Audit Report Number 2008-05
Richmond Public Schools
Audit of Purchasing and
Accounts Payable
April 2008

CONTENTS.

CITY OF RICHMOND
CITY AUDITOR

Executive Summary

April 2, 2008

The Honorable Members of City Council
Richmond City Audit Committee
City of Richmond, Virginia 23219

The City Auditor's Office has completed an audit of the Purchasing Department and the Accounts Payable Division of the Richmond Public Schools. The audit was conducted in accordance with Generally Accepted Government Auditing Standards. The overall objective of this audit was to evaluate whether procurement and disbursement activity was:

- for authorized transactions,

- in accordance with governing laws, rules and policies,

- supported by appropriate documentation,

- transacted using responsible, reliable and legitimate vendors, and

- processed in the most effective and efficient manner.

The audit identified the following areas where there is a potential opportunity to save a substantial amount of public resources:

Category	Recurring?	Impact of the Audit
Consolidating purchases for like commodity codes	Y	Savings undetermined but substantial
Use of "eVA"	Y	$5.5 million cost avoidance
Elimination of excess textbook purchases	Y	$800,000 savings
Duplicate payments	Y	$120,000 savings
Vendor discounts	Y	Undetermined but substantial

Elimination of Warehouses	Y	$220,000 cost avoidance
Best use of Warehouse space	N	Better use of $9 million asset
Total (Annual)	Recurring savings Better use of assets*	$6,640,000+ $9,000,000+

* - Does not represent savings

Note: Due to the time required for implementation of the recommendations, the above impact may realize over a period exceeding one budget cycle.

Introduction

Traditionally, procurement and accounts payable functions are targets for fraudulent activities. According to the Association of Fraud Examiners, 71.4% of the total number of instances of occupational fraud committed involved billing, expense reimbursement, check tampering and wire transfer frauds.

How much resources are vulnerable to the risk of fraud?

In FY 2007, RPS spent $55 million for procuring goods and services. This is a significant amount compared to the RPS's annual, non-payroll expenditures. During the 21-month audit period, the Accounts Payable section prepared checks in the amount of $298 million. All these amounts represent the outlay of a significant amount of public resources. The existence and effectiveness of proper controls over these cash outlays are of utmost importance.

Does RPS have adequate controls to mitigate the risk?

Overall, internal controls in procurement and accounts payable processes were significantly weak. Audit tests revealed several issues with the procurement of goods and services. These instances represented significant non-compliance with RPS policies and the Virginia Public Procurement Act provisions.

Due to lack of proper data, a more comprehensive study of overall compliance with policies and regulations, and lost opportunities for consolidating purchases for the purposes of volume discounts could not be performed. This is a significant inadequacy. This deficiency

prevents proper monitoring of compliance with policies and regulations unless extensive manual efforts are invested. Some of the issues are listed as follows:

- Participation of the Purchasing staff in the procurement process was limited.

- It was apparent that RPS does not have a proper monitoring mechanism to verify compliance with policies, laws and regulations. Audit identified gross non-compliance with procurement policies and statutory requirements. It appears that the inconsistency between School Board Bylaws related to procurement 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.

- 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.

- The RPS staff may have misused relaxed regulations for emergency and sole source purchases. There was inadequate evidence to justify these purchases. In addition, the School Board approvals for most of the emergency purchases were not obtained as required by the School Board bylaws.

- Too much authority was vested in the former Assistant Superintendent of Schools over Finance and Operations. This employee had unlimited authority to obligate the Schools Division and authority to determine if a particular situation was an emergency.

- In some cases, the 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 non-compliance with the contract terms by the contractor, RPS may not have recourse against the contractor.

- Evidence of proper quotes or bids was lacking. This 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.

- 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.

- Audit research identified an automated tool called eVA offered by the Commonwealth of Virginia virtually free of cost. It allows approximately 32,000 vendors to compete for business with about 663 state and local government agencies. This tool 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. To date, spending through this tool is estimated to be $13.8 billion and Virginia taxpayers have saved an average of over $218 million since the inception of the program. Audit tests using City of Richmond data indicated that the use of eVA for selected supplies would have saved 17% of the purchase price over the City's utmost best efforts to obtain the lowest price. Therefore, RPS is expected to generate significant savings by using eVA.

- Due to gross non-compliance with procurement policies and an ineffective Purchasing Division, there is no assurance that RPS currently receives the most favorable pricing. The City Auditor's office estimates that RPS could save at least $5.5 million by using eVA.

- 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. Even though the student population for Richmond is smaller than Henrico and Norfolk, RPS spends more on textbooks than these localities.

- RPS did not have an updated inventory of text books. 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

Excess purchases of text books and lack of proper inventories could result in wasted resources.

- The sale and purchase of used books are **_off-the-books_** transactions via credit vouchers issued by the vendor for used books. 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. 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.

- RPS currently has two warehouses located on prime pieces of property in the Boulevard area. This area is positioned for significant redevelopment. The warehouses are underutilized. Reclaiming the use of these properties could result in about $9 million in assets which can be put to better use and economic development. In addition, elimination of the warehouses would result in $300,000 in operational savings of which $80,000 may be needed for asset tagging and deliveries.

- Two RPS employees were related to contractors who provided services to RPS. One of the employees was actually a purchasing officer who was responsible for construction procurement. Audit inquiries identified that one of the construction firms utilized by RPS is owned by a family member of this purchasing officer. 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.

- On at least two occasions, staff members 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 the Assistant Superintendent did not honor 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.

- 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.

- One of Purchasing's critical functions is to ensure that RPS does business with responsible, reliable and legitimate vendors. Auditors found that RPS does not have a mechanism for excluding state and federally debarred vendors after conviction for violation of antitrust laws and unethical behavior. The vendors could also be debarred for fraud or for demonstrating a lack of business integrity or honesty. Obviously, RPS must not deal with debarred vendors as a matter of prudent business practice.

- There was a lack of supervisory review of the vendor data input, changes and deletions. Staff could add, change and delete vendors without any supporting documentation. This is a major weakness in the internal controls over this process.

- To be an effective control process, there must be an adequate segregation of duties between the personnel entering the purchase order data, receiving data, and invoice

data. During audit tests, some employees appeared to have the ability to enter all of the above information leading to the risk of abuse.

- Auditors observed 300 vendors that appear to have duplicate names in the vendor database. 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, and
    - 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.

- The auditors found duplicate payments on 59 invoices totaling $121,073. The duplicate payments reviewed circumvented the system edit process as noted above. Duplicate payments occurred because either different vendor numbers were used or the invoice number was altered slightly to bypass the system controls.

- Auditors found that not all accounting transactions are entered into the system. Normally, all lost, destroyed or erroneously prepared checks should be voided in the main accounting system and all reissued checks should be recorded. However, RPS Finance does not record "replacement" checks when the payments have been stopped on the original checks. When issuing replacement checks, Accounts Payable maintains a manual log of issued replacement checks which is used to reconcile every month. When asked why such a practice was put in place, RPS Finance could not furnish a sound business reason. During the audit period, RPS issued 170 replacement checks with an approximate value of **$937,000** which were not captured in the financial system. This process creates discrepancies in financial records, promotes confusion, and allows a significant avenue for errors or misuse.

- Cash is the most liquid asset an entity has and thus is the most susceptible to error and irregularity. According to best practices, bank statements should be reconciled to the general ledger in a timely manner to detect errors and irregularities. The idea

behind preparing a bank reconciliation is to use the independently derived cash balance (bank statement) to verify the accuracy of the balance derived from recorded transactions. This process assures that the record of transactions in the general ledger is complete and accurate.

- RPS does not perform a traditional bank reconciliation. Basically, RPS personnel reconcile the bank balance with outstanding checks and relevant adjustments. This means that, as long as the list of outstanding checks reconciles with the bank balance, any errors in the general ledger balance will not be detected by this process. Departmental Invoices do not require either a purchase order or a receiver. In order to process payments through Departmental Invoices, the end-users submit the Departmental Invoice form and support. Accounts Payable ensures that the form is signed. However, they do not maintain an authorized signature listing. Consequently, they are not in a position to verify whether the individual approving the form is authorized to commit RPS funds. In these circumstances, Departmental Invoices can be prepared for unauthorized expenses. This type of abuse, if occurred, could result in losses for RPS.

- Auditors noticed lack of proper documentation and other irregularities in expenses charged to credit cards issued to RPS management and former School Board members. The charges on two former School Board members' credit cards included the following:
    - o $485 in gasoline purchases in the Richmond area with no receipts or explanations. The business purpose of these charges is unknown.
    - o $10 for one on-line charge to an inappropriate website.
    - o $175 for a Western Union money order. The payee and the reason for issuing the money order are not known.

- RPS uses a separate set of checks for manual checks. There are no formal policies or procedures for taking periodic inventories or restricting access to the check stock. The Accounts Payable personnel have ready access to these checks including weekends.

- During the audit period, 312 manual checks were issued totaling about $2.6 million. In their tests, the auditors found that 52% of the checks had no evidence of review or approval by supervisory personnel as required by policy. In these circumstances, misuse of these checks will not be detected in a timely manner.

- The RPS financial system was implemented in 1991. The audit identified that the departmental invoice process currently being handled manually needs to be automated. In addition, several significant features such as keeping an audit trail of transactions, workflow, and electronic approval need to be used. Some system enhancements will be needed for these purposes. RPS needs to evaluate the cost effectiveness of making these changes. In addition, due to the age of the system, the relevance, usefulness and efficiency of the system need to be compared with other modern systems to determine the cost and benefits of replacing the system.

The City Auditor's office appreciates the cooperation of the Purchasing and Accounts Payable staff. A written response from RPS management is included in this report. Please contact the City Auditor if you have a question or comments related to this report.

Umesh Dalal, CPA, CIA, CIG
City Auditor

COMPREHENSIVE LIST OF RECOMMENDATIONS   *PAGE*

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.
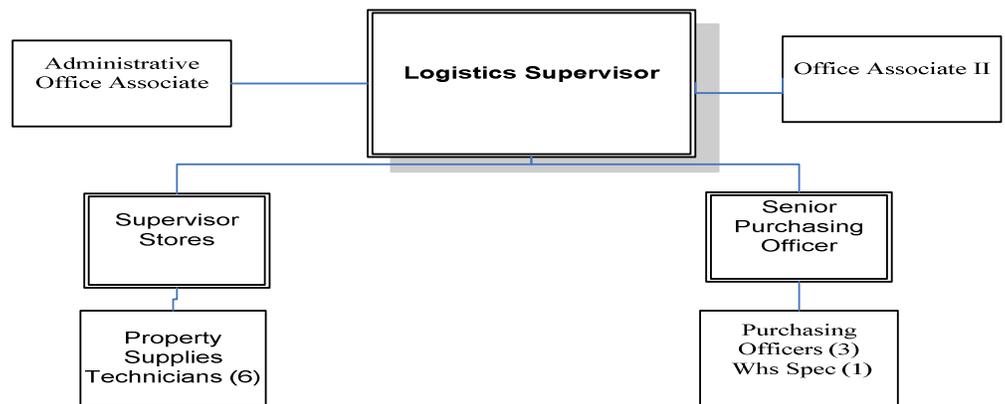
Source: Purchasing Division

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
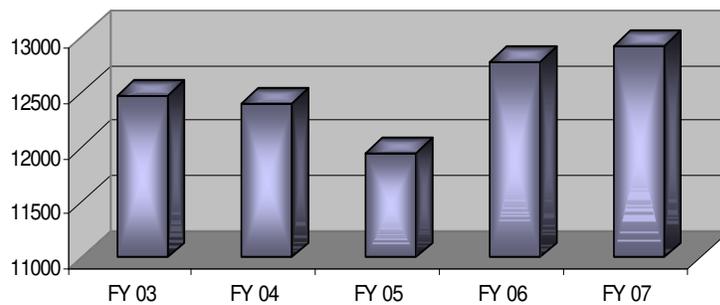
Purchase Order Value Trend
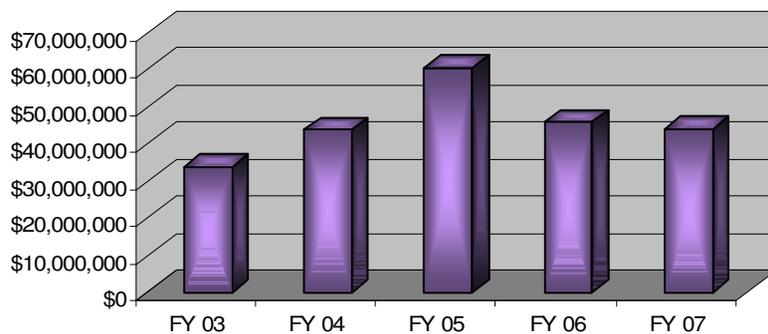
Source: RPS Information Technology Department

