database.

After compiling the database, Navigant performed several analyses to determine the scope and size of the Pcard program during the time frame relevant to our investigation. Based on these analyses, we made the following observations:

-From January 1, 2003 through the termination of the Pcard program in July 2006, Pcard holders executed 251,091 transactions for a total of \$71,527,871 at over 8,300 different vendors. *See* PCARD TRANSACTION TOTALS BY VENDOR, attached to APPENDIX as Exhibit “12.” Pcard holders spent more money at Office Depot than any other vendor, executing 42,553 transactions for a total of \$11,052,162 (15.4%), followed by Honore Office Products (4,675 transactions for \$2,417,629) (3.4%) and Wal-Mart (14,302 transactions for \$2,147,936) (3%). *Id.*

-According to the data kept by Dallas ISD’s Oracle system, between January 2003 and June 2006, 1,376 employees held a total of 3,128 different Pcards.¹² *See* PROCUREMENT CARD USE BY EMPLOYEE, attached to APPENDIX as Exhibit “13.”

-For those Pcards linked to a particular campus (as opposed to an administrative department), Navigant also generated a report documenting the

¹² We note that all 1,376 employees did not hold Pcards at the same time. Rather, this number reflects the number of employees who held a Pcard at any time between January 2003 and June 2006. This number fluctuated as Pcard holders retired from or left the District, and as new Pcard holders applied for Pcards.

number of Pcard transactions, and total Pcard dollars spent, per student and per school. *See* PCARD TRANSACTION COUNTS AND AMOUNTS BY SCHOOL, attached to APPENDIX as Exhibit “14.” These reports indicate that, of the \$71,527,871 spent using Pcards between 2003 and June 2006, approximately \$44,867,532 was spent by Pcard holders whose budgets were linked to school campuses—90,709 transactions for a total of \$24,264,750 were executed by elementary schools; 29,647 transactions for a total of \$7,858,747 were executed by middle schools; 36,678 transactions for a total of \$9,964,783 were executed by high schools; and 9,404 transactions for a total of \$2,779,252 were executed by magnet schools. *Id.*

-The greatest number of Pcard dollars were spent in the month of April 2006, when Pcard holders executed a total of 8,504 Pcard transactions for a total of \$3,064,223. *See* PCARD TRANSACTIONS BY MONTH, attached to APPENDIX as Exhibit “15.” During the time frame relevant to our investigation, Pcard holders averaged 5,839 Pcard transactions for a total of approximately \$1,663,438 per month. *Id.*

-By job category, the largest number of Pcard dollars were spent by Elementary School Principals, who executed 62,378 Pcard transactions for a total of \$17,238,891. High School Principals were a distant second with 17,785 Pcard transactions for a total of \$6,548,576, and Middle School Principals were third, with 19,397 Pcard transactions for a total of \$5,399,074. *See* PCARD TRANSACTIONS BY EMPLOYEE CLASSIFICATION, attached to APPENDIX as Exhibit “16.” The greatest number of Pcard transactions executed by non-school administrators were by the District’s Executive Directors, who executed 10,267 Pcard transactions for a total of \$3,152,762. *Id.*

-By organization/department, the largest number of Pcard dollars were expended by the special education department (designated as “EHA (Education for the Handicapped Act) Title VI-B Regular”), who collectively executed 4,383 Pcard transactions for a total of \$2,446,688, followed by Maintenance Services, who executed 10,979 Pcard transactions for a total of \$2,337,404. *See* PCARD TRANSACTIONS BY SCHOOL/DEPARTMENT, attached to APPENDIX as Exhibit “17.”

D. Selection of Individuals for Further Investigation.

After collecting the Pcard receipts and creating the electronic database, the next step was to cull the 1,376 employees and 251,091 transactions into a smaller subset for further investigation. Initially, we eliminated from consideration all former Dallas ISD employees who showed up in the database. This was done to conserve investigative resources because: (1) it was unlikely that ex-employees would be willing to participate in the investigation, including an

interview; (2) the vast majority of ex-employees did not submit Pcard receipts, and attempts to locate receipts from his/her former school/department were largely unsuccessful; and (3) the District would have no ability to administratively discipline an ex-employee for violating Pcard rules and/or District policy.

After eliminating ex-employees from the mix, we developed five objective criteria in an attempt to identify those individuals most likely to warrant further investigation.

1. The Top 100 Spenders.

We determined that it was important to investigate those individuals who were the highest Pcard spenders during the time frame relevant to our investigation. Therefore, Navigant generated a list of the Top 100 spenders, sorted by total dollars spent, between January 1, 2003 and the end of the Pcard program in July 2006. *See* TOP100 SPENDERS, attached to APPENDIX as Exhibit “18.” This query identified individuals whose total Pcard transactions ranged from \$177,449 (for the 100th highest spender) to \$1,301,940 (the highest spender) during this time frame. *Id.*

Of the Top 100 spenders, fifty-three¹³ were Principals. *Id.* In addition, another twelve cardholders were school administrators (including Deans of Instruction, Assistant Principals, and/or Office Managers) who held the primary campus Pcard in lieu of the Principal, and who made purchases at the direction of the Principal. Therefore, a total of sixty-five of the Top 100 spenders were Principals, or “principal-equivalents.” This data was consistent with Navigant’s determination that the most Pcard dollars were spent by elementary, middle, and high school Principals. *See* Exhibit “16.” After eliminating approximately fifteen former employees from

¹³ Two Pcard holders—one who is listed on Exhibit “18” as a “Retired Principal,” and one who is listed as an “Area Superintendent,” were Principals for most of the time they held Pcards. Therefore, these two individuals were counted as two of the fifty-three Principals.

the list of one hundred, we conducted a further investigation on each of the eighty-five remaining individuals.¹⁴

2. High Volume of Gift Card Purchases.

From the inception of the Pcard program through July 2005, Pcard holders were permitted to purchase gift cards in “nominal” amounts. *See* Exhibit “5” at p. 4. Although the purchase of gift cards was sanctioned between 1999 and June 2005, the ability to make large, frequent gift card purchases appears to have amplified the opportunities for both poor recordkeeping and improper purchases.

Therefore, we directed Navigant to identify individuals who made a large number of round-dollar transactions (e.g., \$25, \$50, \$75, \$100, \$125, etc.) at three “mixed-use”¹⁵ vendors—Wal-Mart, Target, and Home Depot. *See* WAL-MART POTENTIAL GIFT CARD TRANSACTIONS, attached to APPENDIX as Exhibit “19;” TARGET POTENTIAL GIFT CARD TRANSACTIONS, attached to APPENDIX as Exhibit “20;” and HOME DEPOT POTENTIAL GIFT CARD TRANSACTIONS, attached to APPENDIX as Exhibit “21.”

Based upon a review of these reports, we decided to further investigate those Pcard holders who purchased more than \$2,500 in large, even-dollar transactions (indicative of a gift card purchase) at any one of these three mixed-use vendors.¹⁶

¹⁴ Although, for the reasons stated above, we did not investigate any former employees, information relating to all Pcard holders—both present and former employees—were requested by, and turned over to, the FBI and/or other state and federal investigative agencies.

¹⁵ We use the term “mixed use” to refer to a vendor who sells a high number of products that may be put to either educational or personal use, depending on the circumstances.

¹⁶ Several individuals who spent less than \$2,500 in gift cards at these vendors were identified by one or more of the other objective criteria, and were selected for further investigation on that basis.

3. High Volume of Department Store Purchases.

After a summary review of the database, we determined that there were a significant number of transactions at department stores such as Dillard's, Foley's, JCPenney, Kohls, Marshalls, Mervyns, Sears Roebuck, and Stein Mart. Because of the potential for personal (rather than educational) purchases at these stores, we asked Navigant to identify Pcard holders who made purchases with these vendors. *See* PCARD DEPARTMENT STORE REPORT, attached to APPENDIX as Exhibit "22."

Based upon a review of these reports, we further investigated Pcard holders who had more than \$1,000 in combined purchases at these department stores.

4. Pcard Holders Who Were Subject to Parallel Investigation.

We also investigated any Pcard holders who had been the subject of a Pcard-related query by any third party. Dallas ISD provided us with a comprehensive list of open records requests which were: (1) filed between January and August 2006 and (2) related to the Pcard transactions of any District employee. *See* DALLAS ISD PCARD OPEN RECORDS REQUESTS, attached to APPENDIX at Exhibit "23." Any Pcard holder who was identified by one of these open records requests was designated for further investigation.

In addition, during the course of our investigation, the FBI formally (and informally) requested the Pcard receipts for, and additional documentation about, several Pcard holders. Although we were not given the specific reasons for such requests, all individuals who were identified by an FBI request were designated for further investigation. In order to protect the integrity of any ongoing criminal investigations, and at the request of the FBI and the United States Attorney's Office, we will not identify the individuals who fell into this category.

5. Pcard Holders Who Were Identified by Other Employees.

The final category of Pcard holders selected for further investigation were those individuals who were identified by other District employees as having potential Pcard issues. This identification occurred in two ways. First, we asked each Pcard holder during his/her interview whether he/she knew (either directly or indirectly) any Dallas ISD employee who may have used his/her Pcard inappropriately. Some individuals responded affirmatively, and provided information about what they knew and/or had heard.

In addition, we received several anonymous reports from Dallas ISD Police and/or the Dallas ISD ethics hotline regarding potentially-improper Pcard activities. Any person who was identified through any of the above methods was selected for further investigation.

E. Preliminary Review of Navigant Transaction Report.

Using these five objective criteria, we were able to cull down the 1,376 Pcard holders into a group of about 250 individuals for further investigation. Next, Navigant generated a consolidated transaction report for each of these individuals. See SAMPLE ANONYMOUS PCARD TRANSACTION REPORT¹⁷, attached to APPENDIX at Exhibit “24.”

The consolidated transaction report provided basic personnel information, such as the Pcard holder’s current job title and the school/department he/she is associated with, as well as several statistical analyses about the Pcard holder’s transactions, such as transaction counts and transaction amounts per month and per year in both table and chart formats. *Id.* at pp. 1-2.

¹⁷ The identity and credit card number of this Pcard holder have been redacted for the purposes of this example. However, a non-redacted version of Navigant’s transaction report is included as an exhibit to each of the employee referral reports included in the Appendix. The credit card numbers were not redacted in these reports because, in connection with the termination of the Pcard program, all of the Pcards were cancelled and surrendered to the District, and all of the Pcard numbers were deactivated by the bank. These credit card numbers will not be used in the future for any other purpose.

Next, the report detailed every vendor that the Pcard holder used during the time frame of our investigation, including the number of transactions, and total dollars spent with that vendor.

Id. at p. 3.

The report then detailed, in date order, and separated by credit card number, each purchase made by the Pcard holder on his/her Pcard during the time frame relevant to our investigation. Each line includes the credit card number used to make the transaction; the date and amount of the transaction; the name of the vendor; the unique transaction number assigned to each transaction by the credit card company; the “fund code,” which identifies which funding source the Pcard was linked to; and the school/department that the Pcard holder was associated with at the time of the transaction. *Id.* at pp. 4-5.

Finally, because of the large number of transactions executed at Target and Wal-Mart, the transaction report pulls out and re-reports each of these transactions. *Id.* at p. 5.

The transaction report was a powerful tool that allowed us to perform a preliminary review of each Pcard holder’s spending in order to analyze patterns such as purchases that occurred on weekends/holidays; spending patterns that increased or decreased over time; transactions that may have been split to circumvent the \$1,000 Pcard rule; and transactions that may not be appropriate under the rules of the funding source (*e.g.*, transactions that may violate federal spending guidelines).

