



Volusia County Schools, Florida Internal Audit Report: Purchasing and Procurement Compliance

August 16, 2023

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TRANSMITTAL LETTER

August 16, 2023

The Audit Committee of
Volusia County Schools, Florida
200 N. Clara Avenue
Deland, FL 32720

Pursuant to the Volusia County Schools' ("VCS," "District") approved internal audit plan for fiscal year ("FY") 2022-23, we hereby present our Internal Audit Report of Purchasing and Procurement Compliance. Our audit kicked off on January 13, 2023, with onsite walkthroughs performed February 22, 2023. Samples were selected March 20, 2023, and fieldwork began. Discussions, meetings, phone calls, and document request lists ("DRL") took place between April thru June (see observation 8 for more details). The last DRL was sent June 6, 2023 and the draft report was completed in August 2023. Timing of our audit was dependent on the District's availability. This will be presented at the next regularly scheduled Audit Committee meeting. Per conversation with District leadership on October 5, 2023, the District is working through a more comprehensive action plan to remediate observations detailed in this report and will provide updates to the Audit Committee.

Our report is organized in the following sections:

Executive Summary	This provides a high-level overview and summary of the observations noted in our internal audit of the purchasing and procurement process(es).
Background	This provides an overview of the purchasing and procurement function, as well as relevant background information.
Objectives and Approach	The internal audit objectives are expanded upon in this section, as well as a review of the various phases of our approach.
Observations Matrix	This section includes a description of the observations noted during our internal audit and recommended actions, as well as Management's response, including the responsible party, and estimated completion date.

We would like to thank the staff and all those involved in assisting our firm with this internal audit.

Respectfully Submitted,



RSM US LLP

EXECUTIVE SUMMARY

Background

Purchasing and Warehouse Services is a department that facilitates the procurement of materials, supplies, and equipment, as well as professional, technical, and contractual services required for operations in the District. Purchase requests made with budgeted funds are submitted through Purchasing and Warehouse Services. These activities include contracting for all commodities and services; by acquiring the greatest possible value and quality while maintaining procedures that foster fair and open competition.

The purchase of goods or services are categorized as either competitive or non-competitive dependent on the gross annual sum of the purchase. For all purchases in excess of \$50,000, competitive solicitations are to be used except for the purchase of items where the competitive solicitation process may be waived as outlined by Florida Statute. For all purchases greater than \$50,000, Board approval shall be required before a purchase order can be issued. Purchasing and Warehouse Services are responsible for facilitating that resources are managed properly and used in compliance with laws and regulations; programs are achieving their objectives; and services are being provided efficiently, effectively, and economically.

When a need is identified by a District end-user, the corresponding Buyer determines whether the need is covered through an existing vendor agreement and/or whether modifications to an existing agreement could address the need. If no awarded bid or contract exists for the commodity needed, the solicitation process is initiated. The end-user communicates the specific need and coordinates with Purchasing and Warehouse Services to develop the solicitation scope. Once the scope of the solicitation has been developed, it is confirmed by the end user and reviewed by the Purchasing Manager.

Overall Summary / Highlights

Internal audits provide insight into an organization’s culture, policies, and procedures and aids the board and management with oversight by verifying internal controls such as operating effectiveness, risk mitigation, and compliance with relevant laws/regulations/policies. The observations detailed in the pages that follow represent only the instances where exceptions were noted, and do not detail the instances where testing resulted in no reportable observations.

The observations identified during our internal audit are detailed in the pages that follow. For each observation, we discuss the relevant risks, which may include financial, operational, and/or compliance, as well as public perception or ‘brand’ risks. We further provide recommendations and best-practice guidance for the District.

Objectives and Scope

The primary objective of this internal audit was to evaluate and assess whether the system of internal controls over purchasing and procurement compliance, including approved non-competitive, competitive, piggybacking, sole source solicitations, vendor management and user access controls are appropriately designed and operating effectively to mitigate inherent risk. Our fieldwork testing utilized sampling and other auditing techniques to meet our audit objective outlined above. Our review included, but was not limited to the following procedures:

- Inquiry with Management and process owners in an effort to obtain an understanding of the District’s operating policies and procedures, vendor management, and procurement;
- Development of a risk-based work plan for the evaluation of the design and operating effectiveness of processes and controls based on the information obtained through our review;
- Performance of detailed testing of vendors and procurement documents for review of operating effectiveness; including examination of executed contracts, purchase orders, and vendor invoices; and
- Assessment of the overall design of the purchasing and procurement process(es) and controls and providing recommendations where applicable.

At the conclusion of our internal audit, we summarized our findings into this written report and conducted exit conferences with various members of District Management and Leadership.

Fieldwork was performed February 2023 through August 2023.

We would like to thank all VCS team members who assisted us throughout this internal audit.

Summary of Observation Ratings

(See page 3 for risk rating definitions)

	High	Moderate	Low
Purchasing and Procurement Compliance	5	3	-

EXECUTIVE SUMMARY (CONTINUED)

Observations Summary

The following is a summary of the observations noted in the areas reviewed. Each detailed observation is included in the observations matrix section of the report. Definitions of the rating scale are included below.

Summary of Observations	
Observations	Rating
1. Manual Contract Management	High
2. Vendor File Management	High
3. Legal Review of Non-Standard Contracts	High
4. Standard Operating Procedures	High
5. Centralized Internal Accounts Procurement	High
6. Procurement Training	Moderate
7. Direct Payments of Contracted Services	Moderate
8. File Retention and Storage	Moderate

Provided below are the observation risk rating definitions for the detailed observations.

Observation Risk Rating Definitions	
Rating	Definition
Low	Observation presents a low risk (i.e., impact on financial statements, internal control environment, brand, or business operations) to the organization for the topic reviewed and/or is of low importance to business success/achievement of goals.
Moderate	Observation presents a moderate risk (i.e., impact on financial statements, internal control environment, brand, or business operations) to the organization for the topic reviewed and/or is of moderate importance to business success/achievement of goals. Action should be in the near term.
High	Observation presents a high risk (i.e., impact on financial statements, internal control environment, brand, or business operations) to the organization for the topic reviewed and/or is of high importance to business success/achievement of goals. Action should be taken immediately.

BACKGROUND

Overview

Purchasing and Warehouse Services is responsible for the procurement of all commodities and contractual services for the District. District purchase requests made with budgeted funds are submitted through Purchasing and Warehouse Services. The purchase of goods or services is categorized as either competitive or non-competitive dependent on the gross annual sum of the purchase. For all purchases in excess of \$50,000, competitive solicitations are to be used except for the purchase of items where the competitive solicitation process may be waived as outlined by Florida Statute. For all purchases greater than \$50,000, Board approval shall be required before a purchase order can be issued. Purchasing and Warehouse Services are responsible for ensuring resources are managed properly and used in compliance with laws and regulations; programs are achieving their objectives; and services are being provided efficiently, effectively, and economically.

Competition Requirements and Thresholds

Specific requirements exist based on the nature of the procurement, which includes the value of the commodities/services requested, the subsequent procurement type, competition requirements, and approval requirements. The illustration to the right outlines some of the differences in competition and approval requirements based on the value of the commodities/services procured.

