**Mary Taylor, CPA**
Auditor of State

# WARRENSVILLE HEIGHTS
# CITY SCHOOL DISTRICT
# PERFORMANCE AUDIT

FEBRUARY 9, 2010

# Mary Taylor, CPA
## Auditor of State

To the Residents and Board of Education of the Warrensville Heights City School District:

In June 2009, the Warrensville Heights City School District (WHCSD or the District) engaged the Auditor of State (AOS) to conduct a performance audit of its purchasing operations. This limited-scope performance audit follows the completion of a comprehensive performance audit released on June 23, 2009.

This performance audit uses leading practices to evaluate WHCSD's purchasing operations. The performance audit contains recommendations that identify the potential for cost savings and efficiency improvements related to the District's purchasing function. WHCSD is also encouraged to independently assess it purchasing processes and develop other alternatives independent of the performance audit.

This report has been provided to WHCSD, and its contents discussed with the appropriate elected officials and District administrators. The District has been encouraged to use the results of the performance audit as a resource in further improving its overall operations, service delivery, and financial stability.

Additional copies of this report can be requested by calling the Clerk of the Bureau's office at (614) 466-2310 or toll free at (800) 282-0370. In addition, this performance audit can be accessed online through the Auditor of State of Ohio website at http://www.auditor.state.oh.us/ by choosing the "Audit Search" option.

Sincerely,

*Mary Taylor*

Mary Taylor, CPA
Auditor of State

February 9, 2010

# Project Overview

In June 2009, the Warrensville Heights City School District (WHCSD or the District) engaged the Auditor of State's Office (AOS) to conduct a performance audit of its purchasing operations. This followed the completion of a comprehensive performance audit released June 23, 2009. The Auditor of State initiated the comprehensive performance audit after the Ohio Department of Education (ODE) placed the District in fiscal caution on May 5, 2008.

According to the District's May 2009 five-year forecast, the largest components of General Fund expenditures, after personnel services and benefits, were purchased services, supplies, and materials. Purchased services, supplies, and materials accounted for 19.9 percent of FY 2007-08 expenditures. This performance audit uses leading practices to assess purchasing operations, and identifies various methods to improve purchasing operations to better support the District's overall educational environment and reduce the cost of purchased items and contracted services to the District.

## Audit Objectives

Based on AOS research and discussion with District officials, auditors included the following audit objectives:

- Do purchasing policies reflect Ohio Revised Code and Ohio Administrative Code requirements?

- Do District personnel consistently follow the policies?

- Does the purchasing process have adequate internal controls and oversight?

- Does a supplier-selection process exist and is it appropriately used?

- Does the District effectively use technology in the purchasing process?

## Methodology

The Government Accountability Office (GAO) defines performance audits as engagements that provide assurance or conclusions based on evaluations of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and

operations, reduce costs, facilitate decision-making by parties responsible to oversee or initiate corrective action, and contribute to public accountability.

Auditors conducted the performance audit of WHCSD's purchasing operations in accordance with Generally Accepted Government Auditing Standards (GAGAS). These standards require that AOS plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objectives. AOS believes the evidence obtained provides a reasonable basis for the audit findings and conclusions.

AOS is aware of an ongoing federal investigation related to potential public corruption in Cuyahoga County, Ohio. The investigation has focused, in part, on a number of individuals, firms, and companies, and the nature of their business relationships with several government entities within the county. A number of District records were subpoenaed as part of the investigation. While the subject of the federal investigation is beyond the scope of this performance audit, any publicly reported items or business transactions related to the investigation were referred to the AOS Cleveland region responsible for the financial audit of the District.

To complete this report, auditors gathered and assessed data from various sources pertaining to purchasing, conducted interviews with District personnel, and assessed information requested from WHCSD. Also, auditors used external organizations and sources to provide comparative information and benchmarks. They included the National Institute of Governmental Purchasing (NIGP), Government Finance Officers Association (GFOA), National School Boards Association (NSBA), Institute of Management and Administration (IOMA), and other related leading practices. Auditors did not test information used as criteria (benchmarks or leading practices) for reliability.

The performance audit process involved significant information sharing with WHCSD. Auditors held periodic status meetings throughout the engagement to inform the District of key issues affecting purchasing operations. In addition, input from WHCSD was solicited and considered when assessing conditions and developing recommendations. Finally, the District provided verbal comments in response to the recommendations, which auditors took into consideration during the reporting process. Where warranted, the report was modified based on the District's comments.

The Auditor of State and staff express their appreciation to WHCSD for its cooperation and assistance throughout this audit.

# Background

WHCSD is located in Cuyahoga County and provided educational services to 2,326 preschool through grade twelve students in FY 2008-09. For FY 2007-08, ODE reported that the District received 56.5 percent of its revenues from local sources, 38.2 percent from the State, and 5.3 percent from federal sources. ODE also reported that the District's expenditures per pupil were $14,294, which is 44 percent higher than the Statewide average of $9,939. The District met 4 of 30 academic performance indicators established by ODE in FY 2008-09, and ODE categorized the District as being in *academic watch*.

## *Organization Function*

The Business Office and Treasurer's Office are primarily responsible for management and oversight of the purchasing activities for the District. Through a public and competitive procurement process, the Business and Treasurer's Offices are responsible for ensuring the District obtains the lowest costs, while achieving the necessary quality of items or services. Key activities include competitive bidding, informal and formal quote solicitations, issuance of contract/price agreements, supplier database management, receipt and processing of purchase requisitions and orders, and contractor monitoring. District policies outline the responsibilities various personnel have in the purchasing process and key internal controls.

Board Policy DJ outlines the key responsibilities of staff, which are as follows:

- **Treasurer:** Responsible for ensuring that no purchases exceed appropriations and that they are consistent with the approved educational goals and programs of the District.

- **Business Manager:** Responsible for the acquisition of all District supplies, equipment, and services is centralized under the supervision of the purchasing agent (Business Manager). The Board also assigns to the purchasing agent (Business Manager) the responsibility for the quality and quantity of purchases made.

- **Business Office Secretary:** Responsible for ensuring that the Business Manager reviews purchase requisitions and bids/quotes, and to submit them as needed.

- **Treasurer's Office Bookkeeper:** Responsible for entering all information into the Uniform School Accounting System (USAS), obtaining the Treasurer's signature authorizing fund availability, printing and distributing purchase orders, and processing final payments after the goods have been received or services have been rendered. The Bookkeeper also maintains electronic files of active and inactive suppliers.
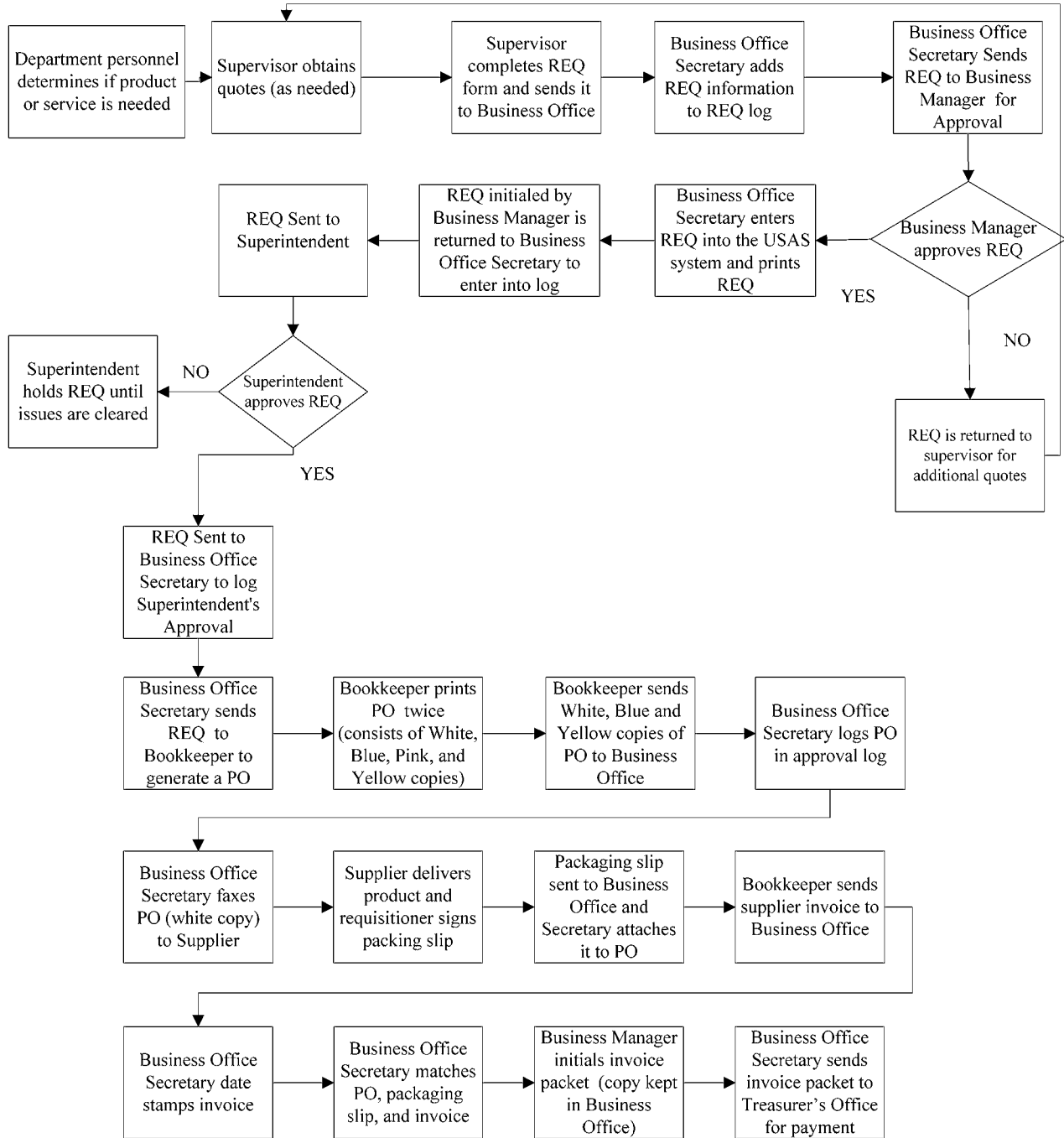
## *Summary of Operations*