F. Detailed Analysis of Pcard Receipts.

After a preliminary review of the transaction report to analyze any relevant spending patterns, we performed a detailed review of the Pcard statements, receipts, and other documentation submitted by the Pcard holder pursuant to the Superintendent’s directive. This

review was necessary not only to determine if the Pcard holder had submitted none, some, or all of his/her receipts, but also to identify what specific items were purchased in each transaction.

G. Pcard Interviews/Site Inspections.

After reconciling the consolidated transaction report to the Pcard receipts, many Pcard holders were scheduled for interviews regarding his/her transactions, as well as other Pcard-related issues, such as training, supervisory review, and interactions with the Quality Control Office. Before any Pcard holder was interviewed, however, we contacted the United States Attorney's Office to obtain permission to conduct the interview. This step was taken to ensure that our investigation did not interfere with the FBI's investigation into any particular Pcard holder.

The interviews were scheduled through the Dallas ISD Human Resources Office, and took place on Dallas ISD grounds. Most of the interviews were conducted by two investigators—Kip Mendrygal, an F&R attorney, and Peter D. Nielsen, a former state and federal law enforcement agent¹⁸ who was engaged by F&R to assist in the Pcard investigation.

Although the Pcard holders were instructed by the Dallas ISD Human Resources Office to appear for an interview, each person was asked whether he/she would cooperate in the investigation by giving a voluntary statement. To acknowledge the agreement to provide a voluntary statement, each interviewee signed an interview protocol form provided to him/her before the interview commenced. *See* SAMPLE PCARD INTERVIEW PROTOCOL, attached to APPENDIX as Exhibit "25." Per Dallas ISD protocol, the interviews were not taped by either the investigators or the employee.

¹⁸ Mr. Nielsen recently retired from federal service after 27 years in law enforcement. Mr. Nielsen was a Police Officer and Burglary/Theft Investigator for the Dallas Police Department for five years; a Special Agent and Supervisory Special Agent for the United States Customs Service (now part of the Department of Homeland Security) for seven years; and a Special Agent and Supervisory Special Agent for the Criminal Investigations Division of the Internal Revenue Service for fifteen years.

During our investigation, we conducted approximately 200 interviews of approximately 170 individuals. The interviews lasted between thirty minutes and four and one-half hours, with most interviews running between one and two hours.

In addition to interviews, we also conducted nineteen site inspections of eleven different campuses and administrative departments to verify the existence of property purchased with District Pcards. These site inspections were unannounced, and were conducted either before or after the Pcard interview, depending on the circumstances. The site inspections were designed and executed in order to both (1) verify the existence of District property and (2) verify whether the property was tagged as a controllable asset, if applicable, per the requirements of the Pcard manual.

H. Employee Referral Reports.

In the event that our interview and/or site inspection revealed that a Pcard holder violated, or appeared to have violated, one or more Pcard regulations and/or had anomalous Pcard transactions of note, we generated an employee referral report describing the facts and circumstances surrounding the potential violation. We did not generate an employee referral report for every person we investigated and/or interviewed—to the extent the interview did not find evidence of one or more Pcard violations, no report was generated.

All employee referral reports were a joint work product based upon input by Mr. Nielsen and three F&R attorneys—Paul Coggins, Madeleine Johnson, and Kip Mendrygal. We submitted a single hard copy of these reports to Dallas ISD’s Legal Department, and met with the Legal Department regularly to discuss the factual findings, to answer questions about the referral reports, and to address any points of follow-up suggested by the District.

Dallas ISD's Legal Department submitted the employee referral reports to a committee of District employees who heard the evidence and made disciplinary recommendations to the Superintendent. Although F&R investigators were present at these disciplinary meetings to articulate our findings and respond to questions about the investigation, no disciplinary recommendations were offered by, nor solicited from, the investigators.

THE GOOD NEWS—SUCCESSSES OBSERVED DURING THE INVESTIGATION

Our investigation involved a detailed examination of the Pcard transactions and receipts for approximately 200 individuals.¹⁹ Although this is a subset of the nearly 1,376 individuals who held Pcards during the time frame relevant to our investigation, the objective criteria used to generate this subset of Pcard holders were designed to identify those who were most likely to have issues (administrative and/or criminal) with his or her transactions. Although the objective criteria were highly successful in identifying several systemic issues with Pcard transactions, our investigation also uncovered a number of noteworthy successes.

A. High Degree of Cooperation from District Employees.

As a group, almost all District employees were highly cooperative in the investigation. For example, almost all Pcard holders (more than 99% of the Pcard holders who were current employees) timely submitted receipts pursuant to the Superintendent's directive.²⁰ This prompt submission of Pcard receipts expedited our ability to review the receipts, and minimized the resources that were devoted to chasing down those who did not comply.

In addition, one of the critical stages of our investigation was the Pcard holder interview. As described above, each Pcard holder was contacted by the District and instructed to appear for an interview. Once the Pcard holder arrived at the interview, he/she was asked whether he/she would be willing to cooperate with our investigation voluntarily.

With only a few exceptions, *every employee who was called for an interview agreed to cooperate voluntarily in our investigation.* In fact, several employees commented that they

¹⁹ Of the approximately 250 individuals who were identified by one or more of the objective criteria, approximately fifty were no longer employed by the District. Therefore, for the reasons explained above, we did not investigate these former employees.

²⁰ Several Pcard holders who were sent the Superintendent's letters were no longer employed by Dallas ISD. In many of these cases, receipts for these former employees could not be located.

appreciated the opportunity to explain some of their unusual purchases before anyone “jumped to conclusions” about their transactions. Indeed, we discovered that, because the District offers so many unique and wide-ranging educational and job-training programs—from auto repair to horticulture to home economics to training for students who are expectant mothers—it was difficult to categorize any individual purchase as “personal” or “educational” without additional context about the job responsibilities and curriculum of the Pcard holder. In short, diapers and baby wipes purchased at Wal-Mart may be “personal” expenditures for one Pcard holder, but everyday “educational supplies” for another.

We found the majority of Pcard holders were not only cooperative, but also showed strong character by speaking honestly about, and holding themselves accountable for, practices that violated one or more rules in the Pcard manual.

B. Organized and Skillful Recordkeeping Demonstrated by Certain Employees.

We also observed many individuals who maintained organized records that ably documented the vast majority of his/her Pcard expenditures. Many individuals were able to produce over 95% of their Pcard receipts immediately upon the Superintendent’s request, and kept detailed Pcard logs as required by the Pcard manual.

A handful of Pcard holders went the extra mile in demonstrating skillful recordkeeping. One Pcard holder provided not only all of her receipts, but also detailed email correspondence from school employees documenting the request for, and receipt of, many of the items purchased with her Pcard. This individual stated that she did not think her system was onerous, and believed it protected her from any implication of impropriety in connection with the District’s funds.

Another Pcard holder was able to document over 98% of her Pcard purchases, but nonetheless submitted personal checks for the receipts that could not be accounted for—even though they were purchases of educational supplies for the benefit of the school. This Pcard holder stated that she felt that, because she was a trustee of District funds, it was her responsibility to reimburse the District for any money that she could not account for with an original receipt.

Such displays of candor and good recordkeeping also gave us comfort about the circumstances of many individuals' Pcard expenditures, and demonstrated good stewardship of the District's funds.

C. Proper Stewardship of District Property Purchased with Pcards.

As described above, one of the tools we used in our investigation was an unannounced site inspection of certain campuses and departments to determine if property purchased with the District Pcards was properly marked and accounted for. We evaluated the necessity of a site inspection based upon factors such as (1) the number of controllable assets which, according to the Pcard manual, should be labeled with a Dallas ISD asset tag; (2) the number and dollar value of electronics items that could be converted for personal use, such as computers, televisions, DVD players, etc.; and (3) our background research regarding the title and job responsibilities of the Pcard holder.

During our investigation, we conducted nineteen unannounced inspections of twelve different Pcard holders' school campus or administrative department to verify the existence and location of certain items purchased with the Pcard. Of these twelve Pcard holders, ten were able to produce the equipment that we sought, and maintained the District property with a reasonable level of security. Although some of these successes did include the identification of one or more

assets that should have been labeled with a Dallas ISD asset decal, in these cases, the employees agreed to have the assets labeled immediately.

Similar to our experiences in the interviews, most of the subjects of the unannounced site inspections were happy to show us the property we were looking for, and cooperated fully in the inspection.

THE BAD NEWS—SYSTEMIC ISSUES IDENTIFIED DURING THE INVESTIGATION

Although many Pcard holders maintained good records and appeared to use the Pcard responsibly, we also identified several issues—both (1) in the structure/administration of the Pcard program and (2) in the transactions of individual Pcard holders—that were troubling.

A. Breakdowns in the Structure/Administration of the Pcard Program—Failure to Monitor/Supervise Pcard Transactions.

The design and administration of the Pcard program created three levels of potential supervision—(1) by the Pcard holder; (2) by the Pcard holder’s direct supervisor; and (3) by the Quality Control Office. There were substantial failures at each of these levels.

1. Failure to Monitor/Reconcile One’s Own Pcard Purchases.

The first level of monitoring was to be performed by the Pcard holders themselves. Both the 2003 and June 2005 Pcard manuals required each Pcard holder to maintain original receipts for each Pcard transaction, as well as a Pcard log that independently recorded each Pcard purchase. *See* Exhibit “5” at p. 5 and Exhibit “6” at p. 15-17. The manuals also required each Pcard holder to reconcile his or her Pcard receipts to both (1) his/her monthly credit card statement and (2) the Pcard log to ensure the accuracy of the purchase records. *Id.*

Despite these requirements, only a fraction of the Pcard holders we investigated (less than 50%) produced Pcard logs that attempted to track his/her Pcard transactions. In addition, many of the interviewed Pcard holders did not reconcile their Pcard receipts to the credit card statement and Pcard log every month. Those who did any reconciliation at all often assigned the task to an office manager or clerk who was not a direct participant in most of the Pcard transactions. Moreover, many of the Pcard holders who claimed they performed a monthly reconciliation exhibited issues (such as a failure to submit receipts and/or the statements themselves) that cast doubt on the credibility of the contention. The most common explanation

for this failure to perform the required reconciliations was that the Pcard holder was busy, and did not have the time (or relied on someone else) to perform these administrative tasks.

Although we have little doubt that time was limited for many of the Pcard holders, consequences flowed from this failure to reconcile Pcard transactions. Specifically, we uncovered several cases where Pcard holders apparently discovered fraudulent activity on the card months after the activity occurred.

For example, in connection with reviewing her monthly credit card statements at the termination of the Pcard program, one Pcard holder identified several charges for mobile phone service that she did not recognize. The charges occurred once or twice a month over several months, and exceeded \$1,000 total. She immediately reported these charges to the credit card company, who launched an investigation into the activity. When we asked this individual about the discovery of these charges, she stated that she did not catch these fraudulent charges on her monthly statements because they were on the second page, and she reviewed one-page statements only. Fortunately, the follow-up investigation conducted by Dallas ISD Police identified a school volunteer who confessed to stealing the Pcard number from the Pcard holder's purse and executing several phone-related charges over the span of several months. However, this fraudulent activity should have been identified earlier with a diligent self-review of the monthly credit card statements.²¹

Another widespread practice also limited the effectiveness of many Pcard holders' self-monitoring practices. As described in detail below, many Pcard holders permitted other individuals to take possession of their Pcard to make purchases for the school/department. This practice also subverted the self-monitoring protocol because many Pcard holders failed to obtain

²¹ We note that at least two other individuals were similarly-situated, with the exception that, to date, the person committing the fraud has not been identified.

and/or submit receipts for the purchases made by other people. Those who did retain receipts for the purchases made by other people, not surprisingly, had a difficult time recalling and/or explaining the reason and rationale for these Pcard transactions. In these cases, because the purchases were not made by the Pcard holders themselves, the monthly reconciliation process was necessarily limited to a mechanical process of matching receipts (to the extent they existed) to the credit card statement without the ability to confirm that what was purchased was actually received by the District.

