



Collier County Public Schools, Florida Audit Report: Purchasing and Procurement Compliance

September 5, 2024



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TRANSMITTAL LETTER

September 5, 2024

The School Board of
Collier County, Florida
5775 Osceola Trail
Naples, FL 34109

Pursuant to our executed Statement of Work agreement dated February 20, 2024, with Collier County Public Schools (“District,” “CCPS”) we hereby present the report of purchasing and procurement compliance. Our report is organized in the following sections:

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

In connection with the performance of these services, we have not performed any management functions, made management decisions, or otherwise performed in a capacity equivalent to that of an employee of the District.

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

Respectfully Submitted,



RSM US LLP

EXECUTIVE SUMMARY

Background

The District's Purchasing Department is responsible for managing all procurement activities for the 64 schools and 9 departments within the District¹. This includes the purchase of materials, supplies, equipment, and services at the lowest possible cost, and at the quality needed to support District operations effectively and efficiently. The Purchasing Department also assists end-user schools and departments in managing over 22,400 vendor relationships, tracking vendor spend, and enforcing proper segregation of duties within the purchasing process. In doing so, the Purchasing Department must adhere to established District policies and state and federal regulations.

The Purchasing Department is led by the Senior Director of Financial Services and is comprised of one (1) Assistant Director, four (4) Buyers, and one (1) Specialist. The Purchasing Department must collaborate with each department and school to procure the necessary goods and services, ranging from classroom supplies to security systems and school buses. Procurement requirements vary depending on the nature of the good or service requested, the total estimated spend, and the funding source. Schools and departments purchasing items less than \$10,000, for example, must obtain three (3) written quotes, while major construction projects may cost several million dollars and require formal competitive solicitation and the use of negotiated contracts. The Purchasing Department employs several competitive purchasing methods, including various solicitation types such as Invitations to Bid ("ITBs"), Requests for Proposal ("RFPs"), Requests for Qualifications ("RFQs"), and Invitations to Negotiate ("ITNs"). In unique situations, the District may utilize alternative methods such as purchasing cooperatives ("piggybacks"), sole source procurements, and direct purchases, all of which require specific knowledge of allowable exemptions and a defined procurement strategy.

¹ Per the District's website. This information is unaudited

Overall Summary / Highlights

Audits provide insight into an organization's culture, policies, and procedures, and aids the School Board and District management in oversight by verifying internal controls are operating effectively, adequately mitigating risk, and are in 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. For each observation, we discuss the relevant risk(s), which may include financial, operational, and compliance, as well as public perception for 'brand' risks.

Objectives and Scope

The objective of this review was to evaluate the design and control structure for operating effectiveness. This included a review of policies and procedures and the District's adherence to them; an evaluation of compliance with authorization, solicitation, and selection requirements; an evaluation of the sufficiency and adequacy of documentation and records to support procurement practices; and a review of access controls for appropriateness and proper segregation of duties within the purchasing function.

Our fieldwork testing was conducted utilizing sampling and other audit techniques and was developed utilizing information obtained through interviews, walkthroughs, and review of source documentation. Our procedures included, but were not limited to, the following:

- Assessment of controls to determine if they are adequate to prevent and detect related party transactions;
- Evaluation of access controls and segregation of duties within the purchasing function;
- Evaluation of whether there are adequate records and documentation to establish an audit trail and determine that policies and procedures are followed;
- Testing of source documentation for compliance with applicable requirements (i.e., procurement types, use of competitive solicitations, evaluation scoring, involvement of user departments and schools, etc.);

At the conclusion of this review, we summarized our findings into this written report and conducted exit conferences with Management.

The scope period was July 1, 2022, through April 1, 2024, and fieldwork was performed from April 2024 through September 2024.

Summary of Observations

(See page 3 for risk rating definitions)

	High	Moderate	Low
Purchasing and Procurement Compliance	1	3	-

We would like to thank all District team members who assisted us throughout this review.

EXECUTIVE SUMMARY (CONTINUED)

Observations Summary

Below is a summary listing of the observations that were identified during this review. Detailed observations are included in the observation matrix section of the report.

