

Introduction, Objectives and Methodology

Introduction

The City Auditor's Office has completed an operational audit of the Purchasing and Accounts Payable Divisions for the 21 months ended March 31, 2007 for the Richmond Public Schools (RPS). The audit was conducted in accordance with Generally Accepted Government Auditing Standards.

Objectives and methodology

The overall objective of the audit was to evaluate whether procurement and disbursement activities were:

- made for authorized and necessary purchases,
- in accordance with governing laws, rules and policies,
- supported by appropriate documentation,
- made using responsible, reliable and legitimate vendors, and
- processed in the most effective and efficient manner.

Auditors performed the following procedures to complete this audit:

- interviewed management and staff,
- surveyed end-users,
- benchmarked other public schools,
- reviewed and evaluated relevant policies and procedures, and
- reviewed and analyzed financial data

Management responsibility

The RPS management is responsible for maintaining relevant records and maintaining a system of internal accounting and management controls. In fulfilling this responsibility, the management is required to

assess the expected benefits and related costs of the control procedures. The audit procedures provided a reasonable basis for conclusions regarding the internal control structure and recommendations.

Significant RPS resources may be vulnerable to abuse

Due to the magnitude of resources used by these functions, the presence of proper internal controls is crucial. Nationwide, these functions have often been targeted by individuals committing fraud against their employers. According to the Association of Certified Fraud Examiners, a typical organization loses 5% of its annual revenues to occupational fraud. Accordingly, for RPS, 5% of total revenues of approximately \$300 million or \$15 million may be subject to these threats.

In 2006, 71.4% of the total number of instances of occupational fraud committed involved the following:

Majority of occupational fraud occurs in the accounts payable and procurement areas

Category	Description	% of Cases	Median Loss /Occurrence
Billing	Any scheme in which a person causes his or her employer to issue a payment by submitting invoices for fictitious goods or services, inflated invoices or invoices for personal purchases.	28.3%	\$130,000
Expenses Reimbursement	Any scheme in which an employee makes a claim for reimbursement of fictitious or inflated business expenses.	19.5%	\$25,000
Check Tampering	Any scheme in which a person steals his or her employer's funds by forging or altering a check on one of the	17.1%	\$120,000

	organization's bank accounts, or steals a check the organization has legitimately issued to another payee.		
Wire Transfers	Any scheme in which a person steals his or her employer's funds by fraudulently wire transferring them out of the employer's bank accounts.	6.5%	\$500,000
	Total Vulnerability	71.4%	

RPS must have proper controls over Purchasing and Accounts Payable

Obviously, having proper checks and balances is very important for RPS. Existence and appropriateness of internal controls in these areas can only be verified through examination of records and electronic data. The City Auditor's Office conducted a variety of tests to evaluate the effectiveness of controls which are discussed subsequently in this report.

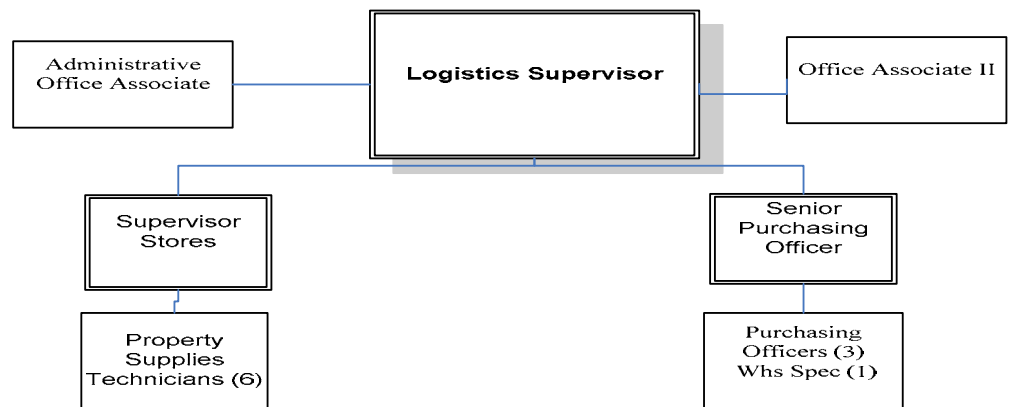
Purchasing Division Background and Observations

Background

The mission of the Division of Purchasing is to provide efficient and timely services by:

- Procuring all goods, services, equipment and construction in accordance with School Board policies and state mandates.
- Verifying instructional materials ordered by schools for compliance with requirements by the State Department of Education.
- Maintaining a distribution system to support the requirements of all schools/departments and agencies.

Effective January 1, 2007, the Purchasing Division was reorganized. The reorganization eliminated the Purchasing Supervisor position and instead created the position of Logistics Supervisor. The Logistics Supervisor oversees operations for Purchasing and Property and Supplies Management.

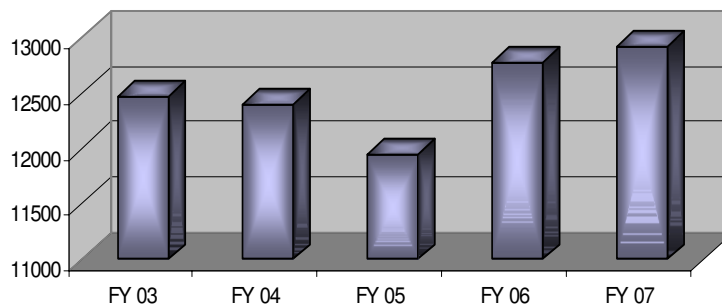


Source: Purchasing Division

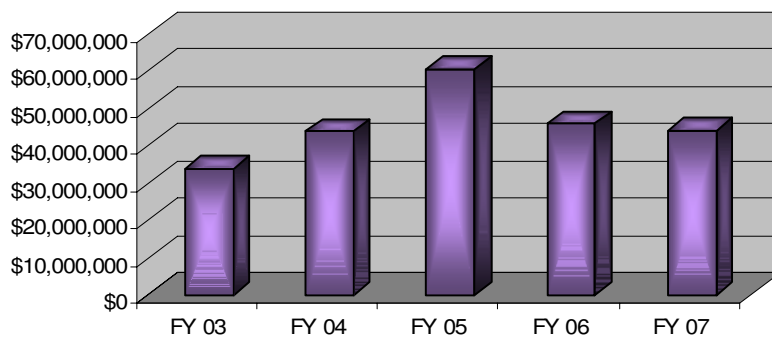
***Purchasing
workload
indicators***

RPS processed 12,770 purchase orders worth approximately \$46 million of goods and services during FY06. During FY07, the activities remained constant with 12,915 purchase orders worth approximately \$44 million. The volume and value of purchase orders processed during the last five years are depicted below:

Purchase Order Volume Trend



Purchase Order Value Trend



Source: RPS Information Technology Department

RPS could not explain why the volume trends did not mirror the purchase order value trends.

In addition, RPS uses Departmental Invoices (DIs) to purchase products and services. The estimated annualized purchases made through Departmental Invoices were about \$11 million for FY2007. For FY2007, the total estimated purchasing volume was about \$55 million (\$44 million on purchase orders and \$11 million on Departmental Invoices.)

Compliance - Procurement Activity

Procurement statutes discourage favoritism, racism and corruption

Various federal, state and local statutes emphasize adherence to rules and regulations designed to promote fair procurement practices. These statutes discourage favoritism, racism, corruption and misuse of government resources. The governmental organizations that have appropriate internal controls and comply with the statutes have assurance of proper use of resources for the government's operations in addition to fairness in their procurement system. The Virginia Public Procurement Act provides that any person who is convicted of a willful violation of the act shall be guilty of a class 1 misdemeanor.

Purchasing staff played a limited role for the procurement process

Overall, auditors observed that the purchasing staff played a very limited role in the procurement process. The end-users often carried out the buyers' responsibilities. For instance, during the audit, it was observed that the end-users:

- Procured goods and services *directly* from the vendors prior to Purchasing's review and approval. According to the Purchasing staff, some end-users, particularly in Plant Services and Instruction, were allowed to deal directly with the vendors because they have a better understanding of their needs than the Purchasing staff;
- Solicited quotes/bids from the vendors;
- Dictated to Purchasing which vendors to use;
- Selected and awarded contracts for goods and services;
- Ordered goods and services prior to establishing a purchase order, and
- Entered into contract negotiations with the vendor prior to submitting the purchase requisition to Purchasing.

Purchasing only processed the paperwork associated with the purchase order and/or contract. It was not always evident whether prescribed bids were obtained as the required copies were not affixed to the unapproved purchase order.

Allowing end-users to carry out procurement activities without much interaction with the Purchasing Division could result in noncompliance with established policies and regulations. Also, this could result in the misuse of authority as users may be inclined to use vendors they are comfortable with without regard to the value received. Obviously, the Purchasing Division is not effective in monitoring procurement activities at RPS. It appears that the Purchasing Division's personnel and the procurement end-users may not be adequately trained to carry out procurement functions.

***Purchasing staff
needs more
training***

The Purchasing staff is not required to have college degrees nor hold certifications. Accordingly, most of the Purchasing personnel lack certifications and higher education. For the most part, the purchasing staff consists of employees promoted from within the RPS organization. Only two of the four Purchasing Officers have college degrees and only one Purchasing Officer holds a certification.