Purchase Threshold	Procurement Type	Competition Requirements	Approval Requirements
< \$9,999.99	Small Purchases	Purchased on the Open Market using the P-Card	School Principals
\$10,000 - \$19,999.99	Informal Quotes	Minimum of 3 formal written quotes	District Directors and Cabinet Members
\$20,000 - \$49,999.99	Requests for Quotation RFQ	Formal Request for Quotation and minimum of 3 formal written quotes	Superintendent or designee ¹
< \$50,000	Requests for Formal Sealed Competitive Solicitations	Formal sealed competitive solicitations ²	School Board ³

¹ The Superintendent has the authorization to delegate the authority for commodities and contractual services with varying limits, please see the "Purchasing Manual" for the delegation requirements.

² Exemptions for the formal sealed competitive solicitations include sole (single) source vendors, emergency purchases, or other purchases exempted by law, please see the "Purchasing Manual" for the exemptions listed at Section V.

³ All purchases greater than \$50,000 should be authorized by the School Board with exemption of emergency purchases, service purchases where costs are recouped from students, and contracts for the purchase of gasoline and/or diesel fuel. Please see the "Purchasing Manual" for additional language.

Document Retention

Purchasing currently houses all purchase orders digitally and can be printed when necessary. Some of the records to be maintained in the Purchasing and Warehouse Services are bids, contracts, and vendor data files. Solicitation folders are filed electronically and stored on the I-drive. Any paper copies are sent to Archives and Record Management Services for retentions purposes.

Internal Accounts

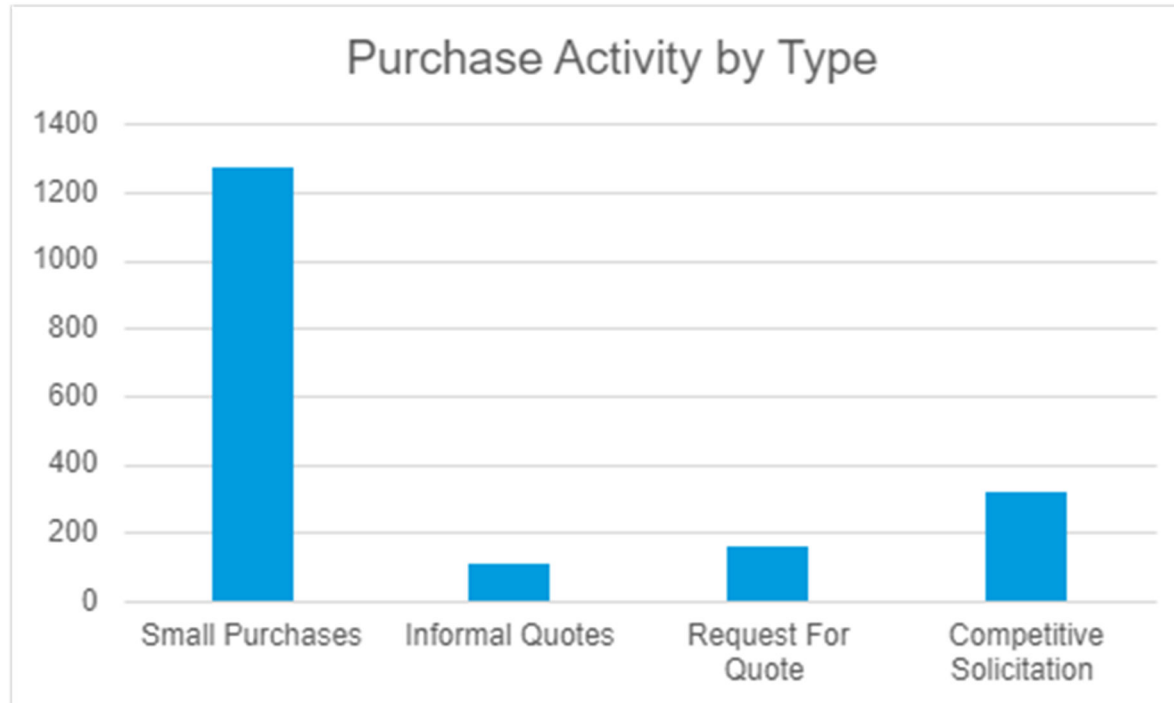
School internal account funds are defined by the Florida Department of Education's Financial and Program Cost Accounting and Reporting Rules for Florida Schools ("Redbook") as, "all local school funds derived by any public school from all activities or sources." This represents all funds collected or expensed within each school for activities that promote the education, general welfare, and morale of the students or to finance the normal program of student activities not otherwise financed. Examples of such collections or expenditures may include but are not limited to, fundraising activities, field trips, school clubs and athletic teams, merchandising activities, and ticket sales.

At the District, internal accounts funds are not monitored by Purchasing and Warehouse Services alongside other revenue sources that are used to fund School expenditures, such that vendor expenditures with internal account monies are not aggregated with other District vendor expenditures to determine total District vendor spend. Rather, these funds are monitored by the Internal Accounts team within Finance. Each school or site is responsible for utilizing these funds in accordance with District policy and Redbook guidance. These funds may be used to contract with vendors to provide goods and/or services in the same capacity as other District funds.

BACKGROUND (CONTINUED)

Total Activity by Purchase Type

Purchasing and Warehouse Services are responsible for determining whether procurement activities meet all Florida Statutes, competition requirements and thresholds. Additionally, Purchasing and Warehouse Services confirms that proper purchasing authority is obtained for each type of solicitation. See below for a summary of the total activity and spend by purchase type between July 1, 2021 through June 30, 2022:



Purchase Threshold	Spend Activity by Purchase Type
< \$9,999.99 - Small Purchases	\$2,160,243
\$10,000 - \$19,999.99 - Informal Quotes	\$1,555,331
\$20,000 - \$49,999.99 - RFQ	\$5,218,640
< \$50,000 - Competitive Solicitations	\$310,568,447
Total	\$319,502,661

BACKGROUND (CONTINUED)

Overview (Continued)