Summary of Observations	
Observations	Rating
1. Vendor File Management	High
2. Procurement Compliance	Moderate
3. Purchase Order System Controls	Moderate
4. Standard Operating Procedures (“SOPs”)	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

All purchase requests utilizing District funds are submitted through the Purchasing Department (“Department”). The level of involvement from the Department, however, varies depending on the nature of the good or service requested and the estimated total cost. Small, one-time purchases, for example, may be made using an approved purchase order. Larger, recurring purchases, however, may require competitive solicitation facilitated by the Purchasing Department, legal-approved solicitation templates, and executed vendor agreements. The Purchasing Department is responsible for overseeing procurement activities throughout all District departments and schools, confirming the correct procurement method is utilized, managing District-held vendor data, and certifying that all applicable policies and regulations are adhered to. Per the District website, the Department’s mission is as follows:

“The primary mission of the Purchasing Department is to provide all schools and departments with responsive customer service and to purchase the requested product or service at the right time, from the best source, for the lowest and best possible price; and then to assist the requisitioner in the acquisition of commodities and administration of services, as required in meeting School Board and District policies, standards and priorities.”

The funding type for goods and services purchased largely depends on the nature of the purchase. The District’s general fund was allocated \$777,368,354 for the fiscal year 2023-2024, and is used to support general operational expenses, while the Capital Projects Fund, with \$483,992,643¹, covers major renovation projects. Local, state, and federal grant funding (i.e., funding received through the American Rescue Plan Act) may also be used when appropriate and requires the District to adhere to unique rules and regulations.

Procurement Process and Methodology

When a need is identified, the applicable principal or department head submits a request for purchase to Purchasing. The Purchasing Department will assign the request to the appropriate buyer, based on the type of item or service requested. Items proposed to be purchased which are identical or similar to items already stocked in the District’s warehouse are obtained from the warehouse. Items that are not held within the warehouse, or not available through an existing contract, must be procured. The purchase of goods and services is categorized as either “Competitive” or “Non-Competitive”, dependent on the total value of the expense. For purchases greater than \$35,000, competitive solicitations are to be used and approved by the Board unless exempt by Florida Statute. The Purchasing Department is responsible for confirming that all procurements are properly managed and are in accordance with all pertinent laws and regulations.

Non-Competitive Solicitation

Non-competitive solicitations refer to the procurement of goods below the competitive bidding threshold of \$35,000. These purchases can be broken down further into two (2) categories: purchases below \$10,000, and purchases between \$10,000 and \$34,999. Purchases below \$10,000 do not require any formal solicitation documents and are fully managed by end-user departments or schools. For purchases between \$10,000 and \$34,999, departments are required to obtain three (3) written quotes from potential vendors.

All purchases, including non-competitive and competitive purchases, must have a corresponding purchase order, which must be approved within the District’s ERP system, TERMS, by the principal or department leader, the project manager, the purchasing buyer, and – if the purchase exceeds \$4,000 - the Director of Purchasing.

¹ CCPS FY23 - FY24 Official Final Budget Summary

BACKGROUND (CONTINUED)

Procurement Process and Methodology (Continued)

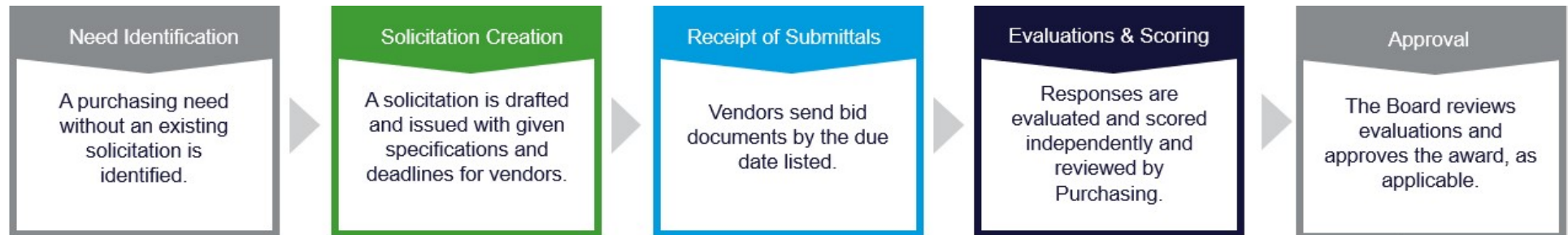
Competitive Solicitation

Competitive solicitations are required for all purchases above \$35,000. The Purchasing Department is tasked with determining which of the four (4) methods of competitive solicitation are most appropriate.

- ❖ **Invitation to Bid (“ITB”)**: The Invitation to Bid is primarily used when the District is capable of specifically defining the scope of work for which a contractual service is required or, for commodities, when precise specifications can be defined. Similar to the other methods of competitive procurement, a written solicitation is posted publicly.
- ❖ **Request for Proposals (“RFP”)**: The Request for Proposals process is utilized when procuring commodities, groups of commodities, or contractual services where the exact specifications cannot be fully defined, or where a variety of approaches or solutions are desirable.
- ❖ **Invitation to Negotiate (“ITN”)**: The Invitation to Negotiate is a procurement method used for acquiring commodities or contractual services when the best method to achieve a specific goal or solve a particular problem is not clearly defined.
- ❖ **Request for Qualifications (“RFQ”)**: The Request for Qualifications process is used when the scope of work for commodities or contractual services can be defined, but the qualifications of the vendor are critical to the successful completion of the work.