According to the Universal Public Purchasing Certification Council (UPPCC), mandatory certification for procurement professionals is becoming a trend in governmental purchasing. Various state and local government entities and school districts as depicted in the table below have won awards for maintaining fully certified public procurement staffs, including several located in Virginia:

Locality or School District	Award Year (Calendar)
Alexandria City Public Schools	2007
City of Virginia Beach Purchasing Division	2005
County of Dinwiddie	2007
County of York	2003, 2005, 2007
Virginia Beach City Public Schools	2004, 2006, 2007
Virginia Department of Veteran Services	2004

Source: Universal Purchasing Certification Council (UPPCC)

UPPCC also states that obtaining a Certified Professional Public Buyer (CPPB) or a Certified Public Purchasing Officer (CPPO) designation demonstrates a standard of competency in the public purchasing profession. Each designation indicates to the public that, having mastered a body of knowledge, one can make sound decisions that reflect maximum value for the taxpayer's dollars.

Furthermore, a formal training session on procurement policies and procedures was not in place for the procurement liaisons to ensure that they procured goods and services according to applicable laws and regulations. Without proper training, the liaisons may not know the most advantageous and lawful means of obtaining goods and services. A formal training program is needed to ensure that staff members obtain adequate skills to perform their duties. Complex areas should be staffed with qualified, competent employees to help ensure that RPS is being serviced appropriately.

Recommendations:

- 1) **Train Purchasing staff as well as the purchasing end-users (liaisons) to ensure they possess adequate knowledge to perform their duties competently.**
- 2) **Implement a formal training program for the end-users.**
- 3) **Establish minimum educational requirements for purchasing staff and a career path program in order to promote advancement within the division.**
- 4) **Encourage obtaining a professional certification in the procurement field to address the competencies and skill sets of the purchasing staff.**

Compliance Testing

RPS regulations along with the provisions of the Virginia Public Procurement Act require obtaining quotes or bids depending upon the amount or procurement type. Specific criteria are prescribed to define formal bid activities, purchase order requirements, emergency and sole source purchases. According to purchasing procedures IV.C.4, the bidding requirements are as follows:

Bidding Requirements

Procurement Transactions	Quotes Requirement
Under \$5,000	Discretionary
\$5,000 - \$10,000	Telephone or written quotes ^a
\$10,000 - \$20,000	Three sealed or unsealed bids
\$20,000 - \$50,000	Four sealed or unsealed bids
\$50,000 – above	Mandatory formal bids

a - Purchasing procedure IV.C.4 specifies at least three (3) bids

Source: RPS Purchasing manual 2/04

The above requirements are not consistent with the School Board Bylaws. In accordance with the provisions of the School Board

Bylaws, Section 3.21, the following table of requirements was developed by the auditors:

Purchasing manual is inconsistent with the School Board Bylaws

Type Of Purchase	Range	# Quotes
Services	\$1 - \$15,000	1 Verbal
Services	\$15,001-\$50,000	4 Written
Goods, equipment, supplies	Under \$5,000	1 Verbal
Goods, equipment, supplies	\$5,000 - \$10,000	Verbal ^b
Goods, equipment, supplies	\$10,000 - \$20,000	3 Written
Goods, equipment, supplies	\$20,000 - \$50,000	4 Written

^b – The required number of quotes was not specified in the Bylaws. However, Purchasing Procedure IV.C.4 indicated at least three (3) quotes.

In testing compliance with the policies concerning thresholds under which more than one vendor quote is required, auditors extracted electronic data for every purchase order issued during the audit period, totaling 22,884 purchase orders. Auditors selected a statistically valid random sample of purchase orders in order to test compliance with the many different internal control attributes to ensure RPS procured items in accordance with their policies and complied with relevant laws and regulations.

The following types of purchases are exempt from competitive quotes, per the Richmond School District Bylaws:

- Purchases of goods and services less than \$5,000
- Purchases of “services only” up to \$15,000 (not applicable to “goods”) (In contrast to the published RPS Purchasing Policy

which does not differentiate between goods and services and does not set this dollar value)

- Purchases negotiated under a school district contract
- Purchases falling under the “Sole Source” procurement policy
- Purchases falling under the “Emergency” procurement policy
- Purchases falling under the “Proprietary” procurement policy

90% of all purchase transactions did not require competitive procurement

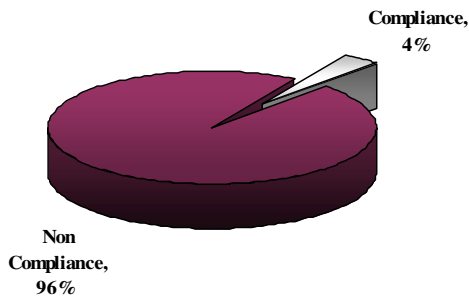
All purchase orders under \$5,000 are exempt by all RPS policies from requiring more than one quote. These totaled 20,519 which constituted 90% of the total purchase orders issued and were not part of the following statistics. This means that 90% all purchase transactions did not require competitive procurement. This exemption was used by RPS staff to circumvent compliance requirements by splitting transactions. This issue is dealt with subsequently in this report. This left 2,365 purchase orders from which to pull samples.

A random sample of 137 purchase orders was pulled from the pool of 2,365 to analyze. Of these, 85 purchase orders represented purchases under contract, sole source, emergency and proprietary source purchases, or were considered procurements for service which fell under \$15,000, all of which exempted them from the multiple-quote rule. These exemptions are evaluated separately. The remaining 52 purchase orders were tested for compliance with the multiple-quote policy. These purchase orders represented \$1,108,943 in procurements.

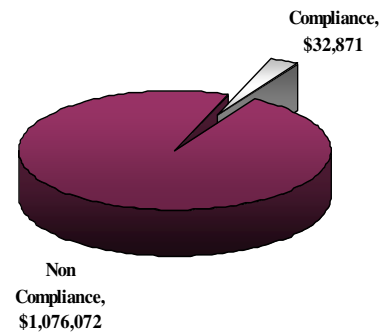
Of the sample of 52 purchase orders, the auditors noted the following:

Type	Population		Non Compliance		Non Compliance	
	Value	Count	Value	Count	% Value	% Count
Services	\$292,344	14	\$274,473	13	94%	93%
Goods	\$816,599	38	\$801,599	37	98%	97%
Total	\$1,108,943	52	\$1,076,072	50	97%	96%

Gross Non Compliance (Count)



Gross Non Compliance (Value)



Gross non-compliance with the Procurement Act and/or policies was observed

The above chart shows that controls within RPS Purchasing to ensure that basic policies are followed are severely lacking. The Purchasing staff has shown no effort to ensure the non-compliant activities are monitored, discovered, addressed and corrected. As such, the Purchasing function does not appear to be effective.

Inconsistency between Bylaws and purchasing manual may be a cause of confusion

In addition, it appears that the inconsistency between Bylaws and the purchasing manual may be causing confusion amongst users. It appears that users either disregard the compliance requirements or are not trained properly on procurement issues. Either way, the result is gross noncompliance with laws and regulations for which the Virginia Code prescribes penalties related to a class 1 misdemeanor.

Sealed bids were not obtained on several purchases exceeding \$50K

During FY06 and FY07, RPS issued purchase orders valued at approximately \$22 and \$19 million respectively for purchases over \$50,000. However, Purchasing could not readily identify contracts related to those purchase orders. Therefore, it was not possible for the auditors to quantify the percentage and dollar amount of the purchase orders for which contracts were not issued. However, a review of selected purchase orders exceeding \$50,000 indicated that at least for 14 out of 57 purchase orders exceeding \$50,000, RPS did not have a contract with the vendor.

RPS paid for \$18 million unauthorized purchase orders during the audit period

In addition to the purchase order testing, auditors scanned and analyzed the purchase order database. This analysis revealed that during FY06 and FY07 (as of 3/31/07), RPS appears to have paid unauthorized purchase orders totaling at least \$12 million and \$6 million, respectively. The explanation included for these purchases indicated that the purchases were made prior to preparing the purchase order. Some of the common explanations given included:

- services were already rendered,
- purchase order was for payment only, and
- department already had the invoice.

These comments would indicate that the department had already procured services or products without the Purchasing Division's involvement. The purchase order was submitted to facilitate the payment. Documentation of competitive purchasing was not submitted to the Purchasing Division. In these circumstances, it was not possible for the Purchasing Division personnel to verify compliance with policies and regulations. This also demonstrates instances in which end-users improperly carried out procurement functions.

Based on the above observations, it is apparent that RPS does not have a proper monitoring mechanism to verify compliance with policies, laws and regulations. The Virginia Public Procurement Act provides in § 2.2-4377 that any person convicted of a willful violation of any provision of the Act shall be guilty of a Class 1 misdemeanor. Upon conviction, any public employee, in addition to any other fine or penalty provided by law, shall forfeit his employment.

Any governmental organization has a fiduciary responsibility to manage resources in a prudent manner and in compliance with applicable policies, laws and regulations. Without proper monitoring, the governmental resources could be expended for unauthorized purposes. Also, not inviting the appropriate number of bids could result in diverting business to favored vendors at a price that may not be favorable to RPS. This is a significant risk that could increase costs disproportionately.

