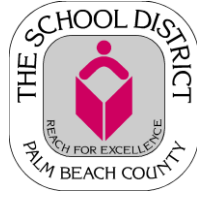


Audit of
Purchase Order Procedures

November 20, 2015

Report #2015-17



MISSION STATEMENT

The School Board of Palm Beach County is committed to providing a world class education with excellence and equity to empower each student to reach his or her highest potential with the most effective staff to foster the knowledge, skills, and ethics required for responsible citizenship and productive careers.

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Audit of
Purchase Order Procedures
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Audit of Purchase Order Procedures

Executive Summary

Pursuant to the *Office of Inspector General's (OIG) 2014-15 Work Plan*, OIG has audited the Purchase Order (PO) Procedures. The primary objectives of the audit were to (1) evaluate the adequacy of internal controls for PO processing and (2) to determine the extent of compliance with the related laws, *School Board Policies*, and District procedures. This audit produced the following major conclusions.

1. Vendor Master File

- (a) Vendor Master File Updated Without Supervisor Review. The Vendor Master File is updated by the document analyst of Purchasing Department (Purchasing) on a daily basis, without a second person to review and approve the changes. Without independent oversight or supervisor review and approval for update of Vendor Master File, unauthorized changes to the vendor records may not be detected and corrected.
- (b) Vendor Master File Needed Review & Update. As of February 15, 2015, the Vendor Master File had 38,920 “approved” vendor records. Of these 38,920 “approved” vendors, 29,248 (75%) of them did not have any activities for over 36 months.

2. 33% of Sample Change Orders Not Adequately Documented

The review of 45 sample *Change Orders* found that 15 (33%) of them did not have adequate supporting documentation for the changes. Moreover, the District's *Purchasing Manual* requires user departments/schools to submit their change requests to Purchasing via email, instead of a standardized *Change Order Request Form*. As a result, information included in the requests varied from user to user and some users did not always list all the pertinent information required to process the *Change Orders*.

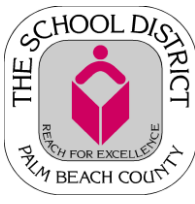
3. 13% of POs With Purchase Under \$1,000

The number of small dollar (under \$1,000) POs processed by Purchasing had decreased significantly from 2,311 (28% of POs) in Fiscal Year 2013 to 769 (13%) in Fiscal Year 2015. The 769 small dollar POs accounted for 13% of all the POs processed by Purchasing, but represented only \$350,405 or 0.2% of the total value of purchases processed by Purchasing during Fiscal Year 2015. According to Purchasing, the average cost for processing a PO is approximately \$43 each. The 769 small dollar POs issued during Fiscal Year 2015 had an estimated processing cost of \$33,067 (\$43 x 769).

4. Services Performed Before POs Issued to Vendors

The examination of 150 sample POs noted seven instances (totaling \$445,157.44) where vendors performed the services prior to Purchasing approving the related POs. Total days lapsed ranged from nine to 108 days. Performing services by vendor without a valid PO is disallowed by the District's *Purchasing Manual, Section 3-2(C)*.

Management Response: Please see pages 10 and 11 for details.



THE SCHOOL DISTRICT OF
PALM BEACH COUNTY, FLORIDA

OFFICE OF INSPECTOR GENERAL
3318 FOREST HILL BLVD., C-306
WEST PALM BEACH, FL 33406

(561) 434-7335 FAX: (561) 434-8652
www.palmbeachschools.org

LUNG CHIU, CIG, CPA
INSPECTOR GENERAL

SCHOOL BOARD
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MEMORANDUM

TO: Honorable Chair and Members of the School Board
Robert M. Avossa, Ed.D., Superintendent of Schools
Chair and Members of the Audit Committee

FROM: Lung Chiu, CPA, Inspector General

DATE: November 20, 2015

SUBJECT: Audit of Purchase Order Procedures

PURPOSE AND AUTHORITY

Pursuant to the *Office of Inspector General's (OIG) 2014-15 Work Plan*, we have audited the Purchase Order (PO) Procedures. The primary objectives of the audit were to (1) evaluate the adequacy of internal controls for PO processing and (2) to determine the extent of compliance with the related laws, *School Board Policies*, and District procedures.