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)

Compliance, 4%

Non Compliance, 96%

Gross Non Compliance (Value)

Compliance, $32,871

Non Compliance, $1,076,072
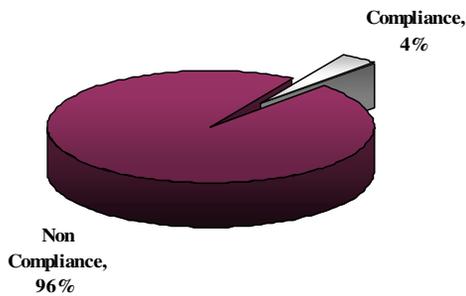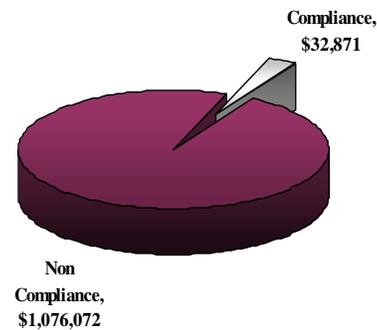
Gross non-compliance with the Procurement Act and/or policies was observed

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

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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 <u>free of cost</u>. 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 1st Course	2,160	1,969	191	$9,483
8	Elements of Language 2nd 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 though 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 *directly* with vendors.	Soliciting is a procurement function (*customers may provide a listing of potential offerors*).	**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 *should not* 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. *The statement should be signed as a condition of employment and annually thereafter.*	**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.**

Accounts Payable Division

Background, Observations and Recommendations

Purpose

The Accounts Payable function of Richmond Public Schools is responsible for:

- The timely payment of invoices, travel and all related costs incurred by the School District, including generating and mailing checks,

- Data entry into the financial accounting system, and

- Providing customer service to RPS employees and vendors, including resolving questions or issues that may arise concerning vendor payments.

Workload

During the audit period, Accounts Payable staff processed approximately:

- 37,000 laser checks in the amount of $198 million

- 300 manual checks in the amount of $2.6 million

- 170 replacement checks in the amount of $937,000

Internal controls

Internal controls over the accounts payable function appear to be weak. Weak controls could lead to abuses resulting in financial losses. RPS administration has a fiduciary duty to have proper accountability over the resources entrusted to them. This report addresses several internal control issues that need immediate attention.

Completeness of financial records

Auditors found that not all accounting transactions are entered into the system. Accounts Payable sets aside a portion of its manual check stock as "replacement checks" to use when there is a stop payment placed on a lost or destroyed check. Normally, all lost, destroyed or erroneously prepared checks should be voided in the main accounting system and all reissued checks should be recorded. However, RPS Finance does not record "replacement" checks when the payments have been stopped on the original checks. When issuing replacement checks, Accounts Payable maintains a manual log of issued replacement checks which is used to reconcile every month. When asked why such a practice was put in place, RPS Finance could not furnish a sound business reason. During the audit period, RPS issued 170 replacement checks with an approximate value of **$937,000** which were not captured in the financial system.

RPS' financial records do not include all financial transactions

Errors and omissions may not be detected due to incomplete record keeping

This process creates discrepancies in financial records, promotes confusion, and allows a significant avenue for errors or misuse. For example, when RPS issues a replacement check to cover a voided check, the expense is not reentered into CIMS/FMS because RPS does not record replacement checks. When using replacement checks, there is also the possibility that the check could have a different payee name and address. Duplicate payments made due to this practice may result in a significant loss. Auditors identified that, during the 21-month audit period, RPS issued $121,073 in duplicate payments. Some of these payments could be related to replacement checks. This situation, if it occurs, would result in a loss to RPS. As a result of the audit, RPS issued an internal memo to its accounting staff to abruptly abolish the practice of issuing replacement checks.

The issuance of a replacement check or errors in this process may not be detected in a timely manner since RPS does not have adequate bank reconciliation procedures as described below:

Bank reconciliation procedures

Cash is the most liquid asset an entity has and thus is the most susceptible to error and irregularity. According to best practices, bank statements should be reconciled to the general ledger in a timely manner to detect errors and irregularities. The idea behind preparing a bank reconciliation is to use the independently derived cash balance (bank statement) to verify accuracy of the balance derived from recorded transactions. This process assures that the record of transactions in the general ledger is complete and accurate.

RPS does not perform traditional bank reconciliations

RPS does not perform a traditional bank reconciliation. Basically, RPS personnel reconcile the bank balance with outstanding checks and relevant adjustments. This means that, as long as the list of outstanding checks reconciles with the bank balance, any errors in the general ledger balance will not be detected by this process. The list of outstanding checks is not reliable as none of the replacement checks are entered into the system. Sometimes a check is voided in error when a replacement check is issued. This will result in an understatement in the outstanding checks total and introduce an error in the general ledger balance. Also, in this situation, the cash balance in the general ledger could be used to hide errors or omissions that will not be easily detected.

RPS informed the auditors that deposits to the main disbursement bank account get recorded into a different general ledger object code account

Incomplete records and lack of proper bank reconciliations may not identify error or inappropriate transactions

than the account from which payment withdrawals are made. This method does not represent traditional accounting procedures. No explanation was provided to the City Auditor staff or the external auditors for the deviation. Unless all deposits and withdrawal are posted to the same object code account, a reconciliation cannot be effectively performed. When asked the reason for choosing such a cumbersome reconciliation process, which is both difficult to perform and deficient in providing a transparent audit trail, the RPS Finance Director could not provide a sound business reason.

Recommendations:

57) **Void all the checks in the system for which either stop payments have been made or the check has been reissued.**

58) **Record all the replacement checks in the system.**

59) **Record all receipts and disbursements pertaining to a bank account in the same object code.**

60) **Properly reconcile the general ledger cash balance with the bank statement balance.**

Departmental invoices (DIs)

Departmental Invoices are internally created documents to generally pay for expenses for which vendor invoices are not expected. According to their policy, RPS utilizes Departmental Invoices to process payments for:

- Cash advances for travel, hotel registration and conference and meeting registration
- Mileage reimbursement
- Tuition and purchased books reimbursements
- Utility payments
- Postage

- Certain payroll taxes

- Student activity fund reimbursements

Use of Departmental Invoices has resulted in non-compliance with purchasing policies

The auditors identified 22 out of 72 Departmental Invoices worth $58,180 in payments that appeared to be exceptions to RPS policy. These were mainly payments for services or products that probably should have been procured through a purchase order. In addition, the auditors noted a couple of items paid on Departmental Invoices that had other control implications:

One such item was a reimbursement for lunches payable to the Linwood Holton Elementary which did not include evidence of payment of an attached invoice to a 3rd party vendor as a basis for reimbursement. Another item was a payment to a school employee for $395 for petty cash and vending machine change which did not have additional support. Payments issued through DIs amount to requests for payment which lack evidence of authorized signatures.

When asked about non-compliance with Departmental Invoices, the Finance Director informed the auditors that non-compliance letters are sent to vendors as such instances are discovered; however, the Finance Director acknowledges the minimal staffing in Finance does not allow them to properly monitor compliance. Consequently, there is already an acknowledged breakdown in control enforcement with no apparent consequence to RPS personnel.

Inappropriate use of Departmental Invoices bypasses the procurement function. Consequently, RPS may not obtain the best prices or quality. There is a potential risk of violating contractual agreements. Secondly,

the inappropriate use of Departmental Invoices without adequate support increases the risk of fraud and waste. Finally, the inappropriate use of Department Invoices can increase the risk of duplicate payments when a Department Invoice number is used instead of a vendor invoice number.

Departmental Invoices do not require either a purchase order or a receiver

Departmental Invoices do not require either a purchase order or a receiver. In order to process payments through Departmental Invoices, the end-users submit the Departmental Invoice form and support. Accounts Payable ensures that the form is signed. However, they do not maintain an authorized signature listing. Consequently, they are not in a position to verify whether the individual approving the form is authorized to commit RPS funds. In these circumstances, Departmental Invoices can be prepared for unauthorized expenses. This type of abuse, if occurred, could result in losses for RPS.

The auditors estimated that significant amounts ($38 million) of expenditures were processed through Departmental Invoices. Furthermore, the procurement function is bypassed through the inappropriate use of Departmental Invoices. This can result in additional costs stemming from inferior goods and services purchased at prices not negotiated or outside of existing contracts.

Recommendation:

61)   Monitor and ensure adherence to Departmental Invoice policies and procedures.

Excessive
check
pick-ups

This audit points out that there is lack of segregation of duties that can allow certain employees to record transactions and print corresponding checks. In addition, if these individuals have access to the printed checks, it compounds the weakness in controls. One of the ways to reduce fraud in the accounts payable area is to limit the number of checks that are picked up. Exceptions to mailing should be on the rare occasions when delivery is urgent to meet certain immediate obligations. It is common practice to have a policy in place to limit the number of employees allowed to pick up checks.

Also, returning checks back to the requester is associated with the risk of alteration and diversion. At the City of Richmond, a significant fraud was perpetrated in 2003. This fraud was facilitated by the City's policy to allow the checks to be picked up routinely by employees and vendors.

At RPS, during the audit period, the auditors reviewed the check pick-up log and counted about 3,000 checks picked up totaling approximately $8 million. RPS does not have a list of employees authorized to pick up checks. Without such authorization, any employee can pick up checks.

Recommendations:

62) **Ensure that there is a documented list of employees authorized to pick up printed checks.**

63) **Mail the checks directly to payees unless justification is provided on an exception basis.**

64) **Define exceptions to this policy.**

*Timeliness
of
payments*

According to the *Virginia Prompt Payment Act 2.2-4352* if a date is not established by contract, invoices should be paid no more than 45 days after goods and services are received or not more than 45 days after the invoice is rendered, whichever is later. The auditor randomly selected 103 checks which included 241 invoices. Testing revealed RPS paid 99 invoices totaling *$371,954 before the due date*. It also revealed that 61 invoices totaling $114,243 were paid after the due date. The remainder were deemed to have been paid properly.

*RPS needs to
improve its
compliance with
the Virginia
Prompt Payment
Act*

As pointed out in the earlier cash flow review of the City of Richmond and RPS conducted by the City Auditor's Office, early payments impact cash flow resulting in additional borrowing costs. Late payments could result in late charges and noncompliance with the Prompt Payment Act.

Recommendations:

65) **Require timely payments in accordance with the Virginia Prompt Payment Act.**

66) **Negotiate with vendors not offering cash discounts to stretch the payment terms to pay no later than 45 days after goods and services are received or no later than 45 days after the invoice is rendered, whichever is later.**

67) **Train staff to ensure adherence to the new procedures.**

*Three-way
match*

An organization must assure that product and services being paid for were actually ordered and received. The three-way match is a commonly used control to obtain this assurance. In the RPS financial system (CIMS/FMS), a three-way match mitigates procurement fraud by preventing payment for goods/services that were either not received

or were received without a purchase order in violation of laws and policies.

Auditors reviewed RPS policies and procedures, interviewed RPS personnel, and requested information from RPS' IT Department to determine various employees' system access levels. Also, auditors reviewed alternate ways that RPS pays invoices.