Recommendations:

- 5) Resolve the disparity between the Purchasing manual and the Bylaws by a coordinated review and make appropriate changes.**
- 6) For the purpose of monitoring compliance, the School Board needs to revisit requirements for the number of quotes needed for Professional Services, Non-Professional Services, and Goods, Equipment and Supplies.**
- 7) Mandate strict compliance with RPS procurement policies.**
- 8) Require the Purchasing Division to be vigilant in monitoring user compliance with the policies.**
- 9) Prescribe and enforce disciplinary action for the employees not complying with the purchasing policies.**

Some RPS employees circumvented the procurement requirement by splitting transactions

One of the most common ways to avoid compliance with procurement requirements related to obtaining quotes/bids is to split the transactions into smaller purchases. For example, normally a purchase exceeding \$10,000 needs an invitation for at least three bids. This requirement can be avoided if the purchase is split into two or three purchases of less than \$10,000 each. Obviously, this method results in an intentional circumvention of procurement requirements.

Auditors observed that Purchasing processed multiple purchase orders for the same goods and services throughout the year. In some cases, the end-users blatantly circumvented the procurement requirements by splitting the transactions into different purchase orders. Even though the goods and services were split, the Purchasing Division processed and approved those purchase orders. The following table depicts an example of a split purchase that avoided requirements of obtaining additional bids. These purchases were approved by Purchasing on the same day.

Split Transactions – Same Vendor

PO No	PO Date	Value	Department	Description
91368	7/5/05	\$9,650	Plant Services	Gym floors at Thompson M. S.
91369	7/5/05	\$6,275	Plant Services	Gym floors at various schools
91371	7/5/05	\$14,100	Plant Services	Gym floors at Huguenot
Total		\$30,025		

On July 5, 2005, the Purchasing Division approved all three of the above purchase orders for the same vendor. Plant Services obtained one quote from the vendor selected. However, according to purchasing policy and procedures, purchases between \$20,000 and \$50,000 require four sealed or unsealed bids. This practice could result in diverting RPS business to a favored vendor. In addition, the following is an example of circumventing the sealed bid requirement:

Split Transactions - Circumventing the Sealed Bid Requirement

PO Date	No of Vendors	No of P.O.	P.O. Value	Description
7/5/05	2	4	\$32,375	Painting services
7/20/05	2	4	\$36,350	Painting services
3/1/06	1	2	\$13,600	Painting services
Total			\$82,325	

The Purchasing Division did not identify obvious violations of policies

The Plant Services Division split the purchase during July 2005 even though the purchase orders were for the same service. The Purchasing Division processed and approved the purchase orders without regard to procurement policy and procedures or the Virginia Public Procurement Act requirements. The current practice lends itself to favoritism, corruption and misuse. Goods and services may not have been procured in the most economical manner. Thus, the most advantageous price may not have been obtained.

Awarding contracts to multiple vendors for similar work may not be a prudent business practice

The Purchasing Division invited different bids on the same day for similar work. Auditors observed the contract listing provided by Purchasing contained 28 contracts that could have been grouped into eight contracts. Failure to analyze operational needs increases the work load for all involved in the process. Additionally, the best price may not be obtained. RPS also risks having the same vendor win the majority of the bids, which could be detrimental to the projected completion date of the project. The table below depicts how bids were split and how the same contractors obtained the majority of the bids:

Split Transactions – Separate Bids for the Same Work

Date	Description	No. of Awards per Vendor	Value
3/25/04	Fire alarm system	4	\$428,955
3/25/04	Fire alarm system	1	\$162,900
3/25/04	Fire alarm system	1	\$149,575
Total			\$741,430
3/25/04	Air Conditioning	2	\$752,619
3/25/04	Air Conditioning	1	\$135,342
Total			\$887,961
4/1/04	Day Care Center	2	\$571,700
Total			\$571,700
3/2/05	Replace boilers & pumps	3	\$548,460
3/2/05	Replace boilers & pumps	1	\$176,409
3/2/05	Replace boilers & pumps	1	\$563,417

Total			\$1,288,286
3/2/05	Replace unit ventilators	3	\$807,948
3/2/05	Replace unit ventilators	1	\$360,500
Total			\$1,168,448
12/4/06	Replace boilers	1	\$469,439
12/4/06	Replace boilers	1	\$384,000
Total			\$853,439

Source: contract listing provided by Purchasing

Recommendation:

- 10) **Require the Purchasing Division to periodically analyze the procurement data to detect and address bid splitting incidences.**

Blanket purchase orders

According to Policy, RPS issues blanket purchase orders (BPO) to acquire goods and services that extend for a period of time or throughout the contract term.

The BPO does not require entering quantity or price. In addition, the users are not required to enter a receiver in the system. If abused, this instrument could become a vehicle for circumventing quotes or bidding requirements. RPS processed a significant number of BPOs throughout the audit period. During the scope of the audit, RPS issued BPOs worth approximately \$42 million, which accounts for approximately 52% of the total dollar amount of issued purchase orders.

Blanket Purchase Orders

Fiscal Year	Total PO Value	BPO Value	Value Percentage
2006	\$45,713,012	\$24,317,685	53%
2007	\$35,085,906	\$17,446,521	50%
Total	\$80,798,918	\$41,764,206	52%

Auditors observed that RPS consistently used BPOs throughout the year for one-time purchases for which the dollar value and quantity were known.

Lack of checks and balances on blanket purchase orders could result in lost opportunities

Procurement personnel signed off on all purchase transactions without a process to monitor and detect cumulative purchases from a single vendor. Accordingly, there was no attempt made to evaluate the possibility of non-compliance with procurement policies. This lack of a “check and balance” could not only lead to non-compliance but also could result in lost opportunities for obtaining better pricing by combining purchases on a school-wide basis resulting in excessive costs for RPS.

During the review of the contract files, auditors observed several BPOs and POs were related to one contract. In addition, contracts were not always referenced to purchase orders. The Purchasing staff could not identify all the purchase orders related to a particular contract. This practice exposes RPS to exceed its contract price. According to the Purchasing staff, several purchase orders were issued for each end-user in order to account for the different assigned budget codes. However, instead of assigning multiple purchase orders, the Purchasing Division has the capability of entering multiple budget codes within a single

purchase order for all purchase orders over \$500. This will provide better accountability of expenditures under a particular contract. Also, the auditors were informed that the RPS computer system has a capability to identify all POs issued for a contract; however, this feature is not being used currently. RPS representatives could not explain the reason for not using the system feature.

Recommendations:

- 11) **Require Purchasing staff to properly monitor the use of blanket purchase orders to ensure compliance with policies and regulations.**
- 12) **Use blanket purchase orders only for repetitive purchases related to a single contract.**
- 13) **Use the system feature to link purchase orders with corresponding contracts.**

Emergency procurements

According to the Virginia Public Procurement Act, all public contracts with nongovernmental contractors for the purchase or lease of goods, services, insurance, or construction, shall be awarded after competitive sealed bidding, or competitive negotiation unless otherwise authorized by law. Emergency contracts may be awarded without competitive sealed bidding or competitive negotiation; however, such procurement shall be made with such competition as is practicable under the circumstances. A written determination of the basis for the emergency and for the selection of the particular contractor shall be included in the contract file.

This audit revealed significant issues with the emergency and the sole source procurement of goods and services as follows:

RPS has not clearly defined what constitutes an emergency

RPS has not clearly defined what constitutes an emergency situation. According to the RPS Manual 2/04, the departments may procure materials, equipment, or supplies without competitive sealed bidding when it is determined in writing by the Assistant Superintendent for Finance/Operations Services or his/her designee that an emergency exists. However, pursuant to §3.23 of the RPS Board Bylaws exceptions to the competitive procurement process are required to be approved in writing by the Assistant Superintendent of Finance/Operations and approved by the Board.

Contrary to School Board Bylaws, the purchasing manual vests a very broad authority in the Assistant Superintendent position

The RPS purchasing manual does not recognize the need for the Board's approval. The above provision means that RPS Administration has left the determination of emergency to the discretion of one individual who is also in charge of most of the school operations and has unlimited authority to obligate RPS through contracts. The vesting of such a broad authority into one individual without proper checks and balances could result in abuse of authority without being readily detected.

Although not applicable to RPS, auditors compared RPS policies with the City of Richmond's policies on emergency purchases. In contrast with RPS, the City defines an emergency as follows:

According to the City Code section 74-43, "An emergency shall be deemed to exist when the Director (Procurement Director) determines that (1) a breakdown or failure of machinery or other equipment has occurred; (2) a curtailment, diminution or termination of an essential service is threatened; or (3) a dangerous condition has developed and that a procurement without recourse to competitive sealed bidding or

competitive negotiation is (i) needed to prevent loss of life or property; (ii) essential to protect and preserve the interests of the City and its inhabitants; (iii) needed to maintain the proper functioning of the City government; or (iv) needed to maintain the efficient rendering of public services.”

RPS’ policy, when compared to the City’s policy, appears to be significantly weak

It is apparent from the above description that an emergency purchase at the City must be made during an extremely critical situation where lack of immediate action will result in:

- Loss of life or property,
- The interests of the City will be compromised,
- The City will stop functioning properly, or
- Public service delivery will be impacted.

RPS’ policy, when compared to the City policy, appears to be significantly weak.