Accordingly, the Board has adopted formal purchasing policies designed to ensure that the District is receiving the lowest cost on purchased items. These policies include a requirement to seek at least three price quotations on single item purchases of more than $5,000, if feasible. Board Policy BJ (competitive bidding) is consistent with ORC §3313.46, and requires bid solicitation prior to purchasing school buses or building, repairing, enlarging, improving or demolishing any school building where the cost exceeds $25,000. Though the Board has implemented required policies, it has not updated the policies since 2005, and has not included policies to address all purchasing issues that are applicable to the District. For example, there is no formal policy in the District related to cooperative purchasing and maximizing its purchasing power (see **R1**).

The purchasing function is generally decentralized. Specifically, the Business Manager and his staff are responsible for those purchases related to food service, transportation, graphics, and custodial and maintenance areas. In addition, the Transportation Department Supervisor obtains quotations for fuel and vehicle repairs and maintenance. Furthermore, the Food Service Supervisor obtains the majority of the department's supplies and perishable items through a purchasing consortium. The Food Service Supervisor purchases other food service items from local suppliers based on quotations.

Building principals and other departments not directly supervised by the Business Manager order classroom materials, office supplies, and other incidental items directly from suppliers. For example, the Director of Curriculum orders textbooks from publishers and book distributors. This decentralized structure leads to insufficient oversight for school building purchases (see **R1** and **R4**) and limits the District's ability to fully maximize its purchasing power (see **R3**).

**Chart 1** illustrates the Business Office's purchasing process, and **Chart 2** illustrates the school building purchasing process.
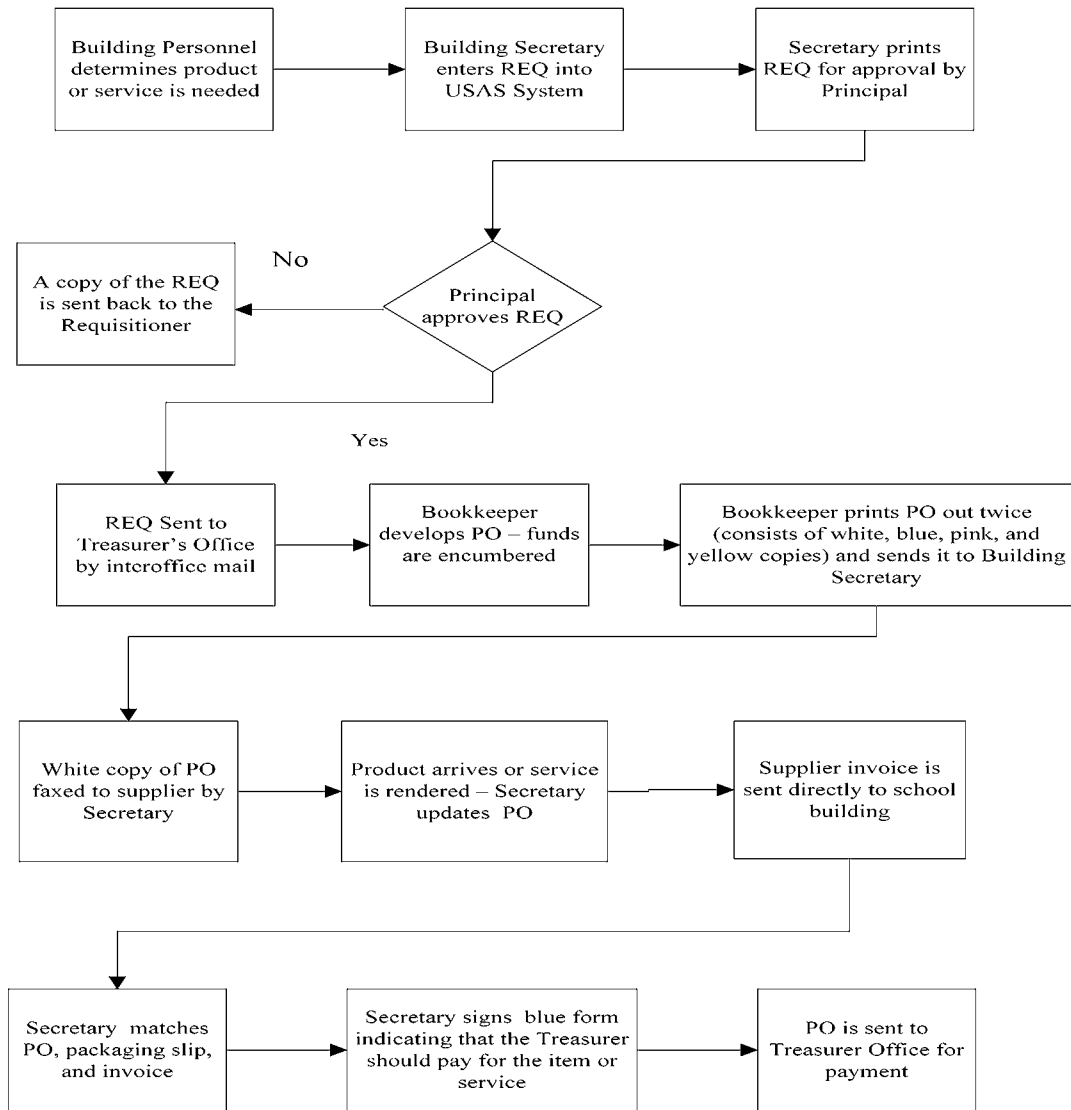
**Chart 1: Purchasing Process for Business Office**

| Department personnel determines if product or service is needed | → | Supervisor obtains quotes (as needed) | → | Supervisor completes REQ form and sends it to Business Office | → | Business Office Secretary adds REQ information to REQ log | → | Business Office Secretary Sends REQ to Business Manager for Approval |

REQ Sent to Superintendent ← REQ initialed by Business Manager is returned to Business Office Secretary to enter into log ← Business Office Secretary enters REQ into the USAS system and prints REQ ← **Business Manager approves REQ** — YES

Business Manager approves REQ — NO → REQ is returned to supervisor for additional quotes

Superintendent holds REQ until issues are cleared ← NO — **Superintendent approves REQ**

