



MEMORANDUM

DATE: September 22, 2020

TO: Audit Committee of the School Board of the City of Virginia Beach

FROM: Terrie L. Pyeatt, CPA *TL*
Director, Office of Internal Audit

SUBJECT: **Contracts – Post-Award Process Audit – Part II**

BACKGROUND

As part of the fiscal year 2019 Audit Work Plan, the Office of Internal Audit (IA) has performed a Contracts Post-Award Process Audit – Part II. The Office of Purchasing Services (Purchasing), which is part of the Department of Budget and Finance, is responsible for the oversight of the contract function for non-construction contracts.

Schools, departments, and Purchasing can initiate a contract, depending on the contract's amount and terms. Typically, Purchasing initiates the higher dollar contracts. Contract administration duties begin after all parties have signed the contract. The contract administration function is primarily decentralized to the schools and departments based on the users of the contract. If a contract administrator is not specifically identified in the contract, the employee who approves the contract is responsible for its administration. Typical contract administration activities are aimed at ensuring enforcement of the contract terms and conditions while giving attention to the achievement of the stated output and outcome of the contract.

Purchasing revised the contract storage guidelines approximately 21 months ago. As a result, after contracts are signed, they are now stored in one of three central locations as follows:

- Purchasing's intranet site – Purchasing maintains a list of contracts on their intranet site of the contracts initiated through their office. These are usually the higher dollar contracts.
- BuySpeed – Departments and schools scan certain contracts into BuySpeed using a "contract" identification code
- LaserFiche – Schools scan other contracts into LaserFiche. Schools and departments scan certain procurement card contract purchases into LaserFiche. The start/end dates are manually entered into LaserFiche when the contracts are scanned. These are usually the lower dollar contracts.

All contracts must be in one of these locations. Having the contracts easily accessible increases the transparency of the process and will enable VBCPS to monitor vendor compliance and performance.

AUDIT OBJECTIVES

This audit was performed to determine if VBCPS met and monitored the significant terms and requirements of selected contracts.

AUDIT SCOPE AND METHODOLOGY

Inquiry and examination of documents and data, as well as interviews, were the methods of reviewing internal controls. The audit period was January 1, 2019 – December 31, 2019. This audit includes only non-construction contracts.

To determine the contract population, IA downloaded the following information from each of the three central storage locations:

- Purchasing’s intranet site – Contracts that were initiated before January 1, 2020
- BuySpeed – Purchase orders and payment requests with the contract identification code from BuySpeed that were created during the audit period
- LaserFiche – Contracts scanned into LaserFiche that had contract start/end dates during the audit period.

Because the contract storage guidance was relatively new, IA sent a survey to all departmental Chief Officers and school principals to determine if their respective areas had been storing contracts based on Purchasing’s new procedures. There were 37 contracts that were not in or labeled in any of the three storage locations. Nine of the contracts were in BuySpeed but did not have the contract identification code, and 28 contracts were not in any of the three locations but should have been scanned into LaserFiche. IA added the 37 contracts to the previously downloaded lists from the central locations, which brought the total number of contracts to 1,642. They were broken out as follows:

- Purchasing’s intranet site – 325 contracts
- BuySpeed – 759 contracts
- LaserFiche – 558 contracts

From the population of 1,642 contracts, IA selected a sample of 75 contracts consisting of 20 or 6.2% from Purchasing’s intranet site, 40 or 5.3% from BuySpeed, and 15 or 2.7% from LaserFiche across various schools and departments. IA previously completed testwork on 62 contracts, which were included in an audit report issued in June 2020. Testwork was completed on the remaining 13 of the 75 selected contracts (seven from Purchasing’s intranet site, five from BuySpeed, and one from LaserFiche).

IA reviewed the 13 selected contracts to determine if the significant terms and conditions of the contracts were met. We performed the following testwork on each contract, when applicable:

- Contacted the contract administrator to determine the process of monitoring the significant terms and conditions;
- Reviewed documentation to determine if the significant terms and conditions were fulfilled;
- Reviewed a sample of invoices when contracts included prices to ensure the invoices matched the contract;
- Reviewed a master contract agreement to determine if the agreement was followed by the users; and
- Ensured revenues were received on any selected revenue-generating contracts.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

CONCLUSION

The results of the audit were discussed with management. We thank management and staff of the Office of Purchasing Services, as well as all of the many staff members from schools and offices whose contracts we selected, for their cooperation throughout the audit. A summary of the audit results, audit recommendations, other items noted, as well as responses from management, are included in this report. These recommendations are intended to further strengthen compliance with policies, procedures, and contract terms, as well as to strengthen internal controls and offer process improvements.