Findings

The Purchasing Division did not have complete records on emergency purchases

The Purchasing Division provided a list of emergency contracts. The Auditors reviewed all five (100%) of the emergency contracts identified in the listing. However, over the course of the audit, other emergency purchases surfaced. Auditors identified 14 emergency purchases which totaled approximately ***one million*** dollars. This indicates that the Purchasing Division does not have complete records of emergency purchases. This hinders its ability to monitor the use of emergency contracts. Since emergency contracts circumvent most of the requirements of competitive procurement, inability to manage these contracts may lead to non-compliance. The audit observations are depicted in the following table:

#	Date	Description	Amount	Reason	Emergency?
1	6/30/05	Floor Repairs	\$210,000	Repair Gym floors at various elementary schools.	No ^a
2	8/16/05	ADA & Ventilation Improvements	\$110,000	ADA and Ventilation Improvements at G. W. Carver Elementary School.	No ^b
3	8/18/05	Commercial Office Space	\$68,750	Solicit commercial real estate services to identify space to relocate administrative offices.	No ^c
4	11/17/05	Facilitation and Attendance Task Force Services	\$67,350 (\$165/hr)	Emergency was declared to have specific recommendations to the School Board Facility Committee regarding closing/consolidating schools and building new schools.	No ^d
5	8/26/05	Grandstand Units	\$24,980	Rent temporary grandstands at George Wythe High School.	No ^e
6	9/26/05	Interpreter Service	\$45,000	Provide interpreter service starting September 26, 2005 and ending June 30, 2006.	No ^f
7	7/22/04	Move office	\$144,785	Move the Safety & Security Office to John Marshall High School.	No ^g
8	2/2/05	Renovation	\$134,500	Renovate space at George Wythe High School for Distance Learning.	No ^h

^a Other bids obtained in March 30, 2005 and June 3, 2005.

^b Appears to have been a regularly scheduled repairs and maintenance/compliance job.

^c A letter dated February 17, 2006 notes that a decision had been made not to move forward on the commercial lease at 3600 West Broad Street.

^d Does not appear to be an emergency.

^e Lack of planning.

^f Lack of planning

^g According to a letter from Plant Services, they had accepted three proposals.

^h Emergency declared by Plant Services on 10/24/04 to finish job before second semester.

9	6/14/06	Renovations	\$106,821	Renovate 3501 Belt Blvd Transportation Office.	No ⁱ
10	7/6/05	Food Service	\$75,000	Furnish food products for summer school.	No ^j
11	9/1/05	Speech /language pathologists	\$66,850	Provide speech/language pathologists for the school year beginning September 6, 2005.	No ^k
12	9/1/05	Speech /language pathologists	\$70,070 Increased to \$99,330	Provide speech/language pathologists for the school year beginning September 6, 2005.	No ^l
13	9/11/06	Televisions	\$21,802	Purchase television related to the relocation of Norrell to Patrick Henry.	No ^m
14	12/21/05	Security system	\$20,367	Install security system at Carver Elementary School.	No ⁿ

RPS did not have adequate justification for emergency purchases

Generally, the audit testing revealed that the divisions did not provide an appropriate justification for the emergency procurements, and only two purchases were approved by the School Board. The files contained an emergency declaration form signed by the former Assistant Superintendent of Finance/Operations. However, the declaration form was a vague “boiler plate” that was used for most declared emergencies. The emergency declarations restated the services and products being sought, but did not detail the need or the reason why the situation that demanded these services and products were deemed an

Asst. Superintendent of Administration/Operations declared the emergency on 2/2//05. The contract was signed 11/11/04.

ⁱ Quote received 4/14/06. City asked to vacate building effective 7/31/06

^j Declaration made 7/6/05 for services starting June 27. According to documentation, the previous contract was cancelled.

^k End-user did not contact purchasing until the services were needed. Did not plan for upcoming year.

^l End-user did not contact purchasing until the services were needed. Did not plan for upcoming year.

^m Televisions were not ordered until students were scheduled to return to class.

ⁿ Lack of planning

emergency. It appears that the emergency procurement method was used loosely to expedite transaction processing when such transaction needs should have been properly planned and included in normal procurement activities.

Lack of planning was the principal reason for emergency purchases

An example of poor planning was exhibited when RPS declared an emergency on July 6, 2005 to provide food for the summer program starting June 27, 2005. Auditors also observed the justification for one of the emergency procurements stated, "Richmond Public Schools' Department of Plant Services has determined that an emergency exists to repair the gym floors at Holton, Jones, and Blackwell Elementary schools". It appears this project lacked proper planning and an emergency was declared at the last minute since RPS had received three quotes before declaring the procurement an emergency. The quotes were dated 3/30/05, 5/25/05 and 6/2/05. The emergency was declared 6/30/05 and the contract was executed on 8/4/05, which was awarded to the 5/25/05 bidder. In this transaction, RPS circumvented the requirement of inviting sealed bids and may have awarded the contract to a favored vendor. In some cases, the end-users entered into agreements with the vendors prior to involving the Purchasing Division. Contract documentation was created after the fact. In other cases, it appears that the end-users did not provide adequate lead time for planning and carrying out the competitive procurement process. Furthermore, based on an interview with the former Purchasing Supervisor, purchases which were deemed as emergencies or sole source by the end-users were not questioned by the Purchasing staff; they were simply processed.

A policy for procurements in emergency situations must at least include:

- assessment of the emergency,
- justification for the emergency purchase, and
- price evaluation.

Inappropriate use of emergency purchases could result in violation of procurement laws and regulations. Emergency procurements avoid the bidding process, which is a significant risk resulting in the potential for favoritism, unfavorable pricing, and misuse.

Sole source procurements lacked justification

As stated above, the Procurement Division provided a list of all contracts. The list contained four sole source contracts. All of the four files contained a justification document. However, the sole source justification was insufficient to explain the steps taken to determine whether the transactions were properly justified. In one case, upon an e-mail request from the former Assistant Superintendent of Finance/Operations, the buyer obtained a letter from the vendor stating they were the sole provider of such services in Richmond. No other efforts appear to have been made to verify the vendor's claim. Also, the contract files had no evidence that Purchasing reviewed the contract price for reasonableness.

The Purchasing Division is expected to monitor compliance with RPS policies, regulations and procedures. However, adequate controls were not in place to ensure compliance with policies and procedures that provided for the most economical method of procurement. The end-users negotiated with the vendors and entered into agreements prior to consulting the Purchasing Division. By not objecting to these

purchases, the Purchasing Division's role was limited to just processing paperwork.

Overall, Purchasing could not provide a complete list of all sole source transactions. The list provided was neither accurate nor complete. During the course of the audit, auditors noted other sole source transactions which were not captured on their list. Sole source/proprietary source transactions totaled approximately ***\$1.7 million.***

Sole Source purchases are appropriate only under circumstances when essential goods and services cannot be obtained from any vendor other than the one selected. However, using this process loosely could lead to noncompliance and abuse.

Recommendations:

- 14) Prohibit users from directly dealing with vendors without involvement of the Purchasing Division.**
- 15) Revisit and revise policies related to emergency and sole source purchases so that these contracts are used only when a true emergency exists or goods and services can be purchased from only one source.**
- 16) Require proper documentation of reasons for the sole source or emergency purchases.**
- 17) Require the School Board approval of emergency and sole source contracts.**
- 18) Hold staff accountable for lack of planning.**

Contracts

According to the purchasing manual, RPS enters into three types of contracts:

- goods and services,
- professional and non-professional services, and
- construction.

The contract process is initiated by the end-users who:

- enter an unapproved purchase order in the purchasing system,
- call or e-mail Purchasing regarding service needs, or
- negotiate with the vendor and submit a memorandum of agreement to Purchasing.

RPS policy allows end-users to negotiate contract terms without the involvement of Purchasing staff

This process indicates that the end-users may carry out procurement duties with or without involvement of Purchasing staff. Therefore, the Purchasing staff may not be assured of adherence to the relevant policy and legal requirements. During the audit, it was noticed that the Purchasing staff allowed the end-users such as Plant Services to conduct all tasks related to the procurement of service and products without participating in it. Again, this situation exposes RPS to risks of noncompliance and abuse.

Competitive sealed bidding is the process of publicizing government needs, inviting sealed bids, conducting public bid openings and awarding a contract to the lowest responsive and responsible bidder. Construction bids are forwarded to Plant Services and the assigned architect or engineering firm for review, evaluation and award recommendation.

Competitive negotiation is used to procure professional and non-professional services as well as highly technical and complex services.

With competitive negotiation, the respondents submit proposals which are reviewed and evaluated by a committee. Discussions are held with two or more of the respondents, negotiations are held with one of the vendors and the contract is awarded accordingly.

Active contract listing

Auditors requested a listing of all active contracts during the audit scope period. Purchasing submitted a listing which identified contracts by type. However, the contract listing provided by Purchasing was inaccurate and incomplete. Auditors identified contracts that were not included on the listing. An official contract listing must be maintained to evidence open and available contracts to the end-users at any given time. Unnecessary efforts may be undertaken to secure goods and services that are already available through existing contracts. The Purchasing Division has not assigned responsibility for maintaining an accurate and complete contract listing.

Inadequate data prevented identification of overall non-compliance and lost volume discount opportunities

However, due to the inadequacy of computerized data, it was not possible to identify the School District's spending on a group of similar commodities that can be procured through one contract. Due to the lack of proper use of commodity codes, a more comprehensive study of lost opportunities could not be performed. This is a significant management deficiency. This deficiency prevents proper monitoring unless extensive manual efforts are invested. Auditors found that, in the past, the Purchasing Division did not perform any district-wide analysis or review to identify noncompliance or opportunities to procure volume discounts on bulk purchases of commodities.