In sum, there were significant and widespread breakdowns in the self-monitoring processes, as evidenced by: (1) the systemic failure to create and maintain Pcard logs; (2) the systemic failure to self-monitor Pcard transactions by reconciling monthly credit card statements to Pcard logs and original receipts; and (3) the systemic practice of permitting multiple individuals to use the Pcard to make purchases.

2. Breakdowns in Pcard Monitoring by Direct Supervisors.

In addition to the self-monitoring that was supposed to be performed by the Pcard holder, the Pcard holder's direct supervisor was also provided two separate resources to monitor the Pcard transactions of his/her subordinates: (1) the requirement in the July 2005 Pcard manual that supervisors review and approve their subordinates' monthly credit card statements and (2) electronic Pcard notifications provided by the District's Oracle system. Despite these resources, there was little to no monitoring of Pcard expenditures by direct supervisors.

a. *Limited requirement for supervisors to review and sign monthly credit card statements.*

Although there was little to no supervision by Pcard holders' direct supervisors, for most of the time frame covered by our investigation, none was required. From 1999 through July 2005, we could not identify any protocol (in the Pcard manual or otherwise) requiring the Pcard

holder's direct supervisor to monitor Pcard transactions in any way, let alone an explanation of what protocol should be applied by supervisors in monitoring these purchases. It was not until June 2005 that a revised version of the Pcard manual required action on the part of the Pcard holder's direct supervisor—specifically, supervisors were then required to sign and approve the monthly credit card statement of each of his/her subordinates. *See* Exhibit “6” at p. 10.

Even that requirement, however, was largely toothless. The signature requirement applied only below the level of school Principal. In other words, Principals were not required to obtain the signature of their Area Superintendent, under the rationale that the Principal was the senior budget manager for that campus. *Id.* In practice, therefore, Principals were the “end of the line” for the signature requirement for Pcard supervision. *See id.* This limitation was significant because a disproportionate number of Pcard transactions (as evidenced by the large number of Principals in the Top 100 spenders) were executed by elementary school, middle school, and high school Principals. *See* Exhibits “16” and “18.” *As a result, for many of the Pcard holders we investigated, there was no supervisory review of the monthly Pcard statements—either before or after the Pcard manual was revised to implement additional supervisory procedures.*

There was also confusion (both by Pcard holders and their supervisors) in some cases about who was the Pcard holder's “supervisor.” This issue was particularly prevalent among teachers, most of whom held Pcards linked to a special department (such as home economics) or a before or after school grant (through the 21st Century Program²²).

In one case, we investigated a teacher who had a Pcard linked to 21st Century before/after school grant funds. This Pcard holder technically had two “supervisors”: (1) the Pcard's

²² The administration of 21st Century grants is discussed in detail below.

Principal, to whom she technically reported and (2) the 21st Century budget manager who supervised and approved the Pcard holder's purchases under the 21st Century program. When we attempted to determine who was supervising and monitoring the Pcard purchases for this Pcard holder, the two supervisors each stated that they thought it was the other person's responsibility, which ultimately resulted in no supervision of these purchases at all.

In spite of all of these limitations and gaps in the requirements for supervisors to monitor and approve Pcard transactions, we attempted to determine whether the June 2005 Pcard manual's newly-instituted requirement triggered additional supervision by direct supervisors. In order to determine the level of compliance with the signature requirement, we collected and reviewed the Pcard statements that were submitted to the Quality Control Office during the 2005-2006 time frame.²³ Despite the Pcard manual's requirement, depending on the month, only between 35% and 65% of Pcard holders submitted their monthly statements to the Quality Control Office, although those who did submit their statements generally complied with the signature requirements, if applicable. This minimal compliance with the requirement to fax a signed Pcard statement to the Quality Control Office every month supports our observation that Pcard supervision by direct supervisors was lacking.

b. Manager notifications generated by Oracle system.

In addition to the supervisory signature requirement on monthly credit card statements, there were also electronic notifications of Pcard transactions created by the District's Oracle system. According to Ms. Brokaw, each Pcard holder's information (name, organization, credit card numbers) was entered into a Pcard module in Dallas ISD's Oracle system in connection

²³ Due to space limitations in the Quality Control Office, and the large volume of documents received each month, these signed and faxed credit card statements were kept only for a limited period of time. Therefore, our conclusions were based upon the limited documents we were able to obtain from the Quality Control Office at the time our investigation began, as well as the recollections of the Quality Control employees.

with Dallas ISD's transition to the Oracle database system. This Pcard module allowed the Quality Control Office to input Pcard holder information that would link Dallas ISD's accounting system to the Pcard holder's credit card transactions. Ms. Brokaw stated that it was the responsibility of the Quality Control Office to input data into these Pcard profiles, and that she did most of this data entry herself in the 2002-2003 time frame.

The Pcard module was also linked by the Oracle system to the Pcard holder's Human Resources module, which included the name of the Pcard holder's direct supervisor. The Pcard module contained a default setting that triggered "manager notifications" about Pcard transactions to be sent to the attention of each Pcard holder's direct supervisor. These notifications listed the recent Pcard transactions made by the supervisor's direct reports, including the name of the vendor, and the date and amount of purchase. Unlike the supervisory signature requirement, which was not implemented until June 2005, the Oracle notifications were implemented in connection with the District's transition to the Oracle system in 2002/2003, and were generated throughout most of the time frame relevant to our investigation.

Several supervisors stated that the manager notifications were "confusing" at best, and "essentially worthless" at worst, because they were transmitted thirty, sixty, or ninety days after the Pcard purchases were made and did not include the name of the Pcard holder who made a specific transaction. According to Ms. Brokaw, however, the supervisors could obtain the name of the Pcard holder who made the purchase by contacting the Quality Control Office, and, on occasion, some supervisors did request information about some purchases.

As we further investigated these "manager notifications," we discovered that approximately 100 Pcard holders' managerial notifications had been disabled in the Oracle system. *See* MANAGER NOTIFICATIONS DISABLED IN ORACLE SYSTEM, attached to APPENDIX as

Exhibit “26.”²⁴ As a result of this disablement, the direct supervisors for many individuals did not receive these electronic notifications about their subordinates’ Pcard transactions. Our investigation determined that only a limited number of people had access to the Pcard module and were in a position to disable these notifications—primarily, the employees of the Quality Control Office.²⁵

When we interviewed Ms. Brokaw about the disablement of these notifications, after initially denying that she ever disabled any of these notifications, she eventually acknowledged an incident where an Area Superintendent approached her and asked her to disable the Pcard notifications for the Principals in that Superintendent’s area.²⁶ Ms. Brokaw stated that this Area Superintendent claimed that the notifications were “cumbersome” because there were no names attached to the transactions. As a result, Ms. Brokaw stated that she disabled the notifications for the 20-30 Principals who reported to this Area Superintendent. *Id.* Ms. Brokaw stated that she could not remember the name of this Area Superintendent, and declined our offer to list the names of the limited number (less than 20) of the Area Superintendents that served during Ms. Brokaw’s tenure.²⁷ *Id.*

Through our investigation, we received additional information regarding the disablement of the Pcard notifications. Ms. Gloria Orapello, a former District employee who pled guilty to

²⁴ According to the Navigant report, most of the disabled manager notifications were associated with Bank of America Pcards, which were used by Pcard holders between 1999 and late 2003. By contrast, Navigant’s report shows only twenty Pcard profiles were associated with Chase Bank Pcards, which were used from 2004 through the end of the Pcard program in June 2006.

²⁵ According to District records, a few other District employees, such as members of the Internal Audit department and some database administrators, had access to the Pcard module for limited durations and for limited purposes.

²⁶ Greater detail about the facts reported in this section is provided in the employee referral reports for Ms. Brokaw and Ms. Orapello, which are attached to the Appendix.

²⁷ We have attempted to identify this Area Superintendent by identifying the supervisor(s) for each Pcard holder listed on Exhibit “26.” The results to date are inconclusive.

federal charges for using her Pcard to make personal purchases, alleged that, at her request, Ms. Brokaw disabled the Pcard notifications that should have been sent to Ms. Orapello's supervisors. Ms. Orapello stated that she observed Ms. Brokaw log onto the Oracle system, make several keypunches, and announce that the manager notifications had been disabled. Ms. Orapello also stated that, when she transitioned to a new supervisor, she informed Ms. Brokaw, who again logged onto the Oracle system and confirmed that Ms. Orapello's manager notifications were still disabled.

Although Ms. Brokaw's motivation for disabling these notifications is unclear, Ms. Orapello described an informal *quid pro quo* arrangement between Ms. Brokaw and her, whereby Ms. Orapello made purchases of office supplies and, later in the relationship, electronics items, such as handheld computers and laptops, for Ms. Brokaw and the Quality Control Office. *Id.* In exchange, Ms. Brokaw allegedly disabled Ms. Orapello's manager notifications, and, allegedly, may have shielded some of Ms. Orapello's expenditures.

Ms. Orapello's purchases for Ms. Brokaw were unusual. Ms. Orapello did not share a budget or common supervisor with Ms. Brokaw, nor was there any paperwork generated to memorialize a budget transfer between the two departments. According to John McGee, the Dallas ISD Budget Director, and Ms. Elisa Cordova, a Budget Specialist, budget transfers for purchases of this type and size were required to be requested in writing, and accompanied by a justification for the transfer. Ms. Cordova produced several written budget transfer requests for additional office supplies that Ms. Brokaw had submitted in the past, indicating that Ms. Brokaw was aware of the budget transfer process. However, no budget transfer paperwork was created for Ms. Orapello's purchases for Ms. Brokaw.

We interviewed David Rastellini, the District’s CFO and Ms. Brokaw’s supervisor, about these purchases. Mr. Rastellini stated that, although he was aware of a social relationship between Ms. Orapello and Ms. Brokaw, he was not aware of this arrangement between Ms. Orapello and Ms. Brokaw, and, based upon his understanding of Ms. Orapello’s allegations, did not believe that the purchases were appropriate.

When we asked Ms. Brokaw about these purchases, she acknowledged that Ms. Orapello made several purchases of office supplies and electronics for the Quality Control Office, but Ms. Brokaw claimed that the purchases were appropriate as long as the merchandise was eventually logged on the Quality Control Office’s inventory. Ms. Brokaw denied the rest of Ms. Orapello’s allegations.

To date, the only person who has acknowledged disabling any of the Oracle manager notifications is Ms. Brokaw, and her admission was limited to the incident involving the unnamed Area Superintendent. Ms. Romo, Ms. Marks, and Ms. Ervin have all denied disabling any of the manager notifications.²⁸

Notwithstanding the disablement of a number of manager notifications, the notifications were difficult to interpret and delivered untimely and, therefore, were largely ignored. Thus, the Pcard supervision by direct supervisors—both in terms of the signature requirement and the review of the Oracle manager notifications—was minimal to non-existent.

3. Lack of Supervision of Pcard Purchases by the Quality Control Office.

At any given time, there was a maximum of three employees who were responsible for administrating the Pcard program. The Quality Control employees had several job

²⁸ We note that Exhibit “26” shows the name of the last person to make *any change* to the Pcard module, and the names of several Quality Control employees appear in the spreadsheet as the last person to make a change to these profiles. Based on this data, it is not possible to determine conclusively that the Quality Control employee listed as making the last update is necessarily the same person who disabled the manager notifications.

responsibilities related to the administration of the Pcard program, including processing applications and budget transfers, maintaining the vendor database, responding to inquiries from Pcard holders, and performing Pcard bank reconciliations.