For each of the above procurement methods, the Purchasing Department must collaborate with the end user to define any known specifications, gather project time(s) and goals, and establish evaluation criteria. Once a solicitation is created and approved, it must be publicly advertised. The District currently utilizes local newspapers and online publications to disseminate available opportunities.

On the designated due date, vendors submit their proposals or bids in sealed packages, which are then publicly opened. Only the names of the vendors and their locations are disclosed at this stage. Depending on the procurement method, an evaluation committee, comprising end-users and facilitated by the Purchasing Department, may review the submissions. The committee conducts public meetings and may hold pre-bid conferences to clarify any ambiguities. The evaluation process includes further research and interviews with shortlisted vendors. A recommendation for contract award is made, considering both price and the specific evaluation criteria. However, not all procurement methods are required to utilize an evaluation committee; responses may be reviewed by the Purchasing Department and the end user, and a listing of “Approved, Qualified Vendors” may be created based on responsiveness, responsibility, and qualifications. In all cases, the recommendation is presented to the School Board for approval. Upon approval, the Purchasing Department issues a notification letter to all participating vendors, informing them of the outcome, and communicates the awarded vendor’s details to the requesting department.



BACKGROUND (CONTINUED)

Exemptions to Competitive Solicitations

While the previously mentioned methods of solicitation are the primary channel for which goods and services are regularly procured within the District, there are certain situations in which these methods may be waived. In these situations, the Board is not required to request formal competitive solicitations. These include:

Sole Source

While competitive procurement methods like ITNs, ITBs, RFPs, and RFQs are typically preferred to uphold fairness and achieve the best value, there are times when these methods are not practical or possible. In such situations, a Sole Source procurement method may be necessary. This method is used when only one supplier can provide the required goods or services, making competitive bidding unfeasible. Sole Source procurement is generally employed in specific circumstances, such as when the product or service is unique, when there is only one available source within a reasonable timeframe, or when compatibility with existing systems or services requires continuation with the current supplier's products or services.

Upon approval, the procurement proceeds without the need for competitive bidding. If an end-user believes that a product or commodity is a sole source, they should contact the Purchasing Department for assistance. The Purchasing Department will collect documentation from the end user to justify the sole source, review and evaluate the request to confirm eligibility and post an electronic description of the required commodities or services for at least seven business days. If no viable vendor responses are received after seven days, the Department will publicly post a 'notice of intent' to proceed with the sole source purchase. Purchases of this nature must receive Board approval if they exceed the \$50,000 threshold. At the time of this review, the District had 43 active agreements solicited through sole source exemption.

Piggybacking

Piggybacking is a procurement approach employed when the District wants to benefit from contracts already established by other public agencies or entities. This method is used when it is more efficient or cost-effective to use an existing agreement rather than starting a new procurement process. Through piggybacking, the District can utilize pre-negotiated terms, prices, and conditions, leading to substantial time and cost savings. To use this procurement method, the chosen contractor or vendor must agree to provide items or services at or below the awarded pricing, terms, conditions, and discounts, and must comply with all conditions of the award, as well as any additional requirements set by the District. At the time of this review, the District had 191 active agreements solicited through piggyback.

Emergency Purchases

In emergency situations, following competitive processes and solicitation procedures may not be feasible. If the Superintendent declares an official emergency or determines in writing that an emergency exists due to time constraints, public health, safety or welfare, financial loss, or other significant loss to the District, then District staff may bypass the requirements for competitive solicitations. The District's Purchasing Manual states that, even in emergencies, the requesting school or department should attempt to solicit purchasing competition if possible. Emergency purchases should only be made when justified and approved by the Superintendent, Purchasing Department, or their Designee.

Vendor Management

Effective vendor management is essential for operational efficiency, financial control, and compliance with established rules and regulations. This process begins with the intake of vendors, involving the collection and verification of critical documentation such as tax identification and W-9 forms. Additionally, review should be performed to identify and address any potential conflicts of interest. A strong vendor management control environment should include a regular review of vendor data to keep information accurate and up-to-date and remove outdated or redundant data. These practices are designed to optimize procurement strategies, enhance transparency, and facilitate strong vendor relationships.

BACKGROUND (CONTINUED)

Purchasing Thresholds

The graphic below provides a detailed breakdown of the requirements based on the purchase value, including competitive award requirements if applicable.