SCOPE AND METHODOLOGY

This audit was performed in accordance with *Generally Accepted Government Auditing Standards* promulgated by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit focused on non-construction purchases during July 2013 through December 2014. The audit included interviewing staff and reviewing:

- *Florida Statute 1010.04*, and *Florida Administrative Rule, 6A-1.012, Purchasing Policies*.
- *School Board Policy 6.14, Purchasing Department*.
- The District's *Purchasing Manual*.
- Procedures and documentation flow for *Purchase Order* processing.
- Obtained an understanding of the use of the automated financial management system (PeopleSoft) in the procurement process.
- *Purchase Orders* and related supporting documentation for sample purchases.

Audit Sampling Methodology

During Fiscal Years 2014 and 2015, Purchasing Department (Purchasing) processed a total of 13,360 regular POs, totaling \$371,027,439. Based on a combination of stratified and judgmental sampling methods, we selected 150 sample POs, totaling \$28,056,189 (8%), for detailed examination.

We appreciate the courtesy and cooperation extended to us by staff during the review. The final draft report was presented to the Audit Committee at its November 20, 2015, meeting.

BACKGROUND

The *Purchasing Manual* states that,

“Purchasing Department is a support department with the major goal to help all schools and departments through the purchasing cycle, in order to obtain within legal guidelines, at the lowest possible cost the goods and services required for optimum operation.”

Purchase Requisitions. Each school and department has an annual budget for purchases of goods and services. *Purchase Requisitions* are submitted through the PeopleSoft System for automated budget checking and verification of account coding by Accounting Department before the *Requisitions* are forwarded to Purchasing for processing. *Requisitions* are either turned into a *Purchase Order* (PO) or fulfilled from the District’s supply warehouse. Approved POs are forwarded to the vendors by email or fax at the vendors’ option.

MarketPlace. Purchasing has established and managed a *MarketPlace* in the PeopleSoft System. Certain District’s bid-awarded vendors listed their items and prices in the *MarketPlace* from which schools and departments can look for the needed commodities. In addition, the District’s supply warehouse items are also available in *MarketPlace*. Purchases through *MarketPlace* are automatically turned into a POs, approved and forwarded to the vendors without interaction from Purchasing staff.

Statistics. During Fiscal Years 2013 through 2015, the District’s PeopleSoft System processed an average of 28,447 POs, averaging \$195 million per year. Of these 28,447 POs, (a) 21,241, totaling \$6 million, were generated by *MarketPlace*, and (b) 7,205 regular POs, totaling \$189 million, were processed by Purchasing Agents.

Purchase Orders Issued During Fiscal Years 2013 Through 2015

Fiscal Year	Marketplace POs		Regular POs		Total	
	Count	Amount	Count	Amount	Count	Amount
2013	18,180	\$4,428,574.99	8,256	\$196,620,867.96	26,436	\$201,049,442.95
2014	22,563	\$6,571,813.90	7,453	\$191,498,303.08	30,016	\$198,070,116.98
2015	22,981	\$7,532,987.06	5,907	\$179,529,135.91	28,888	\$187,062,122.97
Total	63,724	\$18,533,375.95	21,616	\$567,648,306.95	85,340	\$586,181,682.90
Average/Year	21,241	\$6,177,791.98	7,205	\$189,216,102.32	28,447	\$195,393,894.30

Source: PeopleSoft System.

Internal Controls. Control procedures for issuing POs included:

- Segregation of Duties: Purchasing is responsible for maintaining vendor records, while Accounting Department is responsible for processing invoices and payments to vendors.
- Conflict of Interest: Purchasing staff are required to complete the *No Conflict of Interest Certification Form* annually, indicating that they have read **School Board Policy 3.02, Code of Ethics**, and certified that there are no potential conflict of interest in making purchases on behalf of the School District.
- Purchase Limits for Staff: **School Board Policy 6.14** has established specific approval requirements based on the dollar amounts of the purchases. Purchasing has also established the approval limits for the Purchasing Director, Purchasing Managers, and Purchasing Agents.
- Confirmation of Receipt of Goods and Services: Schools and departments are to confirm the receipt of goods and services for all purchases through the PeopleSoft System before payments are approved and processed by Accounts Payable.

CONCLUSIONS

This audit produced the following major conclusions.