Pcard holders conducted as many as 8,500 transactions for a total of over \$3,000,000 in a given month. *See* Exhibit “15.” Even “normal” months resulted in between 4,000 and 6,000 Pcard transactions for a total of \$1,000,000-\$2,000,000. *Id.* Ms. Marks stated that, because of her other job responsibilities, it became common practice for Ms. Brokaw and her to monitor Pcard transactions “in their free time” after their other job duties had been completed.

Likewise, Ms. Brokaw stated that, on occasion, the employees of her office would solicit and review Pcard receipts as a “filler job” when they were not performing their primary functions. Ms. Brokaw also stated that she instructed her employees “if they had the time” to look for Pcard transactions that “didn’t look right.” Ms. Marks stated that the “monitoring” she was able to do from the Quality Control Office involved reviewing the comprehensive monthly Pcard statement for “strange looking” transactions, and emailing the Pcard holder to request receipts for these purchases. Due to the time-consuming nature of this process, only a minimum number of transactions were “spot-checked” for receipts, and only a fraction of these requests from the Quality Control Office resulted in a response from the Pcard holder.

With regard to the signed Pcard statements that were required to be transmitted to the Quality Control Office each month, Ms. Brokaw stated that she believed that all persons who were required to submit their statements were doing so, because “lots of statements” were coming through the fax machine each month. However, Ms. Marks stated that she did not have the capacity to monitor who was (and was not) transmitting signed credit card statements each month, and that she was not surprised that a number of people were not. Ms. Marks stated that,

at the time the Pcard program was terminated, she was developing a protocol to track who was regularly submitting monthly credit card statements, but never had the chance to implement the new procedure.

In sum, our investigation concluded that there were substantial issues with the supervision of the Pcard program by the Quality Control Office—issues that seem to stem primarily from the massive volume of transactions that a relatively small number of people were responsible for monitoring in their “spare time.” Both Ms. Marks and Ms. Brokaw stated that the Quality Control Office recognized this issue and made several requests for additional personnel, but that budgetary constraints prevented them from hiring additional staff.

4. Warning Signs Regarding the Supervision of Pcard Transactions.

During the course of the Pcard program, several red flags were ignored. As early as 2003, Dallas ISD began receiving warnings about deficiencies in the supervisory procedures for Pcard transactions.

In August 2003, the District’s internal auditors performed a process review of the Pcard program, and determined that, based upon an audit of eight campus procurement cards, five campuses demonstrated issues with the documentation and self-monitoring of Pcard transactions. *See* AUGUST 20, 2003 PROCUREMENT CARD PROGRAM PROCESS REVIEW, attached to APPENDIX as Exhibit “37.” In addition, the report included recommendations that included two additional levels of Pcard transaction review: (1) the review of the monthly Pcard log by a second campus employee “to ensure that all purchases have been recorded and are supported with adequate documentation” and (2) a requirement that “supporting documentation be reviewed by the Quality Control Department on a sampling methodology.” *Id.* at p. 4. Although the first recommendation was not implemented, according to the Quality Control employees, the second

recommendation was implemented in a minimal form, as their other job responsibilities permitted.

In August 2005, the District's internal auditors performed a second process review of the Pcard program. Similar to the first review, this report raised concerns that Pcard purchases were not being monitored, and noted that "the Quality Control Department does not scrutinize the [Pcard] logs and original receipts. The Quality Control Department monitors monthly purchase amounts by vendor for single limit transaction thresholds, split purchases, and spending patterns." See AUGUST 12, 2005 PROCUREMENT CARD PROGRAM PROCESS REVIEW, attached to APPENDIX as Exhibit "27." The report also recommended including the Purchasing Department in the Pcard monitoring process. However, we did not find any evidence that this recommendation was implemented.

In November 2005, KPMG, the District's independent auditors, issued its independent auditors' report. As part of this report, KPMG identified inadequate Pcard supervision procedures as responsible for Pcard purchases that may not have met grant guidelines. See EXCERPTS OF KPMG INDEPENDENT AUDITORS' REPORT, attached to APPENDIX as Exhibit "38." KPMG identified this as a material weakness in the District's internal controls. *Id.*

Although Ms. Brokaw and the Quality Control employees stated that they intended to implement new procedures to monitor Pcard purchases, as of the date the Pcard program was terminated, new procedures had not been implemented.

B. Systemic Issues in the Pcard Transactions of Pcard Holders.

In addition to issues with the three tiers of supervisory review described above, we also identified several systemic issues with the receipts and Pcard transactions of the Pcard holders. To the extent we identified issues such as: (1) violations of the Pcard rules; (2) federal

expenditures that may not have met the requirements of the federal grant; and/or (3) notable and anomalous patterns of Pcard expenditures, we prepared an employee referral report, and gave the report to the District. We have attached all employee referral reports that were drafted as part of this investigation as Exhibits to this report, organized by the last name of the employee. *See* EMPLOYEE REFERRAL REPORTS, included in the APPENDIX attached hereto.

It is important to reiterate, however, that, due to the limited resources available to review and investigate the enormous number of Pcard transactions and Pcard holders, we were not able to investigate the Pcard receipts of all 1,376 Pcard holders—rather, we chose to investigate the Pcard transactions of a subset of Pcard holders who met one or more of the five objective criteria described above. Therefore, it is very possible—in fact, likely—that the issues described in this section may apply to many additional Pcard holders who were not specifically investigated, and for whom no employee referral report was generated.

Moreover, this section is not intended to discuss each of the issues identified in every employee referral report. To the extent that an issue appeared limited to one or a small number of Pcard holders, the employee referral reports provide further information about the individual circumstances of that Pcard holder.

1. Failure to Maintain Original Receipts for Pcard Transactions.

One of the first major issues we identified with many Pcard holders was the failure to maintain an original Pcard receipt for each transaction. As described above, the Pcard manual required each Pcard holder to maintain an original receipt for each Pcard purchase. *See* Exhibit “5” at p. 5; *see also* Exhibit “6” at p. 17 and 29. Nearly every Pcard holder we investigated was missing at least a *de minimis* number of receipts (5% or less of his/her total Pcard transactions), which was not surprising in light of the broad time frame of our investigation and the large

number of transactions that were conducted during that time. However, a large number of people did not provide receipts for between 20% and 100% of their Pcard transactions.²⁹

For example, at least two Pcard holders turned in no Pcard receipts. One Pcard holder executed 1,303 transactions for a total of \$535,232.09, but did not provide any receipts. This Pcard holder acknowledged in her interview that she disposed of the receipts.

A second Pcard holder executed 382 transactions for a total of \$109,154.62, but did not submit a single receipt. This Pcard holder stated that he left his Pcard receipts at his prior school, and that the receipts must have been lost in the transition to the new administration.

Several other Pcard holders could not account for 30-50% of their Pcard purchases, and gave reasons that spanned from the credible to not-so-credible, including:

- boxes that contained his/her Pcard receipts that were lost/destroyed/damaged in bond construction activities;
- the Pcard receipts were left at his/her previous school, but could not be located;
- the Pcard receipts were maintained by his/her office manager/secretary, who was not a good record keeper; and
- the Pcard receipts were kept in a briefcase that was destroyed in a car accident.

This failure to maintain receipts greatly limited our ability to analyze and make conclusions about many purchases. Moreover, the costs, in terms of both time and money, of recovering thousands of receipts from hundreds of vendors—some from as early as 2003—were prohibitive. Therefore, we established a protocol to derive additional information about the Pcard transactions that lacked receipts. Specifically, we provided each person who was missing

²⁹ Additionally, we identified many receipts that were apparently produced to the Pcard holder by the vendor in the days leading up to the receipt submission deadlines in August 2006. This suggests that a substantial number of receipts we reviewed were not kept in the ordinary course of business but, rather, were gathered from vendors after the termination of the Pcard program to satisfy the Superintendent's directive. Thus, it was difficult to conclude what level of recordkeeping occurred during the program itself, as compared to what records were collected once the Pcard holders knew that they were required to submit their receipts. As with the other issues discussed throughout this section, specific incidents of these factual scenarios are cited in the employee referral reports attached hereto.

more than a *de minimis* number of receipts with written instructions which required him/her to provide, within seven calendar days, either: (1) a receipt showing what was purchased or (2) a written explanation of what was purchased, and where it was located (and/or what happened to it). *See* SAMPLE MISSING RECEIPT PROTOCOL, attached to APPENDIX as Exhibit “28.”

The missing receipt protocol was highly successful, and resulted in almost 100% compliance, including the submission of thousands of receipts which were not previously produced. Nonetheless, several individuals could not locate either original or duplicate receipts for some or many transactions, and submitted a written spreadsheet of what was purchased on these occasions.³⁰ Although the written spreadsheet was better than no receipt at all, it was not nearly as reliable as an original receipt, and required a substantial amount of time (both during the interview and after) to try to corroborate some of the purchases described.

In sum, many Pcard holders did not submit receipts for many Pcard transactions which, in many cases, limited our ability to make conclusions about Pcard holders’ transactions.

2. Failure to Maintain Itemized Receipts for Pcard Transactions.

In addition to the substantial number of missing receipts, many Pcard holders submitted “receipts” that failed to itemize what was purchased. Although the 2003 Pcard manual did not provide explicit requirements for what constitutes an “original receipt,” the June 2005 manual required “valid and complete source documentation” for each purchase—specifically, each Pcard holder was required to keep a receipt, invoice, or packing slip for each Pcard purchase that showed:

- vendor identification (vendor name);
- the date the purchase was made;
- a description, quantity and unit cost of each item purchased;

³⁰ Although many Pcard holders appeared diligent in trying to collect missing receipts, many vendors informed us (and Pcard holders) that, due to limitations in their accounting systems, they could not produce receipts from the 2003-2004 time frame.

- the total cost of the order; and
- the cardholder's name and/or card number.

Compare Exhibit “5” at p. 5 to Exhibit “6” at p. 17. Despite the Pcard manual’s requirement, a large number of the receipts we reviewed did not meet these criteria. Some receipts listed several numbers (apparently, the prices paid for the items), but no description of what was purchased. Other receipts bore a generic description, such as “trophies,” “awards,” or “incentives,” and a total price, rather than a breakdown of the quantities purchased, and the price per item. Many Pcard holders submitted receipts showing the total amount of a bill at a restaurant, rather than the itemized receipt showing what was purchased, and the cost of each item.³¹ These receipts made it extremely difficult to discern how many people were present for a particular meal, and what was ordered.

The non-itemized receipts created two issues in the investigation. First, the Pcard holders often could not recall or explain exactly what was purchased (or, in many cases, the circumstances surrounding the purchase) from the generic receipts, which, in turn, limited our ability to analyze whether the expenditures were appropriate.

Second, and more importantly, non-itemized receipts necessarily hampered the Pcard holder’s ability to confirm, *at the time of the purchase*, that the school/department received what was paid for, and in the quantity ordered. For example, there are dozens of receipts that list one word—“incentives”—and a total invoice price, such as \$950.00. Because such a receipt did not itemize what was purchased, and at what price, the Pcard holder (and the District) would be completely unable to account for whether he/she was receiving 50 “incentives” at \$19 each, or

³¹ This issue was compounded by the fact that the vast majority of restaurant purchases were not supported by an agenda explaining the purpose for the expense, and/or who was present.

19 “incentives” at \$50 each, and whether the number of “incentives” that were paid for were actually delivered and received.

In sum, we reviewed hundreds of generic receipts which did not meet the level of detail required by the June 2005 Pcard manual, and which created substantial obstacles for the Pcard holder in attempting to explain and justify many Pcard purchases.

3. Failure to Maintain Gift Card Documentation.

From 1999 through June 2005, Pcard holders were permitted to purchase gift cards in “nominal” amounts. *See* Exhibit “5” at p. 4. The June 2005 Pcard manual prohibited the future purchase of all gift cards. *See* Exhibit “6” at p. 12. During the time period that gift card purchases were permitted, the Pcard manuals required Pcard holders to keep both the receipt for the purchase of the gift card and for all subsequent redemptions of the gift card. *Id.* Many Pcard holders were not able to document or explain many gift card purchases and redemptions.