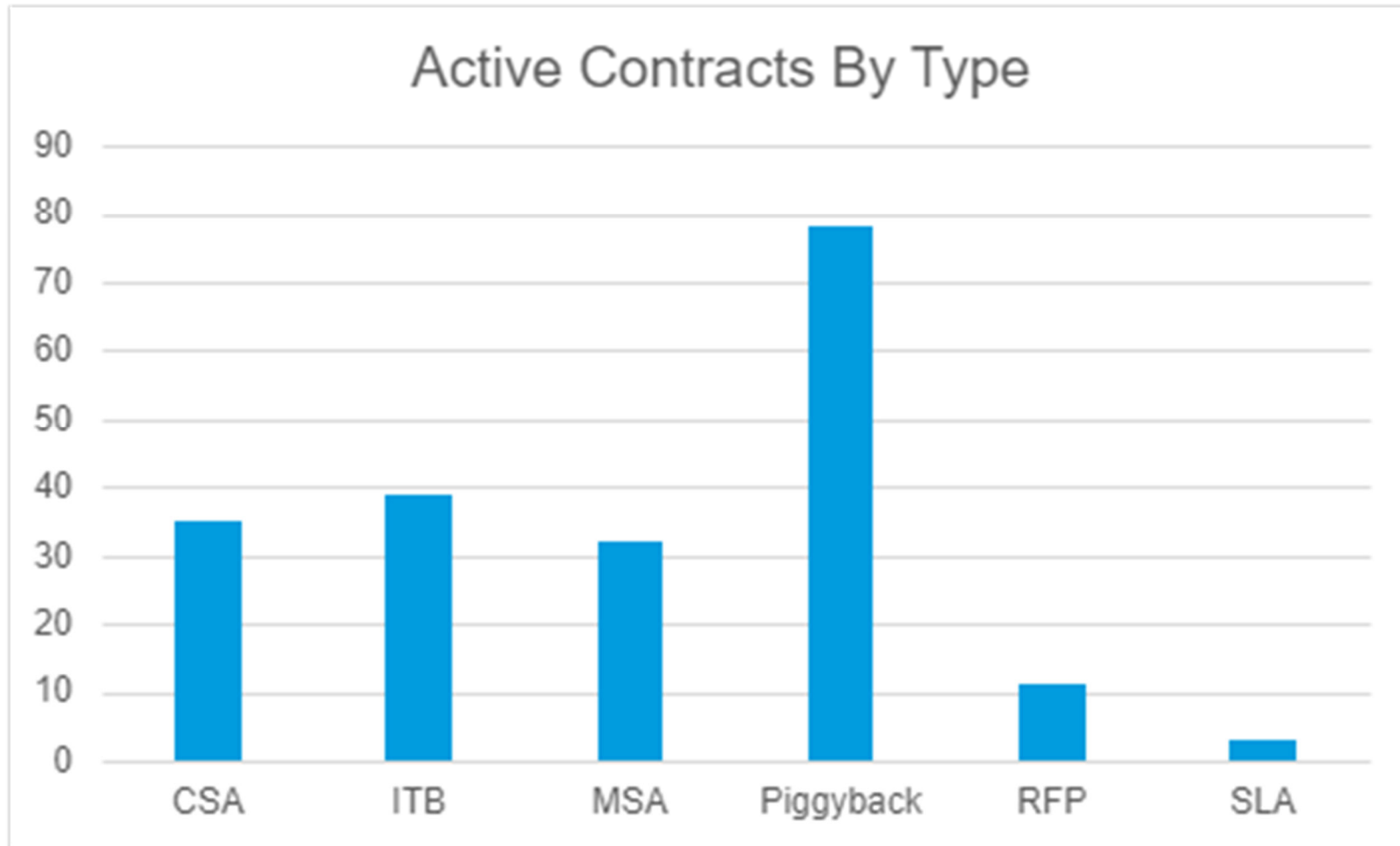
Below are the contract types observed that Volusia County Schools utilized:

<p style="text-align: center;">Invitation to Bid (ITB)</p> <ul style="list-style-type: none"> Utilized for the purchase of commodities and/or services when the scope of work for which a contractual service is required or when the school board can establish precise specifications defining the actual commodity or group of commodities required. A written solicitation includes a solicitation that is publicly posted. 	<p style="text-align: center;">Request for Proposal (RFP)</p> <ul style="list-style-type: none"> Utilized for commodities and/or services that cannot be fully defined, or the District is requesting that a responsible vendor propose a commodity or contractual service to meet the specifications of the solicitation document. Each RFP should evaluate multiple criteria from responsive, qualified vendors prior to award. 	<p style="text-align: center;">Invitation to Negotiate (ITN)</p> <ul style="list-style-type: none"> Utilized for competitive sealed replies to select one or more vendors with which to commence negotiations for the procurement of commodities or contractual services. Negotiations are used when the district determines it is necessary to receive the best value. 	<p style="text-align: center;">Request for Qualification (RFQ)</p> <p>Utilize when the district is capable of specifically defining the scope of work for which a contractual service is required or when the district is capable of establishing precise specifications defining the actual commodity or group of commodities required.</p>
<p style="text-align: center;">Master Service Agreement (MSA)</p> <ul style="list-style-type: none"> A contract between two or more parties that establishes what terms and conditions will govern all current and future activities and responsibilities. Allows both companies / entities to discuss the terms of the agreement and proceed once an agreement has been met. 	<p style="text-align: center;">Service Level Agreement (SLA)</p> <ul style="list-style-type: none"> A document that outlines a commitment between a service provider and a client, including details of the service, the standards the provider must adhere to, and the metrics to measure the performance. 	<p style="text-align: center;">Contract Service Agreement (CSA)</p> <ul style="list-style-type: none"> Defines the terms of an agreement between a provider of services and a customer who is requesting a particular service. Generally, these agreements include details about the scope of the work being done, the cost for the service, and the applicable payment terms. 	<p style="text-align: center;">Piggyback (PB)</p> <ul style="list-style-type: none"> The use of an existing contract to acquire the same commodities or services at the same or lower price from another public entity contract. Entities can benefit from the combined buying power of multiple agencies and reducing costs.

BACKGROUND (CONTINUED)

Contract Type

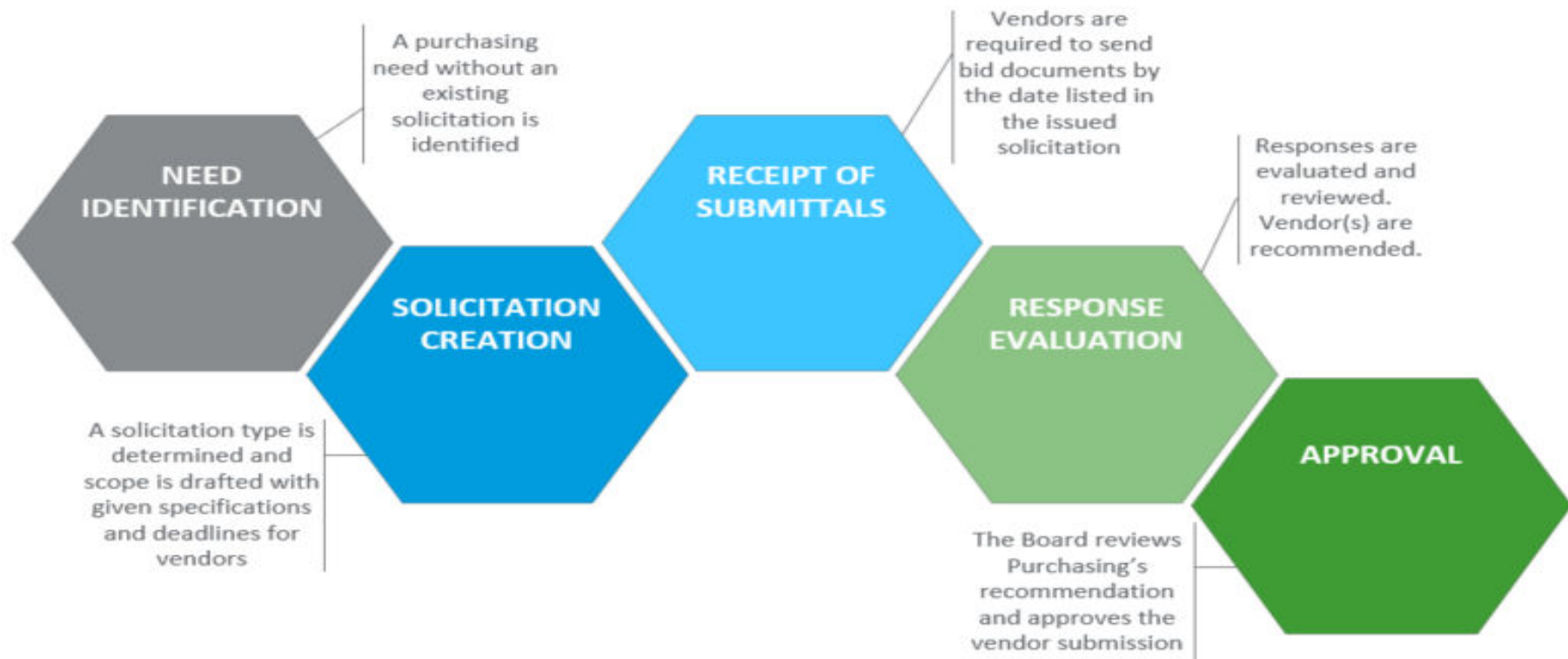
The Purchasing and Warehouse Services is also responsible for administering all purchasing activities and vendor communications. See the summary below for the current number of active contracts by contract type:



BACKGROUND (CONTINUED)

Competitive Purchases

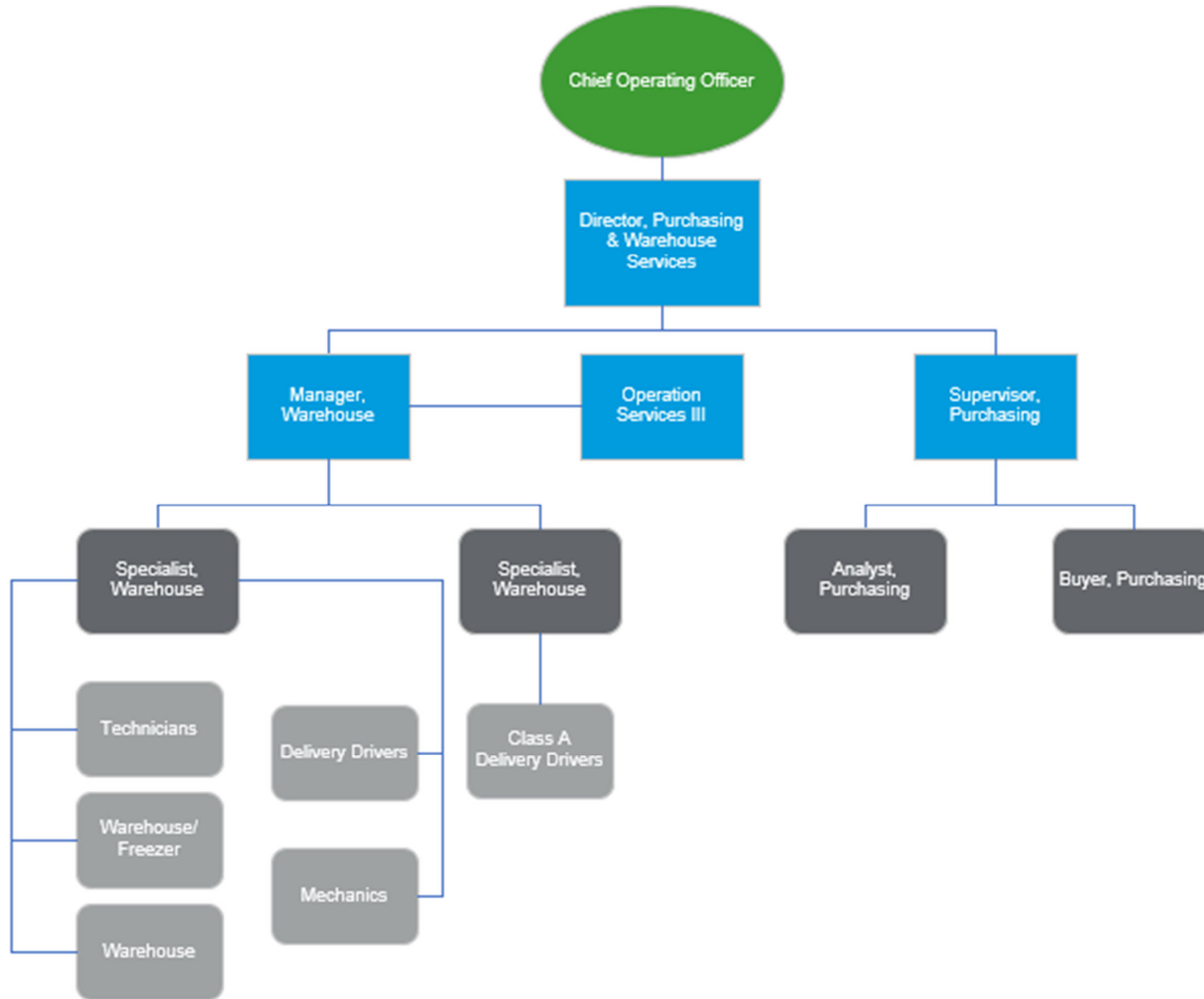
Purchasing and Warehouse Services organizes the procurement of goods by commodity category, with each Buyer assigned specific categories to manage. When a need is identified by a District end-user, the corresponding Buyer determines whether the need is covered through an existing vendor agreement and/or whether modifications to an existing agreement could address the need. If no awarded bid or contract exists for the commodity needed, the solicitation process is initiated. The end-user communicates the specific need and coordinates with Purchasing and Warehouse Services to develop the solicitation scope. Once the scope of the solicitation has been developed, it is confirmed by the end user and reviewed by the Purchasing Director. Florida Statute requires that any competitive solicitation be made available simultaneously to all vendors and must include the time and date for the receipt of bids, proposals, or replies. Currently, the District uses VendorLink, an internet portal where businesses can register to receive email notifications of upcoming solicitations as they become available.



BACKGROUND (CONTINUED)

Organizational Structure

Purchasing and Warehouse Services' organizational structure is illustrated below:



BACKGROUND (CONTINUED)

Laws and Guidelines

Purchasing is subject to State of Florida laws and regulations, as well as internal policies. These guidelines include, but are not limited to, the following:

Florida Statutes (“F.S.”)

- F.S. 112.313 – Standards of conduct for public officers, employees of agencies, and local government attorneys
- F.S. 112.3148 – Reporting and prohibited receipt of gifts by individuals filing full or limited public disclosure of financial interests and by procurement employees
- F.S. 119.0701 – Contracts; public records; request for contractor records; civil action
- F.S. 119.071 – General exemptions from inspection or copying of public records
- F.S. 120.57(3) – Additional Procedures Applicable to Protests to Contract Solicitation or Award
- F.S. 218 – Local Government Prompt Payment Act
- F.S. 255.0516 – Bid protests by educational boards
- F.S. 274 – Tangible Personal Property Owned by Local Governments
- F.S. 286.011 – Public meetings and records; public inspection; criminal and civil penalties
- F.S. 287.055 – Acquisition of professional architectural, engineering, landscape architectural, or surveying and mapping services; definitions; procedures; contingent fees prohibited; penalties
- F.S. 287.056 – Purchases from purchasing agreements and state term contracts
- F.S. 287.057 – Procurement of commodities or contractual services
- F.S. 287.082 – Commodities manufactured, grown, or produced in state given preference.
- F.S. 287.084 – Preference to Florida Businesses
- F.S. 287.087 – Preference to businesses with Drug-Free Workplace programs
- F.S. 287.133 – Public entity crime; denial or revocation of the right to transact business with public entities
- F.S. 1010.04 – Purchasing

State Board of Education Rules

- State Board of Education Rule 6A-1.012 – Purchasing Policies
- State Board of Education Rule 6A-1.013 – Pool Purchases
- State Board of Education Rule 6A-1.091 – Purchases for Internal Funds

School Board Policies

- School Board Policy 702 – Purchasing

OBJECTIVES AND APPROACH

Objectives

The objective of our internal audit was to assess whether the system of internal controls over purchasing and procurement compliance is adequate, appropriate and effective. The scope of our work included the following: assessing compliance with authorization, solicitation, selection, and contract execution with vendors/suppliers per Florida Statute and District policies and procedures; evaluating documentation and records to support the procurement; and evaluating appropriateness of access control and the segregation of duties within the purchasing function.