Contract file review

For the most part, the selected contracts were procured through competitive means unless they were deemed an emergency or sole

source. It appears that the end-users entered into agreements with the vendors prior to consulting with the Purchasing Division or the contracts were created after the fact. In some cases, contractors were already providing services prior to establishment of the contract.

Several discrepancies were revealed during contract file review

The following salient weaknesses were noted during the contract file review, some of which have been addressed throughout the report:

- Sufficient documentation to follow the entire contract process from initiation to project completion and close-out was not maintained in the files. For the most part, auditors were unable to ascertain what initiated the contract process (i.e. user request, purchase order, memorandum of agreement, etc). File document standards had not been implemented prior to January 2007. Thus, inconsistencies were noted in file content documentation.
- File documentation appeared to be back-dated for some of the contracts. For instance, it appeared that a fully-executed contract was created after the contractor completed the scope of services. Via file documentation, the contracted services were completed during September 2004; however, the contract was not fully executed until October 2004.
- Notices to proceed, which represent the official start of the performance period, were issued prior to contracts being fully executed.
- Documentation needed to establish a contract (i.e. payment and performance bonds) was not provided to Purchasing until after the contractor had started working. Contracts are legally binding documents. If the contracts are not fully executed, RPS may not be able to enforce the provisions of the contract. In the case of poor performance or noncompliance with the contract

term by the contractor, RPS may not have recourse against the contractor.

- Lack of evidence of proper quotes may indicate not following procurement requirements and possibly routing the contract to the vendor of choice by RPS employees. This is a very serious weakness that can result in misuse.
- The bid specifications were significantly adjusted after the contract was awarded. The adjustments were significant enough to warrant the contractor to reduce his original bid amount by more than half. Although it may not have legal ramifications, a prudent business practice may require rebidding. The project was not rebid.
- A contract was awarded to the lowest bidder even though the offer did not meet the bid specifications. A subsequent change order was processed which brought the total contract price in line with the second highest bidder.
- The extent of the Purchasing Division's involvement in the procurement of contracts is questionable. For example, it appears that Plant Services developed the Invitation for Bid (IFB) with the help of either an architect or engineering firm, invited bids and in one case negotiated the contract price.
- The need for a contract change order request was not annotated in the contract file. It was also noted that change orders and/or justifications were not always present in the contract file.
- Invitations for bids for similar services on the same dates were bid out separately for different schools/locations. Separate contracts were issued accordingly. This action would compromise RPS' ability to obtain better pricing due to economies of scale.

The Purchasing Division did not maintain sufficient documentation to follow the entire contract process from initiation to completion. The contract file did not demonstrate the contractor's compliance with the contract terms. The Purchasing staff could not answer questions related to contract administration such as change orders, vendor performance or contract completion. Purchasing referred the questions to the end-users.

RPS has no process for vendor performance evaluation

RPS did not have an in-depth vendor performance evaluation process. The departments administering vendor contracts were not required to report any in-depth information about the adequacy of vendor performance to the Purchasing Division. The risk triggered by this situation is that a poor or marginally performing vendor may not be identified. Due to the inaction of RPS personnel, the contract with these vendors may be renewed. In addition, other RPS divisions may use an underperforming vendor already used by one division and thus compound the problem. It is easier to implement a school-wide program to debar vendors based upon performance when contracts are well written, policies and procedures are concise, and proper investigations of vendor behavior are conducted.

Poor or marginally performing vendors may not be identified

Recommendations:

- 19) **Establish procedures that ensure consistency and completeness within Purchasing contract files.**
- 20) **Maintain an accurate contract listing and make it available to RPS staff.**
- 21) **Assign appropriate commodity codes for all purchases and use them to detect opportunities for consolidation of purchases for volume discount purposes.**

- 22) **Require Purchasing to maintain a complete contract file that evidences the entire contract process from initiation to close.**
- 23) **Develop and maintain a check list in each respective contract file to ensure compliance with applicable laws and regulations as well as internal policies and procedures.**
- 24) **Perform a periodic review of the files to ensure compliance.**
- 25) **Require end-users to report in-depth information about vendor performance adequacy to the Purchasing Division.**

Change orders

Generally, a change order is prepared to negotiate the cost of additional work. Typically, change orders can occur for the following reasons:

- unknown or unforeseen conditions
- changes in original scope of the project
- errors and omissions in the original specifications

Change orders are legally binding contractual documents that must be negotiated and approved prior to beginning the additional work. Given that change orders provide a mechanism for avoiding disruptions, proper controls need to be in place to prevent unnecessary losses. If RPS staff is not diligent when preparing the bid request, a contractor anticipating additional work could submit a low bid for the contract with the hope of negotiating anticipated change orders at a higher price.

RPS has no written change order policy

RPS does not have a written policy to govern the change order process. Without the formal policy, change orders may not be properly substantiated and approved to maintain accountability over contract costs. The Purchasing Division does not play an active role in the change order process. The users negotiate the change order and submit internal memorandum to Purchasing stating the dollar amount

increase/decrease in the contract amount without providing the reason for the change orders. The users are not required to disclose the nature of requested change orders. This discrepancy may allow a contractor to submit a lower original bid and later, inflate the contract price by requesting change orders. Also, this method could be used to award the contract to a vendor whose ultimate price may not be competitive.

***Purchasing
does not
maintain
adequate
change order
documentation***

RPS did not maintain a contract change order listing. In a random sample of 14 contracts, three out of the 14 contracts reviewed had change orders. The auditors attempted to review change orders to verify proper approvals, however reviewing the change orders was not possible. Purchasing did not maintain change orders in the file. The auditors noted changes in purchase orders from the original contract amounts without justification for the changes.

During the course of the audit, auditors observed RPS put out an Invitation For Bids (IFB) to move the Safety and Security Office to John Marshall High School. The construction contract provided for the conversion of the existing shop and classroom space into administrative offices. The lowest bidder was not responsive as his initial bid did not include the light fixtures as specified in the IFB. Initially, Plant Services recommended awarding the contract to the second lowest bidder. However the following day Plant Services received a memo from the original lowest bidder with an alternative for the light fixtures. In turn, Plant Services submitted the modification to the architect for approval. The architect approved the modification and the contract was awarded to the original non-responsive vendor. While reviewing the contract file, auditors noted the file documentation mentioned a change order for \$7,590. The actual change order, approval and justification

for the change order were not included in the file. Furthermore, the change order increased the value of the contract to almost match the second lowest proposal.

Recommendations:

- 26) Develop an official change order policy and procedures to ensure compliance with laws and regulations. The policy should include a standard change order form and an authorized signature list for change orders.**

- 27) Require change orders to be prepared and approved in advance of beginning work.**

Efficiency and Effectiveness

Current purchasing model

Currently, RPS has a decentralized procurement model, which may be convenient for departments but results in significant increase in risks of noncompliance, fraud, favoritism and corruption. The disadvantages of this model appear to outweigh the benefits. Audit observations discussed thus far in the report clearly indicate that the threat due to the above risks is real. These risks must be mitigated.

RPS model is not effective in achieving best possible value

In addition, having several employees throughout the RPS organization performing purchasing functions may somewhat dilute the purchasing power, and RPS may not be getting the benefit of economies of scale. For example, office supplies are currently procured using several contracts for items stocked in the mini-store. However, several departments purchase office supplies and other stock items directly from vendors. As a result, they may not be getting the best price for the products. Also, the electronic records related to procurement are not adequate for the purposes of extracting meaningful reports for management purposes.

The City Auditor's Office recently completed a similar audit of the City of Richmond's procurement and accounts payable functions. During this audit, research indicated that the State of Virginia is offering an e-commerce computer system for the procurement purposes to other governments. The following is the discussion related to this tool:

“eVA”

An electronic procurement solution is available from the State virtually free of cost

Audit research identified that an automated tool already exists that can accomplish procurements more efficiently compared to RPS’ current practice and can be implemented immediately. The Commonwealth of Virginia uses a government-to-business e-commerce tool that automates and streamlines Virginia’s government purchasing. “eVA” is managed by the Commonwealth’s e-Procurement Bureau within the Department of General Services. This tool is available to RPS virtually free of cost. Generally, there would be a significant cost to acquire such an e-commerce tool. Therefore, the Commonwealth’s offer is very beneficial to the School System. In addition, this appears to be a mature program. RPS does not have to go through implementation and the related software “debug” issues.

Use of eVA allows much larger economies of scale

eVA fosters competition and thereby reduces overall purchasing costs to the locality. Approximately 32,000 vendors compete for about 663 state and local government agencies. To date, spending through this tool is estimated to be \$13.8 billion. eVA is used by about 12,000 buyers and extends adequate incentives to vendors to offer their best possible prices to stay competitive. State officials claim that Virginia taxpayers have saved an average of over \$218 million since the inception of the program by reducing the prices of most purchases.

eVA may provide better efficiency, accountability and cost effectiveness

eVA provides a streamlined, efficient and economical procurement system since purchasing professionals use a single, web-based point of access that seamlessly links them to a supplier community. Buyers can view centrally posted statewide contracts and shop from hundreds of online catalogs. Buyers have access to convenient pricing tools to aid them in careful management of taxpayer funds. Auditors compared the eVA process with the current procurement model used by RPS. Based

on our comparison, it appears that using eVA will foster significantly more competition resulting in favorable pricing.