The intent of this process is to mitigate the risk of errors and irregularities occurring

As the system is configured, payments for purchases can only occur through CIMS/FMS if the quantity of units of product or services included on the electronic entry of purchase order matches with quantity entered on the receiving document and invoice. It is critical that the three documents (purchase order, receiver, and invoice) are entered by different employees assuring independent verification of ordering, receiving and payment. The intent of this segregation of duties is to mitigate the risk of errors and irregularities occurring. Segregating processes involving authorization, custody of assets, and recording of financial transactions is the principle behind the three-way match. Obviously, with the amount of RPS resources committed through their purchasing and accounts payable systems, having appropriate controls in these processes are essential.

Audit tests revealed several issues related to the three-way match:

Internal controls in the three-way match process need improvement

1. RPS information technology personnel provided information showing the individuals who are authorized to enter a purchase order, receiver, and invoice without additional approval. Presently, 15 individuals can enter information for all three tasks. In addition, all accounts payable personnel can add, change, or delete vendors; enter receivers; and enter invoices. This indicates that if an individual granted the above rights

decides to pay a fictitious invoice, he or she will have ability to do so. This event, if it occurs, would not be detected in the normal course of business.

2. The three-way match procedures can be overridden by an Accounts Payable staff when processing DIs and BPOs. The annual value of these transactions are noted below:

FISCAL YEAR	BLANKET PURCHASE ORDERS	DEPARTMENTAL INVOICES
2006	$24,317,684	$18,970,039
2007	$17,446,520	$19,361,630

The RPS process does not require entering the quantity of units for products and services purchased through DI and BPO. Again, this is a significant control weakness that is vulnerable to abuse.

Audit tests found two pieces of equipment worth $7,000 missing

To illustrate the issue, auditors noted that at least three Texas Instrument TI Navigators worth about $10,500 were paid through DIs. Since DIs do not go through the Purchasing Division, Purchasing has no way of monitoring non-compliance. Further investigation indicated that two out of the twenty TI navigators purchased, worth about $3,500 each, were missing. According to RPS staff, one of the navigators was lost in transit between the Instruction Department and Martin Luther King Jr. Middle School. In total, one is missing and one is lost. This matter will be further investigated by the City Auditor's Office.

Accounts Payable staff are required to verify approvals but they do not have access to specimen signatures of authorized individuals

The Accounts Payable personnel are instructed to look for an authorized signature on Departmental Invoices and invoices related to blanket purchase orders prior to overriding the system controls and making payments. However, these employees do not have access to the list of specimen signatures of the personnel authorized to approve such purchases. Therefore, the Accounts Payable staff has no way of verifying proper authorization. To illustrate lack of controls, the following example is included. A $10,872 payment approved by an office associate for an individual who had retired and had been rehired as a temporary employee was paid by the Accounts Payable personnel. They did not question the authority of the office associate.

3. Currently, RPS is not using the automated the three-way match effectively to verify controls over purchases. In addition to weaknesses in the internal controls, these circumstances introduce significant inefficiency in the payment processing.

In summary, the three-way match and approval controls over accounts payable transactions are unreliable. Multi-million dollars of RPS resources are exposed to the risk of waste, fraud, and abuse.

Recommendations:

68) **Ensure that duties of entering and approving procurement and payment documents are properly segregated.**

69) **Establish a complete authorized signatory listing of all RPS employees who are authorized to approve transactions and commit RPS funds for payment.**

70) **Enforce the authorized signatures process by rejecting any requests that do not comply with the listing.**

*Non-compliance
with Credit Card
Policy*

RPS policy Section 3.06 on "Travel and Miscellaneous Business Expenses" lists some key points with regard to the purchase of gasoline and the use of credit cards. At RPS, local gasoline purchases must be made through the Richmond City-operated gas station, and any emergency purchases (i.e., after hours) must include the receipt with a written explanation as to why the purchase was necessary. The payment process for School credit cards requires that credit card statements be mailed directly to cardholders who are responsible for:

- Attaching receipts for every charge to the statement.

*Several
discrepancies
were noticed in
payments for
credit cards
assigned to RPS
Administration
and School
Board members*

- Attaching supporting documentation/justification when necessary. This includes certain RPS internal forms whose purpose is to clearly identify and document the nature of a conference, authorization to attend the conference, hotel rates, and guidelines for meal receipts including the names of persons and the business purpose of the meal. This section also prohibits the use of the credit card for any purchases that circumvent budget compliance safeguards and established purchasing procedures.

- Certifying that all expenditures are official school business.

- Preparing a DI and indicating the correct account numbers to be charged.

- Submitting the DI with all supporting documentation to Finance five working days prior to the due date.

The Policy clearly states that personal use of School Board credit cards is prohibited. The policy further states that "employees traveling to high-cost cities whose daily expenses exceed the maximum limit will submit receipts with their reimbursement claim. These receipts will be

reviewed for reasonableness and reimbursements made as appropriate." However, there is no formal guide.

The auditors selected a statistical sample of 30 credit card payments totaling $27,710 for RPS Board members and RPS management. The total of all credit card purchases was about $45,000 during the audit period.

Expenses included inappropriate and questionable charges

Charges on all credit cards issued to the School Board members and management staff had the following non-compliance with one or more RPS policy requirements:

- Except for one payment which included some receipts, receipts were not attached for charges to the credit card statement.
- The credit card statement did not have relevant supporting documentation or justification attached to identify the business nature and purpose of the trip.
- Meal charges in excess of the $50 daily cap were incurred with no receipts with names of people printed on the back of the receipt identifying them, and the purpose of the meal. The policy on meal charges does not require receipts for reimbursement of meal expenses unless they exceed the maximum daily total of $50. However, the policy also states that "cardholders are responsible for attaching receipts for every charge to the statement." This may confuse the cardholders who may not accumulate meal receipts for less than $50 even when the School credit card is used for the payment purposes.
- Richmond area hotel charges for $461 with no receipts or explanations.

- Food and miscellaneous charges in the Richmond, VA area for $2,983 without documentation to explain business purpose or attendees.

- For single meals greater than $25, neither receipts nor explanations were attached as required. The total expenditure in this category was $726.

- Card charges were often self-approved by the card holder or approved by an apparent subordinate; two charges were approved by RPS Internal Audit (RPS policy is silent on who is supposed to approve credit card statements for payment).

- One of the former RPS employees incurred a $1,950 charge for 5 transcription units that appears to bypass the procurement function.

- Charges totaling $2,205 for High-speed IP access for an RPS event was paid for with no receipts or explanations appearing to bypass the procurement function.

- No statements were found with a certification of the business purpose of the expenditures as required by the RPS policy.

- Past-due balances and finance charges were incurred as a result of untimely payments.

- Unpaid card balances were carried over from the previous month with no details.

In addition to above, the charges on two former School Board members' credit cards included the following:

- $485 in gasoline purchases in the Richmond area with no receipts or explanations. The business purpose of these charges is unknown.

- $10 for one on-line charge to an inappropriate website.

- $175 for Western Union money order. The payee and the reason for issuing the money order are not known.

In summary, the available documentation did not corroborate that credit card charges were incurred for legitimate business expenses as opposed to a possible personal use of these credit cards. Also, formal policy does not provide complete guidance on what expenses are reasonable when RPS personnel are planning travel to other cities. This increases the risk that credit card use may be abused and that expenses may not be reasonable.

Recommendations:

71) **Provide training for all card holders and designated approvers on the proper use of school credit cards and proper documentation of expenses required by RPS policy.**

72) **Resolve any inconsistencies related to receipts requirements for meal expenses when paid by School credit cards.**

73) **Devise formal guidelines on enforcement and disciplinary action for violation of the Policy.**

74) **Require approval by superiors for the credit card charges of subordinates.**

75) **Consider adopting per diem guidelines already in use by Virginia state agencies and defined in the Commonwealth Accounting Policies & Procedures Manual (CAPP) Section 20335 (revised 10/1/2007).**

The current manual mailing process is inefficient

The auditors previously noted that about 37,000 laser checks were issued over the audit period. Presently, these checks are printed out at the Richmond Technical Center and transported to RPS Accounts Payable in City Hall. The checks are manually stuffed in envelopes by Accounts Payable personnel. This process is inefficient and consumes

resources.   Auditors compared this process with the procedures followed by the City of Richmond. The City Finance Department uses pressure-sealed check stock that does not require stuffing. The checks are ready for mailing after they have been run through a sealer machine. This procedure is automated and significantly efficient.

Efficiencies can be gained by following the mailing process used by the City

The cost of pressure-sealed check stock through RPS's current supplier, Business Forms Specialty, is about $107.70 per 1,000 checks which is about 11 cents per check. This is based on what the City of Richmond, which uses the same check supplier, currently pays for its pressure-sealed check stock.   The City of Richmond has a printer and a folding/sealing machine onsite that can readily be used by RPS for printing and mailing checks at minimal cost. Automation of this task is not only much more efficient, but it will remove the risk of checks being returned to Accounts Payable personnel which is a fundamental segregation of duties issue, and free up staff time for more value-added tasks.

Best practices suggest that signed checks be mailed directly to vendors instead of remaining on an entity's premises or being returned to Accounts Payable in order to limit the risk of check diversion and alteration. Research show that changes in the Uniform Commercial Code could make organizations liable for check fraud if they don't take "ordinary care."

Recommendations:

76)   **Require personnel who have no accounts payable-related duties to handle checks requiring special handling such as hand delivery, etc.**

77) **Purchase pressure-sealed check stock to replace current laser check stock.**

78) **Work out an arrangement with the City of Richmond to transfer the task of printing and mailing Accounts Payable checks.**

The positive pay feature is offered by banks to deter check fraud

Positive pay is a term used to describe a feature that helps to prevent fraud. The bank compares the checks that it receives for payment against an electronic record of checks issued by an entity. It matches the account number, check number, amount and payee information with the data file. If there is no match, an exception is identified and the account holder is notified. The check is not honored by the bank which prevents the cashing of an unauthorized check. This is a very common practice adopted by the public and private sectors.

Check fraud occurs by copying, reproducing or changing payee information on a check and committing forgery. There is an increased need to protect government assets due to the rapid change in technology. With significant weaknesses in procurement and accounts payable controls, it is likely that RPS could be a target of check fraud.

In 2007, the Association for Financial Professionals and Electronic Payments Network (EPN)[1] performed a survey of over 3,000 corporate entities about payment fraud which revealed the following key results:

- 72% of survey respondents reported that they experienced attempted or actual payments fraud in 2006.

- Checks continue to be the preferred target of thieves.

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[1] Association for Financial Professionals, Inc., "2007 AFP Payments Fraud Survey-Report of Survey Results", AFP research (March 2007) http:// www.afponline.org/pub/pdf/2007PaymentsFraudSurvey.pdf, accessed September 14, 2007

- Altered payee names on the checks issued (61%).
- Nearly half of the organizations added to their internal controls and procedures during the year to bolster protection against payments fraud. These additions included performing more frequent audits, reconciling the accounts more frequently and improving the timely return of payments.

There are several different levels of positive pay options at RPS's banking institution:

- "*Basic positive pay*" compares checks presented for payment against an issued file with no hard copy account reconciliation.
- "*Premiere positive pay*" funds only those checks that will clear based on "matched items" for that day.
- "*Teller positive pay*" matches checks presented over-the-counter at any of the banking centers to a file prior to cashing the check.

RPS does not have the ability to use the positive pay feature as the bank accounts are owned by the City

Unfortunately, RPS does not have the ability to use the positive pay services for protection against fraud because the account is owned by the City of Richmond. As such, RPS cannot make any changes to the account unless the City authorizes them. A similar observation was included in the recent audit of the City's procurement and accounts payable processes. A recommendation was made to implement positive pay procedures. According to the banking institution, the City is currently soliciting proposals for banking services for the City and RPS which includes the use of positive pay.

According to the Government Finance Officers Association (GFOA), positive pay is the single best fraud prevention device available. The GFOA recommends that governments consider implementing positive pay to protect them against bank account fraud.