YES ↓

REQ Sent to Business Office Secretary to log Superintendent's Approval

↓

| Business Office Secretary sends REQ to Bookkeeper to generate a PO | → | Bookkeeper prints PO twice (consists of White, Blue, Pink, and Yellow copies) | → | Bookkeeper sends White, Blue and Yellow copies of PO to Business Office | → | Business Office Secretary logs PO in approval log |

| Business Office Secretary faxes PO (white copy) to Supplier | → | Supplier delivers product and requisitioner signs packing slip | → | Packaging slip sent to Business Office and Secretary attaches it to PO | → | Bookkeeper sends supplier invoice to Business Office |

| Business Office Secretary date stamps invoice | → | Business Office Secretary matches PO, packaging slip, and invoice | → | Business Manager initials invoice packet (copy kept in Business Office) | → | Business Office Secretary sends invoice packet to Treasurer's Office for payment |

**Source:** District Interviews and District Policies
**Abbreviations:** REQ = requisition, PO = purchase order

# Chart 2: Purchasing Process for School Buildings

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┌──────────────────┐      ┌──────────────────┐      ┌──────────────────┐
│ Building Personnel│      │ Building Secretary│      │ Secretary prints  │
│ determines product│─────▶│ enters REQ into   │─────▶│ REQ for approval by│
│ or service is needed│    │ USAS System       │      │ Principal         │
└──────────────────┘      └──────────────────┘      └──────────────────┘

┌──────────────────┐      No        ◇
│ A copy of the REQ│          ◇ Principal ◇
│ is sent back to the│◀─────◇ approves REQ ◇
│ Requisitioner    │          ◇           ◇
└──────────────────┘              ◇

                          Yes

┌──────────────────┐      ┌──────────────────┐      ┌────────────────────────┐
│ REQ Sent to      │      │ Bookkeeper        │      │ Bookkeeper prints PO out twice │
│ Treasurer's Office│─────▶│ develops PO – funds│─────▶│ (consists of white, blue, pink, and │
│ by interoffice mail│    │ are encumbered    │      │ yellow copies) and sends it to Building │
└──────────────────┘      └──────────────────┘      │ Secretary              │
                                                      └────────────────────────┘

┌──────────────────┐      ┌──────────────────┐      ┌──────────────────┐
│ White copy of PO │      │ Product arrives or service│  │ Supplier invoice is │
│ faxed to supplier by│──▶│ is rendered – Secretary│──▶│ sent directly to school│
│ Secretary        │      │ updates PO        │      │ building          │
└──────────────────┘      └──────────────────┘      └──────────────────┘