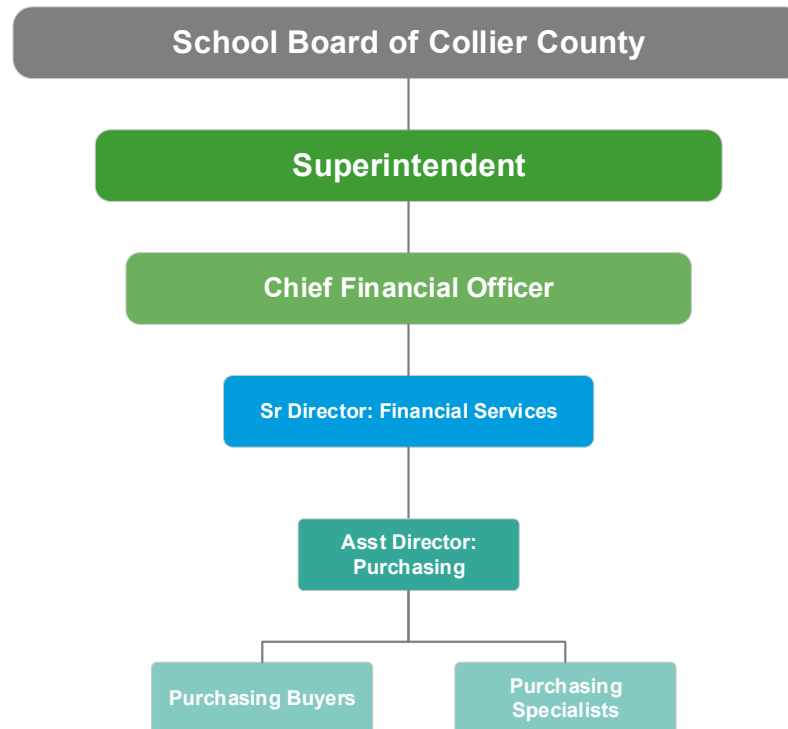
Purchase Threshold	Procurement Type	Competition Requirements
< \$10,000	Informal Solicitation	Noncompetitive solicitation – no additional formal requirements
\$10,000 - \$34,999	Small Purchases	Three (3) Vendor Quotes – CCPS Best Practice Guidance
\$35,000 - \$49,999	Formal Solicitation – CCPS Best Practice Guidance	Competitive Procurement through one of the following:
> \$50,000	Formal Solicitation – Florida Administrative Code 6A-1.012(7)	<ul style="list-style-type: none"> - ITB: Invitation to Bid - RFQu: Request for Qualifications - ITN: Invitation to Negotiate - RFP: Request for Proposal - RFI: Request for Information

BACKGROUND (CONTINUED)

Roles and Responsibilities

The District's Purchasing Department consists of eight (8) FTEs, with one (1) of those positions currently vacant. This team includes the following roles:

- ❖ **Senior Director for Financial Services / Director of Purchasing:** The head of the Purchasing Department, the Senior Director for Financial Services is responsible for the District's purchasing strategy, overseeing the work of the Department, coordinating with District leadership to confirm policies and adhered to, developing training for end-users, and driving the development of internal procedures. This individual is tasked with approving purchase requisitions over \$4,000 and obtaining board approval for all purchases over \$50,000.
- ❖ **Assistant Director for Purchasing:** The Assistant Director for Purchasing is responsible for approving changes to vendor accounts, including those requested by accounting, the requesting site, or the vendor. They are also responsible for the administration of the vendor master file, including creation of new vendors within TERMS.
- ❖ **Purchasing Buyers:** The buyers are responsible for acquiring goods and services, as well as managing their specific segments. Segments include but are not limited to: Classroom supplies, furniture, facilities, transportation, maintenance, and purchasing cards. The buyer acts as the primary point of contact between the District and the vendor by managing contracts, requesting quotes, and communicating with the vendor. The District currently employs one (1) Senior Buyer, one (1) Buyer II, and three (3) Buyer I roles.
- ❖ **Purchasing Specialists:** This role is responsible for the administrative responsibilities of the procurement process, including vendor information changes, processing purchase orders, and coordinating public meetings. This role serves as an administrative secretary to the whole department. The District currently employs one (1) Specialist 2.