To implement positive pay, RPS would need to create and transmit daily electronic check issue files to the bank. RPS would then arrange for someone in Accounts Payable to routinely investigate any exception wherein a check presented for payment at the bank varied from the electronic check file information and respond within a specified amount of time. According to the banking institution, the cost of this service would be included in its account analysis fees and would probably result in no additional fees. RPS would also have to develop policies and procedures to send electronic files for manual checks currently issued.

Recommendation:

79)   **Solicit the City of Richmond to implement positive pay with the bank accounts used by RPS.**

Laser check stock

RPS does not use serial control numbers on its laser check stock

Normally, blank checks are pre-numbered. This is a basic control that allows the Finance Department to determine if all the checks are accounted for. RPS does not use serial check control numbers on its laser check stock. A prudent practice would be to have pre-numbered checks and maintain a log of checks used for the purposes of reconciliation with blank check inventory. By contrast, the City of Richmond uses control numbers on its checks and reconciles the control numbers with the checks used. A log record of checks used and printed is maintained. The absence of this control appears to be an

obvious control deficiency in detecting missing checks. If detected timely, an unauthorized cashing of such a pilfered check could be prevented. However, the RPS Finance Director does not consider missing checks to be a significant issue.

RPS needs to use all available check stock security features

In addition, due to advancement in computer technology, it is not difficult to reproduce check stock by amateurs. According to Check Fraud and Identity Theft, Volume 6 by former international fraudster turned banking consultant Frank Abagnale, the recent growth in check fraud has reached epidemic proportions, leaving no individual, company or organization immune. Furthermore, Mr. Abagnale notes that the Uniform Commercial Code 3-406 says that if account holders fail to exercise "ordinary care", the organization may be restricted from seeking restitution from the bank if its own failures contributed to a forged or altered check. More than 1.2 million worthless checks enter the banking system each day. The Nilson Report advises that annual check fraud losses now exceed $20 billion, which is up from $12 billion in 1993. The American Bankers Association reports that check fraud is growing at a 25 percent rate.

The auditors compared the security features of checks used by RPS with the industry standards as follows:

Security Feature	Used by RPS?
1. "**Controlled paper**" is manufactured with many built-in security features such a true watermark, visible and invisible (UV light-sensitive) fibers and multi-chemical sensitivity.	YES
2. **Multi-chemical reactive paper** which produces a stain or speckles or the word "VOID" when activated with ink eradicator-class chemicals. This makes chemical alteration of a check extremely difficult to do without detection.	YES
3. **Fourdrinier watermarks** (used on manual checks only) which are faint designs pressed into the paper while it is being manufactured. When held to light these true watermarks are easily visible for instant identification.	NO

High-resolution borders (used only on Laser- printed checks) are intricately designed borders that are difficult to duplicate. They are ideal for cover security as the design distorts when copied.	
4. **Artificial watermarks** are subdued representations of a logo or work printed on paper. These marks can be viewed while holding the document at a 45° angle. Copiers and scanners capture images at 90° and cannot see these marks.	YES
5. **Toner anchorage** is a chemical coating applied to the face of check stock. When the check passes through a hot laser printer, the toner is melded into the tone anchorage on the paper. Without it, laser checks can be altered by removing the toner.	YES
6. **Warning bands** are printed messages that call attention to the security features added to protect the check. The bands should instruct the recipient to inspect a document before accepting it and may deter criminals from experimenting.	YES
7. **Microprinting** (used only on Laser-printed check stock) is printing so small that it appears as a solid line or pattern to the naked eye. Under magnification, a word or phrase appears. This level of detail cannot be replicated by most copiers or desktop scanners.	NO
8. **Controlled check stock** means high-security checks printed on controlled paper. The check manufacturer doesn't allow the checks to be sold entirely blank without first personalizing the check stock.	YES
#9..**Thermochromatic ink** reacts to changes in temperature. Some thermo inks begin to fade away at 78°F and disappear at 90°F. This reaction to temperature change cannot be replicated on a color copier or laser printer.	NO
#10..Holograms are multicolored three-dimensional images that appear in a reflective material when viewed at an angle. They are an excellent but expensive defense against counterfeiting in a controlled environment. Holograms are not usually cost-effective on checks.	NO
#11..Dual Image Numbering creates a red halo around the serial number or in the MICR line of a check. The special red ink also bleeds through to the back of the document so it can be verified for authenticity. Color copiers cannot replicate these images.	NO
#12..Laid lines are unevenly spaced parallel lines on the back of the check that make physical cutting and pasting of dollar amounts and payee names difficult to perform without detection.	NO
#13..Copy Void Pantographs are patented designs developed to protect a document from being duplicated. When copied or scanned, words such as "VOID" or "COPY" become visible on the copy, making the copy non-negotiable; however, this feature can be circumvented by high-end copiers.	NO
#14..**Fourdrinier watermarks**—(see #3 above). Not used on Laser-printed checks. **High-resolution borders** (see #3 above). Not used on manual checks	NO
#15..Microprinting—(see # 7 above). Not used on manual checks.	NO

Control over manual or laser-printer check stock is not appropriate. The Accounts Payable staff has full access to manual and replacement checks. During the scope of the audit, RPS issued manual payments of approximately *$2.6 millions* (312 checks).

Recommendations:

80)   Use serial control numbers on laser checks.

81)   Devise a formal policy for keeping strict inventory control over laser check stock.

Manual check stock

Multiple individuals have access to blank manual checks

RPS uses a separate set of checks for manual checks. Manual checks are kept at a secured location out of reach from the general public. However, the Accounts Payable personnel have ready access to these checks including weekends. There are no formal policies or procedures for taking periodic inventories or restricting access to the check stock. During the audit period, 312 manual checks were issued totaling about $2.6 million. During the random testing of 58 manual checks, the auditors found that 52% of the checks had no evidence of review or approval by supervisory personnel which is a Policy requirement; therefore, misuse of these checks will not be detected in a timely manner.

RPS issues an excessive number of manual checks

Manual checks are only supposed to be used for true emergency situations. RPS issues an excessive number of manual checks compared to its peers. A survey of the public schools of similar size indicated that the total number of manual checks issued by these organizations ranged between 0 and 36 during FY 2006. However,

RPS issued 225 manual checks (excluding replacement checks) during this period.

Manual checks are issued outside of the normal payment cycle. There are reasonable explanations for their use, but they are costly because certain tasks must be performed twice to ensure that the entity's records are updated correctly. If positive pay is used, the bank must also be notified or the payee will not be able to cash the check. Rush checks are one of the leading causes for duplicate payments and fraud because of the breakdown in normal internal controls associated with the check production cycle.

Recommendations:

82) **Restrict access to manual checks to individuals who have no accounts payable-related duties.**

83) **Perform periodic inventories of manual check stock by individuals with no accounts payable-relate duties which will be reviewed and approved by supervisory personnel.**

84) **Use of manual checks should be restricted to true emergencies.**

85) **Emergencies requiring manual checks should be formally defined by RPS policy.**

Vendor discounts

Early payment discounts represent a significant opportunity for cutting costs. For example, if a vendor offers a 2% discount for a payment made within 10 days on a $5,000 invoice with a due date 30 days from the date of the invoice, it will yield a 36% annual return. Moreover, the early payment discounts can be earned for the short term in a risk-free manner whereas investments are typically associated with market risks.

To ignore the value of discounts when negotiating is not a sound fiscal practice.

The Commonwealth of Virginia's Policy on Prompt Payments (Topic #30315 in its CAPP manual) states that agencies should negotiate reasonable cash discount terms. That policy also asserts that cash discounts should be taken <u>except</u> when:

- the administrative cost of expedited invoice processing exceeds the amount of the cash discount,
- the time required to process the invoice exceeds the discount period, or
- the annualized rate of return is less than the current investment rate earned on interest-bearing accounts.

RPS does not have a policy to negotiate early payment discounts with vendors.

RPS does not have a policy to negotiate early payment discounts with vendors. Accordingly, they could not identify which vendors offered discounts, so auditors could not easily quantify the lost opportunity for savings. However, negotiating and earning early payment discounts could result in substantial cost savings.

Recommendations:

86) **Require the inclusion of early payment discounts as a standard procedure in the procurement negotiation process.**

87) **Establish a set of policies and procedures to ensure taking advantage of early payment discounts offered by vendors.**

88) **Track savings from early payment discounts and use it as a performance measure.**

Technology purchases

Even though technology-related purchases are complex and may require technical knowledge. However, RPS does not have a written policy that governs IT-related purchases. Without proper guidance, the end-users could purchase non-standard IT-related equipment. In addition, purchasing non-standard IT-related equipment could cause other vulnerabilities and risks such as:

- Inappropriate software installed on workstations, servers and operating systems, therefore causing viruses to the overall network;

- System security may be compromised allowing unauthorized use of the sensitive data;

- IT system components may not function effectively as designed due to incompatible equipment; and

- All assets may not be identified and recorded in RPS' official records.

In addition, the end-user could use the vendor of his/her choice creating the potential for favoritism and corruption.

Recommendation:

89)   Develop purchasing guidelines for IT-related purchases and provide training to the end users.

Computer System Issues

Background

Richmond Public Schools uses the Financial Management System (FMS) application for their Procurement and Accounts Payable automated processing. The FMS application is located on the Comprehensive Information Management System (CIMS) platform which uses the AS/400 (IBM iSeries) as their operating system. The IBM 400 operating system has been in existence for more than 25 years and is still considered a very stable platform. The CIMS/FMS application is a modified double-entry accrual accounting system designed for governmental accounting organizations. The CIMS/FMS application consists of six (6) smaller subsystems or modules that work together to process and share information. The CIMS/FMS modules used for Purchasing and Accounts Payables transactions are:

- General Ledger
- Purchasing
- Receiving
- Accounts Payable
- Cash Disbursements
- Cash Receipts
- Warehouse Requisition

Age and most current system updates

The CIMS/FMS application was installed in 1991 (17 years old) and the last system upgrade occurred on January 5, 2008. There was an annual maintenance agreement purchased with the system where various upgrades to the CIMS/FMS system are performed annually. Since 1991, there have been approximately 62 upgrades to the CIMS/FMS application.

Pursuant to industry best practices, operating systems and applications should be reviewed and updated to reflect the latest security and processing patch levels. According to FISCAM (Federal Information Systems Controls Audit Manual), current application systems and information should be routinely validated as being accurate, up-to-date, and working as intended for networks, operating systems, and infrastructure applications. Also, an effective patch management process should be documented and implemented, including identification of systems and applications affected by recently announced software vulnerabilities. Software should be updated to protect against known vulnerabilities and have the latest versions of software patches.

RPS has an old financial system that needs to be evaluated for adequacy

RPS has not reviewed or evaluated their CIMS/FMS application to determine if the system is efficiently working for the intended purposes. The system is at least 17 years old and several new and more efficient products have been introduced in the government financial systems market. Even with the numerous system upgrades, based on the age of the CIMS/FMS application, RPS management and the Department of Information Technology need to perform a business case analysis to access the feasibility of purchasing upgraded versions of the Procurement and AP modules with enhanced functionality.

Based on customer feedback, the CIMS/FMS application has a consistent look, feel, and keystroke usage throughout all FMS modules. The purchase order, accounts receivable, accounts payable and vendor databases are integrally related. CIMS/FMS is based on building tables of data which populate the data to related processing screens.

Pros and Cons

During the auditor's inquiry, the following pros and cons were noted:

Pros:

1. Runs on an AS/400 operating system; which is a robust and dependable platform with very minimal downtime.
2. Easy to train the end-users to establish experience and proficiency.
3. CIMS/FMS is user friendly, with easy access to reports, document processing (entire purchase order process), access to vendor information, and easy information retrieval.
4. Is customizable (if necessary), stable, sound, simple and easy to use.
5. Is manageable in a centralized environment.
6. Allows for speed in procurement using the Small Purchase Order process.
7. Allows for system modifications, real time processing and integrated modules.

Cons:

1. Green Screen has an antiquated look; not web-based.
2. Only able to enter one line item on a Blanket Purchase Order.
3. A system control is needed to distinguish between entering a purchase order and a purchase order that is associated with a contract.
4. The system has very few time and date controls on the vendor master file for set-up or changes in vendor information. Changes to the date field do not reflect the date of the modification.