┌──────────────────┐      ┌──────────────────────┐   ┌──────────────────┐
│ Secretary matches│      │ Secretary signs blue form│ │ PO is sent to     │
│ PO, packaging slip,│────▶│ indicating that the Treasurer│▶│ Treasurer Office for│
│ and invoice      │      │ should pay for the item or│  │ payment           │
└──────────────────┘      │ service              │   └──────────────────┘
                          └──────────────────────┘
```

**Source:** District Interviews and District Policies
**Abbreviations:** REQ = requisition, PO = purchase order

As illustrated in **Chart 1** and **Chart 2**, the purchasing process is still largely manual (see **R8**). Furthermore, a lack of segregation of duties occurs when department staff complete the Accounts Payable process of matching of the purchase order, packaging slip, and invoice, instead of this step occurring in the Treasurer's Office (see **R5**).

Board Credit Card Policy (DJH) governs the District's credit card program. The formal credit card program and related procedure entails the following steps:

- The employee completes a purchasing requisition for the item or service to be purchased and obtains supervisor approval.
- The employee submits the requisition to the Treasurer's Office for approval and purchase order development.
- Once an approved purchase order is in place, staff can use the credit card.

After staff makes the purchase, the cardholder submits the receipts for the transactions to the respective department secretary, who matches them against the credit card statement, attaches them to it, and submits all the information to the Treasurer's Office for payment. The credit card company sends the cardholder a statement for the card, and the Bookkeeper receives a District-wide statement, on which she marks the purchase order number next to the related charge. However, in practice, the credit card procedures used in the District differ from the methods outlined in the Board Policy, and increase the risk of fraud and abuse (see **R4**).

On the policy side, the District's internal controls for the purchasing program consist of formal purchasing policies, including a competitive bidding process, and procedures for credit card usage. Furthermore, the District, through Board resolution, recently required all purchases over $10,000 to be approved by the Board. However, WHCSD operates a decentralized purchasing program, which increases its exposure to fraud and misuse of funds. As such, the District could improve the program through the implementation of additional controls and the strengthening of existing internal controls to minimize the District's exposure to risk of loss, mismanagement, or theft of assets (see **R9**).

*Leading Purchasing Practices*

Professional associations such as the National Institute of Governmental Purchasing (NIGP) and Government Finance Officers Association (GFOA) have promulgated leading and recommended practices for purchasing functions in the public sector. In addition, several of these procurement and accounts payable practices are noted in *Accounts Payable Best Practices*(Schaeffer, 2004), *Benchmarks: Payment Term Practices and DPO* (Accounts Payable Network (APN) 2009), and *Best Practices* (AOS, Fall 2004). **Table 1** compares WHCSD's policies, procedures, and other procurement controls with leading management practices.

## Table 1: Purchasing Practice Comparison

| Performance Target | WHCSD Practices |
|---|---|
| **Purchase requisitions and purchase orders are used and a reasonable number of approvals are required. (AOS)** | The Treasurer's Office requires the use of purchase requisitions and orders. The initiating supervisor, Treasurer, and Superintendent must approve all purchase requisitions and orders regardless of the dollar amount. However, no written approvals are in place. (See **R5**) |
| **The District standardizes consumables to obtain maximum discounts through volume purchases. (NIGP)** | The District only buys its fuel and paper in bulk through the Ohio Schools Council (OSC)[1]. The District does not take advantage of this option for its custodial, food service, or office supplies. (See **R3**) |
| **The District has an automated purchasing process. (NIGP)** | The purchasing system is still a largely manual process. (See **R8**) |
| **Staff uses purchasing cards for small dollar purchases. (GFOA, NIGP)** | The District uses credit cards and has established a formal policy. However, there are significant issues associated with credit card procedures and use. (See **R4**) |
| **The District delegates appropriate purchasing authority to departments for small dollar purchases. (Schaeffer)** | WHCSD does not have a budgeting process, so department heads are not aware of funds the Treasurer's Office has appropriated for department operations. As a result, all purchases go through the requisition and purchase order process. (See **R3** and **R4**) |
| **The District routinely uses consortiums, state contracts and contracts of other local governments. (AOS)** | The Business Office reviews state contracts; however, upper-level District officials are unfamiliar with the purpose of State and consortium contracts. Using these established contracts eliminates the need for competitive bidding. As such, the District does not fully use State and consortium contracts. (See **R6**) |
| **The District has proper internal controls for the supplier database, such as limited access, change audits, etc. (Schaeffer)** | The District has not updated the supplier database, and there is significant opportunity for improvement in this area. (See **R7**) |
| **The District provides purchasing training and manuals to inform employees how to handle purchases. (NIGP)** | The District has not developed a purchasing manual and does not provide training to staff. (See **R1**) |
| **Average cycle time for informal bids (from requisitioning to issuing a purchase order, in days) is near the national average** <br><br> **Median for organizations is 7 days and median for schools is 8 days. (NIGP)** | A sample of 60 purchase orders from FY 2008-09 shows it took, on average, 11 business days from requisition to purchase order issuance. AOS also noted several instances where the timeline exceeded the District average. In one instance, it took the Treasurer's Office 41 days to develop a purchase order for the purchase of computers. (See **R8**) |
| **Median number of days that a business takes to settle its trade payables among all participants is close to the national average of 38 days. (Accounts Payable Network)** | A sample of 120 purchase orders yielded an average of 30 business days from invoice issuance until payment. |

**Sources:** Auditor of State (AOS), GFOA, NIGP, *Accounts Payable Best Practices* (Schaeffer, 2004), Accounts Payable Network.

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[1] WHCSD also uses OSC for bus purchases, natural gas and electricity, property insurance, legal aid, and food service commodity items.

**Table 1** shows that, in several areas, WHCSD's purchasing practices deviate from the performance targets and recommended processes. The District's practices and its opportunities to implement recommended practices and improve internal controls are discussed throughout this report.

# Recommendations

*Purchasing Policy*

**R1**    **The District should update its policies to address the use of credit cards, blanket and super blanket purchase orders, and guidelines for its $10,000 purchasing threshold and minority business contracting. These and other purchasing policies should clearly delineate Board expectations, Superintendent and Treasurer responsibilities, and consequences for noncompliance.**

**To ensure maximum distribution and use of the purchasing policies, the District should develop a purchasing manual.[2] The purchasing manual should be included on the District web site to ensure wide distribution. All employees involved in the purchasing process should receive training on the new manual and be required to sign acknowledgements indicating they understand the policies and will adhere to them.**

**The Board should annually review and update the policies, to ensure that they are still applicable to the District. District administrators should review the procedures to ensure that staff follows them. The District should address deviations from the policy by enforcing the consequences detailed in the policies. By establishing a formal mechanism for annually reviewing and revising purchasing policies and procedures, providing training to staff, and enforcing consequences for noncompliance with District policy, WHCSD will enhance its internal controls; minimize exposure to risk of loss, fraud and/or mismanagement; and more effectively use its purchasing power.**

The District has a formal written purchasing policy that reflects State law, and a written purchasing procedure guided by local practice. The Ohio School Boards Association's Ohio Policy Services created the original purchasing policies under contract in 2000. The Board renewed this contract in 2005 and updated the policies at that time. However, the Board has not updated the policies on a regular basis, a condition that auditors noted in WHCSD's 2004 and 2005 financial audits.[3]

Ohio Policy Services created and provided hard copy policies to the District. The policies are not on the District web site and they are not available in electronic format. However, most school-policy service providers now offer both written and electronic formats, which allow districts to place policies on the districts' internet and/or intranet sites. Finally, according to District officials, WHCSD has not provided training on its

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[2] Recommended in the June 2009 performance audit

[3] At the time of reporting, the FY 2006, 2007, 2008, and 2009 financial audits had not been completed or released.

purchasing policies and procedures to those employees involved in the purchasing process.

In March 2009, the Board lowered the purchasing threshold to $10,000 for purchases requiring Board approval. However, the Board did not develop and disseminate a formal policy update to staff, nor did the Board, Treasurer, or Business Manager identify the projects and purchases affected by this change. As a result, adherence to the resolution has been inconsistent.

To determine whether staff adheres to purchasing policies, auditors reviewed 120 invoices/purchase orders from FY 2007-08 and FY 2008-09, 60 from each fiscal year. **Table 2** compares policy requirements with District practices as illustrated in invoices and purchase orders.

## Table 2: Purchasing Policy Review Results

| District Policy | District Practice |
|---|---|
| Board Policy DJ authorizes the Treasurer's Office to issue "open" purchase orders for generic supplies for up to three months and up to the $5,000 limit. Open purchase orders may not extend beyond the current fiscal year. | According to the Interim Treasurer, the District had approximately $2.9 million in encumbrances at the end of June 30. This is a result of staff not closing purchase orders at year-end. Furthermore, the District does use open purchase orders effectively. (see **R2**) |
| Board Policy DJF-R requires staff to base all purchases over $5,000 but under $25,000 on price quotations submitted by at least three suppliers, if feasible. | 57 of the 68 (or 84 percent) purchases that required three quotes did not include documentation of quotes in files. |
| Board Policy DJF-R stipulates that, when making purchases for the District, purchase orders must be in place prior to the actual ordering of the products or services. | In 28 of the 120 instances (or 23 percent), staff made purchases prior to purchase orders being issued. |

**Source:** District policies and purchase orders

As illustrated in **Table 2**, District employees inconsistently comply with Board purchasing policies.

Auditors also reviewed the Business Office requisition order log to determine if the reduced purchasing threshold was enforced. From March 27, 2009 through June 30, 2009, the log noted one entry for $9,999 and no other entries that exceeded $10,000. However, 10 entries recorded purchases from suppliers ranging from $9,000 to $10,000. A closer review of these purchases show there are similar purchases from several food service suppliers. In the months prior to the passage of the Board resolution, staff made purchases of a similar nature for significantly higher dollar amounts. Furthermore, staff made several of the purchases from the same food service suppliers within a span of a few days. If consolidated, these purchases would exceed the lower threshold for Board approval. This pattern—purchases made for amounts near the threshold and several