BACKGROUND (CONTINUED)

Key Regulatory Requirements

The District is required to adhere to and comply with a variety of Federal, State, and local school board regulations which govern the procurement process. The regulatory environment includes, but is not limited to, the following:

Federal Regulation

- 2 CFR Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

State of Florida Regulation

- FS 112.313 – Standards of Conduct For Public Officers & Employees; Doing business with one's agency
- FS 119.071 – Inspection, Examination And Duplication Of Public Records
- FS 120.57(3) – Procedures for Resolution Of Bid Protests
- FS 218 – Local Government Prompt Payment Act
- FS 286.11 – Public Meetings & Records; Public Inspection
- FS 287.084 – Preference to Florida Businesses
- FS 287.057 – Procurement of commodities or contractual services
- FS 287.087 – Preference to Business With Drug-Free Workplace Program
- FS 287.133 – Public Entity Crime
- FS 1010.04 – Purchasing
- Florida Administrative Code 6A 1.012

Collier County Schools Policies and Procedures

- PO6320 – Purchasing
- PO6324 – Cone of Silence
- PO6325 – Purchasing Federal - Grants/Funds
- CCPS Purchasing Manual
- CCPS Purchasing – Vendor Package
- TERMS – Approving Requisitions
- TERMS – Purchasing Inquiry
- TERMS – Purchasing Ordering

OBJECTIVES AND APPROACH

Objectives

The objective of this review was to evaluate the design and control structure for operating effectiveness. This included a review of policies and procedures and the District's adherence to them; an evaluation of compliance with authorization, solicitation, and selection requirements; an evaluation of the sufficiency and adequacy of documentation and records to support procurement practices; and a review of access controls for appropriateness and proper segregation of duties within the purchasing function. The scope period was July 1, 2022, through April 1, 2024.

Approach

Our approach consisted of the following phases:

Understanding and Documentation of the Process

This phase consisted primarily of inquiry and walkthroughs to obtain an understanding of the 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:

- Obtained and reviewed key documents, including applicable internal policies and procedures related to the function and other documents as deemed necessary.
- Completed interviews and walkthroughs with key personnel to obtain a detailed understanding of operating policies and procedures, roles, and responsibilities within the scope.
- Gained an understanding of procedures as they relate to the processes within scope.
- Developed a work plan for the evaluation of the operating effectiveness of procedures and controls based on the information obtained through interviews, walkthroughs, and preliminary review of documentation.

Evaluation of the Design and Effectiveness of Process and Controls

The purpose of this phase was to evaluate the design of key processes and controls and test compliance and internal controls for operating effectiveness based on our understanding of the processes obtained during the first phase. We utilized sampling and other auditing techniques to meet our review objectives outlined above. Our testing procedures included, but were not limited to:

- Evaluated the design of key processes and controls identified in the previous phase, using industry benchmarking, best practices, and comparable client experiences.
- Assessed the design and control structure, including adherence to policies and procedures.
- Verified the adequacy of controls to prevent and detect related-party transactions.
- Evaluated access controls and segregation of duties within the purchasing function by reviewing access listings within vendor management and requisition modules of the ERP system.
- For a sample of thirty-one (31) procurements, confirmed adequate records and documentation existed for both competitive and non-competitive bid contracts, establishing an audit trail and verifying compliance with policies and procedures.
- Reviewed and tested source documents against applicable District policies, including procurement types, evaluation, scoring, contracting, and involvement of user departments, for a sample of recently procured goods/services.