1. Vendor Master File

(a) Vendor Master File Updated Without Supervisor Review

The Vendor Master File is updated by the document analyst of Purchasing on a daily basis. Update to the Vendor Master File includes adding vendor records and modifying existing records. These changes become effective immediately after the analyst makes the updates in the PeopleSoft System. However, there is (1) no requirement for a second person to review and approve the changes, and (2) no management report generated by PeopleSoft to document the changes in the Vendor Master File.

Without independent oversight or supervisor review and approval for changes in the Vendor Master File, unauthorized changes to the vendor records may not be detected and corrected.

Recommendation

To ensure the integrity and accuracy of the Vendor Master File, independent oversight and supervisor review and approval should be required for the Vendor Master File update.

***Management's Response:** Management does not concur. It is important to understand how the Vendor File is used by the District. It is correct that one primary and one backup person in the Purchasing Department make changes to the Vendor File on a daily basis. Vendors provide updated information to us through completion of PBSD 1841 Vendor Record and through completion of a W-9 where they certify that under penalties of perjury that they are providing accurate tax ID information. Information from these two documents or other documents approved by the Director of Purchasing is then used to update our Vendor Master File. Each Purchasing Agent, when processing a requisition into a purchase order selects the appropriate vendor to place the order. This is where the second and most knowledgeable person in the District verifies the accuracy of the information in the Vendor File prior to approving and dispatching the purchase order. Individuals who update the Vendor Master File do not have access to create acquisitions, create, approve or dispatch Purchase Orders so segregation of duties is maintained. Requiring a second staff person to verify accuracy is not efficient.*

(Please see page 10.)

***OIG Comment:** Relying on the Purchasing Agents in verifying the accuracy of vendor information when a Purchase Order is to be approved and dispatched may put the District in jeopardy unless there are written guidelines that provide for the needed independent verification by the Purchasing Agents based on the source documents. Accurate vendor records is critical for Accounts Payable to ensure accurate and timely payments to vendors.*

(b) Vendor Master File Needed Review & Update

As of February 15, 2015, the PeopleSoft’s Vendor Master File had 38,920 “approved” vendor records and 5,738 “inactive” vendor records. The 38,920 “approved” vendor records included (a) 4,517 vendors, (b) 1,639 students, and (c) 32,764 District employees. The primary reason to have student records is for refund of unused balance in their lunch accounts, and the employee records is for payments of employees’ reimbursement claims.

The review of the 38,920 “approved” vendor records found that 29,248 (75%) of them did not have any activities for over 36 months.

Type of Vendor	Last Activity Occurred				Total
	Less Than 12 Months Ago	12 to 24 Months Ago	24 to 36 Months Ago	Over 36 Months Ago	
Vendor	2,389	634	702	792	4,517
Student	442	351	1,138	27,899	1,639
Employee	2,335	1,392	289	557	32,764
Total	5,166 (13%)	2,377 (6%)	2,129 (6%)	29,248 (75%)	38,920 (100%)

Recommendation

To prevent the issuance of potentially unauthorized *Purchase Orders* and payments to inactive vendors, Purchasing Department should periodically review the Vendor Master File to identify inactive vendors and (a) delete the inactive vendor records or (b) change the vendor record’s status to “inactive” as appropriate.

Management’s Response: *Purchasing Department concurs. The Vendor Master file is scheduled for maintenance to inactivate vendors who have no activity for 3 years. Also all employees will be removed since the process to reimburse employees was recently updated and are now reimbursed through payroll. This will be completed by December 31, 2015.*

(Please see page 10.)

2. 33% of Sample Change Orders Not Adequately Documented

Change Orders Procedures. If there is a need to make changes to an issued PO, the requestor of the purchase is required to submit a written request to Purchasing to issue a *Change Order* for the PO. As required by the ***Purchasing Manual, Section 9-2,***

“If you wish to change a Purchase Order that has already been issued, email the Purchasing Agent. Request might include:

- *Blanket PO Amount increases or decreases*
- *Change of item descriptions/specifications*
- *Quantity Changes: increase or decrease in order quantities*
- *Changes to add or adjust freight costs*
- *These requests always need to be made in writing.”*

45 Sample Change Orders. Purchasing processed a total of 1,954 *Change Orders* during July 2013 through December 2014. We randomly selected 25 POs with *Change Orders* for review. These 25 sample POs had a total of 45 *Change Orders*, including:

- 35 *Change Orders* to increase the PO amounts by a total of \$1,854,084.82.
- 7 *Change Orders* to decrease the PO amounts by a total of \$317,942.20.
- 3 *Change Orders* were for non-financial related changes.