RPS can potentially save about \$5.5 million by using eVA

The auditors compared the City of Richmond's best effort prices with eVA and found that eVA prices were 17% cheaper. RPS does not appear to take advantage of economies of scale as a decentralized model results in piecemeal purchasing. In addition, the controls over procurement appear to be weak. Therefore, RPS is expected to generate significantly more savings by using eVA. Annually, RPS procures \$55 million (\$44 million in purchase orders and \$11 million in Departmental Invoices) in products and services. A savings of 10% would result in \$5.5 million cost avoidance. This type of potential cannot be ignored.

The auditors concluded that eVA is more efficient due to its automated process:

- is more accountable due to significantly increased competition for the School District's business that leaves little or no room for favoritism;
- has more reliable data due to the electronic storage of transactions; and
- is more cost-effective due to actual savings that the auditors observed in sample transactions at the City of Richmond.

Due to the decentralized method at RPS, several departments may have obtained different prices for the similar items. Therefore, auditors could not compile a representative sample for the purposes of comparison with eVA prices.

eVA is a versatile tool that can be customized to enforce the rules and regulations of the user organization. eVA buyers reach over 30% of small, women and minority businesses (SWAM), more than through traditional purchasing methods. According to the state representatives, buyers receive an increased number of bids for purchases under \$50,000. eVA also increases the number of publicly posted bid opportunities by 67%.

eVA can be customized to monitor purchases using RPS policies

eVA can handle the specific controls that RPS has outlined in its Procurement Guidelines. A number of local governments, including Henrico County, City of Norfolk and Fairfax County take advantage of this tool. Norfolk has utilized this feature and has posted its own Procurement Guidelines on the eVA system for contractors and bidders to access. Additionally, eVA can also be established to set up the following types of “triggers:”

- Commodity code limitations
- Dollar amount thresholds
- E-mail notification of activity

Auditors met with the eVA program representatives. The representatives did not see any significant operational challenges that would prevent RPS from using eVA. In fact, the representatives indicated that most likely, many of the vendors that currently do business with RPS are already registered on eVA. There is also an outreach program to help with the transition for the smaller vendors in the future. Furthermore, eVA has its own vendor verification process that includes better procedures than those currently existing at RPS.

At RPS, the traditional procurement system has limited effectiveness due to the lack of monitoring and discipline exercised to adhere to

purchasing policies by the School agencies. Inadequate or no enforcement compounds the problem.

Like the traditional procurement system, paper intensive systems take a large amount of monitoring resources. Their effectiveness may reduce over time. An automated tool such as eVA has significant advantages over the current model. More salient benefits are listed as follows:

1. eVA enforces procurement policies in every transaction as the rules are defined in the automated system. This may eliminate the potential misuse of the system.
2. eVA exposes RPS to 32,000 vendors compared to only a few selected by management. This creates a significant potential for cost savings.
3. The program reduces paper and provides an opportunity to store valid electronic data for management use.
4. eVA brings the procurement function superior technology by reducing the existing manual inefficiencies allowing personnel to pay more attention to monitoring and negotiating.
5. eVA maintains the vendor database to add new vendors and drop those vendors who since have been debarred. Qualification review includes a verification procedure using outside credit agencies. The increased use of eVA-approved vendors reduces RPS' risk of using unqualified vendors.
6. This system will allow Purchasing Division personnel to focus their efforts on exceptions and improve the effectiveness of monitoring procedures.

The auditors found that eVA is already in use with several popular Enterprise Resource Planning (ERP) systems. In addition, eVA makes data available in a format that can be used by any modern system. Recent information obtained from eVA staff indicated that, in 2008, RPS began using eVA again.

Recommendations:

- 28) **Implement eVA and mandate the RPS Departments to use it for the purposes of procurements.**
- 29) **Require departments to retain appropriate records of selecting vendors in accordance with RPS policy.**
- 30) **Periodically verify compliance with the above process.**

Textbook purchases

The State Department of Education (DOE) selects some textbooks that are required to be used by all the school divisions in Virginia. DOE negotiates prices for these textbooks with vendors. These textbooks are described as adopted books. RPS also purchases non-adopted textbooks and instructional materials. At RPS, each school has an assigned textbook manager who is responsible for ordering, receiving and inventorying textbooks.

Textbook orders are accomplished in one of two ways:

- Textbook and instructional material purchases that have been adopted by the State Department of Education are accomplished via the RPS' intranet textbook ordering system. Upon approval by the school Principal, the purchasing officer responsible for textbook purchases reviews the order to determine if the order can be filled within the school system with surplus books or

whether additional books need to be purchased. It was noted that a book inventory listing did not exist. Also, book purchases were not reconciled against student population to identify if excess books were being ordered. In these circumstances, the purchasing officer was not in the position to determine the percentage of demand that could be filled with the books on hand.

- Purchases of non-adopted books were charged to the end-user's (each school's) instructional budget funds. The relevant purchase order was reviewed and approved by Purchasing personnel and the Assistant Superintendent of Finance/Operations (if required based upon the dollar threshold). Auditors noted that RPS did not procure the non-adopted textbook materials competitively. School Purchasing Division personnel could not explain this practice.

There does not appear to be accountability over book inventory

Each school is responsible for conducting annual inventories and keeping its book inventories up to date with the purchasing officer. Inventory sheets are required to be provided to the purchasing officer. However, according to the purchasing officer, the schools are not submitting the inventory sheets to her.

Excessive book purchases

In a Richmond Times Dispatch article published on February 3, 2008 Richmond Public Schools (RPS) was cited as having the highest textbook costs per student in comparison to other local school districts. As demonstrated below, even though the student population for Richmond is smaller than Henrico and Norfolk, RPS spends more on textbooks than Henrico and Norfolk.

School District	Student Population	Textbook Purchases	Textbook Cost per Pupil
Richmond	23,771	\$ 2,996,350	\$ 126
Chesterfield	59,021	\$ 6,681,004	\$ 113
Hanover	19,100	\$ 1,789,909	\$ 94
Portsmouth	15,405	\$ 1,464,088	\$ 95
Henrico	48,620	\$ 2,068,174	\$ 43
Norfolk	35,124	\$ 1,455,655	\$ 41

Source: Richmond Times Dispatch

Excessive book purchases resulted in \$1.2 million in additional costs

During audit analysis of textbook purchases for school years 2005-2006 (September 2005 to June 2006) and 2006-2007 (September 2006 to June 2007), the auditor observed RPS textbook purchases were not in line with the student population. Textbook purchases were compared to the number of enrolled students. Excess books were noted for both years as depicted in the following table:

School Year	Excess Books	\$ Amt of Excess Books
2005-2006	11,640	\$ 437,662
2006-2007	19,368	\$ 808,945
Total		\$1,246,607

The following table is a sample of the book titles within each grade that had the excess number of books during 2006:

Grade Level	Book Title	Total # of Books (on hand and ordered)	Student Enrollment	# of Excess Books	\$ Amt of Excess Books
Kindergarten	Webster Elementary Dictionary	4,115	2,063	2,052	\$19,679
1	Virginia Student Edition	2,591	1,940	651	\$18,221
2	Virginia Student Edition	2,449	1,998	451	\$12,623
3	Virginia Student Edition	2,372	1,897	475	\$23,741
4	Virginia Student Edition	2,299	1,814	485	\$24,240
5	Virginia Student Edition	2,294	1,765	529	\$26,439
6	America Republic to 1877	2,084	1,851	233	\$13,393
7	Elements of Language 1 st Course	2,160	1,969	191	\$9,483
8	Elements of Language 2 nd Course	2,083	1,790	293	\$14,547
9	Algebra I, Virginia Edition	3,053	2,177	876	\$50,344
10	Geometry	1,777	1,677	100	\$5,947

Notes:

1. Student enrollment data and textbook ordering information were obtained from RPS-DIT. The enrollment figures as of 9/30/05 and 9/30/06 were used to complete analysis.
2. Excess books were not noted for grades 11 through 12.
3. Textbook with no associated cost and textbooks that did not correspond to a specific grade level were excluded from analysis.

Controls over used book sales are extremely weak

When enrollment declines or books are no longer in service, the textbook manager is responsible for notifying the purchasing officer to have the items removed. If the materials are still in the adoption period, they are submitted to the book depository located within the RPS warehouse. If the books are outdated, they are scheduled for pickup by a used book vendor. The book vendor assesses the remaining value (if any) and issues a credit voucher. The purchasing officer uses the credit voucher to purchase used books as needed by the school system.

The sale of books and purchase of used books are off-the-books transactions

The sale of books and purchase of used books are off-the-books transactions. The sale proceeds are not recorded in the financial system. Similarly purchase orders are not generated to procure used books. The purchasing officer simply contacts the company and places an order. The company processes the order against the credit voucher. The purchasing officer does not maintain records and reconciliations regarding the credit vouchers. There is no accountability over the use of the credit vouchers. This situation along with no control over purchasing books and purchasing excessive books can result in abuse and corruption. Also, misappropriations or errors, if they occur, will not be detected by RPS.