Reporting

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

OBSERVATIONS MATRIX

Observation	1. Vendor File Management
High	<p>Through inquiry with management and review of vendor documentation, we noted that limited monitoring activities and controls exist over vendor data. Key controls are not in place to effectively verify that vendor information is current and accurate, that vendor information is accurately input into the system, and that changes to vendor files are appropriate.</p> <p><u>Segregation of Duties</u> As part of our review, we evaluated TERMS system access to vendor data. We found sixteen (16) users outside the Purchasing Department had access to create and/or update vendor information. While the Purchasing Department may need to collaborate with Finance personnel to identify needed changes to vendor data, leading practice suggests the purchasing function owns the vendor master file for proper segregation of duties. Without segregating access between users who have the ability to process vendor payments, and users who have the ability to create and edit vendors, the District is exposed to operational and financial risk.</p> <p><u>Maintenance of Vendor Data</u> During our review, we noted that in addition to the vendor data housed in TERMS, the Purchasing Department maintains an excel spreadsheet to track vendor names and their corresponding number. This was implemented in 2018, after management identified duplicative vendor numbers within the ERP system. While data within the spreadsheet and TERMS may be reviewed as staff availability allows, vendors originally added in 1990, for example, may still be listed in TERMS without having had any subsequent updates or reviews. By maintaining two (2) sources of vendor data, and without routinely reviewing and cleaning the database, inaccuracies in vendor names, numbers, account information, contacts, and legal and payment information may be inaccurate. This may lead to inaccuracies in reporting, challenges in complying with local, state, and federal regulations, and ineffectual vendor monitoring.</p> <p><u>W-9 Forms</u> Of the fifteen (15) vendor profiles reviewed, three (3), or 20%, were missing copies of W-9 Forms. Used to collect the vendor's Taxpayer Identification Number, the W-9 is necessary for the District to report payments to the IRS and confirm the vendor's legal standing. Without collecting the W-9 form annually, the District may be liable to financial penalties and may face challenges in verifying the identity of vendors.</p> <p><u>Conflict of Interest Forms</u> During our review of source documents associated with twenty-five (25) District purchases, we found that conflict of interest forms or attestations were not collected or retained for twelve (12) samples, or 48%. Four (4) of these sampled vendors had been awarded work in excess of \$50,000, while eight (8) had been awarded work between \$10,000 and \$49,999. We noted that the District's current Purchase Order contains standard language regarding conflicts of interest ("<i>All Vendors must disclose the name of any employee, director, or agent who is an employee of the School District and/or may have an inherent conflict of interest...</i>") and, if a District contract is utilized, additional language may be present. However, the vendor is not required to attest or document acceptance of these terms, and a formal vendor conflict of interest process is not in place. Without requiring vendors to attest against any conflicts of interest, and without documenting that a conflicts check was performed within the vendor's profile, the District may unknowingly enter into inappropriate vendor agreements.</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	1. Vendor File Management (Continued)
<p>Recommendation</p>	<p>We recommend the following:</p> <ul style="list-style-type: none"> • Centralize ownership of vendor data within the Purchasing Department. While the Finance Department may assist in identifying changes to vendor data, ownership of the vendor master file and authority to make changes to vendor data should reside within the Purchasing function. • Reconcile vendor data within TERMS against the manual spreadsheet and make updates as necessary; the TERMS ERP should be the system of record. Once reconciled, develop a periodic review process to confirm data remains accurate. • Develop a vendor intake checklist, which should be saved within the vendor file upon completion. The checklist should include, at a minimum, the following: <ul style="list-style-type: none"> ○ Completed vendor application form; ○ Completed W-9; and ○ Completed conflict of interest attestation. The District may determine that conflict of interest forms be obtained for only vendors exceeding a pre-defined purchase threshold; if this decision is made, the specific requirements should be documented in the Purchasing Manual. • Consider implementing an online vendor portal in which vendors are responsible for submitting information, attaching required forms, and providing annual updates. Further, consider implementing a systematic control to prevent purchase orders from being created for vendors that fail to register and review their information within the portal.
<p>Management Action Plan</p>	<p>Response:</p> <p>Segregation of Duties The District understands the importance of segregation of duties and will ensure that only Purchasing Department staff maintains ownership to vendor data. The Purchasing Department will work with Technology to review user access to vendor data at a minimum twice a year to ensure compliance.</p> <p>Maintenance of Vendor Data The TERMS vendor database is currently estimated to have more than 32,000 vendors, with approximately 20,000 “active” vendors. Of these active vendors, the District may utilize approximately 4,000 annually. The Purchasing Department is the owner of the vendor data and has been working to update and inactivate unused and/or older vendors, however, it is a time-consuming process with limited resources. In order to improve this process, the Purchasing department will work with Technology staff to automatically mark any vendors without Purchase Order activity in the last two years as “inactive”. This will significantly reduce on the number of “active” vendors in the system and assist with maintenance and management of the vendor data. Staff will develop a periodic review process to confirm that “active” vendor data remains accurate.</p> <p>Vendor Intake Checklist Staff will develop a vendor intake checklist, which will be saved within the vendor file upon completion. The checklist will include the following: the completed vendor application form, W9, and conflict of interest attestation.</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	1. Vendor File Management (Continued)