33% of Sample Change Orders With Inadequate Documentation. The review of 45 *Change Orders* found that 30 (67%) of them were adequately supported. However, the other 15 (33%) did not have adequate supporting documentation for the changes. Specifically,

- 12 of them did not have any written requests from the users, including
 - 7 to increase the PO amounts by a total of \$79,932.
 - 3 to decrease the PO amounts by a total of \$22,138.
 - 2 for non-financial related changes.
- 3 of them (a total increase of \$2,560) were supported by users' requests that did not have all the needed information. Missing information included the dollar amounts to be changed, reasons for the change, the line items to be changed, and the PO numbers.

As required by the *Purchasing Manual*, change requests were to be made via email instead of a standardized *Change Order Request Form*. Consequently, items included in the requests varied and users did not always list all the pertinent information required to efficiently process the *Change Orders*.

Documentation for 45 Sample Change Orders

Purchase Order		Change Order			Written Request For Changes			
PO #	Amount	Change Order #	\$ Increased	\$ Decreased	Non-Financial	Adequate	Missing	Incomplete
2014000121	\$56,400.00	1	\$140.00			X		
2014004407	\$18,136.17	1	\$1,581.83			X		
2014004863	\$64,217.11	1	\$1,090,321.70			X		
		2		(\$140,000.00)		X		
		3	\$258,000.00			X		
		4		(\$8,000.00)		X		
		5	\$285,461.10			X		
2014015144	\$42,898.98	1	\$2,818.00			X		
2014017399	\$6,000.00	1		(\$2,466)		X		
2014021785	\$1,059.00	1	\$1,228.44			X		
		2	\$1,143.72			X		
2015002701	\$1,778	1	\$0.70			X		
2015003597	\$600	1	\$1,000.00			X		
		2	\$1,685.00					X
2015009181	\$2,250.00	1	\$875.00					X
2014004572	\$3,000	1	\$3,300.00			X		
		2	\$6,000.00			X		
		3	\$2,000.00			X		
		4	\$6,000.00			X		
		5	\$139.30				X	

Purchase Order		Change Order				Written Request For Changes		
PO #	Amount	Change Order #	\$ Increased	\$ Decreased	Non-Financial	Adequate	Missing	Incomplete
2014005749	\$298.50	1	\$29.85			X		
2014006693	\$6,000.00	1		(\$1,000.00)			X	
2014010431	\$1,174.50	1	\$117.45			X		
2014016374	\$767.55	1	\$711.22			X		
2015001453	\$50,000.00	1		(\$18,918)			X	
2015001989	\$14,300.00	1	\$35,000.00				X	
2015005741	\$3,000.00	1	\$1,500.00			X		
		2	\$1,000.00			X		
		3	\$7,000.00					X
2015004158	\$2,664.00	1		(\$2,220.00)			X	
9201500127	\$730.00	1			X		X	
2015013597	\$5,220.00	1	\$99.51			X		
2015014625	\$1,728.00	1	\$432.00				X	
2014000165	\$43,000.00	1	\$30,000.00			X		
		2	\$75,000.00			X		
		3		(\$15,000.00)			X	
		4	\$30,000.00					X
2015001637	\$239,158.70	1		(\$127,098.11)		X		
		2		(\$3,240.09)		X		
2015010889	\$22,500.00	1			X		X	
		2			X		X	
2014000416	\$4,000.00	1	\$4,000.00			X		
		2	\$3,500.00					X
		3	\$3,000.00					X
		4	\$1,000.00					X
Total	\$590,880.51		\$1,854,084.82	(\$317,942.20)		30	12	3

Recommendation

To ensure proper fiscal accountability, all *Change Orders* to POs must be adequately documented by written requests and explanation from the user departments/schools. Moreover, Purchasing should develop a standardized *Change Order Request Form* to ensure that *Change Order Requests* contain all the needed information.