In addition, the City of Richmond is assessing the possibility of replacing its financial system with a suitable new product. There is an opportunity to join the City of Richmond in the purchase of the system and realize cost savings.

Automating the manual process

Currently, the Departmental Invoices are internally generated documents that are used in place of invoices for making payments such as Retirement System payments. This process is manual and has very weak controls. It appears that a separate data entry screen for Departmental Invoice information input is necessary to assure segregation of duties and verification of appropriate authorization. An Accounts Payable clerk can review the information entered and documentation attached to the approved copy of a Departmental Invoice to make payment. By restricting access to the Departmental Invoices input screen to authorized end-users only, a proper segregation of duties can be assured.

Some system features are not being used

Audit trail

The AS/400 CIMS/FMS application supports an audit trail or logging feature that tracks the history of a transaction for a certain period of time. The audit trail or logging entails the writing of specific system and/or application events to a data store which is usually a flat file. Using this feature is very important as the identity of the employee making changes to purchasing and AP transactions is tracked. The audit trail feature was not turned on because the prior RPS DIT management determined that there would be insufficient storage resources to track this information. In this case, if the records are manipulated, the changes will not be detected. In addition, the identity of the employee making adjustments will not be determined. With

deficiencies described throughout this report, the absent audit trail feature further weakens the overall system controls.

Workflow and electronic approval

Workflow and electronic approval features were not purchased with the AS/400 CIMS/FMS application. These features are designed to significantly improve overall processing efficiency by providing the ability to manage and monitor work and to eliminate time-consuming manual document routing, review and approval. Automatic workflow routing and e-mail notification features help to simplify as well as to expedite manual document processing.

The workflow application supports re-engineering of common manual user/process flows and further enables a paperless work environment. The electronic approvals are critical for a three-way match process (described earlier) to work. This process is critical for efficiently processing vendor payments.

System training

At RPS, several resources for training on the CIMS/FMS application and related processes are available for end-users. Auditors received copies of three manuals for review:

- Richmond Public Schools Financial Procedures Manual
- Comprehensive Accounts Payable and Purchasing Payment Processing Class Manual
- On-Line CIMS Financial Management System User's Guide

Training is provided by the RPS Technical Trainer for CIMS/FMS Purchasing and Accounts Payable processing. She has several years experience as a professional trainer. The Accounts Payable Supervisor assists with the training initiatives for the Accounts Payable training

and is considered the product user-expert for this training module. However, there is no purchasing product user-expert assistance provided. Training is not mandatory; it is attended on a voluntary basis. During discussions with the RPS Technical Trainer, it was noted that some sections of the training material were outdated and currently not used, and informal on-the-job training is taught by more experienced staff.

System training manuals need to be updated

Given that the training manuals are outdated and training is not mandatory, the associated risks are:

- Poor training which is irrelevant, costly and increases risk of errors.

- Key updated processes and system components (systems applications, infrastructure, data, information, etc.) required for processing could be overlooked.

- Training objectives will not be realized when Purchasing Department staff do not assist the trainer.

According to international information system audit standards, COBIT (Control Objectives for Information and Related Technology), organizations should define and communicate how all policies, plans and procedures that drive IT processes are documented, reviewed, maintained, approved, stored, communicated and used for end-user training. Responsibilities for each of these activities should be assigned and, at appropriate times, reviewed to ensure that they are executed correctly. Ensure that the policies, plans, and procedures are accessible, current and communicated.

System controls

Key system application access controls for the AS/400 CIMS/FMS application are based on individual end-user security profiles that allow various levels of system application access. End-users have system application access based on the following categories:

- Small Purchase Orders - under $500

- Unapproved Purchase Orders - over $500

- Blanket Purchase Orders

- Receivers for Small, Unapproved and Blanket Purchase Orders

- AP Accountants

- Change Orders

- Invoices

- Vendor Master File

The table below depicts information on the various security profiles that were set-up for CIMS/FMS that result in inadequate segregation of duties:

Inadequate segregation of duties could result in potential abuse

User Access	Number of Users
Purchase Order and Receiver	**296**
Purchase Order, Receiver & Invoices	**15**
AP Accountants & Invoices	**1**
Purchase Order, Receiver, Change Orders, & AP Accountants	**1**
Purchase Order, Receiver, Vendor Master File, AP Accountants & Invoices	**1**
Purchase Order, Receiver & Change Orders	**3**
Vendor Master File, AP Accountants & Invoices	**4**
Purchase Order, Receiver & AP Accountants	**1**

Assigning incompatible privileges to employees could result in misuse. Proper segregation of duties will prevent any employees from having

unchecked control over a transaction and is desirable for maintaining adequate controls.

Access privilege for former employees

RPS needs to eliminate system privileges upon termination of the employment of the user

Deleting access privileges of employees that have not logged onto the system for an extended period of time or upon termination of employment is a generally accepted practice. RPS does not have a policy or procedure for accomplishing this task. A sample report requested from the Department of Information Technology indicated that the terminated employees' system access security profiles are not being removed a timely manner. Auditors further requested a report that would list all the previous employees who should have been deleted from the system. This information was not submitted to the auditors. However, there is a significant risk in either not removing unneeded security profiles or not removing them in a timely manner from the system. Unauthorized access could result in compromising system data and information.

Input and edit controls

The AS/400 CIMS application uses input edit controls to manage and control the processing activities of their Financial Management, Warehouse Inventory and Fixed Asset Inventory systems. Based on auditor's review of various system settings, the following areas were identified that require improvements such as:

- The system has very few time and date controls on the vendor master file for set-up or editing.
- The purchase order (PO) date captured in the system did not always reflect the date the PO was actually generated. In some cases, the date reflected the last action taken on a particular PO (i.e. closing and canceling). Consequently, the transactions reviewed during the audit include purchases outside the audit

scope. In other cases, the system date reflected the date the PO was entered regardless of the last action taken. According to the Senior Buyer and the Logistics Supervisor, the original PO date should remain intact regardless of the actions taken on the purchase orders. The system has the capability to prevent the original purchase order date from being changed; however, this control has not been implemented.

- No edit control exists for the purchase orders that exceed encumbered dollar thresholds. This situation will allow the end users to process purchase orders over the encumbered amount can lead to exceeding contracted amount.

Recommendations:

90) **Perform an evaluation of the CIMS/FMS application to determine adequacy for the intended purpose and efficiency in use of system resources.**

91) **If a need for system replacement is determined, collaborate with the City of Richmond in purchasing a new system.**

92) **Assess the feasibility of automating the Departmental Invoice process for authorized end-users.**

93) **Evaluate the feasibility of workflow and electronic approval features in CIMS/FMS.**

94) **Implement the audit trail feature.**

95) **Provide mandatory staff training on the CIMS/FMS purchasing and AP modules using a team of professional trainers and product end-user experts from both departments.**

96) **Review and update all training manuals to reflect system application enhancements, current processing needs and business objectives.**

97) **Work responsibilities should be segregated so that one individual does not control all critical stages of a process.**

98) **Review all CIMS/FMS end-user security profiles and make a determination to re-align them based on the principles of segregation of duties.**

99) **Promptly terminate access privileges and remove security profiles of all terminated employees and end-users that have not logged into the CIMS/FMS system for an extended period.**

100) **Configure the system to assign a fixed purchase order date which cannot be altered or overridden.**

101) **Implement controls that will prevent expenditure limits from being exceeded.**

102) **Implement a control that will allow the date field to reflect the date of the modification when making changes to the vendor master file.**

INTRODUCTORY COMMENT:

The entire procurement function will be re-engineered to address all of the recommendations of this Audit. A consultant has been identified to accomplish this task with an estimated time line for completion by the end of May. Each of the recommendations are responded to in this context. The order of the implementation will depend on approvals by the School Board and any budgetary limitations.

Note: The "I" indicator in the Concur Y-N-I indicates the recommendation will be investigated further.

#	RECOMMENDATION	CONCUR Y-N-I	ACTION STEPS
1	**Train Purchasing staff as well as the purchasing end-users (liaisons) to ensure they possess adequate knowledge to perform their duties competently.**	Y	The end-users receive training currently on a limited basis. The Purchasing staff has developed plans to use the Training Center to implement comprehensive training on purchasing policies and procedures. These training opportunities will be expanded as new procedures are developed and adopted.
	RESPONSIBLE PERSON		**TARGET DATE**
	Purchasing Supervisor		Oct-08

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
2	**Implement a formal training program for the end-users.**	Y	The end-users receive training currently on a limited basis. The Purchasing staff has developed plans to use the Training Center to implement comprehensive training on purchasing policies and procedures. These training opportunities will be expanded as new procedures are developed and adopted. This recommendation will be reviewed with school operations staff to ensure that additional time is allocated to accommodate the new training required. Also, alternative training and support methods can be identified.
	RESPONSIBLE PERSON		**TARGET DATE**
	Purchasing Supervisor		Oct-08

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
3	**Establish minimum educational requirements for purchasing staff and a career path program in order to promote advancement within the division.**	Y	We will work with Human Resources to establish minimum educational requirements for purchasing staff and a career path program. The staffing audit which is scheduled to be started this month will assist with defining "best practices" educational requirements for the purchasing positions.
	RESPONSIBLE PERSON		**TARGET DATE**
	Purchasing Supervisor		Jan-09

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
4	**Encourage obtaining a professional certification in the procurement field to address the competencies and skill sets of purchasing staff.**	Y	Purchasing staff have attended outside training and professional development classes related to procurement to assist them in obtaining a professional certification.These opportunities will be expanded with individual assessments of need to address individual needs. The staffing audit which is scheduled to be started this month will assist with defining best practices for desired training.
	RESPONSIBLE PERSON		**TARGET DATE**
	Purchasing Supervisor		Sep-09