purchases being made to the same supplier in a short span of time—suggests that staff issue smaller purchase orders to avoid Board approval. In addition, a review of the Business Office requisition log for July and August 2009 showed 20 transactions exceeded $10,000; of the 20, staff submitted only 3 (or 15 percent) for Board approval. An additional seven entries were for purchases between $9,000 and $10,000.

Further examination of the District's purchasing policies and procedures revealed the following weaknesses:

- District Policy BJ on open purchase orders (for up to $25,000) lacks sufficient detail, and the threshold amount is not in line with the current Board policy, per its 2009 resolution. (See **R2**)
- The credit card policy lacks essential elements. (See **R4**)
- No policy covers the use of local and minority businesses, although District personnel indicated that this is an important topic.
- The approval process and the designation of positions responsible for approval of requisitions, purchase orders, and invoices are either not included or not sufficiently specific in the current policies. (See **R5**)
- The importance of cooperative purchasing is not included in the policies. (See **R3**)

According to the National School Boards Association's (NSBA) *Key Issues for Schools* (NSBA, 2006), well-developed, well-articulated policies are often indicators of the attitude and commitment of school boards toward following effective management practices. To ensure that school board policies are effective, the NSBA proposes that boards and educational leaders consider the following recommendations:

- School boards and superintendents should include sufficient funds in their annual budgets to retain the services of professional agencies to review and revise their current policy documents and to provide, at a minimum, annual reviews and draft updates of policies on a quarterly basis.

- The general operating procedures of school boards should include annual reviews of all new and revised policies to determine whether the district should make changes based on implementation experiences.

- Board policy manuals need to separate the policies from the administrative regulations and procedures.

- The organization should designate a board member as the person responsible for keeping the policy manual up-to-date.

Establishing effective internal controls through formal policies and procedures can help minimize problems such as theft, fraud, and unintentional errors in the purchasing process. However, ensuring effective internal controls requires the District to train personnel in the procedures, enforce consequences for noncompliance, and monitor internal control procedures to ensure that staff follow them. The omissions in adherence to District policy appear to occur chiefly because the District does not illustrate the consequences for noncompliance within the policies and procedures, and does not enforce them when staff violates purchasing policies. Ensuring that employees receive adequate training on District purchasing policies and procedures, then enforcing formal consequences for noncompliance, would enhance compliance with the policies.

**R2**     **The District should increase the dollar threshold on its current open purchase order policy[4] and develop a super blanket purchase order policy similar to that of Brooklyn CSD and Orange CSD to help better manage its lower threshold for purchases requiring Board approval. Furthermore, the District should ensure that it closely monitors the funds encumbered for these purchase orders. Once the policy is implemented, the District should begin issuing blanket purchase orders for recurring payments, frequently used suppliers, frequently purchased items, and small dollar items. Also, instead of using several blanket purchase orders for one supplier, the District should review several years spending for frequently used and contracted suppliers, establish an expenditure amount for the entire fiscal year and then issue a single blanket purchase order.**

**By updating the blanket purchase order policy and implementing the use of super blanket purchase orders for purchases such as bulk paper purchases, utility payments, food service supplies and food items, custodial equipment and supplies, and other frequently purchased items and services, the District can reduce the accounts payable volume and improve oversight in the purchasing process. In addition, effectively using blanket purchase orders can improve customer service for internal customers (departments) by permitting them to purchase commonly used items when needed.**

According to Board policy DJ, a staff member can establish an open purchase order for a "specific" permitted purpose for the lesser of $25,000 or the line-item appropriation and

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[4] The 2009 Ohio Compliance Supplement indicates fiscal officers may prepare or issue so-called "blanket" certificates or "super blanket" certificates. For this assessment, the word "order" is used instead of "certificate". *Blanket orders* cannot exceed an amount established by resolution or against any specific line item account over a period not running beyond the end of the current fiscal year. These orders may, but need not, be limited to a specific supplier. Only one order may be may be outstanding at one particular time for any one particular line item appropriation. *Super blanket orders* can be issued for any amount of expenditures from a specific line-item appropriation account in a specified fund for most professional services, food items, or any other specific recurring and reasonably predictable operating expense. This may not extend beyond the current fiscal year. More than one super blanket order may be outstanding at one particular time for a particular line-item appropriation account.

fund. However, the District does not use open or blanket purchase orders[5] effectively. Furthermore, the Treasurer's Office can close open purchase orders without notice, due to lack of funds.[6]

In a review of 48 suppliers[7] from whom the District purchased at least $10,000 in products and services (over several purchases) in FYs 2007-08 and 2008-09, the District issued blanket purchase orders in 55 percent of the instances in FY 2007-08, and in 50 percent of the instances in FY 2008-09. These suppliers provided paper, food items and supplies, custodial supplies and equipment, office supplies, and utilities. This review identified that the District uses standard purchase orders where blanket purchase orders should be used. Purchases were for recurring purchases, from frequently used suppliers, and small dollar items. In addition, the District used several blanket purchase orders to make purchases from the same supplier—often because the purchase order amount reached the $25,000 limit. Finally, a review of the purchases listed in the requisition logs for from July 2007 through September 2009 identified that the District issued several purchase orders that exceeded the $25,000 limit. While WHCSD caps blanket purchase orders at $25,000, other area school districts use a more flexible approach.

Brooklyn CSD, Garfield Heights CSD, and Orange CSD have policies for blanket purchase orders based on ORC § 5705.41, which allows the treasurer to issue blanket purchase orders for a sum not exceeding an amount established by resolution of the board. Orange CSD's blanket purchase order policy has a $250,000 dollar threshold. Furthermore, all three districts have policies for the use of super blanket purchase orders, which state,

> "Super blanket purchase orders may be used for any amount for expenditures and contracts from a specific line-item appropriation account in a specified fund for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense."

The ineffective use of blanket purchase orders adversely affects District departments. A review of correspondence from FY 2007-08 to FY 2008-09[8] revealed several instances of maintenance/custodial supplies, food items, and bus parts running out and staff not having approved purchase orders to address the issue. These shortfalls are indicative of

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[5] The District uses open orders in the way that blanket purchase orders are used. Therefore, the analysis refers to open purchase orders as blanket purchase orders for the analysis.
[6] The absence of a regular budget process means that administrators may not be aware of remaining available funds and may therefore overspend their limits, resulting in abrupt cancellation of open purchase orders.
[7] In each year, the actual supplier population was less than 48 (45 in FY 2007-08 and 46 in FY 2008-09), since there were a couple suppliers in each of these years from whom the District made only one purchase and, therefore, a blanket purchase order would not be warranted.
[8] The correspondence was between the Business Office and the Treasurer's or Superintendent's Office, related to purchases for the food service, transportation, and custodial departments.

several procedural issues, some of which are outside the scope of this audit, including flaws in the purchase order process, the timeliness of purchase orders, and department-level planning and budgeting issues. To remedy these occurrences, the District can expand the use of blanket and super blanket purchase orders, at least to provide greater flexibility to department-level purchasers. In addition, the limitations on the use of blanket purchase orders increase the risk that staff bypasses the purchasing policy by using credit cards and splitting purchases, or that the policy will be ignored altogether.

**R3     The District should implement a policy on cooperative and volume purchasing, and should include it in the purchasing manual. Furthermore, the District should purchase commonly used items from the Ohio School Council's cooperative purchasing programs using e-SchoolMall software or other e-commerce software (see R8). For items not available through consortia, the Business Manager should seek competitive bids for the most commonly used items using annual estimates. The District should compile these bids into catalogs of bid items and preferred suppliers, and distribute them to all departments to guide purchasing decisions. These techniques will save considerable time in researching supply items, locating suppliers, and negotiating purchasing terms, and will allow the District to take advantage of its purchasing power.**

The District does not have a policy on cooperative and bulk purchasing, and does not effectively maximize its purchasing power through other procedures. WHCSD is a member of the Ohio Schools Council (OSC), but it does not make purchases using e-SchoolMall (see **R8**). The District uses OSC programs for bulk purchases of paper, fuel and food service-related products such as milk and bread. The District is also is a member of the Advance Purchasing Co., Inc (APC), which it uses to purchase its frozen and canned foods and juices. While the District uses consortia for some goods, it does not maximize its use of its consortia membership, and instead buys goods available from the consortia from other suppliers. When it uses suppliers outside the consortia, it does not use its buying power to obtain discounts on commonly used items, such as office supplies, art supplies, and custodial maintenance supplies.

Auditors reviewed purchases from FY 2007-08 and FY 2008-09 of office supplies, art supplies, general school supplies, and custodial/ maintenance supplies. The review found that, over the two-year period, the District spent an average of $115,000 for office/classroom supplies—$83,800 on general office supplies, $8,600 on art supplies, and $22,700 on general school supplies each year. The review also showed that the District spent an annual average of $106,400 on custodial and maintenance supplies. WHCSD did not always purchase these commonly used items through its consortia memberships. District records show that the District used multiple suppliers, who provided similar types of goods and services in these categories. In FY 2007-08, the