Approach

Our approach consisted of the following phases:

Understanding and Documentation of the Process

This phase consisted primarily of inquiry and walkthroughs in an effort to obtain an understanding of the District's current operating policies and procedures, monitoring functions, and control structures as they relate to the processes within our scope. The following was performed as part of this phase:

- Conducted interviews with the appropriate representatives to discuss the scope and objectives of this internal audit, obtain preliminary data, and establish working arrangements;
- Performed inquiry and walkthroughs with personnel from key departments (Purchasing and Warehouse Services, Legal, Internal Accounts) to obtain a detailed understanding of the function;
- Reviewed the applicable Florida Statute, policies and procedures, and arrangements related to this process; and
- Developed a risk-based work plan for the evaluation of the design and operating effectiveness of processes and controls, based on the information obtained through our review, inquiry, and walkthrough procedures.

Evaluation of the Process and Controls Design and Testing of Operating Effectiveness

The purpose of this phase was to evaluate and assess the design of the process and test the operating effectiveness of key internal controls. We utilized sampling and other auditing techniques to meet our audit objectives outlined above. We conducted the following testing and other procedures as deemed necessary.

- Evaluated the design and control structure including adherence to policies and procedures, competitive solicitations, and Florida Statute;
- Evaluated if there were adequate controls to detect related party transactions;
- Tested system access controls for Oracle and segregation of duties within the purchasing function;
- Tested compliance for whether there were adequate records and documentation for competitive and non-competitive bid contracts to establish an audit trail and that policies and procedures were appropriately followed;
- Judgmentally selected a sample of seven (7) competitive solicitations to verify that each solicitation was properly supported and approved, fifty (50) vendors to perform vendor spend testing, and twenty-five (25) vendors to confirm vendor application, W-9, and EIN numbers are in compliance;
- Performed review and tested source documents for compliance with applicable District policies (procurement types, approvals, contracting, involvement of user departments, vendor documentation) for a sample of recently procured goods/services; and
- Based on the results of our analysis and testing, we developed recommendations for process and control medication/addition/deletion for any gaps or non-compliance issues identified.

Reporting

At the conclusion of this internal audit, we summarized our findings into this report. We have reviewed the results with the appropriate Management personnel and have incorporated Management response into this report.

OBSERVATIONS MATRIX

Observation	1. Manual Contract Management
<p style="text-align: center;">High</p>	<p>Contract management is a complex process that requires continuous proactive monitoring which is further complicated by decentralized contracting practices. Several contract management processes are performed by Purchasing and Warehouse Services and many performed are manual in nature. These manual procedures include: monitoring vendor spend, document revision and retention, management access to document repository file systems, monitoring of contract and contract documentation expiration dates, and communication of workflow, contract revision, and editing procedures. While Oracle has many procurement functions built in that provide automation for purchase orders workflow there are still many contracting functions that are currently not incorporated within Oracle and are manual in nature. Through our process review and detailed testing of the procurement function we identified the following areas of contract management that would benefit from an automated contracting system:</p> <p><u>Contract Monitoring</u> The District leverages VendorLink to perform some contract compliance functions, however, the system has limited automation capabilities and is not currently designed for the management of complex contract administration procedures. The District currently utilizes Smartsheets to track status of contracts which is called the Master Contract Listing. However, it was observed during our review that the contract lists did not have a consistent reason for recording between VendorLink and the Master Contract List within Smartsheets. Items in the Master Contract Listing were marked as ITB and RFP and were not listed in VendorLink which is the District's public solicitation platform and recent contracts on VendorLink where not listed on the Master Contract Listing which should be comprehensive.</p> <p><u>Spend Monitoring</u> The District does not have an integrated process in place to monitor commodity spend across purchase orders, p-card usage, internal accounts, Transman, AiM and direct payments to compare to the contract listing to determine if a vendor should be competitively solicited.</p> <p><u>Contract Approvals</u> It was observed that many of the manual processes do not have formal approval documentation. The following approval items are not currently documented:</p> <ul style="list-style-type: none"> • The Purchasing Procedures Manual mentions that all bids must be approved for release by the Purchasing Supervisor before it is posted to VendorLink. However, during review, we were unable to obtain documentation that this control was operating as intended. • There was no tracking system in place to identify or document bids that have been rejected or not approved. • Of our fifty samples, nine (9) samples were for purchases that do not require a competitive solicitation per Rule 6A-1.012. However, documentation of approvals by the Purchasing Director should be retained for each of these purchases to authorize exception from the bidding process (sole/single source, emergency, exempt from competitive solicitation per Rule 6A-1.012 etc.).

OBSERVATIONS MATRIX (CONTINUED)