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
5	**Resolve the disparity between the Purchasing manual and the Bylaws by a C.O.O.rdinated review and make appropriate changes.**	Y	As School Board By-laws are updated, Purchasing will C.O.O.rdinate with School Board to ensure that the purchasing manual is C.O.O.rdinated with Board policies and procedures. The Board LLP Committee has begun to review and rewrite, where necessary, the By-Laws and Policies of the Board. Purchasing procedures will be brought in line with these By-Laws and Policies as they are reviewed and/or changed.
	RESPONSIBLE PERSON		**TARGET DATE**
	Purchasing Supervisor		Sep-08
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
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.**	Y	The re-engineering process will include recommendations to the School Board for policy change as needed. Purchasing will comply with School Board policies and procedures.
	RESPONSIBLE PERSON		**TARGET DATE**
	Purchasing Supervisor		Jan-09
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
7	**Mandate strict compliance with RPS procurement policies.**	Y	Purchasing will assist in making sure the procurement polices are followed.The re-engineering process will recommend to the School Board, consequences for non-compliance with Board policy and Purchasing procedures.
	RESPONSIBLE PERSON		**TARGET DATE**
	C.O.O. and Purchasing Supervisor		Oct-08
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
8	**Require the Purchasing Divison to be vigilant in monitoring user compliance with the policies.**	Y	Purchasing will enforce the School Board and Administration policies as established.
	RESPONSIBLE PERSON		**TARGET DATE**
	Purchasing Supervisor		Oct-08
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
9	**Prescribe and enforce disciplinary action for the employees not complying with the purchasing policies.**	Y	Purchasing will assist in making sure the procurement policies are followed. The re-engineering process will recommend to the School Board, consequences for non-compliance with Board policy and Purchasing procedures.
	RESPONSIBLE PERSON		**TARGET DATE**
	Purchasing Supervisor		Oct-08
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
10	**Require the Purchasing Division to periodically analyze the procurement data to detect and address bid splitting incidences.**	Y	During the re-engineering, the Administration will recommend various reports to be made to the Board and Administration.
	RESPONSIBLE PERSON		**TARGET DATE**
	C.O.O. and Purchasing Supervisor		Sep-08
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
11	**Require Purchasing staff to properly monitor the use of blanket purchase orders to ensure compliance with policies and regulations.**	**Y**	Monetary guidelines will be established during re-engineering.
	RESPONSIBLE PERSON		**TARGET DATE**
	C.O.O. and Purchasing Supervisor		Sep-08
#	**RECOMMENDATION**	**CONCUR Y-N**	**ACTION STEPS**
12	**Use blanket purchase orders only for repetitive purchases related to a single contract.**	**Y**	Blanket purchase orders are used to acquire goods and services that will extend for a period of time or throughout the contract term, and when no specific quantity or unit of measure can be determined. Purchasing feels that this current procedure best meets the needs of the school division. This area will be reviewed and revised as necessary during the re-engineering process. Additional specificity will be incorporated into the guidelines as dictated by Best Practices.
	RESPONSIBLE PERSON		**TARGET DATE**
	C.O.O. and Purchasing Supervisor		Sep-08
#	**RECOMMENDATION**	**CONCUR Y-N**	**ACTION STEPS**
13	**Use the system feature to link purchase orders with corresponding contracts.**	**Y**	Purchasing is working with the Department of Information Technology to develop a report that will provide the capability of linking purchasing orders to contracts. This process has begun. All contracts involving payment of school funds will be encumbered by a Purchase Order.
	RESPONSIBLE PERSON		**TARGET DATE**
	Purchasing Supervisor		Completed March 2008
#	**RECOMMENDATION**	**CONCUR Y-N**	**ACTION STEPS**
14	**Prohibit users from directly dealing with vendors without involvement of the Purchasing Division.**	**Y**	This recommendation will be addressed during the re-engineering process.
	RESPONSIBLE PERSON		**TARGET DATE**
	C.O.O. and Purchasing Supervisor		Sep-08
#	**RECOMMENDATION**	**CONCUR Y-N**	**ACTION STEPS**
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.**	**Y**	Purchasing will follow the guidelines as directed by the School Board as it pertains to emergency purchases. Purchasing will research and provide proper documentation to justify all purchases that are considered Sole Source, and will report these regularly to the Administration.
	RESPONSIBLE PERSON		**TARGET DATE**
	School Board and Purchasing Supervisor		Sep-08
#	**RECOMMENDATION**	**CONCUR Y-N**	**ACTION STEPS**
16	**Require proper documentation of reasons for the sole source or emergency purchases.**	**Y**	Purchasing will require documentation and justification for all sole source and emergency purchases.
	RESPONSIBLE PERSON		**TARGET DATE**
	Purchasing Supervisor		Completed March 2008
#	**RECOMMENDATION**	**CONCUR Y-N**	**ACTION STEPS**

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
17	**Require the School Board approval of emergency and sole source contracts.**	**Y**	Purchasing will follow the guidelines as directed by the School Board as it pertains to emergency and sole source purchases.
	RESPONSIBLE PERSON		**TARGET DATE**
	School Board and Purchasing Supervisor		Sep-08
#	**RECOMMENDATION**	**CONCUR Y-N**	**ACTION STEPS**
18	**Hold staff accountable for lack of planning.**	**Y**	Purchasing will assist in making sure the procurement policies are followed. The re-engineering process will recommend to the School Board, consequences for non-compliance with Board policy and Purchasing procedures.
	RESPONSIBLE PERSON		**TARGET DATE**
	Purchasing Supervisor		Complete January 2008
#	**RECOMMENDATION**	**CONCUR Y-N**	**ACTION STEPS**
19	**Establish procedures that ensure consistency and completeness within Purchasing contract files.**	**Y**	The purchasing Department currently maintains a contract file. Additional data will be added and maintained as recommend by the re-engineering.
	RESPONSIBLE PERSON		**TARGET DATE**
	Purchasing Supervisor		Oct-08
#	**RECOMMENDATION**	**CONCUR Y-N**	**ACTION STEPS**
20	**Maintain an accurate contract listing and make it available to RPS staff.**	**Y**	Purchasing Division will maintain an accurate contract listing of all contracts established. The listing was established in 2004. All contracts involving school funds will be archived in the Purchasing Office. This information will be posted on RPS infonet.
	RESPONSIBLE PERSON		**TARGET DATE**
	Purchasing Supervisor		Complete March 2008
#	**RECOMMENDATION**	**CONCUR Y-N**	**ACTION STEPS**
21	**Assign appropriate commodity codes for all purchases and use them to detect opportunities for consolidation of purchases for volume discount purposes.**	**Y**	Commodity codes will prove beneficial; this area will be included in the re-engineering process. The determination of the system of commodity codes to be used will be complete by September 2008. The implementation of the process will be part of the re-engineering timeline.
	RESPONSIBLE PERSON		**TARGET DATE**
	C.O.O. and Purchasing Supervisor		Sep-08
#	**RECOMMENDATION**	**CONCUR Y-N**	**ACTION STEPS**
22	**Require Purchasing to maintain a complete contract file that evidences the entire contract process from initiation to close.**	**Y**	The Purchasing Department currently maintains a contract file. Additional data will be added and maintained as recommended by the re-engineering.
	RESPONSIBLE PERSON		**TARGET DATE**
	Purchasing Supervisor		Oct-08
#	**RECOMMENDATION**	**CONCUR Y-N**	**ACTION STEPS**
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.**	**Y**	Policy was implemented and in place prior to Auditors review. (January 2007)
	RESPONSIBLE PERSON		**TARGET DATE**
	Purchasing Supervisor		Completed January 2007

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
24	Perform a periodic review of the files to ensure compliance.	Y	This is currently being done. A report of this process will be developed by June 2008.
	RESPONSIBLE PERSON		TARGET DATE
	Purchasing Supervisor		Completed January 2008

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
25	Require end-users to report in-depth information about vendor performance adequacy to the Purchasing Division.	Y	We have a procedure for evaluating vendor performance. We will communicate it to the RPS departments via the RPS infonet.
	RESPONSIBLE PERSON		TARGET DATE
	Purchasing Supervisor		May-08

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
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.	Y	The Administration will recommend to the Board procedures for change order processing for all contracts.
	RESPONSIBLE PERSON		TARGET DATE
	C.O.O. and Purchasing Supervisor		Sep-09

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
27	Require change orders to be prepared and approved in advance of beginning work.	Y	The Administration will recommend to the Board procedures for change order processing for all contracts.
	RESPONSIBLE PERSON		TARGET DATE
	C.O.O. and Purchasing Supervisor		Jan-09

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
28	Implement eVA and mandate the RPS Departments to use it for the purposes of procurements.	I	RPS Purchasing Department is currently using eVA to a limited degree. The re-engineering process will address this area. The purchasing department will comply. We do not envision use of eVA for 100% of our procurement
	RESPONSIBLE PERSON		TARGET DATE
	C.O.O. and Purchasing Supervisor		Jul-09

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
29	Require departments to retain appropriate records of selecting vendors in accordance with RPS policy.	Y	RPS departments currently use the vendor listing on the CIMS system. When the use of the eVA system is expanded the policy will be implemented and compliance will be periodically verified. We will also review which categories of vendors should be considered for use outside the purchasing function. Normally, purchasing will select the vendors.
	RESPONSIBLE PERSON		TARGET DATE
	Purchasing Supervisor		Jul-08

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
30	Periodically verify compliance with the above process.	Y	Retention of appropriate records will be included in future training. Compliance will be periodically verified.
	RESPONSIBLE PERSON		TARGET DATE

	Purchasing Supervisor		Jul-08

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
31	**Hold Purchasing accountable for the appropriateness of textbook purchases.**	I	Textbooks were centralized before. Because of the staffing needed and costs involved, it was decided by Administration at the time that it would be more feasible to have this function de-centralized. The following persons were used under centralization: textbook manager and two technicians and an outside trucking company to deliver. Their duties: receive orders, breakdown pallets of books for counting and verification, pack and palletized books by schools and deliver. We will review the total textbook process and recommend other proposed changes to the Board and Administration.
	RESPONSIBLE PERSON		**TARGET DATE**
	C.O.O. and Purchasing Supervisor		Jan-09

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
32	**Comply with the Virginia Public Procurement Act provisions related to inviting sealed bids.**	Y	The bidding process for textbooks by RPS is done by The State Department of Education Office of Instruction. We will develop a bid for non-state adopted textbooks.
	RESPONSIBLE PERSON		**TARGET DATE**
	Purchasing Supervisor		Jan-09

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
33	**Analyze the textbook needs and conduct proper planning prior to purchasing text books to avoid excessive purchases.**	Y	Textbook needs are analyzed by the Department of Instruction/Instructional Specialists for RPS. Any changes to this procedure will be under the direction of Administration.
	RESPONSIBLE PERSON		**TARGET DATE**
	C.O.O. and Director of Instruction		Aug-08

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
34	**Keep proper records of the books inventory and proceeds from the sale of books.**	Y	Currently this function is done at the school level by designated textbook managers. The textbook process will be reviewed for efficiency and any recommended changes.
	RESPONSIBLE PERSON		**TARGET DATE**
	C.O.O. and Purchasing Supervisor		Aug-08

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
35	**Require the Purchasing Division to conduct the sale of books.**	I	Currently this function is done at the school level by designated textbook managers. The textbook process will be reviewed for efficiency and any recommended changes.
	RESPONSIBLE PERSON		**TARGET DATE**
	C.O.O. and Purchasing Supervisor		Jan-09

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
36	**Eliminate the two warehouses at 2901 Boulevard and 1722 Arlington Road.**	I	This will be a decision of the School Board
	RESPONSIBLE PERSON		**TARGET DATE**
	School Board, C.O.O., and Purchasing Supervisor		Jan-09

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
37	Require the City's Director of Real Estate to obtain professional appraisals of value of the two warehouse properties.	I	This will be a decision of City and Schools Administration.
	RESPONSIBLE PERSON		TARGET DATE
	School Board		Jan-09

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
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.	I	This will be a decision of City and Schools Administration.
	RESPONSIBLE PERSON		TARGET DATE
	School Board		Jan-09

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
39	Establish meaningful performance measures that can be used to evaluate and monitor employees' and division's performance.	Y	Purchasing has performance measures that can be used to evaluate and monitor employees' and division's performance. These measures are used to evaluate staff's performance weekly. We are currently working to incorporate our performance measures as a part of our goals and objectives in our Balanced Score Card (BSC). The staffing audit will assist in developing appropriate performance measures and evaluation strategies.
	RESPONSIBLE PERSON		TARGET DATE
	Purchasing Supervisor		Dec-08

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
40	Evaluate and monitor staff's and division's performance using the measures.	Y	Purchasing has performance measures that can be used to evaluate and monitor employees' and division's performance. These measures are used to evaluate staff's performance weekly. We are currently working to incorporate our performance measures as a part of our goals and objectives in our BSC. We will acquire a list of best practices to use in setting performance measures and evaluation strategies.
	RESPONSIBLE PERSON		TARGET DATE
	Purchasing Supervisor		Jun-08

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
41	Develop a conflict of interest disclosure form for the buyers and administrators.	Y	This disclosure will be developed and reviewed by legal counsel for implementation. This statement will be kept on file and reviewed annually. This conflict of interest statement should apply to a number of job categories within the school division.
	RESPONSIBLE PERSON		TARGET DATE
	C.O.O. and Purchasing Supervisor		Sep-08