Recommendations:

- 31) **Hold Purchasing accountable for the appropriateness of textbook purchases.**
- 32) **Comply with the Virginia Public Procurement Act provisions related to inviting sealed bids.**
- 33) **Analyze the textbook needs and conduct proper planning prior to purchasing textbooks to avoid excessive purchases.**

- 34) **Keep proper records of the books inventory and proceeds from the sale of books.**
- 35) **Require the Purchasing Division to conduct the sale of books.**

Warehouses

RPS operates two warehouse facilities. One of the facilities is in close proximity to the baseball field (The Diamond). This facility houses:

- RPS Purchasing Department
- RPS Plant Services Department
- RPS Department of Telecommunications
- Warehouse
- City Department of Public Works (portion)
- RPS IT Department (portion)

The warehouse serves as central receiving for non-stocked items (i.e. computers and electronic equipment) and also houses the mini-store. It stocks art, classroom, craft supplies; athletic supplies; janitorial supplies; computer and data processing supplies and materials; and office/stationary supplies which are provided to its customers at cost. A substantial portion of this warehouse was empty. At the end of FY 2007, the warehouse carried inventories of about \$163,000.

The warehouse is operated by seven full time employees (1 Supervisor and 6 Property Supplies Technicians). The Supervisor is responsible for overseeing warehouse operations and supervising employees. The Technicians are responsible for:

- Receiving, inspecting and verifying deliveries;
- Unpacking and stocking inventory (Mini-Store items);
- Unpacking and tagging fixed assets;
- Pulling, filling and delivering requisitions; and

- Delivering central receiving items.

Warehouses are underutilized and not cost effective to operate

Personnel and other incidental costs of operating this warehouse are approximately \$300,000. Annually, approximately \$600,000 in inventory is cycled through the warehouse. This means that the maintenance of this warehouse costs 50% of the value of inventory processed through the warehouse. This is a significant overhead on the cost of inventories purchased.

It appeared that a more efficient way to acquire the supplies stored in the warehouse is to establish school-wide contracts and negotiate discounts off catalog prices. This method is used by several organizations including the City of Richmond. The vendors could be requested to deliver needed quantities to the departments at negotiated prices which will eliminate need for a receiving and warehousing facility.

RPS could save \$220,000 annually in warehousing costs

Based on this information, it appears that RPS has an opportunity to annually save \$220,000 in personnel and other warehouse operating costs by eliminating the warehouse. In addition, operating this facility may have a significant opportunity cost. This facility is located in a prime location that can be used for economic development. A major development in this area could revitalize the area.

Warehouses are located on prime parcels which can be better utilized for economic development purposes

In addition to the above facility, RPS has another large warehouse facility across the Boulevard from the Diamond. This facility faces I-95, and its proximity to the Diamond makes it another prime location that can be developed. This location is filled with many obsolete items such as furniture, electronics, computer equipment and items stored for

various departments/schools. Most of the items stored do not appear to have a significant value. Some of the items stored could have lost all value some time ago. For example, the auditors found hardened bags of salt for melting ice on the street and chalk for marking athletic fields. Both the items may now be useless for the purpose intended. Also, a significant portion of this warehouse is empty either because a part of the building is not structurally safe or held open for more surplus property.



This does not appear to be a good use of this prime location.

A request has been made to the City's Real Estate Department to estimate the economic value of the two warehouse properties. Based on a conversation with the Director of Real Estate, the economic value of these properties due to their location will exceed their assessed valuation. The combined assessed value for these properties is \$8,965,400.

Recommendations:

- 36) Eliminate the two warehouses at 2901 Boulevard and 1722 Arlington Road.**
- 37) Require the City's Director of Real Estate to obtain professional appraisals of value of the two warehouse properties.**

- 38) **If the value and strategic location of the properties appear significant for the Boulevard area development, require the City Administration and RPS Administration to reclaim these properties for the most beneficial use.**

Performance measures

Adequate performance measures can identify opportunities to improve the Division's efficiencies and ultimately deliver better services to its customers. The performance measures need to be meaningful to determine the adequacy and improvement in employee and Division's performance.

RPS needs to establish better performance measures for the purchasing function

According to Oak Ridge Associated Universities, the following reflects the attributes of an ideal unit of measure:

- Reflects the customer's needs as well as our own
- Provides an agreed upon basis for decision-making
- Is understandable
- Applies broadly
- May be interpreted uniformly
- Is compatible with existing sensors
- Is precise in interpreting the results
- Is economical to apply

Some performance measures of the Purchasing Division are as follows:

1. Goal:	Ensure that Purchasing staff was kept abreast of new market trends and up-to-date procurement practices.
Measure:	The percentage of time the staff participated in meetings, conferences, expos, etc.
Target:	100%
Evaluation:	The staff will maintain memberships in various organizations; attend meetings, conferences and development classes.

Audit Comment:	The measure and target do not appear to be meaningful. It fails to analyze if the buyers have proper training by obtaining specific number of hours of training.
2. Goal:	Improve communications between schools, departments and vendors.
Measure:	The percentage of staff participating in training, workshops, and expos.
Target:	Not known
Evaluation:	None
Audit Comment:	This measure cannot be quantified without meaningful measures. A better measure would have been devising customer surveys geared towards the end-users and vendors.

According to management, the balance scorecard is fairly new. They just received training on this concept last year and are still trying to maximize its effectiveness.

Recommendations:

- 39) Establish meaningful performance measures that can be used to evaluate and monitor employees' and division's performance.**
- 40) Evaluate and monitor staff's and division's performance using the measures.**

Conflict of interests

The RPS Purchasing Division does not require its buyers to sign a conflict of interest statement annually. To discourage and detect improprieties:

- Policies and procedures that spell out prohibited activities need to be implemented.
- The tone of the organization needs to be established by ensuring employees are aware of inappropriate practices and the consequences for those practices.

- Monitoring controls and procedures needs to be implemented to ensure compliance.

Communication related to disclosure of a conflict of interest needs improvement

Management relies on the School Board Bylaws and the conflict of interest language incorporated into the Request for Proposals (RFP), contracts and bid documents to discourage corruption of high level administrators within the procurement process. However, the RFP does not specifically address the buyers' conflict of interest disclosure. According to the Human Resources Director (HR), training on the conflict of interest is completed as part of the annual orientation. However, RPS exercises a top-down approach whereby HR provides training to upper management. Those individuals that are trained by HR in turn are responsible for training their direct employees and so forth. As such, management's conflict of interest expectations may not be effectively communicated to the lower level employees.

At least two RPS employees were related to two vendors who were awarded contracts

In an inquiry with Purchasing staff, an auditor was informed that two RPS employees were related to contractors who provided services to RPS. One of the identified employees was actually a purchasing officer who was responsible for construction procurement. According to the purchasing officer, one of the construction firms utilized by RPS is owned by a family member. Also, a Plant Services employee's immediate family member performed construction services for RPS. This is of concern since construction projects are handled by Plant Services. During the audit scope, both contractors received a combined total of approximately \$357,000 from RPS. This matter will be further investigated by the City Auditor's Office.

As shown above, the statements are important in order to assure accountability in the procurement function. Failure to obtain such certification could result in undisclosed relationships that could lead to procurement transactions that are not beneficial to RPS. This could also create an appearance of impropriety as noted during the audit.

The certification form should at least address that:

1. The employee acknowledges that all violations will be reported;
2. The employee will disqualify himself/herself from the evaluation of any vendor or bid/proposal if there is knowledge that may provide any benefit to one vendor over another;
3. The employee will not disclose any proprietary solicitation information outside of the evaluation/selection process; and
4. The employee will disclose any personal and/or pecuniary interest(s) involving himself/herself or any member of the immediate family in firms doing business with RPS.

Recommendations:

- 41) **Develop a conflict of interest disclosure form for the buyers and administrators.**
- 42) **Ensure that buyers and administrators certify a conflict of interest statement on an annual basis.**

Unethical practices

The School Board relies on management personnel to ensure compliance with policies and procedures and utilize proper judgment in decision making. Given that the tone at the top trickles down to the staff, top management should exercise ethical behavior in order to avoid creating a culture that is susceptible to impropriety and non-compliance with policies and procedures.

On at least two occasions, staff were instructed to backdate contracts

However, unethical practices were noted during our audit test work. On at least two occasions, staff were instructed to backdate contracts. On one of these occasions, the former Purchasing Supervisor wrote a memo to the former Assistant Superintendent of Finance/Operations requesting him to “Please sign the attached contract and backdate it for September 6, 2005.” It was noted that he did not comply with the request. In the other instance, RPS legal counsel advised the purchasing officer to “revise the date of the contract to a date that is prior to or coincides with the date of the commencement date in Section 2.1.” Given the tone at the top, the culture within RPS Purchasing is susceptible to improprieties.

Recommendation:

- 43) Establish a mandate of unacceptability of unethical practices, improprieties and issues of non-compliance.**

Right to audit clause

RPS contract language did not include a “right to audit” clause. Failure to explicitly state the right to a detailed examination of the contractors’ records may preclude RPS auditors from reviewing those records if the need arises. Furthermore, if there is a suspected fraud or misconduct, RPS may not have legal recourse to gain access to records to ascertain whether misconduct has occurred.