Between January 2003 and June 2006, Pcard holders collectively purchased in excess of one million dollars of gift cards at dozens of vendors (including Wal-Mart, Target, Home Depot, Lowes, Barnes and Noble, Office Depot, AMC Movie Theatres, and dozens of area restaurants) for amounts ranging between \$5 and \$1,000. The largest volume of gift cards was purchased at Wal-Mart, where Pcard holders purchased more than \$750,000 of gift cards between January 2003 and June 2006. *See* Exhibit “19.”³² The next highest volume of gift cards was purchased at Target, where Pcard holders bought over \$44,000 in gift cards between January 2003 and June 2006. *See* Exhibit “20.”

³² Navigant identified \$749,150 in even-dollar transactions at Wal-Mart during this time frame, almost 100% of which turned out to be gift card purchases. In addition, our investigation also uncovered thousands of dollars of Wal-Mart gift cards that were purchased in odd dollar amounts (*e.g.*, a gift card for \$416.57), which would not have been flagged by the Navigant report. In addition, many individuals purchased gift cards and other items in the same transaction (*e.g.*, \$62.35 in merchandise plus a \$500 gift card), resulting in a total transaction that was an odd dollar amount. These transactions also would not have been flagged by the Navigant report. Therefore, we estimate that well over \$750,000 of Wal-Mart gift cards were purchased.

Almost all of these gift cards were purchased between January 2003 and June 2005, when the purchase of nominal gift cards was permitted. However, we have identified at least three individuals who purchased gift cards after June 2005, which violated the provisions of the June 2005 Pcard manual. In these cases, as detailed in the attached employee referral reports, the individuals either claimed ignorance of the change in policy, or suggested that a supervisor indicated that he/she could continue to purchase gift cards, notwithstanding the new rules.

For the purposes of illustration, of the \$750,000 of Wal-Mart gift cards purchased between January 2003 and June 2006, the largest gift card total of any individual we investigated was \$24,150, followed by another Pcard holder who purchased \$23,750. Another thirteen individuals exceeded \$10,000 in Wal-Mart gift cards purchased during this time frame. *See* Exhibit “19.” At Target, one individual purchased a total of \$8,500 in gift cards. No other individual exceeded \$2,500 in Target gift card purchases. *See* Exhibit “20.”

We were uniformly told that Wal-Mart gift cards were purchased in order to purchase food, snacks, and drinks in bulk at Sam’s Club, a Wal-Mart affiliate that operates warehouse stores. The Pcard holders claimed (and we confirmed) that, until recently, Sam’s Club did not accept MasterCard as a form of payment. Most of the non-Wal-Mart gift cards—especially those from restaurants and movie theatres in \$5.00 to \$50.00 denominations—were claimed to have been given away as “incentives” to students, staff, and administrators.³³

Although some Pcard holders were diligent in documenting both the purchase and the redemption of gift cards, and were able to demonstrate how almost every dollar of his/her gift cards were spent, there were a substantial number who were not able to account for thousands of dollars (and, in a few instances, tens of thousands of dollars) of gift card redemptions. This issue

³³ Additional issues related to the purchase and distribution of “incentives” are discussed in detail below.

was significant because gift cards function like cash³⁴, are difficult for stores to trace, and can be used to purchase almost any merchandise in the stores—educational or otherwise. Although there was a substantial deficiency in recordkeeping for gift cards, there was no correlation between the number of dollars spent on gift cards and the ability to document their redemption. In other words, some Pcard holders who spent a lot of money on gift cards had very good records, and some did not.

Because of the potential for abuse in connection with the undocumented purchase and redemption of gift cards, in cases where a Pcard holder had a significant number of undocumented gift cards, we attempted to contact vendors to request assistance with tracing the redemption of gift cards. However, several of the vendors we contacted stated that: (1) they did not keep sophisticated records regarding the redemption of gift cards or (2) the transactions were too old for them to track. The notable exception to this trend was Wal-Mart, who offered the assistance of their Asset Protection Department, and provided us with data reflecting the redemption of some Wal-Mart gift cards³⁵ for several Pcard holders.

When we asked Pcard holders about the missing gift card redemption receipts, many stated that they did not redeem the gift cards themselves—rather, the gift cards were given to other District employees to make purchases for the school/department. This practice frequently resulted in the redemption of gift cards, but the failure to maintain a receipt. In other cases, it appeared that certain gift card receipts were not produced because the Pcard holder (or another employee who received the gift card) made purchases that may have been personal in nature and/or difficult to substantiate educationally. When we received the gift card data from Wal-Mart, some “missing” gift card redemption receipts showed the purchase of items such as

³⁴ In one instance, approximately \$1,400 of Wal-Mart gift cards appear to have been redeemed for cash.

³⁵ We were able to obtain data showing the purchase and redemption of gift cards up to twenty-four months old.

alcohol, prescriptions, clothing, personal grocery items, cosmetics, pet food, and home décor. Many such items appeared personal in nature.

In sum, we documented serious and widespread deficiencies in many Pcard holders' abilities to document the purchase and redemption of gift cards.

4. Systemic Issues with the Payment of Sales Tax on Pcard Transactions.

Because Dallas ISD is a tax-exempt entity, no sales tax should have been paid on Pcard purchases. Both the 2003 and June 2005 versions of the Pcard manual referenced Dallas ISD's tax-free status, and incorporated a copy of the District's tax exempt certificate. *See* Exhibit "5" at p. 6; *see also* Exhibit "6" at p. 14. In addition, the face of the Pcard displayed Dallas ISD's tax exempt status, and referenced Dallas ISD's tax exempt number. *See* SAMPLE PCARD—FRONT AND BACK, attached to the APPENDIX as Exhibit "29."

Nevertheless, we identified hundreds of receipts where Pcard holders paid sales tax on Pcard transactions. Because the payment of sales tax varied widely from Pcard holder to Pcard holder, and many Pcard holders were missing a large number of receipts (and/or itemized receipts), it was very difficult to accurately extrapolate the total amount of sales tax paid by Pcard holders between 2003 and 2006, and we, therefore, did not do so.

Although this issue was more significant in some Pcard holders than others (one individual paid as much as \$1,000 in sales tax; many others paid as little as a few dollars total), almost every Pcard holder we investigated paid sales tax on at least some of his/her Pcard transactions. The payment of sales tax was particularly prevalent when Pcard holders redeemed gift cards.

When we asked Pcard holders about the payment of sales tax, nearly all of them claimed it was an oversight, and that the payment of sales tax had not been discovered, if at all, until they

were organizing their receipts for submission pursuant to the Superintendent's directive. A small number stated that they had informed the vendor of Dallas ISD's tax exempt status, but that the vendor had added tax to the invoice anyway.

The Texas Administrative Code provides a mechanism for any person or entity that has paid sales tax in error to request and obtain a tax refund from the State Comptroller's Office. *See* 34 TAC §3.325. The request must be made within four years from the date of the transaction. *See* 34 TAC §3.325(c). Therefore, it is possible that Dallas ISD could recover some or all of the sales tax paid by Pcard holders during the 2003-2006 time frame through this statutory procedure.

5. Systemic Violations of the \$1,000 Limit on Pcard Purchases.

No Pcard rule resulted in more confusion and/or disregard than the \$1,000 limit on Pcard transactions with non-price agreement vendors. The \$1,000 Pcard rule was instituted to ensure that large purchases made with District funds complied with state and local bidding regulations, and that the District was receiving appropriate value for the dollar. Both the 2003 and June 2005 versions of the Pcard manual limited Pcard transactions with non-price agreement vendors to \$1,000, and cited Pcard holders to a list of vendors (the "price agreement vendor list") with whom the District had negotiated favorable pricing for certain categories of goods. *See* Exhibit "5" at p. 4; *see also* Exhibit "6" at p. 12. The price agreement vendor list was available to all Pcard holders through the District's intranet site, and was a searchable spreadsheet that could be sorted by product description, by department, and by vendor. *See* MASTER LIST—PRICE AGREEMENTS (as of April 13, 2006), attached to APPENDIX as Exhibit "30."

In our preliminary review of the electronic database of Pcard transactions, we identified hundreds of transactions with non-price agreement vendors that were in excess of \$1,000. In

addition, a pattern of transactions suggested that “structuring” took place, on a large scale, to avoid the \$1,000 limit. For example, many Pcard holders made multiple purchases from the same vendor on the same day (or, in some cases, on consecutive days) that were less than \$1,000 each, but exceeded \$1,000 in aggregate (*e.g.*, two separate transactions of \$800 each which were executed at the same vendor minutes or hours apart).

In order to gauge the scope of this potential issue, Navigant developed a query to search the Pcard database in an attempt to identify potential violations of the \$1,000 limit.

a. Single transactions in excess of \$1,000.

First, Navigant generated a report detailing every instance where a Pcard holder executed a single transaction in excess of \$1,000 with a non-price agreement vendor.³⁶ The resulting report detailed 3,550 Pcard transactions for a total of \$8,966,404. *See* NAVIGANT REPORT—SINGLE TRANSACTIONS OVER \$1,000, attached to APPENDIX as Exhibit “31.”

The fact that a transaction appears on this report does not necessarily mean that it was carried out in violation of the \$1,000 rule. For example, although the District has negotiated price agreements for dozens of categories of common supplies, we did not identify a price agreement vendor for *every* category of goods that may be applicable in the wide-ranging educational settings that exist in the District.

However, many of these purchases were for items covered by price agreements, including office supplies, clothing apparel, custodial supplies, furniture, computers, classroom supplies,

³⁶ Navigant used the price agreement vendor list attached as Exhibit “30,” which was current as of April 13, 2006. According to this list, the price agreement contracts with these vendors went into effect at various times, and were in effect for various durations. Only some of the price agreements were in effect for the entire 2003-2006 time frame. Given that Pcard holders were not routinely notified each time a vendor agreement changed, Navigant’s searches did not attempt to account for the start and stop dates of each vendor’s contract. Rather, if the name of a vendor appeared on the price agreement list, it was assumed that the contract was in place during the entire 2003-2006 time frame, which gave the benefit of the doubt to the Pcard holder. Therefore, the conclusions referenced in this section are approximations that would almost certainly change based upon an accounting for the start and stop date of each price agreement contract.

promotional items, and incentive items (such as trophies and awards). *See generally* Exhibit “30.” When we interviewed Pcard holders about these purchases in excess of \$1,000, the explanations varied dramatically. Some Pcard holders stated that, in some instances, their total order was less than \$1,000, but that the vendor added shipping and handling costs (or various other fees) unexpectedly, which raised the total order in excess of \$1,000. Other Pcard holders expressed general confusion about the difference between price agreement and non-price agreement vendors, and claimed not to know that a price agreement list existed. Other Pcard holders claimed to understand the price agreement concept, but stated that some vendors would send advertisements claiming they were “licensed” or “approved” District vendors, and provided their Dallas ISD vendor number, which led the Pcard holders to believe that these vendors had price agreements with the District.³⁷

A small number of Pcard holders acknowledged knowingly violating the \$1,000 rule, and explained that exigent circumstances required that they make the purchase in order to have access to materials they needed on short notice. In these instances, Pcard holders stated that they knew that they would not be able to obtain the required supplies through the District’s Purchasing Office in time (Pcard holders claimed it would often take weeks or months to receive items through this process), and that the Pcard was their only option to timely receive the required merchandise.

b. “Structured” transactions in excess of \$1,000.