In our opinion, the results of the audit indicate that VBCPS was compliant with the significant terms and requirements for ten of the contracts audited and partially compliant for the remaining three contracts.

cc: J. Kevin Beardsley, Director, Office of Purchasing Services
Farrell E. Hanzaker, Chief Financial Officer

AUDIT RESULTS AND MANAGEMENT'S RESPONSES

Finding No. 1: Contractual Compliance

IA noted that the vendor in one of the thirteen contracts reviewed is not compliant with all terms of the contract. In addition, Purchasing, the contract administrator, is not providing adequate oversight for certain terms of the contract. See details as follows:

School-wide photography and yearbook services contract:

- The contract includes an agreement for schools to complete to schedule photography services, which includes a listing of all of the “incentives” offered to schools. This agreement is available from Purchasing’s “How-to-Buy” intranet site; however, IA noted that the agreement does not include all contract incentives. The primary incentive missing from the agreement is for schools to receive either a 37-inch LCD monitor or a \$300 professional development check each year. IA noted that some schools used the agreement, while other schools did not. The bookkeepers at these schools stated they did not receive this incentive in the current year nor in prior years. VBCPS lost approximately \$25,000 in revenues each year that the incentives were not received.

Recommendations: The contract administrator should upload an updated photography agreement that includes all contract incentives and communicate its required use to all schools.

- The vendor is not submitting a complete accounting of the photographs sold to substantiate the commissions paid. It is important that schools receive this information so that they are able to determine if the commissions appear reasonable. In a previously issued audit report, IA noted that nine schools that used this vendor did not receive their picture/and or yearbook commission checks, and one school received less commission than it was owed.

Recommendations: The contract administrator should communicate to the vendor that they should provide a detailed accounting of photography sales to substantiate the commissions paid to each school as per the terms of the contract. In addition, the contract administrator should coordinate with the Office of Business Services to inform the bookkeepers that each school should receive supporting documentation about picture sales and commissions from the vendor.

- The contract states that the vendor is required to donate \$5,000 to the Virginia Beach Education Foundation (VBEF). Purchasing does not follow-up to confirm that this payment is made; however, IA confirmed with the VBEF that the donation was made for school years 2018-2019 and 2019-2020.

Recommendations: The contract administrator should annually verify that the donation is received by the VBEF.

AUDIT RESULTS AND MANAGEMENT'S RESPONSES, CONTINUED

In addition, IA noted that Purchasing is the contract administrator for this contract, but the contract is only used by schools. Typically, contracts are administered by the school or department using the contract, which in this case would be the Department of School Leadership.

Recommendations: Purchasing should work with the Department of School Leadership to consider re-assigning the contract administrator responsibilities for this contract.

Management's Response:

The Chief Financial Officer concurs. The contract administrator will implement these recommendations by December 31, 2020. This will include Purchasing initiating the discussion with the Department of School Leadership about re-assigning the contract administrator responsibilities.

Finding No. 2: Payment Amounts

IA noted that overpayments/underpayments might have been made for two of the thirteen contracts reviewed. See details as follows:

Transportation of homeless students contract:

The Office of Student Support Services, within the Department of Teaching and Learning, is not able to determine if the monthly invoices are calculated correctly because the vendor does not provide complete supporting documentation of the rates charged on the invoices. The total amount paid during calendar year 2019 under this contract was approximately \$1,012,000.

Surplus technology and electrical disposal services contract:

The Department of Technology paid two invoices totaling \$1,804.29, which did not match the terms of the contract. These were the only payments paid during calendar year 2019 under this contract.

Recommendations:

We recommend that both the Office of Student Support Services and the Department of Technology confirm that invoices match the contract terms prior to making payments.

Management's Response:

The Chief Academic Officer and Chief Information Officer concur with the recommendations to confirm that the invoices match the terms of the contract prior to making future payments.

ITEMS NOTED AND MANAGEMENT'S RESPONSES

Items Noted No.1: Advanced Placement Exams

IA reviewed the Office of Student Support Services' annual payment for advanced placement exams totaling \$808,761 because it was coded as a contractual payment in BuySpeed. IA noted that the contract attached in BuySpeed was for the same vendor, but it did not cover the purchase of advanced placement exams. However, the payment documentation included the appropriate sole source justification.

Recommendations:

We recommend that, due to the large dollar value of the purchase, the Department of Teaching and Learning consider entering into a contract for purchasing advanced placement exams from the vendor.

Management's Response:

The Chief Academic Officer concurs with the recommendations to contract with the vendor for advanced placement exams for future purchases.