Management's Response: *Management does not concur. Management's intent is to support the schools and departments and not create arduous paperwork to complete for requesting changes to non-construction purchases. A reminder will go out to Purchasing Agents to be sure to attach the email and other pertinent documentation to all change orders in the future.*

Examples:

PO 2015003597 PO is for intrusion alarm services from the City of Greenacres and a copy of the email requesting the change is attached to the PO per our procedures.

PO 2015009181 PO is for repairs to an IAQ situation and the revised quote is attached to the PO. The Purchasing agent attached this information and not the email request.

Management believes that we are following our procedures and that the information is adequate.

(Please see page 11.)

3. 13% of POs With Purchase Under \$1,000

The review of POs processed by Purchasing during Fiscal Years 2013 through 2015 revealed that 4,867 of the POs (22.5% of issued POs) were under \$1,000. These 4,867 POs had a total value of \$2,110,686 (0.4% of total PO value). To expedite the small dollar (under \$1,000) purchases in materials, supplies, and other items needed for daily operations, the District authorizes the use of Purchasing Cards (P-Cards) for these small purchases.

The number of POs under \$1,000 had decreased significantly from 2,311 (28% of total) in Fiscal Year 2013 to 769 (13% of total) in Fiscal Year 2015. The 769 small dollar POs accounted for 13% of the POs processed by Purchasing, but represented only \$350,405.34 or 0.2% of the total value of purchases processed by Purchasing. According to Purchasing, the average cost for processing a PO is approximately \$43 each, these 769 small dollar POs issued during Fiscal Year 2015 had an estimated processing cost of \$33,067 (\$43 x 769).

Regular POs Processed by Purchasing

Fiscal Year	POs < \$1,000		POs >= \$1,000		Total	
	Count	Amount	Count	Amount	Count	Amount
2013	2,311 (28.0%)	\$996,205.38 (0.5%)	5,945 (72.0%)	\$195,624,662.58 (99.5%)	8,256 (100%)	\$196,620,867.96 (100%)
2014	1,787 (24.0%)	\$764,074.87 (0.4%)	5,666 (76.0%)	\$190,734,228.21 (99.6%)	7,453 (100%)	\$191,498,303.08 (100%)
2015	769 (13.0%)	\$350,405.34 (0.2%)	5,138 (87.0%)	\$179,178,730.57 (99.8%)	5,907 (100%)	\$179,529,135.91 (100%)
Total	4,867 (22.5%)	\$2,110,685.59 (0.4%)	16,749 (77.5%)	\$565,537,621.36 (99.6%)	21,616 (100%)	\$567,648,306.95 (100%)
Average/Year	1,622 (22.5%)	\$703,561.86 (0.4%)	5,583 (77.5%)	\$188,512,540.45 (99.6%)	7,205 (100%)	\$189,216,102.32 (100%)

Recommendations

To streamline and expedite the POs processing, especially those with small dollar amounts, Purchasing should ensure that schools and departments comply with the District’s purchasing guidelines. Specifically, *Purchasing Manual, Section 3-2(A)*, states,

“Special Request orders for goods and/or services shall have a minimum purchase order amount of \$1000. Schools/departments are responsible to combine like purchases.”

Management’s Response: *Schools and Departments are complying with the Purchasing Manual. Purchasing processes Special Request orders under \$1,000 only if the vendor does not accept Purchasing Cards or if the purchase is for a consultant or for other items which require additional oversight and are not allowed to be purchased currently through our P-Card program.*

(Please see page 11.)

4. Services Performed Before POs Issued to Vendors

Purchasing Manual, Section 3-2(C), states,

*“...never give a vendor the approval to perform a service or deliver goods unless you and the vendor have a purchase order dispatched by the Purchasing Department. **The purchase order dispatched by the Purchasing Department is the only legal authorization for a vendor to perform.**”*

Our examination of 150 sample POs noted seven instances (totaling \$445,157.44) where vendors performed the services prior to Purchasing approving the related POs. Total days lapsed ranged from nine to 108 days.