Management Action Plan	<p>Vendor Portal The Purchasing Department will also work with the Technology Department to develop an online vendor portal in which vendors will be responsible for submitting information, attaching required forms, and providing annual updates.</p> <p>Responsible Party: Purchasing and Technology Departments</p> <p>Estimated Completion Date: June 30, 2025</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	2. Procurement Compliance
<p>Moderate</p>	<p>As part of our procedures, we reviewed thirty-one (31) sampled procurements to assess whether the required purchasing process was followed per the existing District thresholds. We also reviewed an additional ten (10) sampled piggyback and sole source procurements. We noted the following:</p> <ul style="list-style-type: none"> • Three (3) purchases, each between \$11,988 and \$30,000, did not have evidence that at least three (3) vendor quotes were obtained, as required through the District’s Purchasing Manual. Management stated there was likely no other vendor able to provide the needed services. However, documentation, including any justification or due diligence performed, was not available. • In addition, we noted that the District created a procurement checklist, which lists documents to be retained throughout the competitive procurement process. However, utilization of this checklist is not required, and was not provided for the sampled procurements. <p>Without complete documentation of the procurement process and strict adherence to local, state, and federal regulations, the District may be unable to support purchasing decisions and may be subject to penalties. In the event procurement documentation is incomplete for goods or services purchased with federal funds, the District may be required to pay back the funds used and seek alternative funding sources.</p>
<p>Recommendation</p>	<p>We recommend the District formally require utilization of the procurement checklist and retain it upon completion. The checklist should also be updated to verify compliance with the District policies and procedures including public advertisement, public bid openings, and sufficient competition through quotes.</p> <p>Further, when reviewing purchase requests wherein the correct number of quotes was not obtained, the buyer should only approve once the appropriate exemption (i.e., sole source) has been documented. Purchases should not be approved within TERMS unless supporting documentation (quotes, solicitations, or exemption documentation) is provided.</p>
<p>Management Action Plan</p>	<p>Response: The Purchasing Department developed a standard operating checklist for the collection of quotes, review of requisitions and other responsibilities. The checklist created is not a mandatory process but is utilized as guidance. The checklist will be reviewed and updated with other SOPs to ensure all activities of a quote or solicitation are completed and have all the appropriate documentation.</p> <p>Responsible Party: Purchasing Department</p> <p>Estimated Completion Date: December 31, 2024</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	3. Purchase Order System Controls
<p>Moderate</p>	<p>During our review of the District's current ERP system, TERMS, we identified two (2) the below control gaps that may pose risks to the District's procurement processes. See details below.</p> <p><u>Spend Monitoring and Control</u> The TERMS system does not currently flag or notify purchasing schools or departments of upcoming overages on POs. This limitation allows users to submit invoices without receiving an error message or warning when the PO limit is approaching its threshold. The Accounts Payable Department will identify invoices that exceed the remaining PO balance and will work with the end-user to find alternative budget sources, but a preventative control that would identify POs approaching their limit does not yet exist. While reports may be run to compare the original value of POs and their amounts used to date, such reporting may not be regularly run or reviewed by end-users.</p> <p>Although we did not identify any instances of overspending within our sampled procurements, the absence of an automated spend monitoring control represents a systematic control gap that could lead to financial discrepancies and budget management challenges.</p> <p><u>Purchase Order Approval Segregation of Duties</u> We noted that TERMS does not prevent users from both creating and approving their own purchase requisitions. During this review, we identified four (4) Purchasing Buyers that have the ability to perform both functions. Through discussion with Management, we noted schools and departments may not utilize the TERMS system to request and/or approve requisitions. Instead, end users may prefer to use paper request and approval forms. This lack of centralization has required Buyers to create and approve single requisitions within TERMS after reviewing paper request forms.</p> <p>While our testing of sampled procurements did not reveal any occurrences of inappropriate approvals, this process presents a segregation of duties concern and reduces the efficiency of PO processing. The ability to create and approve requisitions without a secondary review increases the risk of unauthorized or inappropriate purchases, potentially leading to conflicts of interest or fraud.</p> <p>These control gaps in the TERMS system could result in financial discrepancies, including overspending beyond approved PO limits and insufficient oversight in the procurement process. Without proper system controls, the District may be exposed to increased risks of non-compliance, as well as potential financial losses.</p>
<p>Recommendation</p>	<p>We recommend the following:</p> <ul style="list-style-type: none"> • Implement a systematic control to flag or prevent overspending on POs by issuing error messages or warnings when PO limits are nearing exhaustion. • Consider introducing a detective control to identify POs that have been overspent by generating spend reports from TERMS. End users should be required to provide written and approved justification when seeking alternative funding sources. • Enforce the use of the TERMS system to create purchase requisitions. Once achieved, enforce segregation of duties by confirming that users cannot create and approve their own purchase requisitions. • Consider implementing a system control to identify invoices that pre-date the purchase order and require justification for each.