Next, Navigant performed a search designed to capture “structured” transactions—that is, transactions where the Pcard holder executed multiple transactions from the same vendor on the

³⁷ Every vendor must apply for and obtain a vendor number before doing business with the District. A vendor number does not mean that the District has a price agreement with that vendor—all District vendors have vendor numbers, but only *some* have a negotiated price agreement.

same day that, in the aggregate, exceeded \$1,000. The resulting report detailed 3,721 Pcard structured transactions for a total of \$2,088,542. See NAVIGANT REPORT—TRANSACTIONS WHERE EMPLOYEE MADE MULTIPLE PURCHASES WITH THE SAME MERCHANT ON THE SAME DAY, attached to APPENDIX as Exhibit “32.” In many cases, the multiple transactions were made minutes or hours apart in an apparent effort to break up a larger transaction into two smaller transactions.

Navigant also searched the database for structured transactions where an employee made multiple purchases with the same vendor within a three-day period, and where the aggregate transactions exceeded \$1,000. We asked Navigant to generate this report because it appeared that some Pcard holders would structure the payment of a large purchase on consecutive days, rather than the same day. This report revealed another 3,977 transactions for an additional \$2,457,493. See NAVIGANT REPORT—TRANSACTIONS WHERE EMPLOYEE MADE MULTIPLE PURCHASES WITH THE SAME MERCHANT WITHIN A THREE DAY PERIOD, attached to APPENDIX as Exhibit “33.”

Pcard holders gave different explanations for these structured transactions. First, the fact that transactions were structured to be less than \$1,000 suggested the Pcard holders were, for the most part, aware of the \$1,000 rule. Very few Pcard holders who structured their transactions in this manner claimed ignorance of the \$1,000 rule. Instead, most Pcard holders were confused about the meaning of the \$1,000 rule—specifically, whether the rule prevented the purchase of a *single item* in excess of \$1,000, a *single transaction* in excess of \$1,000, or a *total purchase* in excess of \$1,000.

Although one Pcard holder unequivocally admitted that she structured her purchases in order to avoid the competitive bid process for the purchase and installation of some office

furniture, most Pcard holders acknowledged structuring their transactions, but stated that they did not feel that they were doing anything wrong. Specifically, many Pcard holders stated that the Pcard training mandated that *no single transaction* could exceed \$1,000, but left open the option to split large purchases along logical lines, such as by specific item purchased. For example, several Pcard holders purchased tutoring workbooks and materials from a non-price agreement vendor, and divided the large (in excess of \$1,000) purchase into two, three, or four separate invoices, executed minutes apart, which were divided by grade level (4th grade materials on the first invoice, 5th grade materials on the second invoice, and 6th grade materials on the third invoice).

Because of the number of Pcard holders who alleged that their Pcard training sanctioned (or, alternatively, did not preclude) this conduct, we interviewed three of the Pcard trainers about this issue. When we posed our observations about the structured transactions to Ms. Romo, who conducted the Pcard training for many of the Pcard holders we interviewed, she acknowledged that her training probably did not specifically preclude this creative treatment of the \$1,000 rule, but that the spirit and intent of the rule was made clear to Pcard holders. Ms. Marks and Ms. Ervin, who also conducted Pcard training, echoed Ms. Romo's statement.

Many Pcard holders claimed that they had contacted Ms. Brokaw directly to ask questions about the \$1,000 rule, and that she suggested that they could structure their transactions to avoid violating the \$1,000 rule. One Pcard holder informed us that Ms. Brokaw revoked his Pcard for the remainder of the school year for making a transaction in excess of \$1,000, and later told him that he "should have structured his transactions" by splitting his large transaction in half and having the vendor execute two separate charges minutes apart. Ms.

Brokaw denied instructing any Pcard holder to split or structure their purchases to avoid the \$1,000 rule.

We also note that a few Pcard holders were extremely frank and admitted that, even though: (1) the Pcard training did not specifically preclude structuring transactions and (2) inquiries directed to the Quality Control Office blessed this behavior, they structured their transactions knowing that it was not consistent with the spirit of the \$1,000 rule. They claimed to have done so in exigent circumstances, where they needed merchandise immediately and could not wait the weeks or months it took for the Dallas ISD Purchasing Office to issue a purchase order.

In sum, there were a large number of transactions that violated the letter and/or spirit of the \$1,000 limit on Pcard transactions with non-price agreement vendors. However, because of the varied and sometimes opposing statements made by the Pcard trainers and Pcard holders about the clarity and interpretation of the rule, it is unclear how many of these potential violations were good-faith attempts to comply with the \$1,000 rule, rather than intentional violations of Pcard policy.

6. Breach of Pcard Security.

There were also widespread violations of the Pcard security rules. Both the 2003 and June 2005 Pcard manuals limited the use of the Pcard to the individual whose name it bore. *See* Exhibit “5” at p. 4; *see also* Exhibit “6” at p. 10. Presumably, this rule was instituted to help ensure the security of the Pcard number by limiting the individuals who had access to the Pcard, and also to make the Pcard holder accountable for the Pcard purchases. In reviewing the Pcard receipts of many Pcard holders, however, there were many signatures that did not match those of the Pcard holders, which suggested that several different individuals had used the Pcard.

When we interviewed Pcard holders about the different³⁸ signatures, it quickly became evident that it was common to recruit the assistance of a few (or many) other employees to make some (or most) of the Pcard purchases. This practice was implemented in two ways.

First, almost every Principal (and most other high-ranking directors and executives) used their office manager(s) and/or administrative assistant(s) to place some Pcard orders by phone or over the internet. In most cases, this practice did not involve transferring physical possession of the Pcard to anyone else—rather, the office manager/administrative assistant was given access to the Pcard number, and made the purchase on District grounds and under the supervision and direction of the Pcard holder.

However, a large number of Pcard holders also gave possession of the Pcard itself to one or more other employees, and asked them to make purchases for a school/department. The most common explanation for this violation of Pcard policy was that the Pcard holder did not have time to make all of the purchases that the campus/department needed, and allowed other employees to use the Pcard rather than permitting these individuals to get their own Pcard (and undertaking the responsibility of monitoring an additional Pcard).

These breaches of Pcard security reached the highest levels of the Pcard program. We documented one instance where Ms. Brokaw, the head of the Quality Control Office, instructed Ms. Marks to access the Pcard information for Ms. Janice Henderson, another Quality Control employee, from the Oracle system. Ms. Brokaw used Ms. Henderson's credit card information to purchase a refrigerator, by telephone, for the Quality Control Office. Ms. Henderson was out sick on the day in question, and did not give Ms. Brokaw permission to make this purchase, and did not discover the purchase until after she returned to the office.

³⁸ In some cases, another employee signed his or her own name on the receipt. In other instances, the employee signed the receipt in the name of the Pcard holder.

Although some Pcard holders were diligent in maintaining receipts for the purchases made by other people, many others were not. In fact, the use of the Pcard by multiple individuals was one of the leading causes of a Pcard holder's inability to produce receipts for many of his/her purchases. In addition, the fact that multiple employees used a single Pcard (compounded by the fact that many Pcard holders could not recall which employees, or how many employees, used the Pcard to make certain purchases) limited our ability to investigate the facts and circumstances surrounding some Pcard purchases.

Because of serious issues related to the lack of accountability for many purchases, to the extent a Pcard holder committed a breach of Pcard security by giving the Pcard to other people, we documented this fact in an employee referral report.

In sum, we documented the breach of Pcard security in such a substantial portion of the individuals we investigated that it appears to have been a common and widespread practice among Pcard holders.

7. Pcard Expenditures Which May Violate Federal Funding Guidelines.

Many Pcard holders had more than one Pcard—some held as many as four or five different Pcards at one time, and there were no rules restricting the number of Pcards a single employee could hold. To the extent a Pcard holder had multiple Pcards, each of these Pcards was linked to a different funding source. The majority of Pcards issued by the District were linked to the District's general operating fund.³⁹ However, many other Pcards were linked to federal educational grants. The two most common federal funds sources that we encountered in

³⁹ The District's general operating fund is designated as the "199" fund on the employee referral reports attached hereto, and on many of the exhibits that accompany this report.

our investigation were (1) Title I funds⁴⁰ and (2) funds provided through the 21st Century Community Learning Centers before and after-school program⁴¹.

Title I funds are allocated on a campus-by-campus basis to those schools with a disproportionate number of economically-disadvantaged children, and are designed to supplement general operating funds to help ensure that all students are able to meet certain academic standards and expectations. See TITLE I, PART A—PURPOSE, available at <http://www.ed.gov/programs/titleiparta/index.html>. Title I funds are federal education funds, but are administered by the Texas Education Agency. Most Dallas ISD campuses receive some amount of Title I funds.

The 21st Century funds are distributed for a somewhat different purpose. According to the United States Department of Education, the 21st Century Community Learning Centers “provide academic enrichment opportunities for children, particularly students who attend high-poverty and low-performing schools. The program: helps students meet state and local student standards in core academic subjects, such as reading and math; offers students a broad array of enrichment activities that can complement their regular academic programs; and offers literacy and other educational services to the families of participating children.” See 21ST CENTURY COMMUNITY LEARNING CENTERS—PURPOSE, available at <http://www.ed.gov/programs/21stcccl/index.html>. 21st Century funds—like Title I funds—are federal funds administered by the Texas Education Agency.

The source of the funds for each Pcard transaction was important because the Texas Education Agency provides specific guidelines regarding what kinds of purchases can be made

⁴⁰ The District’s Title I funds are designated as “211” or “202” funds on the employee referral reports attached hereto, and on many of the exhibits that accompany this report.

⁴¹ The District’s 21st Century funds are designated as several “300-series” funds on the employee referral reports attached hereto, and on many of the exhibits that accompany this report.

with federal funds that are administered by the TEA. After reviewing the TEA's basic rules regarding the expenditure of federal funds, we identified two categories of expenditures where many Pcard holders may have violated TEA guidelines: (1) food and (2) "incentives."⁴²

a. Food expenditures which may not meet TEA guidelines.

Some Pcard holders spent a substantial portion of their Pcard funds on food expenditures. These food expenditures ranged from simple snacks, such as crackers and water, to holiday banquets at area restaurants where, in one case, the bill topped \$3,000. The source of Pcard funds was critical to this analysis, because the rules varied substantially from funding source to funding source.

To the extent these expenditures were made using the District's general operating funds, there were apparently no rules regarding when, where, for whom, or how frequently food expenditures could be made. There were also no written requirements describing what documentation, if any, was required to substantiate food expenditures.

However, for food expenditures that were made using federal funds administered by the TEA, there were specific documentary requirements, and limited circumstances where such expenditures were allowable. These limited circumstances include:

1. Light lunch during an all-day meeting or training session: Light lunch for **participants** who are cloistered in an all-day (i.e., at least six hour) meeting or training session. The grantee must document that it was impractical for participants to obtain lunch on their own (e.g., due to isolated location and/or distance to eateries) and that their attendance at the meeting/training session was essential to accomplishing the objectives of the grant. The grantee must maintain an agenda that clearly identifies the topics discussed during the meeting/training session and the time allotted to each topic, including the lunch period. Only a nominal amount of grant funds may be used per participant.

⁴² This report, and our investigation, focused on potential issues with federal expenditures on food and "incentives." Although there are dozens of additional regulations (both provided by the TEA and otherwise) regarding the expenditure of federal funds, these additional issues were outside the scope of this investigation, and are not addressed in this report.

2. Working lunch during an all-day meeting or training session: Light meals during a “working lunch.” A working lunch is defined as an activity in which staff or participants are engaged in exercises/activities during the normal meal time as stated on an agenda and in which no other opportunity for a meal is provided. The grantee must maintain an agenda that clearly identifies the exercise or activity that the participants are engaged in and should retain a representative sample of the work product, if any, that was generated as a result of the working session. Only a nominal amount of grant funds may be used per staff/participant.