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
42	**Ensure that buyers and administrators certify a conflict of interest statement on an annual basis.**	Y	This disclosure will be developed and reviewed by legal counsel for implementation. This statement will be kept on file and reviewed annually.
	RESPONSIBLE PERSON		**TARGET DATE**
	C.O.O. and Purchasing Supervisor		Sep-08
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
43	**Establish a mandate of unacceptability of unethical practices, improprieties and issues of non-compliance.**	Y	Purchasing will assist in making sure the procurement polices are followed. The re-engineering process will recommend to the School Board, consequences for non-compliance with Board policy and Purchasing procedures.
	RESPONSIBLE PERSON		**TARGET DATE**
	C.O.O. and Purchasing Supervisor		Sep-08
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
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.**	Y	The Purchasing Department will ensure that the "right to audit" clause is a part of the language in our contracts/bids.
	RESPONSIBLE PERSON		**TARGET DATE**
	Purchasing Supervisor		Completed March 2008
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
45	**Centralize the function of vendor database update and maintenance in Purchasing.**	I	We believe that the vendor file should remain a function of the accounts payable section to ensure timely input of vendors to remain at the current 96% compliance rate with the State's prompt payment act and to take advantage of any negotiated discounts. The re-engineering process will review this recommendation. We will also look at best practices to getermine our position on this issue.
	RESPONSIBLE PERSON		**TARGET DATE**
	C.O.O. & Purchasing Supervisor & Fin Director		Jun-09
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
46	**Require periodic reviews of the vendor database in order to detect and avoid duplicate vendors.**	Y	In prior years we had a staff person dedicated to the vendor file that had the responsibility / accountability for vendor file accuracy, review of database for duplicate vendors, researching returned checks, and mailing out of checks which we agree are vital segregation of duties that enhance accounts payable internal controls. However, that position has been eliminated due to budget cuts. In 2006 we did an extensive review of the vendor file to identify duplicate vendors. We implemented the practice of assigning

			vendor numbers by the tax ID # to eliminate future duplications. In order to maintain the history required by the state record retention guidelines (3 years). We inactivated the old vendor numbers to prevent future processing of PO's or payments against them. We currently review the vendor data base annually to remove duplicate vendors that do not have history that falls within the record retention guidlines. We will explore additional ways to better comply with separation of duties using existing staff.
	RESPONSIBLE PERSON		**TARGET DATE**
	C.O.O, Purchasing, Supervisor & Finance Director		Jul-08

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
47	**Perforate all paid invoices before mailing checks.**	**Y**	We agree with this recommendation. We will investigate purchasing perforation machines in the fiscal year 2009 budget.
	RESPONSIBLE PERSON		**TARGET DATE**
	Finance Director		Sep-08

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
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.**	**Y**	Staff has been instructed to research the system to verify that any faxed invoices have not already been paid prior to processing. They will then certify that they did due diligence on the faxed copy. The Finance department had already taken actions on the duplicate payments mentioned to include voiding duplicate checks or obtaining payments or a credit memos from the vendors for all of the duplicate payments except six totaling $4,096.47. We have since been issued credit memos totaling $4,096.47 from those six vendors.
	RESPONSIBLE PERSON		**TARGET DATE**
	Finance Director		Complete March 2008

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
49	**Review periodic reports to look for duplicate payments involving payments to the same vendor.**	**Y**	In 2006 we implemented the practice of assigning vendor numbers by the tax ID # to eliminate future duplications. In order to maintain the history required by the state record retention guidelines (3 years). We inactivated the old vendor numbers to prevent future processing of PO's or payments against them. The Finance department had already taken actions on the duplicate payments mentioned to include voiding duplicate checks or obtaining payments or a credit memos from the vendors for all of the duplicate payments except six totaling $4,096.47. We have since been issued credit memos totaling $4,096.47 from those six vendors. We will develop report to do periodic reviews to look for possible duplicate payments. We will have reports developed to help identify potential duplicate payments.
	RESPONSIBLE PERSON		**TARGET DATE**
	Finance Director		Jul-08

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
50	Require review and approval by supervisory personnel, who cannot have access to the vendor database of all additions, modifications and deletions.	I	We will have supervisory review of additions and modifications to the vendor file. If we are successful in reestablishing the position that segregated the duties of vendor data base maintenance, we will be able to remove vendor file maintenance capabilities from the supervisor. Current staffing level necessitates the vendor file capabilities remain with current staff.
	RESPONSIBLE PERSON		**TARGET DATE**
	Finance Director		Jul-08
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
51	Require periodic reviews of the vendor database in order to ensure compliance with management policies.	Y&I	The position that had this responsibility has been eliminated due to budget cuts. We will pursue reinstatement of a position to accomplish this segregation of duties. We will develop report to do periodic reviews of the vendor base to monitor compliance with management policies.
	RESPONSIBLE PERSON		**TARGET DATE**
	Finance Director		Jul-08
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
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.	I	We believe that the vendor file should remain a function of the accounts payable section to ensure timely input of vendors to remain at the current 96% compliance rate with the State's prompt payment act and to take advantage of any negotiated discounts. In prior years we had a staff person dedicated to the vendor file that had the responsibility / accountability for vendor file accuracy, review of database for duplicate vendors, researching returned checks, and mailing out of checks which we agree are vital segregation of duties that enhance accounts payable internal controls. However, that position has been eliminated due to budget cuts. We will pursue reinstatement of a position to accomplish this validation. We will also explore electronic signatures through work flow to accomplish this and other streamlining issues.
	RESPONSIBLE PERSON		**TARGET DATE**
	C.O.O & Purchasing Supervisor & Finance Director		Jun-09
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
53	Obtain a daily vendor change report that shows all vendor file activities and verify appropriateness of changes.	Y	We will request the MIS department to develop the recommended report to be reviewed by the Accounts payable Supervisor.
	RESPONSIBLE PERSON		**TARGET DATE**
	Finance Director		Jul-08
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
54	Establish appropriate practices to verify various vendor attributes such as authenticity, good standing, liquidity, etc. using third party services.	I	We will pursue reinstatement of a position to accomplish this validation.

	RESPONSIBLE PERSON		TARGET DATE
	C.O.O & Purchasing Supervisor & Finance Director		Jun-09

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
55	**Establish procedures to review vendors against the federal and state listing of debarred vendors prior to registering the vendor.**	Y	The Purchasing Department has taken under advisement the information shared by the Auditor to utilized the appropriate WEB site for checking on debarred vendors. Purchasing will establish procedures to review and verify vendor status regarding debarment. These procedures will include a letter to accompany the application to verify that they are in good standing with state and federal guidelines for vendors.
	RESPONSIBLE PERSON		TARGET DATE
	Purchasing Supervisor		Complete March 2008

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
56	**Implement procurement best practices to ensure public funds are expended in the most efficient and effective manner.**	Y	The Procurement Department will review and investigate procurement best practices and implement practices that are found to be more efficient.
	RESPONSIBLE PERSON		TARGET DATE
	Purchasing Supervisor		Jan-09

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
57	**Void all the checks in the system for which either stop payments have been made or the check has been reissued.**	Y	We have implemented the practice of voiding all checks in the system and eliminated the use of "replacement" checks. The Finance department had already taken actions on the duplicate payments mentioned to include voiding duplicate checks or obtaining payments or a credit memos from the vendors for all of the duplicate payments except six totaling $4,096.47. We have since been issued credit memos totaling $4,096.47 from those six vendors.
	RESPONSIBLE PERSON		TARGET DATE
	Finance Director		Complete March 2008

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
58	**Record all the replacement checks in the system.**	Y	We have implemented the practice of voiding all checks in the system and eliminated the use of "replacement" checks. The Finance department had already taken actions on the duplicate payments mentioned to include voiding duplicate checks or obtaining payments or a credit memos from the vendors for all of the duplicate payments except six totaling $4,096.47. We have since been issued credit memos totaling $4,096.47 from those six vendors.
	RESPONSIBLE PERSON		TARGET DATE
	Finance Director		Complete March 2008

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
59	**Record all receipts and disbursements pertaining to a bank account in the same object code.**	I	We will assess the cost benefit of changes to the current business process in conjunction with current system and staffing capabilities.
	RESPONSIBLE PERSON		TARGET DATE
	Finance Director		Jul-08

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
60	**Properly reconcile the general ledger cash balance with the bank statement balance.**	**I**	We will assess the cost benefit of changes to the current business process in conjunction with current system and staffing capabilities.
	RESPONSIBLE PERSON		TARGET DATE
	Finance Director		Jul-08

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
61	**Monitor and ensure adherence to Departmental Invoice policies and procedures.**	**Y**	The Departmental Invoice process will be re-engineered as necessary to address this concern.The Departments of Finance and Procurement conduct training to ensure adherence to usage of Departmental Invoices. We will continue to notify the vendor and department head or principal in the event of noncompliance.
	RESPONSIBLE PERSON		TARGET DATE
	Purchasing Supervisor and Finance Director		Aug-08

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
62	**Ensure that there is a documented list of employees authorized to pick up printed checks.**	**N**	We currently require persons that pick up checks to show a picture ID and sign the "Accounts Payable Pick-up Check Log. They must record the date, payee, check number, amount of the check, and sign the log.
	RESPONSIBLE PERSON		TARGET DATE

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
63	**Mail the checks directly to payees unless justification is provided on an exception basis.**	**Y**	It is our practice to mail checks directly to vendors unless a specific request has been made for pick-up.
	RESPONSIBLE PERSON		TARGET DATE
	Finance Director		Complete

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
64	**Define exceptions to this policy.**	**I**	It is our practice to mail checks directly to vendors unless a specific request has been made for pick-up.
	RESPONSIBLE PERSON		TARGET DATE
	Finance Director		Nov-08

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
65	**Require timely payments in accordance with the Virginia Prompt Payment Act.**	**Y**	We are currently at a 96% compliance rate of payment within the forty five days as prescribed by the State Prompt Payment Act for the current fiscal year.
	RESPONSIBLE PERSON		TARGET DATE
	Finance Director		Complete

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
66	**Negotiate with vendors not offering cash discounts to stretch the payment terms to pay no later than 45 days after goods and services are received or no later than 45 days after the invoice is rendered, whichever is later.**	**Y**	We are currently having our legal staff advise us if we can make this requirement an automatic condition under the State Prompt Payment Act. We plan to incorporate appropriate language to this effect as a part of future contracts and purchase orders.
	RESPONSIBLE PERSON		**TARGET DATE**
	Purchasing Supervisor		Jul-08
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
67	**Train staff to ensure adherence to the new procedures.**	**Y**	It is our practice to mail checks directly to vendors unless a specific request has been made for pick-up. We do not currently have a written list of approved reasons for check pick-up. We will consider developing a list of allowable exceptions for check pick-up and train staff.
	RESPONSIBLE PERSON		**TARGET DATE**
	Purchasing Supervisor		Jul-08
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
68	**Ensure that duties of entering and approving procurement and payment documents are properly segregated.**	**Y**	We will review current authorizations and make changes as we determine to be appropriate to ensure segregation of duties to maintain internal controls and appropriate service levels.
	RESPONSIBLE PERSON		**TARGET DATE**
	Purchasing Supervisor and Finance Director		Oct-08
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
69	**Establish a complete authorized signatory listing of all RPS employees who are authorized to approve transactions and commit RPS funds for payment.**	**Y**	We are in the process of compiling a complete authorized signatory listing of all RPS employees who are authorized to approve transactions and commit RPS funds for payment. The list will be updated periodically.
	RESPONSIBLE PERSON		**TARGET DATE**
	Finance Director		Sep-08
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
70	**Enforce the authorized signatures process by rejecting any requests that do not comply with the listing.**	**Y**	We will enforce the authorized signatures process by rejecting any requests that do not comply with the listings once we have completed compiling a complete authorized signatory listing of all RPS employees who are authorized to approve transactions and commit RPS funds for payment.
	RESPONSIBLE PERSON		**TARGET DATE**
	Finance Director		Oct-08
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS

71	Provide training for all card holders and designated approvers on the proper use of school credit cards and proper documentation of expenses required by RPS policy.	Y	Any past confusion about use of credit cards will be cleared up. The Legal, Legislative Policy and Communications Committee of the School Board is currently reviewing and rewriting its bylaws and policies. These recommendations will be forwarded to that committee to consider as they rewrite the policy. Administration will forward copies of the current bylaws and policies concerning credit cards to all current card holders and accounts payable staff with clarifications to ensure compliance. Administration will ensure that copies of the School Board bylaws and policies will be issued to any future cardholders. As the bylaws and policies are revised/updated card holders and appropriate staff will be given updates and instruction for compliance. Currently there are only 3 holders of district credit cards. There has been no documented misuse of cards by these individuals.
	RESPONSIBLE PERSON		**TARGET DATE**
	Finance Director		Apr-08
#	**RECOMMENDATION**	**CONCUR Y-N**	**ACTION STEPS**
72	Resolve any inconsistencies related to receipts requirements for meal expenses when paid by School credit cards.	Y	The Legal, Legislative Policy and Communications Committee of the School Board is currently reviewing and rewriting its bylaws and policies. These recommendations will be forwarded to that committee to consider as they rewrite the policy. Administration will forward copies of the current bylaws and policies concerning credit cards to all current card holders and accounts payable staff with clarifications to ensure compliance. Administration will ensure that copies of the School Board bylaws and policies will be issued to any future cardholders. As the bylaws and policies are revised / updated card holders and appropriate staff will be given updates and instruction for compliance.
	RESPONSIBLE PERSON		**TARGET DATE**
	The Legal, Legislative Policy and Communications Committee of the School Board		Jan-09
#	**RECOMMENDATION**	**CONCUR Y-N**	**ACTION STEPS**
73	Devise formal guidelines on enforcement and disciplinary action for violation of the policy.	Y	These recommendations will be forwarded to the LLP committee to consider as they rewrite the policy. Administration concurs that the School Board bylaws and policies should include formal guidelines on enforcement and disciplinary action for violation of the policy.
	RESPONSIBLE PERSON		**TARGET DATE**
	The Legal, Legislative Policy and Communications Committee of the School Board		Jan-09
#	**RECOMMENDATION**	**CONCUR Y-N**	**ACTION STEPS**

74	Require approval by superiors for the credit card charges of subordinates.	Y	Administration has implemented the requirement for supervisory / approved designee review and approval on all requests for payment of credit card bills effective April 2008. The Board Chairman will review and approve all charges by the Superintendent.
	RESPONSIBLE PERSON		**TARGET DATE**
	C.O.O. and Finance Director		Complete in April 2008

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
75	Consider adopting per diem guidelines already in use by Virginia state agencies and defined in the Commonwealth Accounting Policies & Procedures Manual (CAPP) Section 20335 (revised 10/1/2007).	I	This recommendation is being forwarded to the School Board for consideration as they rewrite their bylaws and policies. As the bylaws and policies are revised / updated card holders and appropriate staff will be given updates and instruction for compliance.
	RESPONSIBLE PERSON		**TARGET DATE**
	The Legal, Legislative Policy and Communications Committee of the School Board		Jan-09

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
76	Require personnel who have no accounts payable-related duties to handle checks requiring special handling such as hand delivery etc.	I	This recommendation will be considered once sucessful implementation of using self-sealed checks is achieved.
	RESPONSIBLE PERSON		**TARGET DATE**
	Finance Director		Depends on implementation of #77

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
77	Purchase pressure-sealed check stock to replace current laser check stock.	I	Accounts Payable did attempt to implement the use of self –sealed checks several years ago but many vendors complained that they needed copies of invoices or conference registration forms in order to ensure proper accounting of payments. We will meet with the City Finance staff to see how they were able to satisfy their vendors and revisit the issue.
	RESPONSIBLE PERSON		**TARGET DATE**
	Finance Director		Depends on inventory of checks on hand

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
78	Work out an arrangement with the City of Richmond to transfer the task of printing and mailing Accounts Payable checks.	I	The printing of checks is a direct function of the accounts payable module of the financial system. We will explore using self-sealed checks and eliminate the need to transport checks from printing back to accounts payable.
	RESPONSIBLE PERSON		**TARGET DATE**
	Finance Director		Depends on inventory of checks on hand

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
79	Solicit the City of Richmond to implement positive pay with the bank accounts used by RPS.	Y	The bank accounts are controlled by the City. RPS is in favor of positive pay as a prevention of fraud. RPS has not however, had a problem of fraud with its accounts payable account. On March 5, 2008, RPS sent a request to the City to implement positive pay on the bank account.

	RESPONSIBLE PERSON		TARGET DATE
	C.O.O. and Finance Director		Request made March 2008

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
80	Use serial control numbers on laser checks.	N	We do not agree that we are at any increased risk of theft of check stock. The check stock is basically blank paper that has industry approved security features. The check numbers and bank routing information are not on the blank check stock. The check stock is currently maintained in a secure locked room within the MIS department.
	RESPONSIBLE PERSON		TARGET DATE

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
81	Devise a formal policy for keeping strict inventory control over laser check stock.	Y	We have written our policy to keep our laser check stock secure in a locked room with access limited to authorized persons.
	RESPONSIBLE PERSON		TARGET DATE
	Finance Director		Completed March 2008

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
82	Restrict access to manual checks to individuals who have no accounts payable-related duties.	Y	We concur.
	RESPONSIBLE PERSON		TARGET DATE
	Finance Director		Completed March 2008

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
83	Perform periodic inventories of manual check stock by individuals with no accounts payable-related duties which will be reviewed and approved by supervisory personnel.	Y	We concur.
	RESPONSIBLE PERSON		TARGET DATE
	Finance Director		Completed March 2008

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
84	Use of manual checks should be restricted to true emergencies.	Y	We concur. Emergencies are approved on a case by case basis bythe Accounts Payable Supervisor or the Director of Finance.
	RESPONSIBLE PERSON		TARGET DATE
	Finance Director		Completed March 2008

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
85	Emergencies requiring manual checks should be formally defined by RPS policy.	N	Emergencies are approved on a case by case basis by the Accounts Payable Supervisor or the Director of Finance. We can not develop an absolute list of emergencies.
	RESPONSIBLE PERSON		TARGET DATE

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS

86	Require the inclusion of early payment discounts as a standard procedure in the procurement negotiation process.	Y	We are currently having our legal staff advise us if we can make this requirement an automatic condition under the State Prompt Payment Act. We plan to incorporate appropriate language to this effect as a part of future contracts and purchase orders.
	RESPONSIBLE PERSON		**TARGET DATE**
	Purchasing Supervisor		Jul-08
#	**RECOMMENDATION**	**CONCUR Y-N**	**ACTION STEPS**
87	Establish a set of policies and procedures to ensure taking advantage of early payment discounts offered by vendors.	Y	We agree that early payment discounts should be negotiated with vendors and taken when offered.
	RESPONSIBLE PERSON		**TARGET DATE**
	Purchasing Supervisor		Jul-08
#	**RECOMMENDATION**	**CONCUR Y-N**	**ACTION STEPS**
88	Track savings from early payment discounts and use it as a performance measure.	I	We will also pursue, if needed, any programming changes necessary to track the discounts taken.
	RESPONSIBLE PERSON		**TARGET DATE**
	Purchasing Supervisor and Finance Director		Jan-09
#	**RECOMMENDATION**	**CONCUR Y-N**	**ACTION STEPS**
89	Develop purchasing guidelines for IT-related purchases and provide training to the end-users.	Y	RPS IT and Purchasing Departments will coordinate the updating of technology standards on our Intranet System. A training schedule will be implemented for end-users. The standards list will be reviewed and updated regularly to ensure that the end-user is purchasing equipment that meets IT standards.
	RESPONSIBLE PERSON		**TARGET DATE**
	Manager of MIS and Purchasing Supervisor		Jul-08
#	**RECOMMENDATION**	**CONCUR Y-N**	**ACTION STEPS**
90	Perform an evaluation of the CIMS/FMS application to determine adequacy for the intended purpose and efficiency in use of system resources.	Y	We concur with this recommendation. We initiated a "Needs Analysis" approximately five years prior, but due to funding, this project was canceled. An update of that study will be made.
	RESPONSIBLE PERSON		**TARGET DATE**
	Manager of MIS		Jun-09
#	**RECOMMENDATION**	**CONCUR Y-N**	**ACTION STEPS**
91	If a need for system replacement is determined, collaborate with the City of Richmond in purchasing a new system.	Y	We concur with this recommendation. We initiated a "Needs Analysis" approximately five years prior, but due to funding, this project was canceled. An update of that study will be made.
	RESPONSIBLE PERSON		**TARGET DATE**
	Manager of MIS		TBD
#	**RECOMMENDATION**	**CONCUR Y-N**	**ACTION STEPS**
92	Assess the feasibility of automating the Departmental Invoice process for authorized end-users.	I	We concur with this recommendation. This will occur as the Departmental Invoice is re-engineered.
	RESPONSIBLE PERSON		**TARGET DATE**
	Manager of MIS		Aug-08

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
93	**Evaluate the feasibility of workflow and electronic approval features in CIMS/FMS.**	**Y**	We concur with this recommendation. A project plan will be developed to accomplish this.
	RESPONSIBLE PERSON		**TARGET DATE**
	Manager of MIS		Aug-08

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
94	**Implement the audit trail feature.**	**N**	We do concur with this recommendation, however due to the amount of storage required to turn on "Journaling", we would have to purchase additional storage devices. If and when a new system is selected this recommendation will be reconsidered for implementation.
	RESPONSIBLE PERSON		**TARGET DATE**
	Manager of MIS		TBD

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
95	**Provide mandatory staff training on the CIMS/FMS purchasing and AP modules using a team of professional trainers and product end-user experts from both departments.**	**Y**	We have been offering training on CIMS/FMS Purchasing and Accounts Payable modules since 2000 (several classes each semester). This Spring we will add a purchasing policy component to the training. The training years when has been made mandatory in years that had major system or accounts payable policy changes. We will require mandatory training in the future for any new users and when ever there are major changes in the system / policies as well as periodic reviews based on needs of the users.
	RESPONSIBLE PERSON		**TARGET DATE**
	Finance Director		Complete 2000

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
96	**Review and update all training manuals to reflect system application enhancements, current processing needs and business objectives.**	**Y**	We have updated the manuals annually since 2000 to reflect updates to the system and policy changes. We will continue to update the manuals annually.
	RESPONSIBLE PERSON		**TARGET DATE**
	Finance Director		Complete 2000

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
97	**Work responsibilities should be segregated so that one individual does not control all critical stages of a process.**	**Y**	We concur with this recommendation. We will start the initiation of this recommendation with the Purchasing and Finance departments through the re-engineering process.
	RESPONSIBLE PERSON		**TARGET DATE**
	Manager of MIS		Aug-08

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
98	**Review all CIMS/FMS end-user security profiles and make a determination to re-align them based on the principles of segregation of duties.**	**Y**	We concur with this recommendation. We will start the initiation of this recommendation with the Purchasing and finance department once recommendation #89 has been complete.
	RESPONSIBLE PERSON		**TARGET DATE**
	Manager of MIS		Dec-08

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
99	**Promptly terminate access privileges and remove security profiles of all terminated employees and end-users that have not logged into the CIMS/FMS system for an extended period.**	**Y**	We concur with this recommendation. When employees are terminated their access is immediately terminated but their profile information will remain on the system. This function is staffed by FTE's who are assisnged various functions in addition to the mentioned function. We are currently working on this process to remove their profile information in a more timelier manner. C.O.O.rdination with the Human Resources Department has begun to ensure timely notification of terminations and responses.
	RESPONSIBLE PERSON		**TARGET DATE**
	Manager of MIS		Jul-08

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
100	**Configure the system to assign a fixed purchase order date which cannot be altered or overridden.**	**I**	We will investigate what programming changes will be necessary to implement this recommendation and make a determination at that time.
	RESPONSIBLE PERSON		**TARGET DATE**
	Manager of MIS		Jan-09

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
101	**Implement controls that will prevent expenditure limits from being exceeded.**	**I**	The financial system does have budget controls that prevent expenditures from exceeding the approved budget. The system does allow expenditures to exceed the PO amount as long as it does not exceed the budgeted amount for the account. We will explore what program modification would be necessary to implement this additional control.
	RESPONSIBLE PERSON		**TARGET DATE**
	Manager of MIS and Purchasing Supervisor		Jul-09

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
102	**Implement a control that will allow the date field to reflect the date of the modification when making changes to the vendor file.**	**I**	We will investigate what programming changes will be necessary to implement this recommendation and make a determination at that time.
	RESPONSIBLE PERSON		**TARGET DATE**
	Manager of MIS		Jan-09