OBSERVATIONS MATRIX (CONTINUED)

Observation	3. Purchase Order System Controls (Continued)
Management Action Plan	<p>Response: The Purchasing Department will work with Technology to implement controls within the TERMS system to provide a warning on any Purchase Orders that are nearing exhaustion. Furthermore, the Purchasing Department will provide training sessions for staff members as necessary to ensure compliance with the review and monitoring of spending. In addition, a TERMS report will be created to identify any POs that have been overspent in order to monitor compliance.</p> <p>The Purchasing Department currently collects manual signatures from department heads to ensure the entering and approving of requisitions is segregated due to limitations with the current ERP. However, moving forward, the Purchasing Department will enforce the approval process to take place within the TERMS system to create purchase requisitions. Requiring the approval process to take place within the TERMS system will require providing training sessions for Principals and Department heads.</p> <p>Responsible Party: Purchasing and Technology Departments</p> <p>Estimated Completion Date: June 30, 2025</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	4. Standard Operating Procedures
Moderate	<p>As part of our review, we obtained relevant policies and procedural documents related to the purchasing function. We identified areas in which detailed standard operating procedures that would guide day-to-day activities do not yet exist. See details below.</p> <p><u>Purchase Order Spend Monitoring</u> There is currently no defined procedure describing how spend against a purchase order should be monitored. As noted in Observation #3, the system does not contain the functionality to automatically trigger a review of spend. Based on discussions with Management, it is understood that the end-user is responsible for monitoring total spend against their open POs; however, a written standard operating procedure describing how and when a review should take place, and by whom, does not yet exist. Without defined and consistent procedures for monitoring spend, invoices may be submitted and paid beyond the original budgeted PO amount.</p> <p><u>Noncompliance Disciplinary Action</u> The Purchasing Department has established a system for recognizing instances of non-compliance with purchasing policies. Violation types may include end-users exceeding purchase order amounts, end-users submitting unauthorized purchases, intentional splitting of transactions to circumvent approval thresholds, or altered purchase orders. When a violation is identified, Purchasing issues a <i>Purchasing Violation Acknowledgement & Justification Request Form</i> to the end-user, who must either recognize their violation or provide a justification. While this form serves as a method of record for discrepancies, there currently are no procedures to describe the penalties or disciplinary actions resulting from the noncompliance. From July 1, 2023 to June 30, 2024, the Purchasing Department issued one hundred and four (104) <i>Purchasing Violation Acknowledgement & Justification Request Forms</i> to end users. Seventeen (17) departments had two (2) or more documented instances of non-compliance. Without an established system of disciplinary action, purchase order violations may be repeated without correction.</p> <p><u>Physical Safeguards</u> Current Purchasing procedures do not detail expectations related to the safeguarding of procurement documentation. Through discussions with Management, we noted that personnel may retain hard copies of procurement documentation in their office, may store documents in a local desktop file, or may upload files to a shared online site. Without standardized procedures, documentation may be lost, damaged, or incomplete.</p> <p><u>Commodity Rotation</u> Currently, the District does not require or provide procedural instruction on the regular rotation of commodities between Buyers. Rotating commodities minimizes the risk of real or perceived conflicts of interest within the procurement function and reduces the likelihood that vendor selections are made based on personal preference rather than performance.</p> <p>Centralized, standardized, and documented procedures provide vital information to employees in the event of absence and employee turnover, and assist with succession planning and transfer of knowledge. Comprehensive procedures reduce the risk of manual error, non-compliance, loss of operational knowledge, and breakdowns in communication.</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	4. Standard Operating Procedures (Continued)
<p>Recommendation</p>	<p>We recommend the Purchasing Department enhance existing standard operating procedures to include details on the above-mentioned processes. SOPs should contain responsible parties, timeliness expectations, and guidance describing how each task should be completed. More specifically:</p> <ul style="list-style-type: none"> • SOPs should assign PO monitoring responsibilities to the end-user and should detail how to effectively monitor spending within TERMS. If automated spend-monitoring system controls are implemented (see Observation #3), the updated SOP should describe this process as well. • SOPs should describe possible penalties for procurement violations and should describe specific consequences for repeated violations. Consider requiring an inter-departmental meeting with non-compliant end-users, Purchasing, Finance, and Information Technology to resolve complex issues that may be the result of system limitations. • SOPs should clearly define document retention and safeguarding practices, including who is responsible for securing procurement documents and how they should be physically kept. • SOPs should describe how commodities are rotated between Buyers to limit real or perceived conflicts of interest.
<p>Management Action Plan</p>	<p>Response: The Purchasing Department will enhance existing standard operating procedures (SOP) to include details on the above-mentioned processes. The SOP will include effective monitoring processes and clearly define the buyer’s role in the monitoring of these responsibilities.</p> <p>The Purchasing Department has been working with the CFO and the HR Department on progressive discipline on purchasing violations and will include the consequences for repeated violations in the SOPs.</p> <p>The Purchasing SOP will also be updated to incorporate language that will address how the commodities are assigned to Buyers and when a rotation would be necessary in order to limit real or perceived conflicts of interest.</p> <p>Responsible Party: Purchasing Department</p> <p>Estimated Completion Date: June 30, 2025</p>



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