District purchased the following commonly used items that were available through the consortia, from other suppliers:

- Six suppliers providing general office supplies;
- Two suppliers providing art supplies;
- Six suppliers providing general school supplies; and
- Eleven suppliers providing custodial/ maintenance supplies.

While the goods and/or services provided by each supplier might be unique and necessary, consolidating suppliers for specific goods and services used by multiple departments or purchasing items from OSC suppliers will help the District maximize its purchasing power.

Brooklyn CSD has a purchasing policy that includes a statement about quantity purchases. It states, "The Board requires the Superintendent to periodically estimate requirements for standard items or classes of items and make quantity purchases on a bid basis to procure the lowest cost consistent with good quality." Directing purchasers to purchasing cooperatives, pre-negotiated competitive rates, or other bulk and volume purchasing programs can result in substantial cost savings. Since school districts often purchase the same supplies and materials at relatively stable volumes from year-to-year, obtaining these items through cooperative, competitive, or bulk purchasing arrangements reduces the volume of standard purchase orders and, as a result, permits a higher level of scrutiny for unusual purchases.

If the District consolidates its purchases and uses the OSC or other bulk or volume-purchasing arrangements, departments can generate fewer total purchase orders, which increases the scrutiny accounts payable can exercise over purchase orders in general. In addition, efforts to use recommended practices in cooperative and competitive purchasing help ensure WHCSD is purchasing the majority of its goods at the lowest cost available.

**R4** **The District should strengthen its credit card policies and practices to reduce the risk of fraud and theft. It should require its card provider(s) to implement various authorization controls, such as purchasing and merchant category code (MCC) limits. The Treasurer's Office should routinely complete credit card reconciliations.[9] In addition, WHCSD should enforce consequences when users fail to follow credit card policies, fail to submit receipts, or fail to obtain preauthorization for card use. Furthermore, it should enhance the policies governing use of District credit cards by including the following:**

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[9] The secretary in the purchaser's department currently conducts this procedure.

- A policy that addresses "frequent flyer" airline tickets and benefits which result from official District travel;

- A signed acknowledgement form from each user, indicating that they understand and will adhere to all credit card policies and procedures[10];

- A log of each transaction that explains the District purpose of the purchase;

- A procedure that requires the card user to record key information on the back of each receipt, such as that required by Garfield Heights CSD;

- A periodic audit of credit card transactions by the Treasurer's Office;

- Procedures that address card issuance and cancellation, lost or stolen cards, and employee termination;

- Clear guidelines regarding the appropriate uses of purchasing cards, including approved and unapproved Merchant Category Codes (MCC); and

- Guidelines for making purchases by telephone, fax, or the Internet.

**Strong controls over the use of District-issued credit cards are essential to ensure the cards are not misused. Weak controls leave the District vulnerable to theft and misuse of public resources.**

The District developed a formal written policy for credit card purchases, but it is routinely circumvented and not enforced. Auditors examined 166 credit card charges for FY 2007-08 and FY 2008-09. **Table 3** provides a comparison of policy requirements with District practices based on the results of the credit card transaction test or interviews with staff.

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[10] This should also include that they will have to pay back inappropriate purchases.

## Table 3: District Credit Card Policy and Usage Practices

| District Policy | District Practice |
|---|---|
| Board policy DJH permits staff to use credit cards for District-related transportation, reservations and expenses, conference registrations, and hotel reservation guarantees for the Board and staff. | In addition to the items noted in policy, District credit cards were used for catering, in-town lunches, office supplies, tournament tickets, custodial and maintenance supplies, gift cards for staff, gift baskets, and gas. |
| Board policy DJH permits, with prior approval of the Treasurer, credit cards use by school employees for school-related purchases from a supplier who does not accept purchase orders. | The credit card test found 34 of 166, or only 20 percent, credit card purchase orders had proper authorization to make the charges. |
| Board policies DJH and DJH-R state that gratuities are permissible only when card use is for group purchases and when the restaurant adds the tip to the bill. | The credit card test found that 25 of the 54 meal-related transactions, or 46 percent, included gratuity payments made by the credit card user. |
| Board policies DJH and DJH-R require the card user, upon returning from an approved business trip, to submit all original itemized invoices and original credit card charge receipts to the Treasurer's Office.<br><br>In other instances, staff is to turn receipts and appropriate form(s) in with the credit card to the Treasurer within five business days upon completion of approved use. | The credit card test found that 51 credit card transactions, or 31 percent, had no receipts to substantiate the charges made for services rendered or products purchased. These charges represent a cost to the District of $32,625.<br><br>Furthermore, 29 receipts submitted for meal purchases, or 17 percent, were not itemized, which represents a cost to the District of $2,500. |
| Board policies DJH and DJH-R require receipts for meals to include the names of all individuals attending the meal and the purpose of the meeting. | The credit card test found that 29 of the 33 in-town meal related transactions, or 88 percent, did not have a description of the purpose of the meal or the names of the attendants listed on the receipt or purchase order. |
| Board policy DJH-R prohibits the use of District-issued credit cards for the following items:<br>1. Purchase of personal goods or services for an administrator, an administrator's spouse, children, or anyone employed or not employed by the Board and attending a District business function;<br>2. Payment of any fines, penalties, or personal liabilities incurred by an administrator or anyone else;<br>3. Alcoholic beverages or tobacco;<br>4. Fuel for use in a personal vehicle;<br>5. Entertainment expenses, including pay-per-view movie charges; and/or<br>6. Cash advances. | Auditors identified the following prohibited charges as paid using District-issued credit cards. The items are organized based on the articles of the policy.<br>1. Two board members' spouses purchased airfare at a cost of $682.<br>2. An unauthorized program (e.g. fine, penalty, or personal liability) was paid for at a cost of $4,318.42.<br>3. No instances noted.<br>4. On two occasions, staff paid fuel charges for in-town vehicles with no documentation of the District purpose.<br>5. Staff charged pay-per-view video charges during hotel stays to the District credit card in two instances.<br>6. Staff charged cash advances to the District credit card on eight occasions at a cost of $2,881.96. On six of the eight occasions, staff obtained the cash advances at casino or racetrack facilities. |

**Sources:** District policy, interviews with Treasurer's Office staff, District credit card transaction documentation.

As illustrated in **Table 3**, internal control weaknesses and improper oversight of the District's credit card program exposes the District to improper and abusive purchases, and potential theft. According to the Assistant Treasurer, District personnel repaid the inappropriate charges made using District credit cards and documentation was provided

that substantiates this statement for a majority of the purchases. Specifically, of the total amount of $7,882.38, the District was unable to provide documentation for $621.38.

Auditors noted control weakness in credit card use in the FY 2003-04 and FY 2004-05 financial audits. In the FY 2003-04 audit, auditors recommended that the District obtain original itemized receipts for all purchases made with the District credit card. The FY 2004-05 audit, which is the most recently published financial audit, reported that the District did not provide the necessary documentation for $14,403.39, which was charged to the District credit card and not reimbursed by the individuals who used the card. Auditors also recommended that all expenditures follow the proper procedures and approvals as established by the District. In addition, they recommended that the District establish formal policies regarding the use of District credit cards and benefits that result from official District travel, such as frequent flier mile airline tickets.[11]

While WHCSD has developed a formal policy for credit cards, its procedures for monitoring charges has several internal control weaknesses, including the failure to obtain prior authorizations, to strictly enforce requirements for itemized receipts, and to impose consequences for not providing receipts for purchases. Furthermore, having department secretaries complete the credit card-to-receipt reconciliation process creates a segregation of duties impairment, as the secretaries are completing the reconciliation for their immediate supervisors. This lack of segregation of duties weakens the internal control structure and could lead to fraud or abuse.

Garfield Heights CSD has a credit card policy and procedures that require employees to specify on the back of the credit card receipt the following information:

1.    A brief description of the school-related purpose of the purchase;
2.    The name and affiliation of each attendee if a purchase is made on behalf of a group of individuals; and
3.    Verification that family members, or other individuals having no school-related purpose for their attendance at a function, paid their own expenses.

Controls recommended by the Government Finance Officers Association[12] (GFOA, 2003) for purchasing card programs include the following:

•    Instructions on employee responsibility and written acknowledgments signed by the employee;
•    Ongoing training for cardholders and supervisors;

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[11] At the time of this report, WHCSD had not developed a policy on frequent flier miles as recommended in the FY 2004-05 financial audit.
[12] Information can be obtained on the GFOA website at:
http://www.gfoa.org/downloads/PurchasingCardFINAL.pdf.

- Spending and transaction limits for each cardholder on a per transaction and on a monthly basis;
- Written requests required for higher spending limits;
- Clear guidelines on the appropriate uses of purchasing cards, including approved and unapproved Merchant Category Codes (MCC);
- Guidelines for making purchases by telephone and fax or over the Internet;
- Periodic audits of card activity, and retention of sales receipts and documentation of purchases;
- Procedures for card issuance and cancellation, lost or stolen cards, and employee termination; and
- Segregation of duties for payment approval, accounting, and reconciliation.

Additional authorization controls can be implemented by working with the purchasing card provider. *Best Practices* (AOS 2004) highlights these additional steps:

- Stipulation specifying who is authorized to use the purchasing card;
- Limits on the amount a cardholder can spend on a single purchase;
- Restrictions on the accumulated amount of purchases during any specified timeframe (e.g., $1,000 per month);
- Limits on the days and times during which purchases can be made (e.g., Monday through Friday, 8 a.m. to 5 p.m.);
- Restrictions on the type of suppliers and merchants from whom purchases can be made (i.e., merchant category blocking);
- Limits on the frequency of use within a predefined timeframe.