Purchase Order			Invoice				(A) - (B) # of Days Lapsed
(A) Date	PO #	Amount	Date	Invoice #	(B) Service Start Date	Amount	
8/14/2013	2014003933	\$1,492.77	7/24/2013	323900059312 Jul13	4/28/2013	\$1,454.27	108
4/25/2014	2014028170	\$100,000.00	2/28/2014	9057 BOARD	2/3/2014	\$23,775.50	81
11/7/2013	2014013347	\$1,600.00	8/27/2013	42	8/27/2013*	\$1,600.00	72
9/18/2013	2014007449	\$30,000.00	8/31/2013	16834	8/5/2013	\$30,000.00	44
5/5/2014	2014029269	\$172,454.57	3/31/2014	G9066/216803	3/24/2014	\$172,454.57	42
1/14/2014	2014018472	\$198,273.10	1/14/2014	NFI01144-3	1/1/2014	\$198,273.10	13
2/13/2014	2014021723	\$17,600.00	2/4/2014	0000056	2/4/2014*	\$17,600.00	9
Total		\$521,420.44				\$445,157.44	Average 53

* Service dates were not indicated on the invoice.

Recommendation

Purchasing should provide training and remind schools and departments of the District’s purchasing procedures.

Management’s Response: Management concurs, and will continue to include training to schools and departments on this issue.

(Please see page 11.)

– End of Report –

Management's Response



THE SCHOOL DISTRICT OF
PALM BEACH COUNTY, FL

CHIEF OPERATING OFFICE
3300 FOREST HILL BOULEVARD, C-316
WEST PALM BEACH, FL 33406

PHONE: 561-434-8584 / FAX: 561-357-7585
WWW.PALMBEACHSCHOOLS.ORG/COO

MICHAEL J. BURKE
CHIEF OPERATING OFFICER

ROBERT M. AVOSSA, Ed.D.
SUPERINTENDENT

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INSPECTOR GENERAL

MEMORANDUM

November 10, 2015

TO: Lung Chiu, Inspector General
FROM: Michael J. Burke, Chief Operating Officer *MJB*
SUBJECT: Management Response – Audit of Purchase Order Procedures

The following is the Management Response to the Audit of Purchase Order Procedures dated October 26, 2015

1. Vendor Master File

(a) *Management does not concur. It is important to understand how the Vendor File is used by the District. It is correct that one primary and one backup person in the Purchasing Department make changes to the Vendor File on a daily basis. Vendors provide updated information to us through completion of PBSO 1841 Vendor Record and through completion of a W-9 where they certify that under penalties of perjury that they are providing accurate tax ID information. Information from these two documents or other documents approved by the Director of Purchasing is then used to update our Vendor Master File. Each Purchasing Agent, when processing a requisition into a purchase order selects the appropriate vendor to place the order. This is where the second and most knowledgeable person in the District verifies the accuracy of the information in the Vendor File prior to approving and dispatching the purchase order. Individuals who update the Vendor Master File do not have access to create requisitions, create, approve or dispatch Purchase Orders so segregation of duties is maintained. Requiring a second staff person to verify accuracy is not efficient.*

(b) *Purchasing Department concurs.*

The Vendor Master file is scheduled for maintenance to inactivate vendors who have no activity for 3 years. Also all employees will be removed since the process to reimburse employees was recently updated and are now reimbursed through payroll. This will be completed by December 31, 2015.

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Management's Response

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November 10, 2015
MANAGEMENT RESPONSE - AUDIT OF PURCHASE ORDER PROCEDURES

2. Change Order Procedures

Management does not concur.

Management's intent is to support the schools and departments and not create arduous paperwork to complete for requesting changes to non-construction purchases. A reminder will go out to Purchasing Agents to be sure to attach the email and other pertinent documentation to all change orders in the future.

Examples:

PO 2015003597 PO is for intrusion alarm services from the City of Greenacres and a copy of the email requesting the change is attached to the PO per our procedures.

PO 2015009181 PO is for repairs to an IAQ situation and the revised quote is attached to the PO. The Purchasing agent attached this information and not the email request.

Management believes that we are following our procedures and that the information is adequate.

3) PO's under \$1,000

Schools and Departments are complying with the Purchasing Manual. Purchasing processes Special Request orders under \$1,000 only if the vendor does not accept Purchasing Cards or if the purchase is for a consultant or for other items which require additional oversight and are not allowed to be purchased currently through our P-Card program.

4) Services Performed Before POs Issued to Vendors

Management concurs, and will continue to include training to schools and departments on this issue.

MJB/SK/SS:ss:cbt

cc: Sharon Swan