Observation	1. Manual Contract Management (Continued)
	<p>Further, without any automated system capabilities that may be provided through a more robust contract management software system, Purchasing and Warehouse Services are not currently able to proactively monitor the status of contract revisions or reviews that are performed by Legal Counsel. Current manual procedures of workflow monitoring risks untimely turnaround or missing documents due to the informal nature of communication. The District is currently seeking a new ERP system to replace Oracle and automated contracting functions should be considered as a key module within the new system.</p> <p>Drawbacks of manual contract compliance procedures may include the inability to: monitor document approvals through automated date and time stamping, centralize vendor performance monitoring, and reduce the risks of non-compliance with contract terms through monitoring of contract deadlines and expiration dates. Other manual procedures are document retention, including the storage of vendor documents such as insurance policies, contract amendments, and vendor performance documents may additionally be enhanced through process automation.</p>
Recommendation	<p>We recommend that VCS consider integrating a contract management system into its processes to enhance its manual procedures through automated workflows and approvals (including legal), complete and centralized document revision history, improved document repository capabilities, and track and report important contract terms and expiration dates. If the District elects not to purchase a full software package, they may consider other software capabilities to automate some of the aforementioned manual procedures.</p> <p>In addition, the District should create a comprehensive methodology to monitor spend by commodity and or by vendor to determine compliance with District, Florida Statute, federal policy as it relates to procurement thresholds.</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	1. Manual Contract Management (Continued)
Management Action Plan	<p>Response: We acknowledge the findings of the internal audit related to the manual processes in our contract management system. We understand that the current state of contract management, spend monitoring, and approval documentation has been identified as a high-risk area in need of immediate attention.</p> <ul style="list-style-type: none"> • We confirm that VendorLink's primary function is for advertising public solicitations, while SmartSheets serves as a central repository for contract tracking post-award. • We recognize the limitations within the Oracle platform for providing comprehensive spend monitoring across multiple platforms (POs, PCARDS, AIM, Transman, etc.). • We agree that the current manual approval process lacks sufficient tracking and documentation, creating risks of non-compliance with our own purchasing policy. <p>Data Entry and Management in SmartSheets</p> <ul style="list-style-type: none"> ○ Action: Address the manual nature of data entry into SmartSheets by providing training and regular data audit protocols to ensure accuracy and consistency. ○ Responsible Party: Data Management Team. ○ Completion Date: December 2023. <p>Reconciliation of Data Between Platforms</p> <ul style="list-style-type: none"> ○ Action: Implement routine checks to understand discrepancies between VendorLink and SmartSheets, and educate stakeholders on the distinct purposes of both platforms. ○ Responsible Party: Purchasing and Warehouse Services Team. ○ Completion Date: December 2023. <p>Enhance Spend Monitoring Capabilities</p> <ul style="list-style-type: none"> ○ Action: Investigate the limitations of the Oracle platform and explore alternative methods or systems that can provide a comprehensive spend report, inclusive of all procurement methods (POs, PCARDS, AIM, Transman, etc.). ○ Responsible Parties: Finance and IT Teams. ○ Completion Date: March 2024. <p>Formalize the Solicitation Approval Process</p> <p>Action: Deploy and utilize the "Coordination Sheet" to streamline and document the solicitation approval process,</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	1. Manual Contract Management (Continued)
Management Action Plan	<ul style="list-style-type: none"> ○ ensuring all approvals are tracked and are in compliance. ○ Responsible Party: Purchasing Supervisor. ○ Completion Date: October 2023. <p>Vendor Spend Monitoring</p> <ul style="list-style-type: none"> ○ Action: Establish a standardized process for monitoring vendor spend, ensuring consistency across all vendors, including PB vendors. ○ Responsible Party: Purchasing and Warehouse Services Team. ○ Completion Date: January 2024. <p>Software Automation Exploration</p> <ul style="list-style-type: none"> ○ Action: Continue exploration of e-procurement and contract management software by scheduling and attending demos. This will help identify potential solutions to current manual processes. ○ Responsible Parties: IT Team in collaboration with the Purchasing and Warehouse Services Team. ○ Completion Date: February 2024. <p>Integration with the New ERP System</p> <ul style="list-style-type: none"> ○ Action: Await the award and implementation of the new ERP system. Ensure that the new system possesses robust contract management capabilities that can replace or complement current processes. ○ Responsible Parties: IT Team in collaboration with the Purchasing and Warehouse Services Team.. ○ Completion Date: Pending confirmation of the new ERP system rollout. <p>These are the estimated completion dates, but they may be subject to change based on various factors, including the availability of resources, changes in priorities, or unforeseen challenges.</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	2. Vendor File Management
High	<p>Through discussions with management, we identified that limited monitoring activities exist over key vendor management processes. Key controls are not in place to effectively validate that vendor information is currently accurate, vendor information is accurately input into the system, and changes to vendor files are appropriate.</p> <p>Currently, approved vendors are maintained on the Bidders List with supporting documentation retained to validate vendor information. Purchasing and Warehouse Services requires a Vendor Application Form and Vendor W-9 to be obtained prior to activation of any new prospective vendor. The Vendor Application Form also has the functionality for documentation, including vendor authorization, for updates of vendor information. During the review, we observed vendor modification requests were not consistently documented utilizing the Vendor Application Form and are occasionally requested through email and/or verbally. Additionally, these forms are not consistently documented and retained within Oracle. Therefore, there was a lack of audit trail for vendor information changes.</p> <p>Through discussion, it was identified that when a department (typically Finance) receives a vendor change request, it is then forwarded via email to the Purchasing and Warehouse Services email box. When received, Purchasing and Warehouse Services will then make the necessary changes in Oracle. Although the changes are being updated, there is no process in place to evaluate the information provided to Purchasing and Warehouse Services is true and accurate. In addition, there is not a secondary review of the updated changes made to vendors within Oracle.</p> <p>We obtained a current listing of all active authorized vendors and selected a sample of 25 active vendors for testing. During our testing, we identified twenty (20) samples or 80% of the total sample population for vendors that resulted in missing or inaccurate vendor records. The following was observed:</p> <ul style="list-style-type: none">• Fifteen (15) out of the twenty-five (25) of our samples or 60% did not have vendor application forms attached in the Oracle supplier portal.• One (1) out of the twenty-five (25) of our samples did not have W-9s attached in the Oracle supplier portal.• Two (2) vendors out of the twenty-five (25) samples had vendor applications that were incomplete in which the form did not indicate whether it was a new vendor application or an existing vendor modification.• One (1) vendor out of the twenty-five (25) samples did not have a complete supplier address listed on the vendor application.• One (1) vendor was identified within Oracle as having two different supplier ID's (11188 and 11189) and both remain active. <p>The absence of accurate vendor data on file may prevent the organization from identifying potentially fraudulent bad actor vendors. Performing a review of vendor information and confirming the changes with the vendor before the vendor changes are committed to the system helps reduce the risk of errors, fraud, and abuse. Inaccurate vendor information may lead to erroneous payments, conflicts of interest, and non-compliance with local policy or statutory requirements.</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	2. Vendor File Management (Continued)