By not strictly enforcing current credit card policies and procedures, the District has incurred undocumented charges for approximately $35,000 from FY 2007-08 and FY 2008-09. Since WHCSD has not collected the documentation required under its policy, it cannot confirm the public purpose of these charges.

**R5**   **The Board should update its policy outlining approval authority for requisitions and purchase orders. Subsequent to the update of the policy, the Treasurer's Office should develop detailed procedures outlining the positions authorized to approve requisitions and purchase orders, as well as invoices for payment. The District should disseminate these procedures to all District employees involved in the purchasing process.**

**The Treasurer's Office should enhance internal controls over purchases and require requisitioners to indicate receipt of products or completion of services. Invoice processing by the Treasurer's Office should include matching the invoice or packing**

**slip sent by the requisitioner to the purchase order retained in the Treasurer's Office. This segregation of duties would enhance internal controls.**

While the District's purchasing policy lists the names of staff authorized to issue an initial purchase requisition, outdated information in the policy causes confusion about appropriate procedures. For example, the policy does not list the Business Manager as an authorized issuer, but District practice is that he approves all food service, transportation, custodial maintenance, and graphics purchases. Furthermore, the policy does not indicate who in the District is authorized to approve requisitions in the event of the absence of an approved requisitioner, nor does it address who is able to approve invoices for payment. Finally, the requesting department is solely responsible for completing the three-way match of the purchase order, invoice, and packaging slip.

According to *Accounts Payable Best Practices* (Schaeffer, 2004), entities should implement the following internal controls to ensure adequate controls over the invoicing process:

- The board should give approvers authority, and the accounts payable department should have copies of these board authorizations. In the absence of board authorizations, accounts payable should have a list of who can approve which purchases. A high-level administrator should formally approve this list.

- Entities need to have a firm policy regarding where to send invoices. Entities should send invoices either directly to the accounts payable department or to the original purchaser. However, having all invoices come first to accounts payable also introduces another control against employee fraud. Staff cannot alter invoices, nor can they show up abruptly with what looks like an approver's signature.

- Once the appropriate personnel approve the invoice, the entity should perform a three-way match on all invoices over some minimal level. The accounts payable associate should match the purchase order against the invoice and packing slip to verify that the goods ordered have been received and the price and other fees (e.g., tax, insurance, freight) are as agreed. Differences should be resolved before the invoice is paid.

In the case of WHCSD, the Treasurer's Office serves the function of accounts payable. However, by omitting formal authorization for invoice and purchase order approvals and permitting the three-way match to occur in the requisitioning department, WHCSD increases its risk of fraud and abuse through insufficient internal controls. Improved controls would ensure that purchases are approved, appropriate, and serve their intended public purposes.

## Supplier Management

**R6**   **The Board should adopt a policy formally requiring the use of requests for proposals (RFPs) in contracting for all purchased services in excess of $25,000. The policy should incorporate elements like those found at Brooklyn CSD, and should address dollar thresholds as well as the types of purchases that would be subject to competitive pricing. The policy should also include a mechanism, such as an evaluation, for documenting the basis of award decisions, and should define the document retention period. The adopted policy should be included in the purchasing manual and distributed to personnel involved in the purchasing process.**

**The Business Office and Treasurer's Office should gather statistics to identify which purchases or groups of purchases meet the $25,000 threshold. In developing this list, the District should attempt to cover a majority of its large annual purchased service expenditures through RFPs.**

In the June 23, 2009 performance audit, the Treasurer and Assistant Treasurer acknowledged that staff does not closely follow the District's bidding process.[13] Also, during that audit, the Treasurer's Office was unable to provide evidence that bidding occurred for purchases greater than $25,000.

Auditors examined two contracts initiated by the District in 2009—one for special education transportation and one for technology services.[14] The District used a formal RFP process for the District's special education transportation. The review showed that the District followed recommended procedures for this contract process but it did not use a standard evaluation form to rank the different proposals. WHCSD did retain proposal information for each potential transportation provider in an Excel spreadsheet for review and approval by the Board.

In some instances, limited understanding of how to maximize the use of State contracts and consortia increased the frequency of competitive bidding. For example, in FY 2008-09, the District sought to purchase a dump truck through the State purchasing contract. However, the Superintendent instructed the Business Manager to seek additional bids. One of the benefits of using State contracts is that the State has completed a competitive bidding process to arrive at the State contract price, and the potential volume associated with the contract may improve the final bid price. WHCSD ultimately settled for a used vehicle.

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[13] The District has a competitive bidding policy, which complies with ORC § 3313.46, for contracts which are related to building construction, demolition, repair, or improvement, and which exceed $25,000.

[14] The technology contract did not use a formal RFP or competitive bidding process.

Auditors also noted that WHCSD does not use RFPs for all its purchased services costing over $25,000. Because the District relies heavily on purchased services for the majority of its maintenance needs and for all its technology needs, competitive pricing is essential to ensuring efficient use of District funds. A vague policy on competitive bidding, which only dictates the minimum (to comply with ORC § 3313.46), and no formal policy on RFPs, contributes to this inconsistency and may reduce the District's ability to maximize its purchasing power.

Brooklyn CSD's purchasing policy states the following:

> "When the purchase of, and contract for, single items of supplies, materials, or equipment and when the Board determines to build, repair, enlarge, improve, or demolish a school building the cost of which will exceed $25,000, the Treasurer/CFO shall obtain competitive bids."

The purchasing policy also explains the circumstances where competitive bidding is not necessary and details the mechanics of the RFP process. The June 2009 performance audit offered additional criteria from *Contracting for Services* (National State Auditors Association, 2003), indicating the benefits of contracting policies and procedures, including a requirement to document award decisions and to maintain supporting materials for the decision.

Using RFPs in contracting for purchased services can help ensure that the District is procuring its services at the lowest prices. In addition, the evaluation form provides an objective basis for making supplier selections. Without these tools, WHCSD may not be selecting the best suppliers for its needs.

**R7      The District should purge its master supplier file and enhance internal controls over the supplier database. The District can improve controls over the database by doing the following:**

- **Develop a policy and procedures for purging the supplier database that includes assigning responsibility for maintenance of the database, criteria for purging suppliers, frequency of purges, and responsibility for implementing the program.**
- **Review access to the supplier file to ensure the following staff have authority to revise to the supplier file: the bookkeeper responsible for supplier file additions and maintenance, a backup person, and authorized approvers of supplier additions. All other staff should only have read-only access.**
- **Review the USAS master supplier file audit report to ensure that employees are not making inappropriate changes to the supplier file.**

**The Treasurer should authorize the Business Office Secretary, with the Business Manager's approval, to enter pertinent contact information for new suppliers. Treasurer's Office personnel only, upon the Treasurer's approval, should enter new supplier payment information. This will ensure a strong segregation of duties in maintaining the supplier file and improve the quality of the purchasing process.**

The District has established some basic controls over its supplier database. **Table 4** compares the practices established by the District with leading practices. Auditors derived the measures used in the analysis from professional associations, such as the Institute of Management & Administration, Inc. (IOMA) publication, *Master Supplier File Maintenance, Audit and Control Best Practices* (IOMA, 2006); the Accounts Payable Network's survey, *Benchmarks: Supplier Master File Practices* (APN, 2007); and *Accounts Payable Best Practices* (Schaeffer, 2004).

## Table 4: Comparison of District Practices with Leading Practices for Supplier File Management

| Leading Practice | District Practice |
|---|---|
| Access to the master supplier file should be restricted so that only one person, plus a backup, can set up or change supplier records. (IOMA) | All financial staff, a recently transferred staff person, and a staff person who is no longer with the District have access to the file. |
| Audit/review changes to the master supplier file. (IOMA) | The District is able to obtain an audit report from its Information Technology Center (ITC) that would detail all changes made to the supplier file. However, the District has not reviewed the report regularly. |
| The Organization should obtain a W-9 or equivalent form prior to supplier set-up and payment. (IOMA) | The District has a formal policy and process that requires W-9 forms. |
| Once an account has been inactive for over a year, the organization should purge it from the company's master supplier files, or at least move it to inactive status. The company should maintain a record of purged companies for several years. (Schaeffer, 2004) | According to the bookkeeper responsible for accounts payable, the District has never updated the supplier file. In a review of the supplier file, auditors found several duplicate company names. |
| The organization should follow a strict naming convention when setting up master supplier files. (Schaeffer 2004) A policy for data entry formats should be established and enforced. (IOMA) | A review of the master supplier file found that no formal naming system is used and some abbreviations are used. |
| Employees should not be included in the master supplier file. Use an alternative system to make payments to them. (IOMA) | A review of the master supplier file, showed several names of District employees. |
| The District should incorporate policy and procedures for master supplier file cleanup into the accounts payable and purchasing policies and procedures. (Schaeffer, 2004) | The purchasing policy discusses adding new suppliers, but it does not discuss maintenance of the supplier file. |

**Sources:** Staff interviews, District policies, District ITC

As shown in **Table 4**, the District has not followed recommended practices or maintained its master supplier file. In addition, the District lacks formal processes regarding who can approve adding new suppliers. As a result, the District has time lags in approving and adding new suppliers, which affects the purchase of products and services.