3. Nutritional snacks for students in extended day (i.e., after-school) programs.

4. Nutritional snacks for children in child care while parents are participating in grant activities.

5. Food necessary to conduct nutrition education programs for parents.

6. Parent involvement activities where refreshments are necessary to encourage participation/attendance by parents, such as in low-income areas, and thus meet program activities.

See FEDERAL COST PRINCIPLES (as of April 28, 2006) at p. 9-10, attached to APPENDIX as Exhibit “33.”⁴³ The guidelines continue that “full meals for parents and/or students are not allowable for these purposes under any circumstances,” and “no other food costs, including beverages and other refreshments, breaks, or snacks, are permitted. *Id.* at p. 10. There is also a list of specific “unallowable” food expenditures, including (1) refreshments of any kind...for staff meetings/staff training; (2) refreshments or meals at an awards banquet/function; and (3) breakfast. *Id.*

Despite the TEA’s guidelines, many Pcard holders had a substantial number of food expenditures without the accompanying documentation required by the TEA. There were several layers of issues with the food expenditure documentation. First, many Pcard holders were missing all documentation (receipts, agendas, and/or written explanations) for several of

⁴³ The most recent version of the TEA’s Federal Cost Principles was amended in March 2007. Because this was months after the termination of the Pcard program, the provisions of the April 2006 version are cited herein. The March 2007 version of the Cost Principles does not make any substantive changes to the provisions discussed above.

their federal food expenditures.⁴⁴ To the extent documentation was produced, it was frequently in the form of a non-itemized restaurant receipt (just showing the total amount of the bill), and without a written agenda showing what topics, if any, were discussed. Moreover, for those few agendas that we were able to review, many of the meetings/trainings/staff development sessions did not appear to meet the TEA’s “all day meeting” and/or “working lunch” requirements set forth above. The most common unauthorized expenditure we identified was the use of federal funds to buy breakfast and/or lunch for half-day staff meetings/trainings that involved most or all of the teachers and school support staff.

We interviewed Pcard holders about their knowledge of the TEA guidelines, and the documentation they maintained for these federal food expenditures. As with most trouble spots, some Pcard holders were familiar with the TEA’s regulations regarding food expenditures, and were able to document most of their food expenditures in a way that likely met TEA guidelines. Some Pcard holders kept itemized receipts, written agendas, and sign-in sheets documenting the purpose and duration of the training/meeting, and who attended. In addition, several other Pcard holders stated that they avoided purchasing any food using federal funds, and claimed that the rules and regulations were too confusing and onerous to give them comfort that they were making food expenditures appropriately.

On the other hand, many Pcard holders were not familiar with (or, in a few cases, were not aware of the existence of) the TEA’s guidelines regarding the permissible circumstances and/or documentation of federal food expenditures, or where these guidelines could be found. Some other Pcard holders stated that they had been trained that federal food expenditures were limited to “all-day” staff trainings and other limited circumstances, but described

⁴⁴ Although the Superintendent’s letters called for the submission of Pcard receipts and supporting documentation, written agendas were not specifically included in the list of supporting documentation. However, no Pcard holder raised this issue with us.

meetings/trainings that did not appear to meet the “all-day” and/or “working lunch” requirements of the TEA guidelines. A handful of Pcard holders stated that they did not receive training regarding food expenditures and, instead, relied on information provided by their peers in making these expenditures.

It is important to note that we did not find any conclusive evidence that Pcard holders knowingly violated the TEA’s regulations on food expenditures. Rather, most of these issues appeared to result from sincere confusion and ignorance about the rules, which may have been the result of inconsistent and spotty training regarding the use of federal funds.

b. “Incentives.”

There were also widespread issues with the use of District funds to purchase “incentives” for students, staff, parents, teachers, and volunteers. The Pcard holders we investigated spent hundreds of thousands of dollars on “incentives” of all kinds, including T-shirts, coolers, sunglasses, Blockbuster gift cards, restaurant gift certificates, monogrammed pencils, plaques, trophies, Nintendo game systems, CD players, MP3 players, music CDs, DVD players, limousine rides, DVDs, Waterford Crystal, and clothing.

These “incentives” were given to teachers, staff, and students for reasons that included perfect attendance, Saturday school attendance, holidays, Teacher Appreciation Week, Administrative Assistants’ Day, and retirement. It quickly became evident that, in some instances, these items were not “incentives” as much as *gifts*. This observation was supported by the frank admission of one Pcard holder who stated that she was trained never to use “the g word” in describing these purchases, because they were not gifts—they were “incentives”—even when it was not clear (such as in the case of “holiday incentives” and “retirement incentives”) what behavior was being “incentivized.”

With very few exceptions, Pcard holders who purchased these incentives did not keep any inventory or other documentation showing who received these items, when, and for what reason. One such exception was a Pcard holder who required both the student and the student's teacher to sign a "receipt" confirming that the student had received the incentive, and that the teacher had witnessed the act. This Pcard holder stated that she adopted this practice to avoid any implication that she kept any of the items for herself.

Many of these "incentives" were purchased using the District's general operating funds. Again, there were no formal or informal regulations regarding who, when, or why employees could give/receive incentives, or what types of items qualified as incentives.

The TEA, however, provides specific guidelines regarding what types of incentives may be purchased with federal funds. First, the TEA regulations provide that "gifts or items that appear to be gifts" are prohibited. *See* Exhibit "33" at p. 11. In addition, the TEA provides that "awards for recognition or incentives for participation" are allowable when "reasonable in cost and when necessary to accomplish program objectives. Acceptable awards and incentives include certificates, plaques, ribbons, and small trophies nominal in cost, or inexpensive instructionally related items such as pens/pencils to be used in the classroom." *Id.* at p. 4-5.

Despite these guidelines, many Pcard holders purchased incentives with federal funds that may not have been "nominal" or "instructionally related," such as restaurant gift certificates, Nintendo game systems, sunglasses, coolers, CD players or other electronics, and movie tickets. When we interviewed Pcard holders about their understanding of the TEA's regulations for incentives, we received information similar to that for federal food expenditures—some Pcard holders were conversant with the TEA regulations, and their purchases reflected a thorough understanding of these rules. Many other Pcard holders, however, again expressed ignorance of

the TEA regulations, and stated that they had always purchased these kinds of incentives, and were never told that they were inappropriate in any way.

Similar to our observations regarding federal food expenditures, we did not find any conclusive evidence that any Pcard holders knowingly purchased incentives that violated TEA guidelines. Again, many of these purchases appeared to have been made based upon fundamental unfamiliarity with the TEA regulations.

SUGGESTED INTERNAL CONTROLS

As a result of our investigation, there are several internal controls that the District could put in place to enhance the efficient tracking and utilization of its funds.

A. Sales Tax Audit and Training

A large number of Pcard transactions involved the payment of sales tax. Based upon the \$71,000,000 of Pcard dollars spent between 2003 and 2006, if even a small number of Pcard transactions involve the payment of sales tax, the total amount of improperly-paid tax could be substantial.

In addition, because of the prevalent payment of sales tax on Pcard expenditures, it is also possible that the District has unknowingly paid (and may be paying) sales tax in its other procurement processes, such as through employee reimbursements and/or transactions conducted through the District's purchase order system. Because of the size of Dallas ISD's operating budget, if even a small fraction of expenditures result in the payment of sales tax, the total sales tax paid through these other purchasing procedures may be significant.

According to the Texas Administrative Code, the District may be able to recover sales tax paid on transactions that are up to four years old. Moreover, the four-year limitations period may be extended, in some circumstances, upon the agreement of the Comptroller's Office. *See* 34 TAC §3.325(c). Therefore, the District should consider performing a comprehensive sales tax audit in an attempt to recover the sales tax paid on both its Pcard transactions and other procurement processes. Of course, a comprehensive audit would be hampered by the large number of missing and non-itemized receipts, and might involve a receipt-by-receipt review of all 251,000 Pcard transactions. Therefore, the District will want to evaluate whether such an audit is justified on a cost-benefit basis.

Perhaps more important than an audit, the District should consider requiring all budget managers District-wide to be trained (or re-trained) in the implications of Dallas ISD's tax-exempt status on the procurement process. Although many Pcard holders stated that the payment of sales tax on their transactions was inadvertent, it was not entirely clear whether all Pcard holders were even aware that Dallas ISD was a tax-exempt entity.

Finally, the District should consider implementing a monitoring procedure that is specific to the payment of sales tax, and which will catch the potential payment of sales tax at a time when is easy to correct—before it is paid. This could involve stricter requirements to self-monitor purchases, as well as a level of supervisor review and approval before an order is placed, and before the sales tax is paid.

B. Federal Funds Audit and Training on TEA Regulations for Federal Expenditures.

Many Pcard holders had at least one Pcard linked to federal funds. *See* SUMMARY OF PCARD TRANSACTIONS BY BUDGET FUND CODE, attached to APPENDIX as Exhibit “35.” According to a report prepared by Navigant, between January 2003 and June 2006, over \$13,000,000 of Title I funds, and another \$1,800,000 of 21st Century funds, were expended using Pcards. *Id.*

Our investigation revealed substantial and widespread issues regarding the use of federal funds to purchase food and incentives that may not meet the TEA's guidelines. Therefore, the District should consider a comprehensive examination of its federal grant expenditures (especially for Title I and 21st Century funds) to determine if there are any expenditures that need to be self-reported and/or re-allocated to a different funding source. In addition, the District should research its self-reporting obligations under these federal grants, if any, and determine whether any action is appropriate.

Moreover, the District should consider requiring training (or re-training) of all budget managers who handle federal funds. These issues appeared to arise from Pcard holders' lack of familiarity with the TEA's requirements for the use and documentation of federal funds, and the perpetuation of incorrect information among peers. Although the Pcard program has been terminated, budget managers continue to spend federal funds, and a thorough re-training may help increase compliance with TEA guidelines in the future.

C. Implementation of District-Wide Training on Bidding Regulations

There were also substantial issues with the understanding and interpretation of, and compliance with, the \$1,000 Pcard rule, which was instituted to ensure that large expenditures complied with state and local bidding rules. Based upon the Navigant reports referenced in this report, there are as many as 11,000 examples of transactions conducted by as many as 761 different Pcard holders for a potential total of as much as \$13,000,000 that may violate the \$1,000 rule. *See* PCARD TRANSACTIONS WITH NON-PRICE AGREEMENT VENDORS BY INDIVIDUAL, attached to APPENDIX as Exhibit "36."

Regardless of whether the Pcard training regarding the \$1,000 rule was clear and effective, whether the Quality Control employees instructed Pcard holders that it was acceptable to "structure" their transactions, or whether Pcard holders acted in good faith in "structuring" their transactions in an attempt to comply with the \$1,000 rule, it is clear that there was (and still is) widespread confusion about the interpretation of, and compliance with, this rule.

The termination of the Pcard program has not, of course, brought procurement by Dallas ISD employees to a halt. Principals and budget managers District-wide must continue to make expenditures to provide for the needs of their schools/departments. Even without a Pcard, it may still be possible to "structure" transactions in a way that may violate state and/or local bidding

rules—either through the employee reimbursement process or the purchase order process. Therefore, the District should consider requiring all budget managers District-wide to attend periodic training (or re-training) regarding the bidding rules and regulations placed upon the expenditure of District funds.

D. Implementation of Guidelines to Control Food Expenditures

There are no written or unwritten regulations regarding when, where, or why the District's general operating funds could be used to purchase food, snacks, and/or drinks for students, teachers, staff, parents, and/or volunteers. The Pcard holders concurred, claiming that they used their discretion to purchase food, snacks, and meals as appropriate. The Pcard manual provided no limitations on food purchases. When we asked Ms. Brokaw and the Quality Control employees about food expenditures, each stated that they would simply instruct the Pcard holder to keep an agenda for the food purchase and a list of attendees, but gave no further opinion on the appropriateness of food expenditures.