<p>Recommendation</p>	<p>We recommend Purchasing and Warehouse Services conduct a review of all vendor entries and/or vendor changes in Oracle to determine all required documentation is received, accurate per the Oracle vendor profile, and retained prior to conducting business. This includes documenting all pertinent changes to a vendor file to promote comprehensive and accurate vendor records. Appropriate documentation of change requests to the master vendor file should be maintained to identify who requested the change and the purpose for the change.</p> <p>Purchasing should consider:</p> <ol style="list-style-type: none"> 1. Enforce current process for vendor file updates by utilizing the Vendor Application Form for all new vendors and storing the form in Oracle for reference and utilizing the same form to document vendor information updates which should be authorized by the vendor representative on file. 2. Develop a checklist to be used to process vendor file updates. The checklist should include the following: <ul style="list-style-type: none"> • Vendor Application Form completed by the vendor • W-9 completed by the vendor • Update both forms in the system • Review of the update in the system. 3. Develop a system to close out duplicate vendors in Oracle with open purchase orders.
<p>Management Action Plan</p>	<p>Response: Purchasing to modify the coordination for changes to the vendor files by having the vendor update their profile using the vendor application form. Looking for robust Vendor Management capability in the new ERP system.</p> <p>Responsible Party: Purchasing</p> <p>Estimated Completion Date: May 2024</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	3. Legal Review of Non-Standard Contracts
<p style="text-align: center;">High</p>	<p>Purchasing and Warehouse Services and Legal Counsel have developed standard contract templates and agreements which have been pre-approved by both departments; however, we observed that there was no mechanism in place to direct non-standard contracts through a legal review prior to the execution of the contract. Specifically, through discussion with both departments, we discovered that piggyback contracts are not reviewed by Legal Counsel. It was observed that Purchasing and Warehouse Services recently implemented a piggyback checklist to help guide them through the required processes, however, the checklist does not list a review to be performed by Legal Counsel. The current practice of the District is to assume a thorough review has been completed by the originating entity and does not perform a review of its own.</p> <ul style="list-style-type: none"> • Two (2) of our two (2) piggyback contract samples were not reviewed by Legal to determine compliance with all applicable Florida Statutes and District policies. • One (1) of our seven (7) competitive solicitations samples or 14%, which was a Master Service Agreement, we were unable to locate a COI clause or that legal had reviewed before entering into the agreement. <p>Contract agreements not properly approved by Legal Counsel may lead to the District’s acceptance of terms and conditions which are not favorable to the District, noncompliant with regulatory requirements, or ineffectively negotiated, leading to increased risk to the District.</p>
<p>Recommendation</p>	<p>We recommend that Purchasing and Warehouse Services consider adding a line item to the checklist used by Buyers for competitive solicitations for legal review. The checklist should indicate if a pre-approved template was used, if any modifications were made to the template, and if so, if they were properly reviewed. It should also include a signature/date from the reviewing attorney, or an attached copy of the approval email, as an audit trail, if applicable. For all non-standard contracts, a similar checklist should be utilized and include a line item to indicate whether or not legal review is necessary.</p>
<p>Management Action Plan</p>	<p>Response: Coordinate with the Legal office for their comments and institute processes; create pre-approval / coordination worksheet. Responsible Party: Legal Office and Purchasing Estimated Completion Date: March 2024</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	4. Standard Operating Procedures																
High	<p>Per discussion with Purchasing and Warehouse Services, there is a regular review of the Purchasing Procedures Manual to determine if there are updates needed to the procedures and policies, however, this review is not documented. In addition, we identified the following areas within the Purchasing Procedures Manual that require revision:</p> <ul style="list-style-type: none"> The District has implemented Purchasing Policy 702 which outlines exceptions to competitive solicitations per State Board of Education Rule 6A. The Policy states that the District may waive the requirements for competitive quotes or solicitations for the purchase or acquisition of the following commodities and contractual services; <table border="1" data-bbox="590 496 1766 800" style="margin-left: 40px;"> <thead> <tr> <th colspan="2" style="background-color: #0070c0; color: white;">Purchasing Policy 702 Exceptions</th> </tr> </thead> <tbody> <tr> <td>Educational materials</td> <td>No responses received on Solicitations</td> </tr> <tr> <td>Emergency Purchases</td> <td>Pool Purchases</td> </tr> <tr> <td>Commemorative items</td> <td>Food and Food Products, except milk</td> </tr> <tr> <td>Gasoline and Diesel</td> <td>Professional Services (legal)</td> </tr> <tr> <td>Grants or State and Federal Agency Contract</td> <td>Single Source</td> </tr> <tr> <td>Information Technology Resources</td> <td>Sole Source</td> </tr> <tr> <td>Insurance and Risk Management</td> <td>Utilities or Governmental Franchised Services</td> </tr> </tbody> </table> <p>Although it is common for Districts to use State contracts when purchasing gasoline and diesel, we were unable to locate a Florida Statute that outlines this is an exception from competitive bidding. Further, we were unable to locate any exceptions to the rule for commemorative items.</p> <ul style="list-style-type: none"> While the District has instructions for selection committee members to perform the evaluation process on a solicitation there is not a consistent procedure in place to provide guidance for each department on how a selection committee is selected for competitive solicitations. It was observed that Information Technology Resources is currently defined by section Florida Statutes 282.0041(15) in the Purchasing Policy, however, it should be referencing 282.0041(20). <p>Standard operating procedures provide a framework for effective oversight and monitoring of procurement. Well defined standard operating procedures are essential for promoting compliance with relevant laws, regulations, and policies governing impact fee funding. A lack of clear procedures increases the risk of non-compliance, leading to inconsistencies, inefficiencies, or potential mismanagement of funds.</p>	Purchasing Policy 702 Exceptions		Educational materials	No responses received on Solicitations	Emergency Purchases	Pool Purchases	Commemorative items	Food and Food Products, except milk	Gasoline and Diesel	Professional Services (legal)	Grants or State and Federal Agency Contract	Single Source	Information Technology Resources	Sole Source	Insurance and Risk Management	Utilities or Governmental Franchised Services
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Recommendation	<p>We recommend that Purchasing and Warehouse Services update the policies and procedures to reflect the correct items in which exceptions can be used per State Board of Education Rule and match the Information Technology reference per Florida Statutes. Procedures should be created to provide guidance to departments on how to perform committee member selection on solicitation evaluations. In addition, a formal sign-off should be incorporated into the internal annual review of the Purchasing Procedures Manual.</p>																