Recommendation:

- 44) Include a “right to audit” clause in all contracts in order to reserve the right to review on demand all files related to the contract, including subcontractors.**

Controls over the vendor database and making payments appear to be weak

The Accounts Payable Division is responsible for maintaining the RPS vendor database. This represents inadequate segregation of duties and a significant control deficiency. For making a payment to a vendor:

- a vendor account must be created
- an invoice must be input creating an accounts payable transaction
- a check must be run

At RPS, all of the above functions could be done by a single employee as described later in this report. This situation introduces unwarranted vulnerabilities in the payment process. To perpetrate a fraud, an employee simply needs to create a fictitious vendor account and enter a fictitious invoice to print a check. Due to a lack of appropriate checks and balances, this type of occurrence will not be detected and addressed in a timely manner. The current practice lends itself to possible fraud and misconduct.

Duplicate vendors

RPS maintains a database which stores information related to the vendors. Only the vendors included in this database can be paid through the RPS accounts payable system. Like any other computer system, two identical names with slight variation such as addition of a comma or space could be set up as two different vendors. Usually, any organization should periodically review similar databases to eliminate duplicates for the same vendor.

According to the RPS representative, database cleanup has not been performed in the past two years. Auditors observed at least **300** vendors that appear to have duplicate names in the vendor database.

Duplicate vendor accounts could lead to duplicate payments and the circumvention of procurement policies

The chart below illustrates the types of duplications, exactly as typed in the system:

Vendor name	Duplicate
Atlantic Office Supply Corp.	Atlantic Office Supply Inc. Atlantic Office Supply, Inc.
Barnes & Noble	Barns & Noble Inc. Barns and Noble
Baudville	Baudville Inc.

The risks of not having an accurate vendor database include:

- An increased risk of checks being issued to the wrong vendor.
- Internal agencies placing orders using both names and circumventing the dollar thresholds to avoid a formal bid process.
- Confusion by internal agency staff responsible for processing agency activity. An increased risk of duplicate payments processed and sent to a vendor.

All of the problems above ultimately affect the efficiency and effectiveness of the School's operations.

Recommendations:

- 45) Centralize the function of vendor database update and maintenance in Purchasing.**
- 46) Require periodic reviews of the vendor database in order to detect and avoid duplicate vendors.**

*The auditors
found
duplicate
payments on
59 invoices
totaling
\$121,073*

The RPS CIM/FMS accounting system performs an edit that matches vendor number and invoice number on a given transaction. This is the key control used to detect potential duplicate payments before they appear on a check. If this control is circumvented, then a duplicate payment may not be detected. The auditors found duplicate payments on 59 invoices totaling \$121,073. Invoices appearing on checks a second (or third time) not resulting from the reissue of a lost or mangled check were deemed duplicates.

The auditors noted that:

- 43 of these duplicate payments totaling \$70,503.46 were due to the same vendor having redundant addresses due to faulty practices and controls to ensure that only the legal name of the vendor is entered into the vendor master data base;
- 11 duplicate payments totaling \$46,282.07 were due to invoice manipulation (invoice number was altered slightly to effect payment more than once);
- 4 duplicate payments totaling \$1,744.09 involved a duplicate payment to a different vendor altogether.
- 1 duplicate payment for \$2,544 could not be verified or disproved since RPS could not produce invoice copies for analysis.

During the testing, auditors also noticed that invoices were often not a part of the check support kept on file by RPS, or the invoices were copies, not the original. The duplicate payments reviewed circumvented the CIMS/FMS edit process as noted above. Duplicate payments occurred because either different vendor numbers were used or the invoice number was altered slightly to bypass CIMS/FMS.

Accounts payable personnel can enter new vendors and alter vendor information on the vendor data base. Accounts payable personnel can also alter invoice numbers to effect payment as witnessed during our testing. Duplicate payments can even include situations where different vendors are paid for the same invoice. Existing procedures and controls are not adequate, reliable or effective as deterrents to error or irregularity.

Furthermore, RPS does not perforate invoices (a standard practice) once they pay them to prevent duplicate payments. Canceling or stamping invoices "paid" is one of the most common controls practiced by businesses. This control prevents an entity from inadvertently paying an invoice twice.

Recommendations:

- 47) Perforate all paid invoices before mailing checks.**
- 48) Insist on using only original invoices and certifying that a faxed copy is to be used as an original because the original was determined to be lost.**
- 49) Review periodic reports to look for duplicate payments involving payments to the same vendor.**

At RPS, the vendor verification process needs significant improvement

Vendor verification procedures were not conducted prior to inputting vendors into the vendor master file. Auditors found RPS procedures have the following inadequacies:

- RPS did not perform an in-depth vendor verification process while inputting vendor information from the W-9 form into the vendor database.
- The current procedures are not adequate to verify authenticity, good standing, or liquidity of vendors.

- RPS did not require a signed W-9 or any other procedure to verify authenticity of changes to existing vendor information where requested either by the agency or directly by the vendor.

A significant risk for fraud results from the possibility of altering vendor data

This situation presents a significant risk as information such as the address on an existing dormant vendor account could be changed and fictitious invoices could be processed through the account. This type of event under the current weak internal controls structure will not be detected and corrected in a timely manner.

RPS does not perform verification to ensure that the vendor is a bonafide entity. The use of outside credit reports like Dun and Bradstreet would help ensure that all vendors are entered into the database only by their correct legal name, regardless of the information on the W-9 or the vendor registration statement.

In addition to the challenges of having a vendor database with inaccurate data and errors in names, addresses and taxpayer identification numbers; changes and/or additions to the database without proper authorization can increase the risk that fraudulent vendors can be added to the School District's system. Once the vendor is in the system, it could facilitate a fraudulent transaction wherein a payment can be made for services never rendered or goods never received. The absence of strong verification procedures also increases the risk that two different vendor numbers may be assigned to one vendor, which increases the risk of duplicate payments. In the relatively recent past, the City has experienced significant breaches of trust and abuse of the procurement process. During this incident, the City suffered a sizable loss exceeding \$1 million due to abuse of the weaknesses within the process.

The following prudent practice may be followed to mitigate this risk:

- Verify vendor's address and telephone number in public records;
- Check vendor's address against employees' listing;
- Verify vendor is listed with Dun & Bradstreet;
- Check the vendor's credit report;
- Obtain and check references; and
- Check vendors against U.S. Bureau of Industry and Security Lists (debarred/excluded parties).

Recommendations:

- 50) Require review and approval by supervisory personnel who cannot have access to the vendor database of all additions, modifications and deletions.**
- 51) Require periodic reviews of the vendor database in order to ensure compliance with management policies.**
- 52) Implement a policy and procedure for Purchasing staff to verify the validity of bonafide requests to add new vendors by using the authorized signatory list.**
- 53) Obtain a daily vendor change report that shows all vendor file activities and verify appropriateness of changes.**
- 54) Establish appropriate practices to verify various vendor attributes such as authenticity, good standing, liquidity, etc. using third party services.**

Debarred vendors

One of the critical functions performed by Purchasing is to ensure that RPS does business with responsible, reliable and legitimate vendors. The federal and state procurement offices sometimes "debar" vendors from contracting with them. Traditionally, debarment occurs after such vendors are convicted for violation of antitrust laws and unethical

behavior. The vendors could also be debarred for a civil judgment against them for fraud or demonstrating a lack of business integrity or honesty. Obviously, RPS must not deal with debarred vendors as a matter of prudent business practice.

RPS does not have a mechanism to avoid doing business with vendors debarred for unethical behavior

The RPS staff could not provide any evidence that a verification procedure was performed to determine if the vendor was debarred by the state or federal governments prior to adding the vendor into the RPS database. This means that RPS could be doing business with vendors that have exhibited unethical behavior in the past. During audit tests, the auditors found one vendor that performed services and received payment from RPS while the vendor was debarred. Payments to this vendor totaled \$104,298.

Recommendation:

- 55) Establish procedures to review vendors against the federal and state listing of debarred vendors prior to registering the vendor.**

Adopting best practices would improve the RPS purchasing process

The Purchasing Division does not fully utilize procurement best practices. Best practices are defined as the most *efficient* (least amount of effort) and *effective* (best results) way of accomplishing a task, based on repeatable procedures that have proven themselves over time for large numbers of people. They can aid purchasing staff in performing the steps necessary to ensure public funds are expended properly and will protect the integrity of the procurement process. The table below compares some best practices with the current RPS purchasing practices:

RPS Practice	Best Practice	Comparable to Best Practice?
End-users solicit offers and negotiate <i>directly</i> with vendors.	Soliciting is a procurement function (<i>customers may provide a listing of potential offerors</i>).	NO
End-users have direct communications with the offerors.	Restrict communications with offeror to procurement personnel so that offeror does not receive or appear to receive an advantage over another.	NO
End-users carry out purchasing functions, such as entering into agreements.	Employees <i>should not</i> be allowed to undertake any of the procurement functions without clear authority and guidelines.	NO
Purchasing files were incomplete. In most cases, it could not be determined how the contract was initiated.	Maintain a well documented file that reflects purchasing history.	NO
Standards of conduct for staff engaged in the procurement process are not in place.	Written standards of conduct for employees involved in the selection, award and administration of contracts should be maintained and issued to staff. <i>The statement should be signed as a condition of employment and annually thereafter.</i>	NO

Source: Best Practices cited in Federal Transit Administration's Best Practices Procurement Manual

Recommendation:

- 56) **Implement procurement best practices to ensure public funds are expended in the most efficient and effective manner.**