As a result, there was a wide spectrum of food expenditures made using the District's general operating funds, spanning from a few dollars of fruit and/or donuts for an early morning staff meeting, to staff holiday banquets exceeding \$1,000 and, in one case, \$3,000. Due to the enormous number of food expenditures and the wide variety of restaurants where food was purchased, we were not able to precisely calculate the total dollars spent by the District on food. Based upon the vendor report constructed by Navigant, however, we approximate the total food expenditures to be in excess of \$3,000,000.00. *See* Exhibit "12." Just reviewing the top 400 vendors by total dollars spent (of the more than 8,300 vendors total), the largest total food expenditures were made with:

VENDOR	NUMBER OF TRANSACTIONS	DOLLARS SPENT
Jason's Deli	1,792	\$315,227
Albertsons	4,214	\$263,102
Sunbeam Foods Inc.	412	\$194,316
Chandlers Cuisine	542	\$161,428
Aramark	530	\$150,927
Minyard's	1,528	\$116,087
Dominos Pizza	1,203	\$114,701
Tom Thumb	2,086	\$113,390
Corner Bakery	417	\$91,035
Subway	466	\$70,937
Kroger	1,323	\$68,508
Atlanta Bread Co.	272	\$66,056
Pappadeaux	199	\$54,565
Lil Bob's Catering	122	\$54,351
Fiesta Mart	607	\$46,228
Ben E. Keith Co.	75	\$42,017
Reyes Catering	66	\$37,675
Cici's Pizza	232	\$35,784
Ozarka Water	264	\$33,638
Two Podners Inc.	107	\$33,360
Pizza Hut	371	\$33,159
Baby Back Shak	95	\$30,189
Colter's Bar B Q	73	\$29,982
On The Border	83	\$29,431
Danone Waters	371	\$28,447
Famous Smokey John's BB	64	\$27,942
Chili's Grill	219	\$25,612
Catering Co.	83	\$25,466
Sonny Bryans	79	\$25,283
Cakes To Go & More	95	\$25,242
Pizza Inn	270	\$24,720
Central Market	125	\$23,793
Eatzi's	116	\$23,230
TOTAL		\$2,415,828.00⁴⁵

*Id.*⁴⁶ A relatively small number of individuals accounted for a disproportionately large number of expenditures from area restaurants (both for catering and dine-in meals). The stated reasons

⁴⁵ This chart reflects Pcard food purchases between January 2003 and July 2006 from the District's top 400 vendors, regardless of the funding source. This list includes food purchased with the District's general operating funds, as well as all state and federal grants which were linked to a Pcard.

for these expenditures ranged from “campus leadership meetings” to “staff development” to “student incentive” trips to a local restaurant. However, many of these expenditures lacked any documentation showing the purpose of the expenditure, or who consumed this food.

Based upon this substantial but unregulated expenditure of the District’s general operating funds on food, the District could consider implementing regulations to address when food expenditures can be made, for whom, and under what circumstances. Although one option would be to adopt and apply the TEA’s guidelines for federal funds to its general operating expenses, other options would be to (1) establish a “food dollar cap” which limits the number of food dollars that can be spent per student/staff/teacher/employee per semester (or per school year) and/or (2) require all food expenditures to be prospectively approved by, at a minimum, the requestor’s direct supervisor.

E. Implementation of Guidelines to Regulate “Incentive” Expenditures

There are no written or unwritten regulations regarding the use of the District’s general operating funds to purchase “incentives” for students, teachers, staff, parents, and/or volunteers. The Pcard holders concurred, and stated that they used their discretion to purchase incentives as they deemed appropriate. As a result, “incentives” became *gifts*, and this problem was compounded by a widespread failure to maintain any documentation regarding the distribution of these items. Although we documented hundreds of thousands of dollars of incentives purchased by Pcard holders, the total amount of incentives purchased was much higher. Just reviewing the top 400 vendors by total dollars spent (of the more than 8,300 vendors total), some of the largest incentive purchases were made from:

⁴⁶ Pcard holders also executed 14,302 transactions at Wal-Mart for a total of \$2,147,936. A substantial amount of this total represents the purchase of snacks and drinks for students.

VENDOR	NUMBER OF TRANSACTIONS	DOLLARS SPENT
Metzger Awards	546	\$377,517
Evans Engraving/Stamping	441	\$301,191
Discount Trophy/Awards	614	\$257,813
Positive Promotions	694	\$250,238
Big Impressions	233	\$167,220
Vestige International	201	\$139,690
Oriental Trading Company	580	\$125,052
TW1 Enterprises	170	\$118,795
Premium Impressions, LLC	160	\$115,669
T-Shirts Etc.	198	\$102,665
Trophies, Inc.	314	\$96,990
R&T Enterprise	178	\$96,185
Happi Hands	146	\$95,120
Six Flags	83	\$84,719
B&F System, Inc.	257	\$80,299
Already Gear	94	\$75,616
Gabino Advertising Spec.	133	\$72,305
Gods Words on Shirts	133	\$65,717
Contemporary Recognitions	135	\$62,832
Successories	145	\$41,238
AMC Movie Theatres	103	\$38,468
Town East Trophies	100	\$35,413
Oriental Trade	182	\$34,517
Things Remembered	174	\$33,366
Bobby Boyd Awards	33	\$29,145
RT & Associates	44	\$26,049
TOTAL		\$2,923,829.00⁴⁷

See Exhibit "12."⁴⁸ This approximation does not account for the tens of thousands of dollars in electronics incentives that were purchased from vendors such as Wal-Mart, Fry's Electronics, Circuit City, Target, and Best Buy, or the thousands of dollars of restaurant gift cards that were

⁴⁷ This chart reflects Pcard incentive purchases between January 2003 and July 2006 from the District's top 400 vendors, regardless of the funding source. This list includes incentives purchased with the District's general operating funds, as well as all state and federal grants which were linked to a Pcard.

⁴⁸ The vendors that appear in this chart were selected for the purposes of illustration because, based upon our investigation, the vast majority of the transactions involve the purchase of incentives. Accordingly, this illustration should not be read to conclude that every purchase from each of these vendors was an incentive.

purchased from area restaurants, or the various other incentives that were purchased from the other 7,900 vendors with whom Pcard holders made transactions.

Based upon this substantial but unregulated expenditure of the District's general operating funds on incentives, the District should consider implementing regulations to address what types of incentives are appropriate, who can receive them, and under what circumstances. Again, one option would be for the District to adopt and apply the TEA's guidelines for federal incentive purchases to its general operating expenses. Alternatively, the District could (1) establish an "incentive dollar cap" which limits the number of incentive dollars that can be spent per student/staff/teacher/employee per semester (or per school year); and/or (2) require all incentive expenditures to be prospectively approved by, at minimum, the requestor's direct supervisor; and/or (3) require budget managers to keep detailed written inventories regarding the amount spent on incentives, who received incentives, and for what reason.

F. Controllable Asset Audit

During our investigation, we had the opportunity to conduct a number of site inspections to verify the existence of District property purchased with Pcards. Most of these site inspections resulted in the prompt identification of the equipment we were seeking. However, some of the "controllable assets" we identified did not bear a Dallas ISD asset tag. Likewise, we reviewed receipts for hundreds of pieces of equipment that qualified as "controllable assets," for which we did not do a physical site inspection.

During our interviews, many Pcard holders stated that they had moderate to severe issues with getting Dallas ISD personnel to come to the campus/department and tag controllable assets purchased with the Pcard. Pcard holders described frustration with the "hit and miss" and "non-

responsive” process of making multiple requests for the District to tag certain assets, only to have no one show up.

Because many Pcard holders made a number of controllable asset purchases using the Pcard, the District should consider conducting a District-wide asset audit to ensure that its controllable assets are properly tagged and inventoried. Likewise, to the extent that the issues with timely tagging controllable assets is due to a personnel shortage, the District should ensure that adequate resources are devoted to this task to ensure better compliance on a going-forward basis.

CONCLUSION

The objectively-selected subset of approximately 200 Pcard holders whom we investigated revealed a wide range of behavior, ranging from those who were skillful record keepers and responsible stewards of District funds, to untrained (or under-trained) individuals who kept poor records and, in some cases, exercised questionable judgment.

With the exception of the two⁴⁹ Pcard holders who were the subject of federal criminal indictments during the pendency of our investigation, we did not document the widespread and large-scale theft of District funds. However, because Pcard holders spent a tremendous amount of money on “consumable” items which were difficult to track, such as food and “incentives,” there were opportunities for Pcard holders to commit theft by combining personal purchases with District purchases.

Despite these investigative obstacles, as of the date of this report, we are working with the Dallas ISD Police Department and the Dallas County District Attorney’s Office to refer a number of additional cases for potential criminal prosecution. These cases involve the potential misappropriation of District funds, but at a level that will be prosecuted—if at all—by the State authorities.

Although the Pcard program has been terminated, much work lies ahead to remedy the issues identified in this report, and to prevent similar issues from arising in the future. Therefore, we recommend that the District immediately take action to evaluate the feasibility of the suggested audits and internal control measures, as well as conduct training (or re-training) for budget managers District-wide.

⁴⁹ As of the date of this report, there was one Pcard holder for whom, at the request of the FBI, we did not generate a referral report.

Appendix of Exhibits to Final Report

<u>Exhibit</u>	<u>Description</u>
1	Sample Procurement Card Request Form
2	Sample Procurement Card Test
3	Sample Procurement Card Agreement Form
4	July 27, 1999 Procurement Card User's Manual
5	2003 Procurement Card Manual
6	June 2005 Procurement Card Program Manual
7	July 20, 2006 Letter from Dr. Michael Hinojosa to Dallas ISD Pcard holders
8	August 7, 2006 Letter from Dr. Michael Hinojosa to Dallas ISD Pcard holders
9	Pcard Log Documenting Submission of 2003 Pcard Receipts
10	Pcard Log Documenting Submission of 2004-2006 Pcard Receipts
11	Navigant Report: Pcard Data Validation
12	Navigant Report: Pcard Transaction Totals by Vendor
13	Navigant Report: Procurement Card Use By Employee
14	Navigant Report: Pcard Transaction Counts and Amounts By School
15	Navigant Report: Pcard Transactions by Month
16	Navigant Report: Pcard Transactions by Employee Classification
17	Navigant Report: Pcard Transactions by School/Department
18	Navigant Report: Top 100 Spenders
19	Navigant Report: Wal-Mart Potential Gift Card Transactions
20	Navigant Report: Target Potential Gift Card Transactions

21	Navigant Report: Home Depot Potential Gift Card Transactions
22	Navigant Report: Pcard Department Store Report
23	Dallas ISD Pcard Open Records Requests
24	Navigant Report: Sample Pcard Transaction Report
25	Sample Pcard Interview Protocol
26	Navigant Report: Manager Notifications Disabled in Oracle System
27	August 12, 2005 Procurement Card Program Process Review
28	Sample Missing Receipt Protocol
29	Sample Pcard—Front and Back
30	Master List—Price Agreements (as of April 13, 2006)
31	Navigant Report—Single Transactions Over \$1,000
32	Navigant Report—Transactions where Employee Made Multiple Purchases with the Same Merchant on the Same Day
33	Navigant Report—Transactions where Employee Made Multiple Purchases with the Same Merchant Within a Three Day Period
34	Federal Cost Principles (as of April 28, 2006)
35	Navigant Report—Summary of Pcard Transactions by Budget Fund Code
36	Navigant Report—Pcard Transactions With Non-Price Agreement Vendors By Individual
37	August 20, 2003 Procurement Card Program Process Review
38	Excerpts of KPMG Independent Auditors' Report