OBSERVATIONS MATRIX (CONTINUED)

Observation	4. Standard Operating Procedures (Continued)
Management Action Plan	Response: Coordinate with the Legal Office for their coordination and action. Update the policy to reflect the latest F.A.C. 6A-1.012. Responsible Party: Legal Office and Purchasing Estimated Completion Date: March 2024

OBSERVATIONS MATRIX (CONTINUED)

Observation	5. Centralized Internal Accounts Procurement
<p style="text-align: center;">High</p>	<p>Through discussion and inquiry with management, we identified that formal procedures to monitor the aggregate vendor and commodity spending across internal account and District funds do not currently exist. The District leverages separate systems to execute purchase orders for District funds and for internal account funds. While Purchasing and Warehouse Services approves purchase orders executed with Internal Funds for any single transaction over \$10,000; most internal account expenditures are approved only by the School Principal. Purchasing and Warehouse Services does not maintain a process in place to monitor whether total vendor expenditure has exceeded existing contract and/or approval thresholds or determine whether a District-wide vendor agreement must be executed resulting from internal account expenditure.</p> <p>Additionally, as a result of the lack of formal monitoring procedures for all vendor expenditure, Legal Counsel may not be appropriately consulted during the contract execution process. Without formal procedures to monitor total expenditure, Purchasing and Warehouse Services may be unable to accurately identify contracting requirements and establish District-wide contracts where appropriate. In addition, Purchasing and Warehouse Services Buyers are not available to assist sites with obtaining the most cost-effective vendor or determine if purchases being made are in non-compliance with existing vendor contracts.</p>
<p>Recommendation</p>	<p>We recommend the District establish procedures to evaluate vendor spending across both Internal Accounts and District funds to determine when a vendor or commodity exceeds the threshold for contract execution. All purchase orders should be reviewed and approved by Purchasing and Warehouse Services prior to execution to determine if the purchase requires a contract and or Legal Counsel review prior to purchase of goods.</p>
<p>Management Action Plan</p>	<p>Response: Investigate the limitations of the Oracle platform and explore alternative methods or systems that can provide a comprehensive spend report, inclusive of all procurement methods (POs, PCARDS, AIM, Transman, etc.).</p> <p>Responsible Party: Purchasing, Finance and IT Teams</p> <p>Estimated Completion Date: March 2024</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	6. Procurement Training
<p>Moderate</p>	<p>Per discussion with Purchasing and Warehouse Services, it was identified that formal in person training has not been conducted for departments and schools since 2019 on procurement requirements and processes. Purchasing and Warehouse Services does have a shared online site with training materials, reference documentation, and system training videos which is accessible to new and existing site-based staff. However, there is not a consistent mechanism in place to notify site staff of new or updated materials as they become available or to explain the procurement processes other than reaching out to Purchasing and Warehouse Services staff for individual questions. Ongoing training is an essential part of educating each department on the various procurement requirements to be performed and guidance on the expectations of those processes as requirements change. Investing in learning, training, and development provide guidance to District employees so they have the toolset of knowledge to properly initiate purchases with vendors.</p> <p>It is imperative for all parties involved to have an understanding of the District's purchasing thresholds, purchase order process (not splitting purchase orders), and also the expectations of Purchasing and Warehouse Services. In addition, items related to concerns of Legal Counsel should be included in the training, so that full compliance is met within Florida Statutes for procurements at the District.</p>
<p>Recommendation</p>	<p>We recommend that the Purchasing and Warehouse Services coordinate with Finance to perform mandatory annual training to site stakeholders that is approved by the Purchasing Director. In addition, training should be provided to new hires that work directly with the purchasing process such as Bookkeepers, Secretaries, department Directors and Principals.</p>
<p>Management Action Plan</p>	<p>Response: Enhance training library and coordinate with Finance and Budget for annual training to users and bookkeepers. Responsible Party: Finance, Budget and Purchasing Estimated Completion Date: June 2024</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	7. Direct Payments of Contracted Services																								
Moderate	<p>Through our detailed testing of vendor invoices we identified several payments which did not have an approved purchase order within the Oracle system. Of the fifty (50) vendors selected for testing five (5) or 10% of the vendors selected were paid with a direct payment through Finance without any knowledge or approval of Purchase and Warehouse Services. Either direct pay approval forms were utilized to document the payment request and approval or spreadsheets and batch Excel files were used in place of direct pay forms to document the expenditure.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="background-color: #0070C0; color: white;">Company Name</th> <th style="background-color: #0070C0; color: white;">Method of Payment</th> <th style="background-color: #0070C0; color: white;">Invoice Amount</th> <th style="background-color: #0070C0; color: white;">Total Spend</th> </tr> </thead> <tbody> <tr> <td>EMS Software LLC</td> <td>Direct Pay</td> <td style="text-align: right;">\$21,072.25</td> <td style="text-align: right;">\$21,072.25</td> </tr> <tr> <td>Lenovo Financial Services</td> <td>Direct Pay</td> <td style="text-align: right;">\$649,928.00</td> <td style="text-align: right;">\$829,822.53</td> </tr> <tr> <td>Lenovo Financial Services</td> <td>Direct Pay</td> <td style="text-align: right;">\$179,894.53</td> <td style="text-align: right;">\$829,822.53</td> </tr> <tr> <td>T G Lee Dairy</td> <td>Spreadsheet Process</td> <td style="text-align: right;">\$1,741,592.05</td> <td style="text-align: right;">\$1,741,592.05</td> </tr> <tr> <td>Rue & Ziffra</td> <td>Direct Pay</td> <td style="text-align: right;">\$195,000.00</td> <td style="text-align: right;">\$195,000.00</td> </tr> </tbody> </table> <p>Through discussion with Purchasing and Warehouse Services and Finance it was also identified that utility payments were always processed with direct payments and not with blanket purchase orders. For the above tested samples, authorization and sufficient documentation are provided to Finance to process the invoice and payment, however, there is no process in place for Purchasing and Warehouse Services to review these purchases for total spend, procurement compliance or budget control.</p> <p>The absence of procurement review increases the risk of noncompliance with federal, state and District policies of expenditures. In addition, lack of budget monitoring with encumbrances increases the risk of overspending without proper monitoring.</p>	Company Name	Method of Payment	Invoice Amount	Total Spend	EMS Software LLC	Direct Pay	\$21,072.25	\$21,072.25	Lenovo Financial Services	Direct Pay	\$649,928.00	\$829,822.53	Lenovo Financial Services	Direct Pay	\$179,894.53	\$829,822.53	T G Lee Dairy	Spreadsheet Process	\$1,741,592.05	\$1,741,592.05	Rue & Ziffra	Direct Pay	\$195,000.00	\$195,000.00
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Rue & Ziffra	Direct Pay	\$195,000.00	\$195,000.00																						
Recommendation	We recommend the District consider utilizing blanket purchase orders which are reviewed, approved and monitored by Purchasing and Warehouse Services for all purchases and contracted services.																								

OBSERVATIONS MATRIX (CONTINUED)

Observation	7. Direct Payments of Contracted Service (Continued)
<p>Management Action Plan</p>	<p>Response: We acknowledge the concerns raised in Observation 7 regarding the direct payments to vendors without utilizing approved purchase orders within the Oracle system. We understand that bypassing the purchase order process poses risks related to noncompliance with federal, state, and District policies, and it affects budget monitoring and control. We are committed to rectifying this issue in a timely manner.</p> <p>Immediate Actions (within 1 month)</p> <ol style="list-style-type: none"> 1. Issue a Memo: A memo will be circulated among all departments, highlighting the importance of utilizing approved purchase orders for any payments. 2. Review Existing Direct Payments: Conduct a review of upcoming direct payments and place a temporary hold on any payment were a purchase order (PO) should be used, except for essential services (e.g., utilities, etc.) where budgetary control is more appropriate and no negotiated service exists. <p>Short-Term Actions (within 1-3 months)</p> <ol style="list-style-type: none"> 1. Staff Training: Organize training sessions for staff involved in the purchasing and payment process to educate them on the importance of purchase orders and procurement compliance. 2. Internal Review: Conduct an internal review to ensure that all recent payments are in line with the new guidelines. 3. Implement Blanket Purchase Orders: Start the process of implementing blanket purchase orders for regular vendors and services, including utility payments. <p>Long-Term Actions (within 3-6 months)</p> <ol style="list-style-type: none"> 1. Review and Update Policies: Review, and if necessary, update the existing financial and procurement policies to emphasize the necessity of using approved purchase orders. 2. Monitoring and Oversight: Implement a monthly review mechanism where the Finance Department provides a report to Purchasing and Warehouse Services for all payments made, to ensure compliance and budget monitoring. 3. Technology Integration: Upgrade the Oracle system to flag or halt any attempts to make direct payments without an approved purchase order, if available. 4. Periodic Review: Establish a semi-annual internal review process to ensure ongoing compliance. <p>Responsible Party: Director of Finance, Director of Procurement and Warehouse Services</p> <p>Estimated Completion Date: Immediate Actions: October 15, 2023, Short-Term Actions: December 15, 2023, Long-Term Actions: March 31, 2024</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	8. File Retention and Storage
<p>Moderate</p>	<p>Documents related to procurement are primarily stored electronically for required retention on the District’s “I Drive” which is accessible by the Purchasing and Warehouse Services staff, whom are responsible for maintaining such documents. During our detailed sample requests and through our discussion with several members of the Purchasing and Warehouse Services staffing we identified that file organization within the I-Drive was nonstandard and difficult to identify required auditable documentation for procurement.</p> <p>As a result of nonstandard file retention, required documents that need to be accessed may not be able to be identified by staff. Without a formal process for files to be retained which is followed by all Purchasing and Warehouse Services staff, documents may be unable to be accurately identified for contracting requirements and establish District-wide contracts where appropriate.</p>
<p>Recommendation</p>	<p>We recommend create a file architecture plan and implement a standard naming convention for all documents that are to be housed within files on the “I Drive.” In the future, this will help in the process of making sure all required documents have been collected and make the process of locating said documents efficiently.</p>
<p>Management Action Plan</p>	<p>Response: Create a standardize file architecture and standardize naming conventions in the shared drive.</p> <p>Responsible Party: Purchasing</p> <p>Estimated Completion Date: March 2024</p>



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