Because the District does not regularly review and purge the supplier file, significant problems could occur. According to IOMA, the consequences of substandard master-supplier file management include duplicate payments, increased risk of invoice fraud, and missed Internal Revenue Service Form 1099 submissions. IOMA recommends implementing procedures for conducting a master supplier file clean-up in order to address a poorly managed supplier file. Steps in this process include standardization of data to enable analysis, identification and correction of errors, and appending of missing data. WHCSD could use existing resources within the accounts payable department to clean up the master supplier file.

In addition to a clean-up process, accounts payable, through the Treasurer's Office, must implement controls and procedures to maintain the integrity of the master supplier file. These include verifying data prior to entry, minimizing the size of the file by offloading some categories of suppliers and transactions to other systems, and conducting periodic checks for errors and duplicates. Though the timeframes for periodic checks vary, annual updates are the most common. Also, through these procedures, the District can incorporate steps to permit the addition of new suppliers to ensure that there is no ambiguity about whom the District authorizes to add new suppliers.

Because this database establishes supplier eligibility and, in effect, allows the District to issue payments, the District should tightly monitor the database to ensure that only recently used and active suppliers are in the system to limit the potential for fraud. The District should maintain and update its master supplier file regularly to ensure the integrity of the file and that up-to-date information is available to District purchasers. Finally, formally identifying the individuals who are responsible for the approval of new suppliers will eliminate confusion and speed the supplier approval process.

**R8    The District should begin using the purchasing technology available to it. Specifically, it should consider purchasing items directly through the Ohio Schools Council (OSC) using the basic version of e-SchoolMall software. This will add a layer of electronic internal control to the purchasing process and ensure that staff considers consortium items first in the purchasing process.**

**In addition, the District should consider piloting the new eProcurement module developed by Lake Geauga Computer Association (LGCA) to determine its effectiveness in the purchasing process. Based on the outcomes of this pilot test, WHCSD should pursue one of the two electronic purchasing options, either the advanced e-SchoolMall software or the LGCA eProcurement module.**

**The use of procurement software should also be included in the District's purchasing manual, and the District should provide updated purchasing policies and training on the module to staff involved in the purchasing process. Using an electronic purchasing system will increase the efficiency of WHCSD's procurement function, reduce the amount of manual paperwork associated with the purchasing process, establish better controls, and help provide data so purchasing decisions can be made based on consolidation of requirements to obtain the best cost.**

As noted in **Chart 1** and **Chart 2**, the District's purchasing process is still largely manual. At this time, the USAS software does not allow for electronic approvals. Instead, a paper requisition is required for obtaining supervisor approval before staff enters the purchase requisition into the USAS system. Staff uses paper purchase orders for supplier

payments. Other practices detailed in **R2** and throughout this report generate a large amount of paperwork that the District does not need.

The manual nature of the process and high volume of small purchases processed creates a time-consuming purchasing system. A sample of 60 District purchase orders generated in FY 2008-09[15] showed that it took an average of 11 days from requisition approval to purchase order issuance. According to *Benchmarking Survey* (NIGP, 2001), the average cycle time from when the requisition is generated to when a purchase order is issued is 7 days, and 8 days for schools specifically. WHCSD's processing time exceeds these benchmarks by 4 days (57 percent) and 3 days (38 percent) respectively.

Some of the steps in a manual approval process can be eliminated using e-commerce innovations. WHCSD already has access to some of these technology solutions. Through its membership with the OSC, the District can access the basic e-SchoolMall web site, which is available to all Cooperative Purchasing Program members. The basic version allows member organizations to search for OSC-bid items, create requisitions, and print and approve the requisitions. The advanced version of e-SchoolMall integrates the web site functions with the USAS financial software, allowing an authorized user to create a requisition, check available funds, encumber funds, obtain online approval through the district-specified method, and turn the requisition into a purchase order. The cost of the advanced software is approximately $24,800 over a 5-year period. After that, a district pays an annual maintenance fee to e-SchoolMall, which varies by district.

In addition to e-SchoolMall, Lake Geauga Computer Association (LGCA), the District's Information Technology Center, is developing an eProcurement system that will interface with USAS. The LGCA will provide the eProcurement module to member districts as part of its financial software. Users will be able to create approval workflows and enter purchase requisitions for items in the consortium's online catalogs. LGCA will be testing this software during the first half of FY 2009-10, with an implementation target date during the 3rd quarter of FY 2009-10.

According to *The E-Commerce Quandary* (American School and University (AS&U), 2002), schools taking advantage of electronic purchasing systems increase the efficiency of their entire procurement operations. Streamlining the purchasing process saves schools time, money, and aggravation. AS&U also notes that "many of the institutions that have moved some of their procurement systems online have found that the change has delivered what was promised: less bureaucracy, more efficiency, and better prices." Besides reducing red tape, online purchasing removes the barrier of geography for

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[15] Auditors could not calculate the average for FY 2007-08, as the Business Office did not begin logging requisitions and purchase order approvals until the end of FY 2007-08, when a new Business Office Secretary was hired. The Treasurer's Office software does document when the Treasurer and Superintendent approve the actual purchase order.

schools. In a traditional bid arrangement, it might not be practical for firms from outside the region to submit a bid. Online procurement companies often seek out relationships with suppliers to provide schools with a greater variety of purchasing options.

The limited use of electronic purchasing systems slows down the procurement process and results in an inefficient, manual process. The process contains feedback loops that create duplications of effort without enhancing internal controls. In addition, WHCSD is not using data to make purchasing decisions that can reduce overall costs, such as aggregating purchases to take advantage of volume pricing. Increasing the use of electronic purchasing systems will improve procurement efficiency and provide data for purchasing decisions, leading to lower acquisition costs.

## *Organization*

**R9** **The District should consolidate responsibility for management of its purchasing function under the Business Manager. This would improve the effectiveness of centralized purchasing. The Business Manager should review school building purchase requisitions before staff submits them to the Treasurer's Office for approval, so that the District can maximize its purchasing power. In addition, the District should incorporate the following key District-wide purchasing responsibilities into the Business Manager's job description:**

- **Soliciting, reviewing, and comparing quotes and bids in accordance with District policy;**

- **Negotiating and establishing bulk purchase agreements and ensuring that consortium and blanket purchase order use is maximized (see R2, R3);**

- **Developing and implementing formal and uniform RFP processes for purchased services in the District (see R6);**

- **Creating and updating purchasing policies and procedures, which should ultimately be encompassed in a purchasing manual (see R1); and**

- **Providing oversight and periodic audits of purchasing activities (e.g., requisition to purchase order process in the USAS system and using purchasing cards as described in R4).**

**By centralizing major purchasing activities under a senior administrator, the District would improve the level of consistency in the process, better ensure that staff are following policies, increase the efficiency of the process, and help maximize purchasing power by allowing purchases to be combined into volume orders.**

The District's decentralized purchasing process permits each department and school building to find suppliers and obtain quotes and bids. The Business Manager administers District-wide purchasing, particularly for the maintenance, custodial, security, transportation, and food service programs. He also serves as the District's purchasing agent, but does not currently oversee purchasing at the school buildings.[16]

According to *Centralization of the Procurement Function* (NIGP, 1998), the major benefits of centralizing the purchasing function are effective control (uniform oversight and procedures), cost savings (volume buys, establishment of requirements contracts, and use of standard specifications and contract terms), and use of a professional purchasing staff (who can develop, issue, and establish contracts for use of the jurisdiction).

*Public Procurement* (Routledge, 2007), in a case study titled *The Fraud/Red Tape Dilemma in Public Procurement*, notes that for school districts, centralized purchasing allows a district to benefit from economies of scale. In contrast to decentralized purchasing, where every school (or teacher) acts as an agent for the district, a centralized purchasing department channels all transactions though a single responsible agency. The purchasing department then may be able to combine requests and solicit prices on larger quantities of a given item. This equates to lower prices. In addition, districts that utilizes centralized purchasing provides a single focal point for supplier contacts.

The lack of centralization in major purchasing activities leads to inconsistencies in purchasing practices, which were illustrated in the results of several tests conducted during the audit and described in this report. These inconsistencies affect the District's ability to control the purchasing process or take advantage of its purchasing power. The audit notes several opportunities to improve the control and effectiveness of the purchasing process.

The District is susceptible to waste, fraud, and abuse, and it does not take advantage of opportunities to use its purchasing power to obtain better pricing. Streamlining the authority over the purchasing function and consolidating responsibility for purchasing in the position of the Business Manager would increase the level of oversight and control in the purchasing process. Coupled with enhanced controls over purchasing in the Treasurer's Office, WHCSD would substantially improve the overall process and ensure consistency with and adherence to District policies.

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[16] Purchasing functions comprise only 3 of the 38 position responsibilities in the Business Manager's job description.

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DISTRICT RESPONSE

# District Response

Throughout the audit process, staff met with District officials to ensure substantial agreement on the factual information presented in the report. When the District disagreed with information contained in the report and provided supporting documentation, revisions were made to the audit report. WHCSD was invited to provide an official response to the performance audit to be included in this report but elected not to do so.

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